# Consolidated and individual financial statements as of 31 December 2007

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## Attachments:

***In-company Control***

- Declaration by the Manager - Certification of the Consolidated Financial Statements in accordance with art. 81-*ter* of
- Consob regulation no. 11971
- Report on Corporate Governance

***Statutory Auditors***

- Board of Auditors' Report on the Financial Statements for the period ended on 31 December 2007

***Independent Auditors***

- Independent Auditors' Report on the consolidated financial statements for the period ended 31 December 2007
- Independent Auditors' Report on the balance sheet for the period ended on 31 December 2007

# GENERAL INFORMATION

## Directors, Officers and Company information

*Board of Directors and Board of Statutory Auditors*

| Individual | Office |
|---|---|
| Salton Gildo | Chairman of the Board of Directors |
| Beninatto Alfonso | Director |
| Bortolin Gianantonio | Director |
| Trinca Flavio | Independent Director |
| Bresolin Ferruccio | Independent Director |

| Individual | Office |
|---|---|
| De Luca Lino | Chairman of Board of the Statutory Auditors |
| Visentin Graziano | Statutory Auditor |
| Sforza Fabio | Statutory Auditor |

(*) Powers and attributions of ordinary and extraordinary administration, within the limits of the law and of the Corporate memorandum of association and in observance of the reserves within the competence of the Shareholders' Meeting and the Board of Directors, according to the resolutions of the Board of Directors.

| Control Comitee |
|---|
| Flavio Trinca |
| Alfonso Beninatto |
| Ferruccio Bresolin |

| Remuneration Committee |
|---|
| Alfonso Beninatto |
| Flavio Trinca |
| Ferruccio Bresolin |

*Independent Auditors*

Reconta Ernst & Young S.p.A.

*Legal headquarters and Company data*

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# Main economic and financial data of the Ascopiave Group

## Economic figures

| (In thousands of Euro) | 2007 | % net sales | 2006 | % net sales |
|---|---|---|---|---|
| **Revenues** | 451.871 | 100% | 318.105 | 100% |
| **Gross operating margin (*)** | 45.676 | 10,1% | 40.405 | 12,7% |
| **Operating result** | 33.860 | 7,5% | 29.150 | 9,2% |
| **Net income for the Group** | 21.764 | 4,8% | 16.381 | 5,1% |

(*) The gross operating margin (EBITDA) is the results before amortisation/depreciation, financial management and taxes.

## Assets figures

| (In thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **ALLOCATION** | | |
| Net working capital * | 123.583 | (5.545) |
| Fixed assets and non other activities | 383.112 | 312.836 |
| Non-current liabilities (escluding loans) | (28.798) | (25.931) |
| **Net invested capital **** | **477.897** | **281.360** |
| NET FINANCIAL POSITION | (106.830) | 87.541 |
| Net Shareholders' equity | (371.068) | (368.902) |
| **Total Financing sources** | **(477.897)** | **(281.360)** |

* Please note that 'Net working capital' is intended as the sum of the inventories, trade receivables, tax receivables, other current assets, accounts payable, tax payables (within 12 months), and other current liabilities.

** Please note that 'Net capital invested' is intended as the algebraic sum of the Net working capital (as defined above), assets, other non-current assets and non-current liabilities.

## Monetary flow figures

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| **Net income for the Group** | **21.764** | **16.381** |
| Net cash provided by operating activities | (84.882) | 36.954 |
| Net cah used in investing activitis | (61.401) | (16.593) |
| Net cash used in financing activities | 76.982 | 78.021 |
| **Period monetary flow** | **(69.300)** | **98.383** |
| **Cash and cash equivalents at beginning of the period** | **100.591** | **2.208** |
| **Cash and cash equivalents at end of the period** | **31.291** | **100.591** |

# ECONOMIC FIGURES

## Premise

The Ascopiave Group (Il Gruppo Ascopiave) closed 2007 with a net profit of Euro 21,764 thousands.
The consolidated net assets at year end amount to Euro 371,068 thousands and the capital invested to Euro 477,897 thousands. In 2007 the Group accomplished investments for Euro 85,687 thousands, of which 60,589 thousands deriving from the acquisition of companies.
The assets figures take into account the consolidation of the assets acquired at end 2007, which - as will be explained more fully further on - do not contribute to the structure of the year's economic result.

The profit of 2007, against a substantially stationary volume of gas sold to the end market, reports a growth of 33% as compared with the previous year. This positive result has mainly been influenced, faced with a stable specific margin on the activity of gas sales, by the positive contribution of the new activity of gas sales as trader and wholesaler, and by the result of the renegotiation of the purchase contracts with shippers, as deliberated by Resolution no. 79/07.
The economic Group results are significantly influenced by the climate and, from this point of view, 2007, on an equal footing with 2006, was marked by a mild climate that penalised the level of gas consumption by domestic users, particularly during the first quarter of the year.

On 12 December 2006, the parent company was admitted for listing on the Italian Sedex Market (MTA), STAR segment organised and run by Borsa Italiana S.p.A..

### Activities

Ascopiave operates mainly in the sectors of distribution and sale of natural gas to end users, as well as in other sectors related to the core business, such as the sale of electrical energy and heat management.
In 2007, Ascopiave began working as gas trader and wholesaler, arranging contracts for the current thermal year, which, for the year 2007 alone, led to the transfer of more than 435 million cubic metres of gas.
As of 31 December 2007, the Group manages the distribution service in 155 Municipalities (administrative districts) of northern Italy, through a network of over 6,600 kilometres.
In 2007, the subsidiaries Ascotrade S.p.A. and Global Energy S.r.l. sold approximately 813 million cubic metres of gas to the end user market. The Ascopiave Group is thus confirmed as being one of Italy’s leading operators of the sector.

During the year, the Group concluded important operations of company acquisition, thereby significantly increasing its customer base. As from 1 January 2007, the transfer of the Bimetano Servizi S.r.l. company gas sales branch took effect (29,453 customers). During the fourth quarter of the year, the acquisition of 49% of Estenergy S.p.A., gas sales company belonging to the Acegas-Aps Group was concluded (approximately 242,000 customers), together with the acquisition by the Municipal enterprise of Rovigo of 100% of the company ASM DG S.r.l., operating in the field of gas distribution, and 49% of the gas sales company ASM SET S.r.l. (approximately 25,000 customers).
These operations have allowed the Ascopiave Group to contribute to the setting up of an industrial gas pole, with a strong position in Triveneto that, as of 31 December 2007, manages more than 610,000 end customers.

**Strategic objectives**

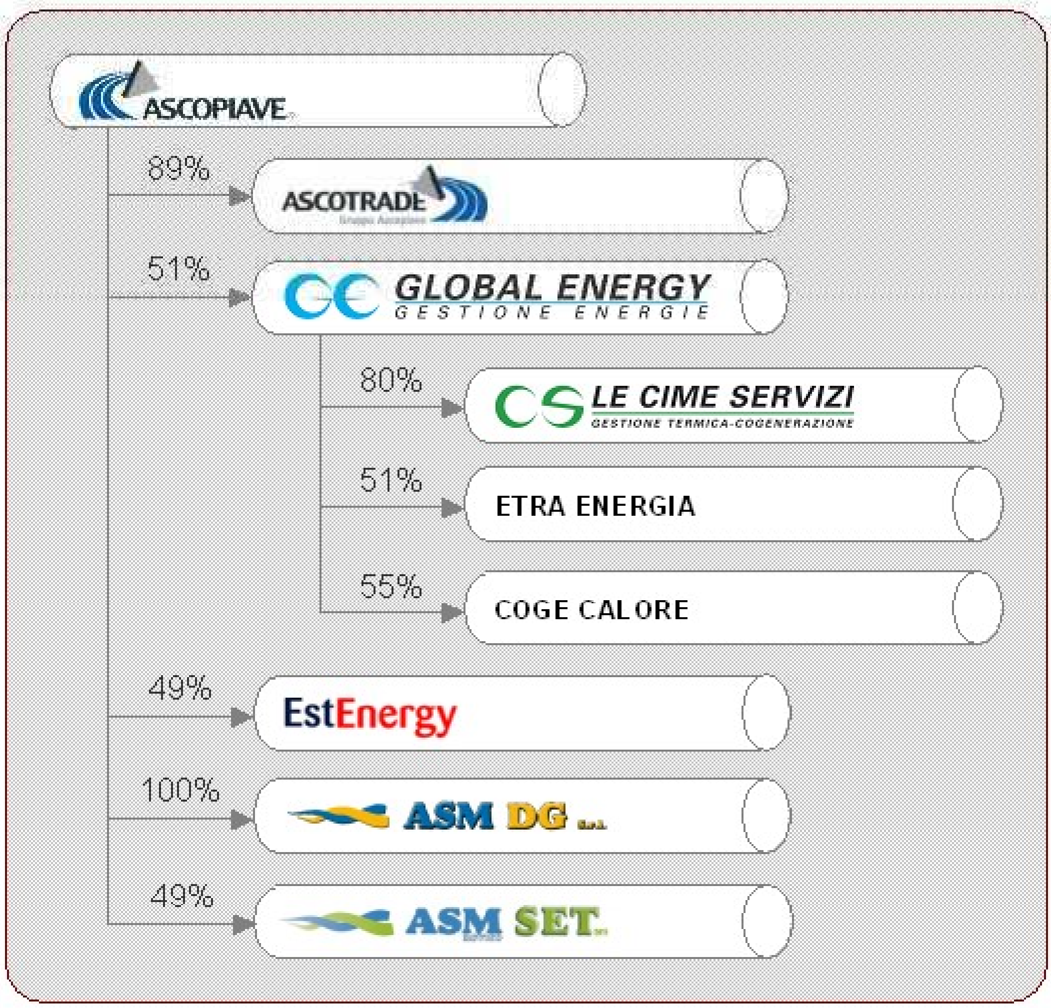
Ascopiave is proposing to pursue a strategy focused on the creation of value for its stakeholders, by maintaining the level of excellence in the quality of services offered, in respecting the environment and social groups, to increase the value of the field in which it operates.
The Group intends to consolidate its leadership position in the gas sector on a regional level and is looking to reach a prominent position also at the national level, taking advantage of the liberalisation process currently underway.
In that sense, Ascopiave follows a development strategy the main guiding principles of which are dimensional growth, by upstream integration in the sector, by diversification in other divisions of the energy sector synergic with the core business, such as cogeneration and sales of electrical energy, and by improving operative processes.

The extraordinary operations carried out during 2007, in line with the strategies specified, have led to a competitive repositioning of the Group, strengthening its presence in the down-stream segment, and thereby laying the basis for the implementation of the vertical integration strategy within the gas branch.

The Group is working on this side in order to enter in the company capital for the realisation and management of new infrastructures for the importing of gas in Italy (international methane pipelines and gasification terminals) with the aim of acquiring from such, transport / gasification capacities and to be able to draw up long-term supply contracts directly with foreign manufacturers.
In 2007, Ascopiave has strengthened contacts with important international gas manufacturers, signing an agreement with the Enìa Group for the joint management of a 'take or pay' type annual supply of gas (for the thermal year 2007-2008). As preparation, Ascotrade - in collaboration with Enìa Energia - participated in the latest gas storage campaign, later independently managing the logistic steps of the transport on national and regional networks, up to the redelivery points or city gate.

## The structure of the Ascopiave Group

The table below shows the company structure of the Ascopiave group as on 31 December 2007; the group operates across 9 companies.



# The natural gas market

## The general economic context

General trend of the economy and evolution of international energy prices

2007 saw the world economy driven by the newly industrialised countries, whilst the economies of OECD countries have experienced some difficulties, partly linked to the American crisis of sub-prime mortgages, which was even greater during the last quarter of the year.

Against a world growth of 4.9%, in 2007 the American economy grew by just 2.2%, whilst the Gross Domestic Product of the Euro area reported a growth rate of 2.6%.

In the course of the year, the Euro has continued its trend, growing stronger against the dollar, due both to the slowing down of the American economy and to the persistent imbalance of the US Trade Balance. In 2007, the dollar/euro exchange rate increased, recording an annual average of 1.37 dollars to the euro, 8.7% greater than the 2006 average (1.26 dollars to the euro), and reaching its maximum towards the end of the year.

According to Eurostat, the annual inflation rate of the Euro zone was reported as exceeding 3% due to an increase in costs in the agricultural-food sector and fuel, due to the increased price of oil.

In 2007, the prices of Brent have been very volatile and subject to ample fluctuations. The annual average was reported at approximately 72.5 dollars a barrel, showing an increase of 11.4% as compared with the 2006 average (65.1 dollars a barrel), and of 33.3% as compared with the 2005 average (54.4 dollars a barrel).

| Quotations | 2007 | 2006 | 2005 |
|---|---|---|---|
| Annual medium brent quotation (dollars per barrel) | 72,5 | 65,1 | 54,4 |
| Annual medium exchange Dollar/Euro | 1,37 | 1,26 | 1,24 |
| Annual medium brent quotation (Euro per barrel) | 52,9 | 51,9 | 43,7 |

The increased prices of oil products in the last period depend on both speculative and structural causes.

Looking at the basics of the petrol industry, for 2008 a maintained demand is forecast, due to the growing requirements of the economically emerging countries (China, India, and the Middle East).

From the point of view of supply, some difficulty is recorded by the manufacturers in meeting a growing demand, due to insufficient investments in infrastructures upstream. Such investments, being largely irreversible, are influenced by the uncertainty of the political and economical context. The volatile nature of prices due to speculative movements and geo-political reasons, and the influence of environmental factors that could lead to a reduced consumption of fossil fuels, all contributing to slowing the expansion of supply, despite the fact that the price of crude oil is continuously increasing. To this, we can add the increase in the costs of exploration and extraction activities that would appear to be technically and geologically more demanding than in the past.

The weakness of the dollar also contributes to worsening the overall situation. Many manufacturing countries are, in fact, pressurising Opec to maintain a high price per barrel, in order to offset the growing devaluation of the American currency.

It is common knowledge that the evolution of crude oil prices affect the trend of other fuel products, and gas in particular. The international prices of gas on the basis of long term supply contracts are, in fact, to a large extent linked to the price of Brent, through the formula of predefined indexation.

## The gas market: the European scenario

### *The demand for gas in Europe and its supply coverage*

According to preliminary data released by Eurostat, 2007 gas consumption of the 27 European Union member states has been reported at 505.4 billion cubic metres, showing a reduction of 1.5% as compared with the previous year, mainly due to the mild climate conditions of the first quarter of the year.

Despite a significant decrease (-7%), the domestic product has remained the most important source of supply, covering 38% of the demand, whilst the great dependency on Russian (23%) and Algerian (10%) imports, has been confirmed.

Great Britain is currently the leading European consumer of gas (more than 95 billion cubic metres in 2007), followed by Germany and Italy (with approximately 85 billion) and, a fair way off, France (approximately 45 billion).

### *The potential for the development of the European demand for natural gas*

According to estimates made by Snam Gas Network - which are similar to those reported by other sources - by 2020, Europe will need to meet an additional import demand estimated at 250 billion cubic metres, 80% more than the current approximate 300 billion. The growth of the European demand is, in fact, estimated as equal to 2.1% as an annual average, but net imports will need to grow at the average annual rate of 4.9% to offset the change in the domestic product, which will gradually decrease.

In order to meet these growing needs, Europe will need to quickly develop its infrastructures for the import of gas from abroad. To this end, the construction of new methane pipelines and the strengthening of some of those already existing, has been planned. An increase in supply should also be ensured by the start-up of new regasification terminals.

### The development of import infrastructures: the methane pipelines

The main methane pipelines planned are the North Stream, South Stream, Nabucco, Medgaz, Galsi, IGI and the Yamal II.

The strengthening projects involve, instead, the existing methane pipelines of Maghreb, TTPC, Green Stream (which connects Europe with North Africa), TAG and the system of pipelines that connects central Europe with Russia, via the Ukraine.

North Stream should connect Russia with Germany via the Baltic Sea.

The initial phase (which should be completed in 2012), will have a capacity of 27.5 billion cubic metres a year, which will then rise to 55 billion cubic metres.

The Nabucco will connect Turkey with Austria through Bulgaria, Romania and Hungary, supplying gas from the Middle East and the regions around the Caspian Sea. The capacity will equal 25 billion cubic metres and completion is expected for 2011. This project has benefitted from sponsorship by the bodies of the European Community, in that it will allow for a geographical diversification of the sources of import, thereby reducing continental dependency on Russian supplies.

In order to compete with, or reduce the extent of the Nabucco project, in June 2007, Gazprom, in partnership with Eni announced the South Stream project, which will run along similar lines to that of Nabucco, and will be able to transport 30 billion cubic metres of Russian origin gas per year.

Other important projects directly involving Italy include Galsi, which will connect Algeria with Italy (8/10 billion cubic metres capacity per year), IGI (8/10 billion cubic metres capacity per year), which will connect Greece with Italy, connecting up directly with the Nabucco and, finally, the new Medgaz pipeline (8 billion cubic metres per year), which will connect Algeria with Spain.

*The strategic position of the Nabucco*

Experts believe that from a strategic point of view, the Nabucco represents the most important infrastructure planned thus far. It will allow Europe to increase gas supplies, and at the same time to be freed from the traditional Russian and Algerian suppliers.

Apart from connecting up with the Caucasian production fields, the Nabucco will also have the advantage of constituting a privileged route for gas supplies from Iran, which, for this purpose, has already begun strengthening its pipelines to Turkey.

The project is currently encountering difficulties of a political nature, and is now in competition with new alternative projects, such as the previously stated South Stream (for which the Russian government has already encouraged the conclusion of agreements with Serbia, Bulgaria and Hungary), and the recent White Stream pipeline sponsored by the Ukraine government, which should connect Caucasus with Europe, via the Black Sea and the territory of the ex-Soviet republic.

*The development of import infrastructures: regasification terminals*

There are currently fourteen regasification terminals operating in Europe, with a total capacity of more than 100 billion cubic metres per year.

The six terminals under construction (including that of Rovigo) should lead to an additional capacity for import of approximately 50 billion cubic metres.

Many other projects - most of which are concentrated in Italy - are being examined by national and local authorities, and currently awaiting authorisation.

The possibility of a significant development of the liquefied gas market suffers opposition by local communities throughout Europe, who see regasification plants as dangers and of significant environmental impact.

One of the greatest advantages of these infrastructures lies in allowing Europe to further diversify its sources of import, dealing with manufacturing countries other than Algeria and Russia. Qatar and Nigeria are the most economically advantageous LNG manufacturers accessible to the European market.

*Italy as a hub for Europe*

Given the previously described scenario, our country aims to take on an important position in Europe, both in terms of gas consumer and for its geographic position between the Balkans and North Africa. With the progressive integration of the energy markets on a European level, Italy may well become an international hub for gas.

*Community regulation of unbundling*

Liberalisation of markets and promotion of competition generally leads to a reduction in prices and an improvement in the quality of services, through the entrance of new operators. Advantages, therefore, for end customers.

It is based on these assumptions that the European Union has, in recent years, attempted to set up a legal framework of reference that would encourage a greater integration of the European energy markets, as well as a progressive opening up to the dynamics of competitive functioning.

This activity, encouraged first and foremost by the European Commission, has often encountered resistance from national governments, who generally defend the interests of national incumbents or which - in other words - encourage a different view as to the most efficient way to protect the energy security of their countries.

2007 should have seen the start of the final phase of the long process of liberalisation of the European energy markets, whilst in actual fact it has seen the re-opening of in-depth discussion on the route thus far, highlighting new doubts and new attempts of national closure of markets.

At the centre of the European debate, is the unsuitability of the current regulatory framework and continental laws for the completion of the domestic market and need for a ‘third package’ of measures that support a more incisive and common energy policy. The main contents of this package are as follows: the adoption of measures to effectively separate the networks, the harmonisation of powers and levels of independence of national regulators, the network of European network managers, and the adoption of measures to encourage the functioning of markets and their integration.

The dispute on the so-called unbundling proposal, i.e. the separation of ownership between those managing infrastructural transport networks and stocks, and those carrying out manufacturing, import and sales activities, has been particularly bitter.

This principle, according to its community supporters, would make it possible to guarantee a neutral management of the infrastructures, increasing transparency of costs and improving the informative bases of regulation activities, in order to protect the end consumer.

Community bodies believe, in fact, that it will only be by means of a ‘full unbundling’ and a true liberalisation of the energy market that sector competition will be able to grow. End consumers will benefit from this, who today suffer the high costs deriving from the continuation of national monopolies in the field of energy.

On the other hand, some European states are reluctant to embark along this route, as they state that ‘full unbundling’ would make a political control of energy supply less necessary. Led by France and Germany, concerned about damaging the interests of their respective national monopolies, they ask that a ‘third route’ be considered, midway between the ‘full unbundling’ proposal made by the European Commission and the status quo, which comprises the simple managerial separation of branches of activities.

The proposal recently made by the French-German duo, includes the constitution of a European operator, controlled by the shareholders of the same national companies who hold and manage the networks of each individual Union member state. The European operator should have its own structure, separate from those of the individual national companies, with the absolute prohibition of sharing the same staff.

The presence of the same shareholders, the European Commission holds, would make the solution largely inefficient, in as much as it would not meet the aim of introducing real competition between operators, as the decisions taken would tend to continue to reflect the interests of the groups from which the networks have been removed.

In passing the current transition phase, we would hope that the system harmonisation works and the opening of markets continues, avoiding the serious risk of an inversion of the liberalisation process and a return to nationalistic protectionism.

As of today, European uncertainties would seem to benefit foreign manufacturers above all, who exploit the situation to gain strength in crucial segments of the chain.

*Foreign manufacturers’ strategy*

As gas importers, Europe has to face up to a great concentration of supply, 60% of which is in the hands of just three large manufacturing countries: Norway, Russia and Algeria.

The strategy of the governments and state companies of the manufacturing countries, develops according to two complementary directives.

The first strategic directive consists of the search for a direct access to the end market of consumer countries (entrance in down-stream and mid-stream phases).

This prospect encounters strong opposition both from national incumbents - where they have not succeeded in contracting suitable counter-parties, as is partly the case of Eni - and from the political world, which holds that if European energy markets are opened up to competition, allowing for the entrance of vertically integrated foreign operators, it is fundamental to ensure that the same competition standards are respected by third party countries of these operators, in order that no country can gain advantage from the European energy infrastructures, with first having freed up its own markets.

According to this clause, Europe should maintain a strong position in respect of this reciprocal principle, concretely imposing limits to the possibility that Gazprom and Sonatrach invest in mid-stream and down-stream phases of the market in Italy.

The second strategic directive comprises the search for greater coordination between the policies of all manufacturing countries. In this sense, we would await the meeting of the forum of Gas Exporter Countries Forum (Fpeg) set for June 2008, which could allow for the founding of a type of gas Opec.

Top political management has shown signs of being willing to accept such, both from Russia and Algeria. The increase of the GNL share of international gas trade, and the growing unification of the distribution networks are, on the other hand, preparing for the formation of a gas market similar to that of oil, in order that the coordination of the energy policies of the most important manufacturing countries can bring them real advantage.

*European operators' strategies*

The clearest trend emerging in recent years, and which is becoming more and more established, also thanks to the process of integration and consolidation of the gas sector on a European level, is a gradual convergence of all the main European operators towards a model of greater vertical integration.

Both the oil and gas companies traditionally most present in the higher phases of the chain, and the large utilities unbalanced vice versa down-stream, are trying to develop a presence in all phases of the chain, through alliances with other realities or the acquisition of companies.

Some important European and international operators are already perfectly vertically integrated, and now oversee all phases of the chain. Amongst these, we must include Eni, and shortly also Gazprom. Other Groups, such as Sonatrach, ExxonMobil, Shell, BP and Staloil continue to be present mainly in the production, transport and wholesale phases, whilst the utility giants such as E.On, RWE and Gaz de France, traditionally present in down-stream phases, are now attempting to go back up the chain, sponsoring realisation or mid-stream and up-stream projects.

As we move on to consider the energy field in general, 2007 saw the conclusion of important operations that have led to a general reorganisation of the sector on a European level.

The most important operations, such as that of Enel with Endesa and Gaz de France with Suez, have been accompanied by a series of other, lesser operations, which have led to a sector reorganisation that is, in any case, significant on a national scale. The price that many companies have had to pay for internationalisation has often consisted of a transfer of market share and production assets in the national markets of reference, due to the operation of national and community pro-competition regulations, with a consequent weakening of their dominant position in these markets.

In 2007, the most important agreements concluded between European utilities, both from a strategic point of view, and in terms of economic relevance, involved the energy sector (gas and electrical energy) or, in any case, were most strongly motivated by a need for strategic repositioning of those involved.

The merger of Suez and Gaz de France aimed at consolidating the French position in the gas market, whilst the operation between Enel and Endesa, instead, brought about the founding of a new European pole that is particularly strong in the field of electrical generation.

Apart from the above-stated operations, other important strategic partnerships have been formed in order to develop new international methane pipelines, and to install new capacity for the generation of electricity.

The Suez and Gaz de France merger, and the acquisition of Endesa by Enel, involved national governments first and foremost, to such an extend that these operations would have been extremely difficult to complete without the great political consent that surrounded them. On these occasions we have seen a renewed interest by national governments in a more active and direct management of the energy policies of their countries, also by means of interfering in the choices made by their own national champions, with the awareness that a suitable solution to the energy question represents a fundamental factor of competition for economic development in general.

**The gas market: the Italian scenario**

*The demand for gas in Italy and its supply coverage*

In the year 2007, the gross domestic consumption of gas in Italy equalled 84.9 billion cubic metres (source: Snam Gas Network), divided up according to use per segment as follows:

- residential and service industry: 28.5 billion cubic metres;
- industrial: 21.4 billion cubic metres;
- thermoelectrical: 34.1 billion cubic metres;
- other: 1.0 billion cubic metres;

The growth of the demand, as compared with the previous year, equal to approximately 0.4 billion cubic metres (+0.5%) is exclusively due to the thermoelectrical sector, whose demand reported an increase of 2.6 billion cubic metres (+8.1%) due to the increase of the production of electrical energy by natural gas power stations. The residential and service industry, and industrial sectors, on the other hand, show a respective reduction of 5.7% and 1.7%.

Demand for gas has mainly been covered by recourse to import sources, which in 2007 reached the level of 73.5 billion cubic metres. As compared with 2006, national production and imports have decreased respectively by 15.0% and 3.9%.

As compared with the previous year, the quantities imported from Russia (+1.0 billion cubic metres) and Libya (+1.6 billion cubic metres) have increased, at the expense of imports from Algeria and northern Europe.

*National production of natural gas*

In 2007, Italian production of gas, equal to 9.7 billion cubic metres, reached minimum ever recorded levels, covering approximately 12% of national consumption.

As of 31 December 2007, it is estimated that the remaining reserves of recoverable gas equal 146 billion cubic metres, whilst potentially the figure is between 120 and 200 billion cubic metres (source: Assomineraria).

As is clear, the gas supplies in Italy are running out, and the contribution of national production to cover requirements will become ever more marginal.

*Capacity for transport to entry points*

The development and strengthening of transport infrastructures, and the available transport capacity that can be interrupted at entry points interconnected with abroad, increased, at the start of the thermal year 2007-2008, the transport capacity of the national network to 314.9 billion cubic metres a day, showing an increase of 5.8% as compared with the previous thermal year. The increases are mainly due to the entry points of Tarvisio and Mazara del Vallo, following the start-up of some stretches of current strengthening of import infrastructures from Russia and North Africa.

In addition, transport capacity at entry points interconnected with national production, are available for 42.4 million cubic metres per day.

*Demand development prospects for Gas in Italy*

According to forecasts made by Snam Gas Network, in 2008-2011, our country’s demand for gas will grow at a rate of more than 2%, and will be mainly driven by the thermoelectrical sector.

According to the company, neither the other prices of oil, nor a greater use of renewable sources for the production of electrical energy, will be able to significantly affect the growth of the demand, which is estimated as increasing from the approximately 85 billion cubic metres of 2007, to approximately 94 billion cubic metres in 2011. In 2015, the demand is forecast as around 104 billion cubic metres, up to 114 billion cubic metres in 2020. These forecasts are based on a more limited scenario as compared with that presented just a year ago. The company predicts, in fact, a reduction in the growth of the demand by the thermoelectrical sector, in relation both to the increase of cost of gas due to the rising of oil prices, and to a lesser demand for electricity.

On the basis of this scenario, and considering a decline in domestic production, Snam Gas Network estimates an increase in imports of approximately 40 billion cubic metres by 2020. Net imports should, therefore, exceed 110 billion cubic metres in 2020, half of which should be used by thermoelectrical plants for the production of electrical energy.

*Infrastructural inadequacy of the gas system in Italy*

The Italian gas market is currently marked by a fundamental infrastructural inadequacy.

Supply is not able to guarantee the safety of the system, which is vulnerable to possible tensions of a geopolitical nature, accidental interruptions of supply, or harsh climatic conditions. Competition in the wholesale gas market also suffers the presence of a dominant operator in all chain activities, which controls all foreign access infrastructures to the Italian market, and affects development.

The current situation of scarcity of supply should be somewhat alleviated with the start-up of the regasification terminal of Rovigo, forecast for end 2008 (8 billion cubic metres / year), and with the strengthening of the TAG and TTPC gas ducts, which should bring a further 13 billion cubic metres between October 2008 and October 2009.

*Methane pipelines connecting with overseas pipelines: strengthening of existing structures*

The TTPC (Trans Tunisian Pipeline Company) is the pipeline that allows Italy to import Algerian gas.

Contracts currently managed through the TTPC allow for a transport capacity of approximately 27 billion cubic metres of natural gas a year. For 2008-2009, an increase in the pipeline transport capacity is forecast, which will take place in two later phases: 3.2 billion cubic metres of natural gas a year as from 1 October 2008, and a further 3.3 billion cubic metres of natural gas a year as from 1 April 2009.

The Green Stream, which began operating in October 2004, is the longest pipeline running beneath the Mediterranean, and allows Italy to import gas from Libya. Current transport capacity equates approximately 8 billion cubic metres of natural gas a year.

Forecast investments to strengthen the pipeline will, in a few years, bring the transport capacity of Green Stream to 11 billion cubic metres of gas a year.

The TAG (Trans Austria Gas) is a pipeline that runs through Austria, connecting Baumgarten an der March at the border between Slovakia and Austria, with Arnoldstein, at the Italian border. TAG transports natural gas coming from Russia destined for the Austrian and Italian markets. TAG current transport capacity equates approximately 24.5 billion cubic metres of natural gas a year. In 2008-2009, the increase in the pipeline transport capacity is planned as follows: 3.2 billion cubic metres of natural gas a year as from 1 October 2008, and a further 3.3 billion cubic metres of natural gas a year as from 1 April 2009.

*Methane pipelines connecting with overseas pipelines: new projects*

The IGI (Italy Greece Interconnector) is a pipeline that, through Greece and Turkey, will allow Italy to import quantities of natural gas from the Caspian Sea (specifically from Azerbaijan) and from the Middle East (above all Iran and Iraq), where the largest world gas reserves are located. Guaranteed transport capacity equates approximately 10 billion cubic metres of natural gas a year.

The IGI pipeline will be approximately 800 km long, of which 600 km will fall within Greek territory, and 200 km in the stretch of sea between the Greek coast and that of Apulia, Italy.

In July 2007, Italy, Greece and Turkey signed an inter-governmental agreement for the development of the IGI pipeline. Under this agreement, the Italian, Greek and Turkish governments, having acknowledged the importance of the project, have undertaken to support the companies involved in the realisation of the project (the Italian Edison, the Greek Depa and Desfa, and the Turkish Botas), with the aim of accelerating realisation times, and encouraging its start-up by the end of 2012.

In November 2007, the pipeline connecting Turkey and Greece was opened. Once fully operative, it will have a transport capacity of approximately 11.5 billion cubic metres a year.

The TAP (Trans Adriatic Pipeline) pipeline, which will connect Greece with Italy through Albania, will guarantee western Europe easy and safe access to the natural gas reserves of the Region of the Caspian Sea, in Russia and in the Middle East.

The project, supported by the European Union, which has included it as amongst the priority projects Ten-E, has been given the political go-ahead by the Italian, Albanian and Greek governments. The decision to begin works should take place during the first quarter 2008, whilst construction works should start by end 2008. The laying of 512 km of pipeline, of which 117 km under the sea, should be completed in 2010, when the structure will become operative. Guaranteed transport capacity equates to approximately 8-10 billion cubic metres of natural gas a year.

At present, the project partners are the Swiss Egl and the Norwegian StatoilHydro.

The TGL (Tauern Gas Leitung) is a pipeline for which a feasibility is currently being carried out, and which was proposed by an Austrian-German consortium led by E.On Ruhrgas (45%), and held by Energie Oberosterreich (15%), Salzburg AG (15%), Rohoelaufsuchungs (10%), Kelag 7.5%) and Tigas (7.5%). Realisation of the pipeline falls within a project with the aim of taking part of the gas from the Eni Transmed and Green Stream pipelines and from the Gnl terminals of Rovigo, Trieste and Krk (in the project) to central Europe, by a subsidiary of E.On itself.

The 260 km long TGL will run from Tarvisio to Salzburg, and will be connected up to the TAG. Within Austrian territory, the TGL will exploit the stocks and network of Rohoelaufsuchungs to transport the gas to the German node of Bruckhausen.

The TGL will thereby allow for the integration of the German and Austrian networks with the Algerian and Libyan lines, in order to improve safety of gas supplies.

Guaranteed transport capacity equates to 10 billion cubic metres of natural gas a year as from 2014, the year for which the realisation works are expected to be completed.

The Galsi pipeline, the realisation of which includes laying approximately 1,470 km of pipeline, will connect Algeria with Italy through Sardinia. The project will be carried out by the Galsi consortium, which, with the exit of Wintershall Holding, now comprises Sonatrach (41.6%), Edison (20.8%), Enel (15.6%), Sfirs (11.6%), and Hera Trading (10.4%).The transport capacity of the pipeline, equal to approximately 10 billion cubic metres of natural gas a year, will be partly intended for supplying methane to Sardinia (about 2 billion cubic metres of gas per year) and partly intended for the Italian (contributing to increasing safety of gas supplies to our country) and European markets, through the inclusion of gas in the transport network in Tuscany.

Italy and Algeria signed the inter-governmental agreement for the development of the Galsi pipeline in November 2007. Under this agreement, the Italian and Algerian governments, having acknowledged the importance of the project, have undertaken to support the companies involved in its realisation, in order to accelerate realisation times and aid its start-up within 2012.

The development of the Galsi methane pipeline is of particular interest to the Ascopiave Group which, in November 2006, signed a preliminary agreement with Sonatrach (the national Algerian gas company) for the fifteen-year supply of 500 million cubic metres a year through this pipeline.

*The new regasification terminals*

Currently, thanks to the drop in cost for the completion of infrastructure and transport networks necessary to the industry's operation, regasification has become a seriously competitive supply alternative to the methane pipelines and is, thus, attracting the attention of many operators.

Apart from cost competitiveness, many national and international operators of the sector see the recourse to the regasification infrastructure as the most efficient way to directly access the end user market, bypassing the obstacles presented by the limited transport capacity available on the import gas pipelines networks.

With the general interest of the country in mind, the increase in import capacity through the construction of new regasification terminals would make it possible to diversify foreign supply sources, weakening or easing dependency on the current country suppliers and thus diminishing the risks linked to the possible geopolitical crises that may involve them.

Given that the diversification of sources constitutes a fundamental priority objective of the national energy policy, the GNL projects should also be appropriately supported on a political level.

This important national objective is unfortunately meeting resistance among local administrations, which have generally expressed reservations with regard to the dangers of the plants for the environment and public safety.

Considering current standards, the consensus of the regional administrations represents an unavoidable condition for the completion of the regasification terminals.

In actual fact, the authorisation process is a state matter, but for its conclusion, the agreement of the Region concerned is also necessary.

The Panigallia is the only regasification plant currently operative in Italy. Managed by GNL Italia, a company fully held by Snam Gas Network, it has a rather limited capacity equal to 3.5 billion cubic metres a year. For this terminal, an authorisation procedure has been started up in order to obtain an increase in capacity up to 8 billion cubic metres a year.

In Italy, there are various projects for the realisation of new GNL terminals, most of which are currently awaiting authorisation:

- the on-shore terminal of Brindisi for 8 billion cubic metres a year;

- the off-shore terminal of Livorno for 3.75 billion cubic metres a year;
- the on-shore terminal of Rosignano Marittimo (Livorno) for 8 billion cubic metres a year;
- the on-shore terminal of Gioia Tauro (Reggio Calabria) for 12 billion cubic metres a year;
- the on-shore terminal of Taranto for 8 billion cubic metres a year;
- the on-shore terminal of Zaule (Trieste) for 8 billion cubic metres a year;
- the off-shore terminal of Trieste for 8 billion cubic metres a year;
- the on-shore terminal of Porto Empedocle (Agrigento) for 12 billion cubic metres a year;
- the on-shore terminal of Priolo Gargallo (Siracusa) for 8 to 12 billion cubic metres a year;
- the off-shore terminal of Ravenna for 8 billion cubic metres a year;
- the off-shore terminal of Trinitapoli (Foggia) for 8 to 12 billion cubic metres a year;

The only authorised project currently in completion phase, is the off-shore terminal of Rovigo (situated outside Porto Viro), which should be operative by the end of 2008. The regasification plant of Rovigo will guarantee a capacity of 8 billion cubic metres a year.

*Operators' strategies*

In 2007, the gas sector, and more generally that of public utilities, and the energy field, was marked by consolidation and a great push towards internationalisation.

The tendency to consolidate has mainly involved the ex-municipality enterprises, whilst the internationalisation processes have mainly involved the large national players, such as Eni, Enel and Edison.

2007 also saw an increasing presence of foreign groups in Italy, strengthened following the same processes of internationalisation of our companies (Gazprom and E.On).

According to the annual study AGICI, in 2007 the national sector of utilities recorded 93 extraordinary operations (mergers, acquisitions and partnerships), with a prevalence of sector agreements concerning electrical energy and gas.

With regards to local utilities, the constitution of A2A should be mentioned, created from the merger between Aem Milano and Asm Brescia. The new company presents itself as a national leader in the energy sector and environmental management, with a size such as to suggest a capacity for development even beyond Italian borders, on a level with the other largest national operators. A2A could also represent the nucleus of a larger operation of merger of other ex-municipal enterprises that could lead to the founding of a sort of Italian RWE.

In the meantime, more intense signs of dialogue have been recorded between Hera, Acea and Iride, with the aim of a possible merger agreement, which would further the general process of sector consolidation.

2007 was also marked by a significant dynamism of Eni and Enel, particularly on an international front.

Eni signed agreements aimed at constituting partnerships with the state companies of the most important manufacturing countries of hydrocarbons, with the objective of realising new infrastructures (pipelines, regasification plants, liquefactions), of obtaining long-term gas supplies, and of acquiring rights in the exploration and production of new deposits.

The most important operations were the strategic partnership signed with Noc, the Libyan state company, to strengthen Green Stream, and the agreement with Gazprom for the realisation of the new South Stream pipeline.

Amongst the other operations concluded, Enel also completed the acquisition, in partnership, with the Acciona group of Endesa, the main Iberian group for the production and sale of electrical energy. The operations on the renewable sources, and acquisition of a share of OGK-5 aimed at strengthening the electrical generation on the Russian market, are also important.

The operations concluded by Eni and Enel are so important as to have had a significant effect on the dynamics of the Italian energy field.

The strategic agreement signed by Eni with Gazprom in November 2006, with the aim of developing common projects downstream and upstream, and of realising new gas supply infrastructures, was first concretely implemented in 2007.

Under the framework of this agreement, the Italian group obtained an extension of the gas supply contracts, until 2035, granting the Russians a growing availability of transport capacity towards our country, up to three billion cubic metres a year, in order to reach the end market.

In terms of up-stream, in April 2007, Eni, through a mixed company with Enel, was awarded the ex Yokos assets in Artic Gas and Urengoil, and acquired a 20% holding in Gazprom Neft.

With reference to infrastructure development projects, in June 2007, Eni and Gazprom launched the construction project of a new international gas pipeline named South Stream, in January 2008 formalising the constitution of a joint company, for completion by the end of 2008 of the technical, economical and political feasibility study for the realisation of the project.

South Stream, which is presented as an alternative project to Nabucco, the pipeline promoted by the United States of America and Europe, which will connect central Asia with Austria and have a capacity of approximately 30 billion cubic metres a year, and will connect the Black Sea with the countries of the European Union, through the Balkans. According to the promoters' instructions, the project should be started up by 2013.

In terms of direct access by the Russians to the end market, discussions are still underway by which to identify times and methods. The discussions are encountering significant resistance from those who see the independence of national and European energy policies seriously endangered by this proposal.

In 2007, a partnership between Enel and Acciona, successfully concluded the acquisition of the Iberian company Endesa, operating in the field of electrical energy.

The operation has been aided by a preliminary agreement with the German company E.On, which included the transfer of some of the Spanish company's assets to E.On, including part of the plants of Endesa Italia. As such, the internationalisation of Enel has determined a significant strengthening of the German group on the Italian market.

In 2007, E.On constituted a new company, E.On Italia, in which all existing assets held by the Group in Italy (Thuga and Dalmine Energie, operating in the distribution and sale of gas and electricity) and in which the plants of Endesa Italia and the regasification plant being built outside Livorno, have been brought together. With these new plants, E.On will be placed third amongst the Italian operators, after Enel and Edison.

The failed attempt to purchase Endesa has meant that the barycentre of the E.On group's interests has moved in the Mediterranean area from Spain to Italy, where it is already deeply rooted, particularly in the north-east of the country, where most of its gas customers reside.

In September 2007, another international operator with significant interest in the Italian market, Gaz de France, exercised its option rights on 20% of the shares of the holding Energie Investimenti, held by Camfin, acquiring, as such, control of Italcogim.

In this national and international scenario of great change, the progress made by the municipal enterprise of the north east, must be recorded. This has begun an integration process that is marked particularly by the acquisition operations concluded by the Ascopiave Group.

## Sale of gas

Sales represents the second most important activity of the Group in terms of contribution to company revenues.

This is a liberalised activity, in which a competitive comparison has developed between the operators, which will become ever more fierce following further opening of the markets upstream of the chain (production and import).

Precisely because of its unique nature, the market of the sale of gas will undergo significant change over the next few years, creating opportunities for improvement of profitability margins for those operators who, thanks to their size and technical and relational capacities, will succeed in making the management of the supply phase independent, acquiring transport capacity on the international infrastructures, and concluding several-year ‘take or pay’ import contracts directly with manufacturers.

From a supply point of view, market shares will be redefined between the strongest subjects, and there will be an overall reduction in the number of operators.

As a demonstration of the fact that the market is still in a transition phase, in 2007, together with a progressive reduction of the number of operators, the entrance of new competitors was recorded, often from abroad, without great experience as gas distributors.

According to data provided by the Ministry of Economic Development, as of 31 January 2008, there are currently 414 companies authorised to sell gas.

In Italy, the Algerian Sonatrach and the Russian Gazprom are already operative through CEA Centrax Italia. 2007 also saw the entrance of E.On Italia S.p.A., which falls within the reorganisation of the activities of the Group of our country.

### Sales of electric energy

The liberalisation of the Italian electrical market that began with Legislative Decree no. 79 dated 16 March 1999 (the so-called Bersani Decree) was completed in 2007. If, from 1 July 2004, only principals of VAT numbers could access the free market of electrical energy, as from 1 July 2007, all end users can gain access, including domestic users.

With the complete liberalisation of the electrical energy market, operators can freely determine the supply prices, and customers are free to choose their own supplier, on the basis of the commercial offer they prefer, and which is to their greatest economic advantage.

As was partly the case after the complete opening of the gas market in 2003, the liberalisation of the sale of electrical energy has not been accompanied by immediate requests for a change of supplier by the smaller customers, who have generally continued to use the electrical energy sales companies connected to local distributors. The benefits for consumers are, therefore, expected in the medium term, whilst the fact that operators can freely decide supply prices generated concern for an unjustified increase in supply prices.

With the aim of solving this problem, the Authority for Electrical Energy and Gas (AEEG), in accordance with the principles specified by European Directive 2003/54/EC for the protection of end consumers, has forecast:

the institution of a form of protection for all domestic users and, at their own discretion, for small companies, with the aim of ensuring that the supply of electrical energy takes place at reasonable prices and quality (more protected sales service);

the institution of a form of protection for all customers, with the aim of ensuring that a supplier is available at all times (safeguarded sales service).

With the liberalisation of the electrical sector, the gas companies have seen new growth prospects open up, by means of the presentation of dual fuel commercial proposals based on a joint gas / electrical energy offer.

### Distribution of gas

Distribution represents the main activity of the Group in terms of contribution to  company revenues.

This activity is carried out as a concession or direct allocation and, as such, is subject to strict regulation by the public authorities, with regards to both management methods and tariffs.

As is known, Legislative Decree no. 164/00 introduced the obligatory allocation of the gas distribution service through a call for tenders, presuming that a competition mechanism involving the selection of the provider would be able to encourage a limitation of costs for the end consumer and an improvement in the quality of the service supplied.

As the regulation framework is at present incomplete, the aims of the general standards have, in any case, been widely disregarded.

Failure to issue a standard call for tenders and standard service contract, uncertainty as to the assets values and property regime of the networks, and a lack of rules governing the occupational effects brought about by a change of provider, apart from leading to an intricate administrative dispute, have led local bodies to ban tenders in which the aims of limiting costs and improving service quality are sacrificed in favour of the request by the local bodies themselves for high concession charges.

The issue of a 'standard call for tenders' and a 'standard service contract' that take general principles aimed at safeguarding and improving the level of quality and efficiency of the services offered, at guaranteeing the management balance of the operators and at supporting modernisation and technical development programmes for the sector, are provisions that the more responsible operators - including Ascopiave - have been requesting for years. Finally, recent regulations (Law no. 222/2007) have provided an answer to these requests, charging the Ministries for Economic Development and Regional Affairs and Local Independent Bodies with the task of identifying criteria for the tender and evaluation of supply, in order to appropriately entrust the service of gas distribution, taking suitable account not only of the economic conditions offered, and particularly those to the consumers' advantage, but also of quality and safety standards of the service, investment plans and development of the networks and plants.

The same Law (implementing that set out by Legislative Decree 164/00, Community Law no. 62/05, and, finally, the Bersani Decree) assigns the task of defining minimum territorial areas for the calls for tenders to the Ministries for Economic Development, Regional Affairs and Local Independent Bodies, in order that tenders be carried out according to the identification of optimal consumer bases, efficiency criteria and the reduction of costs, at the same time determining incentives for merger operations.

This change would appear to be significant in that it also answers the concerns shown by the operators for some time, representing a measure necessary by which to encourage rationalisation of the sector and to fight the phenomenon of territorial management fragmentation, which has objectively been encouraged by the context in which the first calls took place.

Territorial tenders have the advantage of encouraging the overall efficiency of the system, allowing for a better organisation of the service and the exploitation of significant scale economies. Local Bodies would, vice versa, gain the following advantages:

the possibility of a more efficient monitoring of activities carried out by the manager, particularly with reference to the obligations undertaken during the tenders (with regards to quality and safety standards, an efficient maintenance of plants, etc.);

obtaining greater guarantees for a correct management of the service;

greater reason to participate in tenders for the more important and qualified economic subjects.

As concerns the definition of new supply evaluation criteria to be awarded the service, we would hope that a balance be returned between the economic aspect and the technical, industrial aspects of the supply, giving greater importance to the latter.

The economic component should mainly concern tariff levels and costs of accessory services.

Vice versa, the entity of concession charges requested by Local Bodies for the entrustment of the service, should be limited. The current praxis of helping those companies offering higher charges during calls for tenders would appear, in fact, contrary to the principle of separation of functions, based around liberalisation. It is in fact evident that, in current conditions, within the local entity there is a fundamental conflict of interest, since it operates both as a regulator - through the predisposition of the ban - as well as a co-interest in receiving a direct economic benefit (confessional fee) in contrast with that of the users of the service. In this sense, fixing a limit to concession charges that can be legitimately requested by the Local Body, would resolve the conflict from the start.

For the technical part, those offers that include a development of the network and an efficient maintenance programme for the plants, should be encouraged.

As concerns quality and service, the characteristics of the managerial, technical and commercial project should be suitably encouraged, together with those in possession of independent certifications, excellent management (emergency service in the event of break-downs, technological innovation and staff training) and, last but not least, the capacity to arrange and manage suitable computer systems to guarantee the quality of the user support processes (allocations, switching) and end consumers.

In terms of issuing a standard call for tenders, we would hope that, in the end, a further two critical elements will be solved, that were brought to attention some time ago by sector operators. These comprise the safeguarding of occupational levels in the event of a change of provider, and the matter of ownership of networks and ways by which charges to be paid to the exiting provider shall be calculated.

The consideration of occupational impacts of the tenders up until now has been fairly scarce and, for lack of any form of regulation, each time has been resolved differently, at times leading to dispute.

On the definition of the value of the charges, the dispute is, as is easy to imagine, much wider. Situations in which Local Bodies have banned the tender and reassigned the concession without having defined the amount due to the provider leaving, are not rare.

The majority of the calls for tenders issued up until now have not included the transfer from the old to the new supplier of managerial staff, nor any form of management of employment issues thereby deriving. Vice versa, tender regulations should include the transfer to the new provider of the whole ‘company branch’ of the leaving manager, including, therefore, the relevant staff. This, apart from meeting social requirements and protecting employment, would also guarantee a continuity of competences and experience of staff working on the plant, thereby benefitting quality and service.

With regards to the second point, we would point out how the Local Bodies, in banning the tenders, have generally opted for the reallocation of the management service, preferring, at the same time, to acquire ownership of the networks and plants.

It is deemed that this praxis contradicts with the aims of the sector regulation, which is expressed in terms of a 'return of plants available' of Local Bodies and, above all, that this could have negative effects on the quality and safety levels of the service.

The distribution of gas requires, in fact, the agent to identify and plan the technical investment interventions by which to keep the network efficient and develop it. Leaving maintenance to the agent owning the network certainly encourages a best and rational planning of interventions. The unit of ownership and management also provides greater guarantees on investment plans and quality of maintenance activities, as the manager, if he also owns the plant, certainly has greater reason to improve safety and quality of service, as long as costs borne and not yet amortised upon completion of the concession are suitably compensated. The definition of congruity of charges is a theme that must also be dealt with in legislation. This matter is even more important in that the legal duration of the period of the concession cannot exceed twelve years, which is a very short period if compared with the useful life of the specific investments in the gas sector.

The change of ownership of the plants from the current managers to the Local Bodies would, in the end, have significant negative impact on the public debt, which would be taken on not to promote the development of new infrastructures or services, but to acquire asset values in relation to existing infrastructures.

To conclude, if the opening of the distribution market represents an opportunity for the end customer, it should be recognised that, if not adequately regulated, this could lead to serious risks of decline in the quality of service, especially with regards to the safety in the running and creation of installations.

With this, we must not forget that we are in a phase in which competition still mainly concerns the efficiency of the processes in the lower part of the chain, on which there are no large margins of earnings. The regulator capacity to affect the oligopolistic structure of the activities upstream of the chain, also encouraged by a scarce European reciprocal nature of operative conditions, is still limited, even if the true challenge of the process of liberalisation should concern precisely that. If, therefore, it is right to provide competitive rules for infrastructure management activity, it is considered that the drive to liberalisation would be most concentrated on the upstream supply activities of the industry, because what is liberalized is first of all access to the import sources of gas, rather than the pipes that transport it. From liberalization of the imports, in fact, one can expect benefits in terms of savings in prices paid by the end customer, while the distribution prices, which represent a marginal share of the whole price, are already regulated by the Authority, which anticipates for their progressive reduction, which will price revision mechanisms based on the expectations of important recoveries of efficiency.

## The normative framework

### National Legislation

*Bersani and Lanzillotta Bills of Law*

In 2007, the so-called Bersani Decree (Senate Law no. 691) specifying the criteria for the receipt of the new European Directive no. 2003/55/EC on the liberalisation of the gas market, and the so-called Lanzilotta Decree (Senate Law no. 772) on the reform of local public services, did not report significant progress on the procedure process.

The Bersani Decree presented on 28 June 2006 is still awaiting discussion in the courtroom, even if some of its provisions have been included in later provisions or bills of law (specifically the Fiscal Decree and the 2008 Financial Law).

The Lanzillotta Decree process has, instead, encountered significant difficulty. In order to overcome such, significant alterations have had to be made to the original text, which have somewhat altered its original physiognomy.

These changes have weakened the principle of the obligation of the call for tenders for the allocation of the public service, introducing the possibility for Local Bodies to use their discretion in terms of publication management.

The Decree allows for a return to management forms that had been believed surmounted, also assigning Local Bodies ownership of networks and other public goods that are instrumental to service management. This would appear to be in contradiction with that set out by Legislative Decree no. 164/00 that, on the one hand specified that a call for tenders be the compulsory way by which to select gas distribution service managers, and on the other set out that, upon completion of the transition time, the plants would be simply 'available' to the Local Body, without the latter being obliged to acquire ownership of such.

At least under the profiles shown, there must be coordination between the specific legislation of the field of gas, and the Lanzillotta Decree, in order to avoid applying two laws to distribution that, due to their very nature and aim, can not help but be in contradiction, as they are intended to govern on the one hand the whole and only the sector of gas, and on the other the general conditions of local public services, each of which has its own characteristics.

*Fiscal Decree and 2008 Financial Law*

Law Decree no. 159 dated 1 October 2007, linked to the 2008 financial manoeuvre and converted into Law no. 222/2007, has amended and added to fundamental points of sector regulations of gas distribution.

The legislative intervention has finally provided an answer to the requests for certainty of a normative framework proposed by operators more than once, and its contents are generally shared.

Specifically, art. 46-*bis* of Law no. 222/2007 states that:

in order to guarantee greater competition and minimum quality levels of essential services to the natural gas distribution sector, the Ministries for Economic Development and Regional Affairs and Local Independent Bodies, having heard the unified Conference and following the opinion of the Authorities for Electrical Energy and Gas shall identify, within three months of the implementation of the Decree conversion Law, the criteria for the call for tenders and evaluation of offer, for the assignment of the gas distribution service, taking suitable account not only of the economic conditions offered, and particularly those to the consumers' advantage, but also of quality and safety standards of the service, investment plans and development of networks and plants.

The Ministries of Economic Development and Regional Affairs and the Local Independent Bodies, following proposal by the Authorities for the Electrical Energy and Gas, and having heard the unified Conference, set out the minimum territorial areas for tenders for the allocation of the gas distribution service, starting with tariffs, according to the identification of the optimal user base, on the basis of efficiency criteria and cost reduction, and set out measures by which to provide incentives for the relevant merger operations.

In order to provide incentive to merger operations, the expiries of the transitory period have increased by two years, thereby automatically extending to 31/12/2009 the natural expiry of that period, and to 31/12/2001 the expiry of concessions for those in possession of at least one of the requirements as specified under art. 15.7 of Legislative Decree no. 164/00, without prejudice to the possibility for a further extension of one year, by deed by the Local Body, for proven and motivated reasons of public interest.

As from 1 January 2008, the towns involved in the new expiries as explained at the previous point, will be able to increase the charge for the distribution concessions only where such is lower and limited to the expiry period, up to 10% of the Distribution Income Constraint, allocating as a priority the additional resources to the activation of the protection mechanisms related to the costs of gas consumption by the weaker users.

Law no. 244 dated 24 December 2007 (2008 Financial Law) further affected this issue, amending art. 46 of Law no. 222/2007, and in particular:

in order to provide incentive to merger operations, it has been established that the call for tenders for the gas distribution service shall be banned for each optimal user base, within two years of the identification of the relevant territorial area, which must take place within a year of implementation of the law converting the Decree;

the possibility, also for those who are principals of a direct entrusting of a service other than that of gas distribution, to participate in the first calls that will take place upon completion of the transition period.

The positive impacts of the application of this regulation have been fully explained previously.

By ARG/gas Resolution 9/08, AEEG has already started the procedure for the identification of the minimum territorial areas for tenders, with the aim of defining a technical proposal that will then be evaluated by the competent Ministries.

The procedure will coordinate with that started in September 2007, with regards tot eh definition of distribution tariffs for the third regulation period.

The procedure should be completed by 31 July 2008.

*More greatly protected services*

With Law Decree 18 June 2007 (converted into Law no. 125 on 3 August 2007), issued following the complete liberalisation of the electric market, the so-called ‘more greatly protected’ services and ‘safeguarding’ have been defined, and AEEG assigned the task of defining the 'prices of reference' for the supply of electrical energy and gas for domestic users and small companies that the sales companies must, in any case, provide with their commercial offers, in accordance with the obligations relating to a public service.

The Authority’s powers of inspection and intervention for the protection of consumer rights, have also been confirmed, with reference to any unjustified increases in price or alterations to conditions of the 'more greatly protected' services.

As concerns the gas market, under Resolution no. 134/06, the Authority had already reduced the part of the protected market to the so-called 'domestic users'.

*Excise duty and VAT*

With Legislative Decree no. 26 dated 2 February 2007, and European Directive 2003/96/EC, the community framework for taxation of energy products and electricity, has been restructured.

For the gas sector, the new provisions concerning excise duty and Value Added Tax (VAT) rates on natural gas for combustion for civil uses introduced by art. 2 (with effect as from 1 January 2008) are of particular importance.

From the current structure based on the intended use of the product and related tariff (T1, T2, etc.), we have now moved on to a new structure divided up into four types of consumption with different excise duty and VAT rates: up to 120 $m^3$/year; from 120 $m^3$/year to 480 $m^3$/year; from 480 $m^3$/year up to 1,560 $m^3$/year; more than 1,560 $m^3$/year.

As concerns the ‘benefits’ on natural gas for ‘industrial use’ (tax reductions), there has been no important change, in that paragraphs 1, 2 and 3 of art. 26 repeat the text of note 1 (where the industrial uses benefitted were defined) of the ‘old’ art. 26.

Again, as concerns ‘benefits’ on natural gas, art. 1 of Legislative Decree 26/07 sets out (with effect as from 1 June) the inapplicability of the imposition to excise duty for the natural gas used for chemical reduction in electrolytic and metallurgic processes, and in some mineralogical processes (such as glass manufacture, ceramics, etc.) as per EEC Regulation no. 2031/2001 and subsequent amendments.

Under the Decree dated 23 February 2007, the Ministry of the Economy has reduced the excise duty rates on natural gas for combustion for civil uses for the year 2007 (with the exclusion of southern Italy).

With Circular letter no. 17/D dated 28 May 2007, the Customs Agency supplied the first operative guidelines for a correct implementation of the provisions of Legislative Decree no. 26/07.

With Circular letter no. 37/D dated 28 December 2007, the Customs Agency integrated the provisions already issued by Circular letter no. 17/D dated 28 May 2007.

With Law Decree no. 248 dated 31 December 2007, the benefits on excise duty for industrial users consuming more than 1,200,000 m³/year, were extended for the whole of 2008.

With Circular letter no. 2/E dated 17 January 2008, the Tax Agency provided clarification with regards to the application of the new provisions introduced by Legislative Decree no. 26/07 received from the Community Directive 2003/96/EC. Specifically, clarification with regards to the application of VAT was provided, to the amount of 10% on gas supplies.

*Wholesale market*

With Law Decree dated 31 January 2007, important changes were made to the wholesale natural gas market. Art. 11 of the Decree states that a share of gas imported from non-European Union countries will be sold at the Virtual Exchange Point (PSV).

*Gas emergency*

The Decree dated 11 September 2007 issued by the Ministry of Economic Development sets out that each end consumer using natural gas shall be obliged to contribute to the limiting of gas consumption, in order to face up to emergency situations in the event of a particularly harsh climate, or conditions where there is little natural gas available.

The provision defines the application of the procedure of interruption of gas supplies to the different types of end customers subject to such obligation, following a declaration made by the state as to the crisis of the system, whilst the Authority shall define amounts, penalties for non-fulfilment, premiums for end customers and incentives for sales companies, where obligations are met.

In relation to the need and urgency to extend the possibility of participating in the limitation of gas consumption to as many industrial subjects as possible, even in aggregated form, in order to ensure, according to requirements, an early limitation of consumptions where there are critical situations in the national gas system, the Ministry of Economic Development issued the Decree dated 14 December 2007. This provision, which constitutes an amendment to the previous Decree dated 11 September 2007, now allows end industrial consumers of natural gas to aggregate independently, without needing to go through a sales company. The Decree specifies in which ways voluntary and temporary grouping will be acknowledged, and defines responsibilities in relations with the Ministry and with the AEEG.

**The regulatory activities of the Authority for Electrical and Gas Energy (AEEG)**

In the course of 2007, the AEEG issued a series of measures, exercising its functions in matters relating to pricing and normative laws.

The first resolution of the year, Resolution no. 1/07 dated 8 January 2007, concerns approval of the strategic plan for the three-year period 2007-2009. With this provision, the Authority has identified the main general and strategic aims of the regulatory activities for the years from 2007 to 2009, in order to make its actions ever more transparent, and to offer system operators and consumers a planning of future initiatives.

In detail, the general objectives and related strategic objectives (by which the Authority intends to reach the general aims) contained within the strategic plan 2007-2009, concern:

- the promotion of the development of competition markets (develop and harmonise the markets of electricity and gas; limit the power of the dominant operator market; promote the forming of efficient transnational markets of electricity and gas; guarantee transparent, non-discriminatory access to regulated infrastructures);
- support of the efficiency and economics of infrastructural services and the promotion of investments (promote suitability, efficiency and safety of infrastructures; guarantee economics of network services; promote efficiency of measurement activity);
- protection of consumers / users of energy services (manage the complete opening of the demand markets; guarantee universal service; protect ex-captive customers and vulnerable customers; develop service quality levels);
- promotion of a rational use of energy and environmental protection (support and spread energy efficiency in end uses; contribute to the choices for sustainable development);
- guarantee of a correct application of sector regulations and standards (checking application of regulations and standards by regulated subjects; ensure implementation of regulations);
- development of dialogue with system stakeholders (develop relations with institutions, strengthen consultation and discussion with operators and consumers; bring the Analysis of Impact of Regulation to standard; consolidate communication and relations with the media);
- increase internal efficiency in order to reach objectives (support development of human resources; improve organisational and economic-financial efficiency).

With Decision no. 6/07 dated 21 February 2007, the Authority presented the annual operative plan for 2007, a plan of an informative nature that represents an addition to the three-year strategic plan 2007-2009. With this document, the Authority has identified the most important operative objectives and specific actions (consultations, decisions, etc.) with reference to each individual objective in order to inform the subjects involved with regards to the actions it intends taking in the period of reference.

*Distribution tariff*

In 2007, with Resolution no. 7/07 dated 16 January 2007, no. 53/07 dated 7 March 2007 and no. 125/07 dated 4 June 2007, the Authority defined and approved the proposed tariffs for the thermal years 2005-2006 and 2006-2007, determined in accordance with Resolution no. 170/04 dated 29 September 2004, as later amended, of the natural gas distribution companies.

Specifically, with Resolution no. 53/07 of 7 March 2007, the Authority approved the distribution tariffs of Ascopiave S.p.A. for the thermal years 2005-2006 and 2006-2007, determined in accordance with the criteria set out by Resolution no. 170/04, as amended by Resolution no. 218/06. In the case of Ascopiave, the price-cap used to calculate the Distribution Income Constraint is equal to 3.3% for the thermal year 2005-2006, and equal to 3.2% for the thermal year 2006-2007.

With Resolution no. 220/07 dated 10 September 2007, the Authority began proceedings for the determining of tariffs relating to the distribution of natural gas for the thermal year 2007-2008.

With Resolution no. 225/07 dated 18 September 2007, the Authority began a procedure with the aim of forming provisions for tariffs for gas distribution for the third regulatory period, in accordance with article 2, paragraph 12, letters d) and e) of Law no. 481 dated 14 November 1995.

The aim of the new regulation will be, amongst other aspects, to define a more uniform distribution tariff throughout the territory, at least on a regional level, in order to encourage competition and simplify management for operators working in more than one field.

In 2007, with Resolution no. 261/07 dated 15 October 2007, no. 293/07 dated 23 November 2007, and no. 321/07 dated 14 December 2007, the Authority approved the tariff proposals for the thermal year 2007-2008 of the natural gas distribution companies.

Specifically, with Resolution no. 261/07 of 15.10.07, the Authority approved the distribution tariffs of Ascopiave S.p.A. for the thermal years 2007-2008 and 2007-2008, determined in accordance with the criteria set out by Resolution no. 170/04, as amended by Resolution no. 218/06. In the case of Ascopiave, the price-cap used to calculate the Distribution Income Constraint is equal to 3.1% for the thermal year 2007-2008.

*Revision or updating of the component "consideration of wholesale marketing" (CCI) of the sale prices.*

Resolution No. 248/04 issued by the AEEG had changed the updating mechanism of the ‘raw material’ component of the gas sales tariff, from 1 January 2005, with the purpose of stabilising the effects of the increase of the prices of oil on the final prices paid by the end customers.

The issue of this resolution, which also penalised sellers' profit margins, led to a dispute and a proliferation of later provisions by the Authority, who had created a situation of uncertain legislation.

In order to remedy the situation, the Authority, with Resolution no. 79/07 dated 29 March 2007, intervened, re-determining the economic conditions of the supply of natural gas for the period from 1 January 2005 to 31 March 2007.

Specifically, Resolution no. 79/07 included the application of quarterly change to protected customers, by the CCI component (consideration of wholesale marketing) that can be traced back to the methodology specified by Resolution no. 248/04 as from 1 January 2006, and that specified by Resolution no. 195/02 dated 29 November 2002 for the previous period.

In particular, the resolution set out that the charges deriving from the application of Resolution no. 248/04 in place of Resolution no. 195/02 in the 1st half 2006, remain 50% borne by the system. The provision also set out that the remaining 50% must be divided up between the sales company and the natural gas suppliers (the so-called shippers), thereby forcing shippers to reformulate the contractual renegotiation proposal relating to the purchase conditions of natural gas to the sales companies.

With Resolution no. 101/07 dated 26 April 2007, the Authority extended the terms within which suppliers must offer new renegotiation conditions to 4 June 2007, and to 29 June 2007 the terms within which the Authority must be informed of said fulfilment of renegotiation obligations.

*Update of the 'transport fees' (QT) component of the sales tariff*

With Resolution no. 241/07 dated 27 September 2007, the Authority set out that for the period 1 October 2007 - 30 September 2008, the value of the average unitary amount (Cpe) of the transport component of the economic supply conditions of natural gas, as per article 6, paragraph 6.2 of Resolution no. 138/03 is equal to 1.290953 euros/year/sm$^3$/g.

*Update of the 'storage fees' (QS) component of the sales tariff*

In Resolution n.84/07 of 30 March 2007, the Authority provided for the updating, for the period from 1 April 2007 to 31 March 2008, of the storage component (QS) of tariffs for the economic conditions for natural gas supply, as per resolution 138/03. The Resolution set out that for the period 1 April 2007 - 31 March 2008, the value of the component QS is equal to 0.254892 euros/GJ.

*Revision of the 'Retail Sales Fees' (QVD) of sales tariffs*

With Resolution 297/06 of 19 December 2006, the Authority initiated proceedings to create measures to revise the provisions, of which in article 8 of Resolution n.138/03, concerning the variable consideration of retail sales.

With Resolution no. 240/07 dated 27 September 2007, the Authority amended art. 8 of Resolution no. 138/03, setting out that, as from 1 October 2007, the representative coefficient of the unitary costs of retail sales activities as under art. 9, paragraph 4 of Resolution no. 237/00, going from 32.07 euros/customer/year to 35.82 euros/customer/year, with an increase of 3.75 euros/customer/year, corresponding to an increase of 11.69%.

With Resolution no. 347/07 dated 28 December 2007, the Authority following a recent consultation (Deed 48/07), the structure of the QVD component has been reviewed as of 1 January 2008. In particular, by means of the amendment of art. 8 of Resolution no. 138/03, the new component relating to the retail sales is defined by a variable amount (determined in accordance with Resolution no. 240/07) in relation to the energy consumed, and a fixed rate equal to 3.6 euros/customer/year. At the same time, the faculty to increase charges borne by customers with annual consumption up to 20 GJ, was abolished.

In 2008, there will be a new intervention by the Authority with regards to homogenising charges relating to the QVD component on a national level, that would lead to the elimination of tariff areas, as from 1 October 2008. This intervention is subject to positive evaluation through monitoring and appropriate checks and inspections, with regards to this possibility.

*Resolutions pertaining to gas transport activity*

With Resolution no. 45/07 dated 27 February 2007, the Authority amended Resolution no. 166/05 in terms of mid-year considerations of capacity and modality of allocation of income between regional transport companies, and extended the terms for the sending by transport companies of data and information needed to calculate unitary considerations and to identify points of entry and exit, for the thermal year 2007-2008.

With Resolution no. 205/07 dated 2 August 2007, the Authority approved the tariff proposals for the thermal year 2007-2008 in relation to transport and despatch of natural gas, in implementing Resolution no. 166/05 dated 29 July 2005. Furthermore, in a transitory manner for the thermal year 2007-2008, the unitary tariff contribution (CVF) will be introduced in addition to the variable unitary contribution, the value of which will be defined by the Authority in a later provision.

*Resolutions pertaining to gas storage activity*

With Resolution no. 78/07 dated 29 March 2007, the Authority approved the business contributions and determined the single contributions for storage, in relation to the thermal year 2007-2008, implementing Resolution no. 50/06. Furthermore, with this resolution, the proposals to reduce the unitary injection and supply contributions for the interruptible storage capacity offer, as presented by the companies Stogit S.p.A. and Edison Stoccaggio S.p.A. for the thermal year 2007-2008, were approved.

With Resolution no. 287/07 dated 22 November 2007, the Authority began a preliminary investigation into the storage activities of the sector of natural gas, aimed at analysing the presence of any obstacles, whether economic or strategic, to the development of new storage capacity aimed at evaluating the existence and availability of alternative flexibility tools to storage, and at analysing the legislative and regulatory context with the aim of evaluating its impact on the competition dynamics of the sector.

With Resolution no. 297/07 dated 29 November 2007, the Authority confirmed for the thermal year storage 20072008, the contributions for the balancing and reintegration of storage as under art. 15, paragraph 10 of Resolution no. 119/05, as fixed by Resolution no. 21/06 for the thermal year 2005-2006, and no. 265/06 for the thermal year 2006-2007.

With Resolution no. 303/07 dated 4 December 2007, the Authority set out the obligation for a 'minimum stock' for storage companies. With this provision, the operators are obliged to keep sufficient gas reserves to guarantee coverage of their customers' modulation requirements with consumptions up to 200,000 m³ annually, for the whole of the winter period.

*Other decisions*

With Resolution no. 10/07 dated 18 January 2007, the Authority approved the provision governing the procedure in public evidence for the identification of new suppliers of last resort (in accordance with Law no.239/04 dated 23 August 2004). As from 1 March 2007, they will have to:

replace, for initial application, in the gas supplies to end customers made by sellers without a wholesale supplier other than the wholesale supplier of first resort;

guarantee the supply of gas to end consumers with consumptions no greater than 200,000 m³ annually, or end consumers connected to the distribution networks who, even temporarily, are without a supplier for reasons that are not down to them.

With Resolution no. 221/07 dated 13 September 2007, the Authority amended the procedure approved by Resolution no. 10/07, eliminating some elements of uncertainty highlighted by the operators.

With Resolution no. 11/07 dated 18 January 2007, the Authority, in implementing Community regulation, approved the Integrated text of the provisions on the subject of administrative and accounting unbundling for companies operating in the gas and electricity sectors.

The provision, apart from the adoption of an Integrated Text, also amends the previous rules of administrative and accounting unbundling as specified by Resolution no. 310/01 (for juridical subjects operating in the field of electrical energy) and no. 311/01 (for juridical subjects operating in the gas sector) in order to encourage the liberalisation processes.

In particular, the Integrated Text comprises:

- the definition of rules of functional unbundling that guarantee, amongst other aspects, the independence of those managing the essential infrastructures;
- the more timely identification of activities and sections, in compliance with the company organisation structures brought about by the free market;
- some limitations to the indirect allocation of costs through the use of all information available, including that deriving from analytical accounting;
- regulation of a more simple yet efficient accounting unbundling;
- harmonisation of rules between the gas and electrical energy sectors.

The unbundling regulation aims to:

- eliminate the cross-over benefits between activities by means of a correct and transparent disaggregation and reporting of the economic and asset values of the activities;
- guarantee a certain flow of information that is homogenous and detailed on the economic and assets situation of companies working in the sectors of electrical energy and gas, with particular attention to the costs structure;
- guarantee neutrality and transparency of infrastructure management.

The guarantee of a non-discriminatory access to the infrastructures by third parties, through the arrangement of codes that can guarantee a neutral and transparent management of the infrastructures, is fundamental for a correct development of competition. Even more so in situations where separation of ownership does not yet apply, as in the case of gas distribution.

With Resolution no. 17/07 of 2 February 2007, the Authority defined the standard withdrawal profiles associated with the different categories of use of natural gas, to estimate the withdrawals of end customers connected up to distribution networks. These profiles, the use of which has been made obligatory as from the thermal year 2007-2008, introduce criteria for the estimation of data for the invoicing of the gas distribution service and for the correct division of gas amongst the various sales company, in the event of no reading, which would standardise the behaviour of all distributors and would encourage the transparency of markets.

With Resolution no. 60/07 dated 19 March 2007, the Authority started up a procedure for the formation of supplies in terms of technical-economic conditions by which to realise the connection up to the gas distribution networks, in order to reach rules governing the homogenous and coherent application by all gas distribution companies on the whole national territory.

With Resolution no. 62/07 dated 20 March 2007, the Authority extended insurance coverage in favour of the end domestic users of gas (distributed through local pipelines and transport networks) until 30 September 2010. It has been operative since 1991.

With this provision, the Authority granted the Italian Gas Committee (CIG) the power to:

identify improved conditions at equal maximum cost for the end domestic consumer, set as 40 euro cents a year (e.g. in relation to timely compensation, timescales for the reporting of accidents, maximums, etc.);

carry out information campaigns from time to time, aimed at spreading the existence of an insurance contract for end domestic customers and improving contact channels for any clients involved in accidents.

With Resolution no. 74/07 dated 28 March 2007, the Authority added to and amended Resolution no. 168/04 in the part concerning procedures for checking data relating to commercial quality and safety of distribution services, measurement and sale of natural gas.

With Resolution no. 139/07 dated 19 June 2007, the Authority issued a directive on the quality of commercial call centre services of gas and electrical energy sellers, in response to the proposals made during the two public consultations and the results of an investigation into customer satisfaction. The provision set compulsory quality standards that the companies must pursue in order to ensure a suitable level of service, protecting consumers. All this, with a view to promoting a continuous improvement in the quality of the services supplied by call centres, at the same time guaranteeing a suitable level of flexibility of service offer to the selling companies, an essential part of an efficient process of complete liberalisation of sales, also on the domestic market.

The directive will need to be introduced gradually, starting with the most major companies: as from 1 January 2008 for sellers with more than 100,000 end customers supplied in low tension and/or lo pressure as of 31 December 2006; from 1 July 2008 for sellers with more than 50,000 end customers supplied in low tension and/or lo pressure as of 31 December 2006; from 1 January 2009 for all other sellers.

With Resolution no. 144/07 dated 25 June 2007, the Authority provided new rules for the withdrawal from contracts for the supply electrical energy and natural gas, under the process of liberalisation of energy. For electrical energy, the new rules will apply as from 1 July 2007 to the supply contracts drawn up by domestic customers and small companies, and from 1 October 2007 to supply contracts signed with all other customers. For gas, instead, the new rules shall apply as from 1 October 2007 to the new contracts drawn up by any type of customer, and on the occasion of the first renewal, or within a year of publication of the provision for current contracts.

With Resolution no. 157/07 dated 27 June 2007, the Authority, in accordance with art. 1, paragraph 1 of Law Decree no. 73/07, defined matters concerning basic data access by the selling companies, for the formulation of commercial proposals relating to the supply of electrical energy and/or natural gas.

With Resolution no. 169/07 dated 9 July 2007, the Authority began procedures to define the functional regulation of service and the service structure of gas distribution, to introduce tele-measurement system by which to report consumptions of end customers and to harmonise the tariff system with the relevant service structure.

With Resolution no. 174/07 dated 12 July 2007, the Authority set, for the thermal year 2007-2008, as 1.5% of the distribution cost, the QFNC positive share borne by the tariff areas other than those of high cost, as specified by Resolution no. 170/04. The provision also extended the expiry terms for payment operations into the compensation fund until 15 September 2007, as specified for the thermal year 2006-2007 by Resolution no. 170/04.

With Resolution no. 227/07 dated 18 September 2007, the Authority closed the preliminary investigations into the application of corrective coefficients for the measurement of natural gas by transport companies, distribution and sales companies of natural gas on a national level. The preliminary investigations began with Resolution no. 124/07 dated 1 June 2007, for the purpose of checking a correct application by the above-stated companies of the ‘M’ and ‘K’ measurement coefficients that are applied to the data supplied by the measurers for the determining of prices and tariffs.

The confidential results of the preliminary investigations have been sent to the Public Prosecutor’s Office at the Court of Milan.

With Resolution no. 247/07 dated 2 October 2007, the Authority updated the typical network code for the gas distribution service, in order to receive the amendments to Resolution no. 138/04 and the definition of the profiles of standard withdrawal, as under Resolution no. 17/07.

With Resolution no. 253/07 dated 4 October 2007, the Authority amended Resolution no. 11/07 including the obligations of administrative and accounting unbundling for companies working in the field of electrical energy and gas, introducing, with reference to electrical energy, a distinction between the sales to free customers and sales to protected customers. The provision has also postponed the implementation of the functional unbundling to 1 July 2008.

With Resolution no. 277/07 dated 31 October 2007, the Authority defined the incentives and penalties for the thermal year 2007-2008, applicable to all subjects identified by Ministerial Decree dated 11 September 2007, obliged to reduce consumption in order to contribute to the limitation of any winter critical situations in gas supply. The provision recognises amounts due to the gas sales companies for charges related to the activities involving their end customers, in terms of limiting consumption.

With Resolutions no. 300/07, no. 301/07 and 302/07 dated 4 December 2007, the Authority acted on the preliminary investigations (concluded with Resolution 227/07) on the application of coefficients to standardise tariffs and correct ‘M’ and ‘K' volumes, starting up sanction procedures and a programme of inspections with the Financial Police Force for the various gas distribution and sales companies.

In particular, with Resolution no. 300/07, the Authority disputes that 7 distribution companies and 36 sales countries use ‘M’ measure coefficients that are higher than those set by the Authority for the exact accounting of natural gas, to the detriment of the end customer. With Resolution no. 301/07, instead, the Authority disputes that 65 sales companies fail to follow instructions with regards to the ‘M’ coefficient, thereby not permitting customers to check correct application. With resolution no. 302/07, the Authority approved the inspection programme for the correct application of the correction coefficient of ‘K’ volumes on the basis of the first findings that have emerged from the above-specified preliminary investigations.

With Resolution no. 313/07 dated 11 December 2007, the Authority extended the terms as under art. 13, paragraph 3 of Resolution no. 294/06 concerning communication standards between subjects operating in the gas sector, to 30 September 2008.

With Resolution no. 323/07 dated 14 December 2007, the Authority amended the provisions concerning the limitation of natural gas consumption, in accordance with Ministerial Decree dated 14 December 2007 (with reference to the conditions of adhesion to the limitation of consumption, to contributions by mandatory subjects, to the methods by which to pay penalties and the supply of premiums and compensation, and the ways by which to withdraw from the individual adhesion to the limitation of consumption).

With Resolution no. 324/07 dated 14 December 2007, the Authority updated the typical network code of distribution with reference to the proposals made by the specific work group instituted with the operators with the Determination of 13 December 2007. The coming into effect of the new network code is set for 1 March 2008.

**Efficiency and energy saving obligations**

The Letta Decree, in article 16, paragraph 4, states that natural gas distribution companies must pursue energy saving objectives and the development of renewable energy sources.

The definition of the national quantitative objectives 1 and the criteria for the assessment of the results obtained was requested from the Ministry for Economic Development, in agreement with the Ministry of the Environment and Land Protection, which led to the issue of the ministerial decree of 20 July 2004.

With the Decree dated 21 December 2007, the Ministry for Economic Development reviewed and updated the Decree dated 20 July 2004, on the following points:

the 2008 and 2009 objectives were reviewed in the light of an excess of offer of energy efficiency equities recorded on the market;

the objectives for the three-year period 2010 - 2012 were defined, taking into account the target of reduction of energy consumption fixed by the action plan as of 2016, equal to 10.86 MTOE;

the efficiency and energy saving obligations for each year following 2007 were extended to distributors who, as of 31 December of two years prior to each year of obligation, connected more than 50,000 end customers to their distribution network.

The energy saving objectives set out by the Decree of 20 July 2004, integrated by the Decree of 21 December 2007, are:

- 0.10 Million TOE for the year 2005;
- 0.20 Million TOE for the year 2006;
- 0.40 Million TOE for the year 2007;
- 1.00 Million TOE for the year 2008;
- 1.40 Million TOE for the year 2009;
- 1.90 Million TOE for the year 2010;
- 2.20 Million TOE for the year 2011;
- 2.50 Million TOE for the year 2012.

[1] The national quantitative objectives for energy saving are defined on an annual basis, in millions of TEP (Equivalent tonnes of oil) and are assigned annually to each distributor by the Authority, on the basis of quantities of gas distributed during the year prior to that of reference.

All this is also valid for distributors of electrical energy, with the difference that the energy saving objectives are much stricter than those that apply to gas distributors.

The fulfilment of energy saving is attested to by the distribution of energy efficiency certificates, the so-called 'White Certificates', each of which represents energy saving of 1 TOE. In order to fulfil the obligations as specified by the Decree dated 20 July 2004, integrated by the Decree of 21 December 2007, and to thus see their White Certificates recognised, distributors can:

carry out direct interventions to improve the Energy efficiency of technology installed or related methods of use;

acquire the white certificates directly from third parties, by means of bilateral contracting or through negotiation in an appropriate market set up at the Electrical Market Administrator (GME).

There are three types of White Certificate: Type 1 certificates pertain to electrical energy savings, Type 2 certificates to gas savings and Type 3 to savings of other fuels.

Apart from the distribution companies, Energy Saving Companies (ESCOs) and companies accredited by the AEEG can participate in the White Certificates market, and while they may not have any obligation to pursue energy saving objectives, they can achieve savings in primary energy through their own investments, with the intention of obtaining energy efficiency certificates to sell on the market.

Ascopiave S.p.A., as a natural gas distribution company that on 31 December 2001 had over 100,000 customers, is subject to the obligations set out in the Decrees of 20 July 2004 and 21 December 2007, and, therefore, is bound by the energy saving objectives established annually by the Authority.

The Authority has the task of checking that each distributor is in possession of energy efficiency certificates that comply with the annual objective assigned him (increased by any additional shares for compensation or updated following the introduction of new national quantity objectives) and of informing the Ministry for Economic Development, the Ministry for the Environment and the Protection of the Territory and the Electric Market Administrator, of all certificates received and the outcome of the inspections.

If a distributor does not meet the agreed objective, it could be subjected to an administrative fine imposed by the Authority, implementing Law no. 481 dated 14 November 1995.

If, in each of the years of obligation, the distributor consigns a share of its objective equal to or greater than 60%, it may offset the residual amount in the next year, without having to pay a fine. Such fines will, instead, apply any time the distributor consigns a share of its objective that is below 60%. In this case, apart from the fine, the distributor will also be obliged to offset the residual share within the next year.

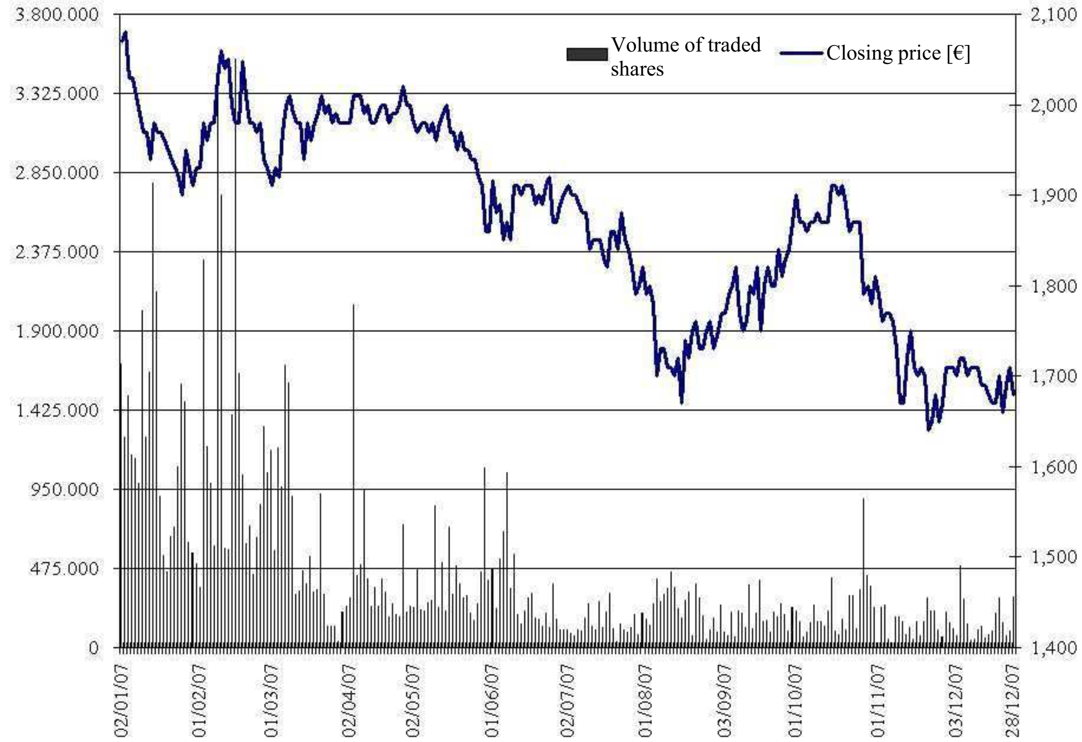
For distribution companies with between 50,000 and 100,000 end customers, the share of its objective to be consigned in order not to pay fines, is reduced to 25% limited to the year 2008.

The AEEG, in its own communiqué of 29th December 2004, explained that the level of the fine would be fixed according to the number of T.O.E.s that were not saved, compared to the agreed objective, estimated on the basis of the market price of energy efficiency certificates.

**Ascopiave S.p.A. share trend on the Stock Exchange**

Ascopiave shares closed 2007 at 1.68 euros per share (28 December 2007), down by approximately 23.3 percentage points as compared with the listing at the start of January 2007 (2.19 euros per share). This change takes the list peak recorded at the start of 2007 as initial data, corresponding to a rising trend typical of the phases immediately following placement of a share on a stock market, which, in the case of Ascopiave, took place on 12 December 2006. Should the change be calculated with regards to the price set by IPO, it would be reduced to approximately 6.7 percentage points.

Capitalisation of the Stock Exchange as of 28 December 2007, is equal to 388.5 million euros [2].




In 2007, the Mibtel index decreased by 7.8%.

In 2007, the shares of Ascopiave's main competitors, i.e. Hera, Acea, Iride, Acegas-Aps, Acsm Como and Gas Plus (with the exception of Asm Milano and Asm Brescia) showed changes in value of between -28.5% and +1.2%.

The shares of Aem Milano and Asm Brescia went against the trend as compared with the sector, and on the basis of news relating to their mergers, reported a growth of respectively 23% and 22%.

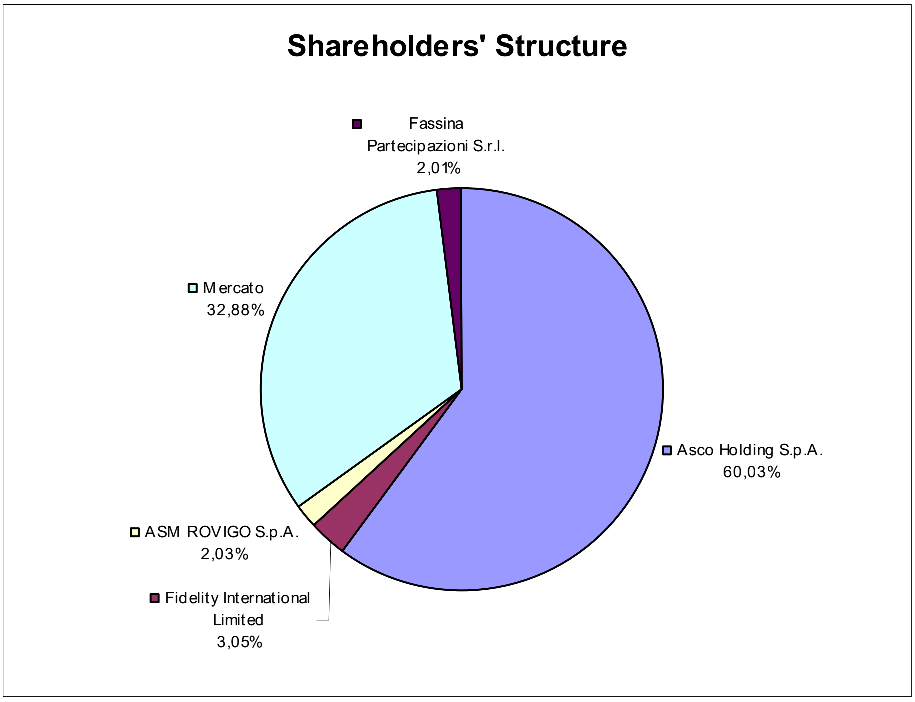
[2] As of 28 December 2007, capitalisation of the Stock Exchange of all listed companies operating in the sector of local public services (Aem Milano, Acea, Asm Brescia, Acegas-Aps, Acsm Como, Enìa, Gas Plus, Hera, Iride) exceeded 18.5 billion euros.

| Shares and stock-exchanges dates | 31 december 2007 |
|---|---|
| Earnings per share | 0,095 |
| Interim dividend per share | 0,025 |
| Net equity per share | 1,59 |
| Placing price | 1,80 |
| Closing price at 31 december 2007 | 1,68 |
| Top price of the year | 2,08 |
| Bottom price of the year | 1,64 |
| Capitalization on the stock exchange | 388.500.000 |
| Medial outstanding shares | 233.144.500 |
| Shares number of capital share | 233.334.000 |
| Ownership of Company's own shares | 379.000 |

## Control of the Company

On 31.12.07 the Asco Holding S.p.A. owned 60% share capital of the Ascopiave S.p.A.

The share composition of Ascopiave S.p.A., according to the number of shares held, is as follows (*):



## Shares held by Directors and Auditors

| Surname and name | Companies | No. Of shares held as of 01/01/2007 | Number of shares bought in 2007 | Number of shares to sell in 2007 | No. Of shares held as of 31/12/2007 |
|---|---|---|---|---|---|
| Salton Gildo[1] | Ascopiave S.p.A. | 113.600 | | | 113.600 |
| Beninatto Alfonso | Ascopiave S.p.A. | | | | |
| Bortolin Gianantonio | Ascopiave S.p.A. | 3.600 | | | 3.600 |
| Bresolin Ferruccio | Ascopiave S.p.A. | | | | |
| Trinca Flavio | Ascopiave S.p.A. | | | | |
| De Luca Lino[2] | Ascopiave S.p.A. | 5.400 | | | 5.400 |
| Sforza Fabio | Ascopiave S.p.A. | | | | |
| Visentin Graziano | Ascopiave S.p.A. | | | | |
| Dirigenti con responsabilità st | Ascopiave S.p.A. | 192.800 | | | 192.800 |

[1] Company Compagnia Mobiliare Valsana S.r.l. no.110,000, spouse 3.600

[2] Personal properties n. 3.600, spouse n. 1800.

## Transactions with related parties

The company has the following transactions with related parties with the following types of costs of ownership:

- ✓ Purchase of screen-based services from subsidiary ASCO TLC S.p.A.;
- ✓ Purchase of materials for the production process and maintenance services from SEVEN CENTER S.r.l.;

The company has the following transactions with related parties with the following types of revenues of ownership:

- ✓ Leasing of real properties owed to subsidiary ASCO TLC S.p.A.;

We would point out that these transactions are based on maximum transparency and on market conditions.

## Directors' and Statutory Auditors' fees

Under the Consob Resolution No 15520 as of 27 July 2006, the remuneration and the emoluments in favour of Directors and Auditors of Ascopiave S.p.A. for their positions in the Parent company and in other entities of the Group included in the consolidation are the following: (amounts in Euros)

*Board of Directors:*

| Individual | Office | Duration of office | Annua remuneration from Ascopiave S.p.A. | Annual Remuneration fromsubsidiary companies | TOTAL |
|---|---|---|---|---|---|
| Salton Gildo | Chairman of the Board of Directors | 2005-2007 | 310.000 | - | 310.000 |
| Beninatto Alfonso | Director | 2005-2007 | 50.000 | - | 50.000 |
| Bortolin Gianantonio | Director | 2005-2007 | 50.000 | 5.650 | 55.650 |
| Trinca Flavio | Independent Director | 2006-2007 | 52.000 | - | 52.000 |
| Bresolin Ferruccio | Independent Director | 2006-2007 | 50.000 | - | 50.000 |
| **Total** | | | **512.000** | **5.650** | **517.650** |

*Statutory Auditors:*

| Individual | Office | Duration of office | Annua remuneration from Ascopiave S.p.A. | Annual Remuneration fromsubsidiary companies | TOTAL |
|---|---|---|---|---|---|
| De Luca Lino | Chairman of Board of the Statutory Auditors | 2005-2007 | 90.264 | | 90.264 |
| Visentin Graziano | Statutory Auditor | 2005-2007 | 61.051 | | 61.051 |
| Sforza Fabio | Statutory Auditor | 2005-2007 | 61.468 | | 61.468 |
| **Total** | | | **212.783** | **-** | **212.783** |

* Amount in thousands of Euro less VAT, if due, and gross of taxes and contributions

*Top management:*

| Appointment | First name and Surname |
|---|---|
| Finance Director | Roberto Gumirato |
| Managing Director | Giovanni Favaro |
| Director of Administration | Cristiano Belliato |
| Management control director | Giacomo Bignucolo |
| Ascotrade CEO (Chief executive Officier) | Claudio Fabbi |

We would point out that the aggregated remunerations for area managers with strategic responsibilities gross of taxes and welfare and social security contributions totals Euro 544 thousands..

## Significant events during 2007

*Company operations that took place during the year*

Conferral of the gas sales branch of Bimetano Servizi S.r.l to Ascotrade

On 13 December 2006 Ascotrade S.p.A. shareholders' general meeting deliberated a capital increase reserved to Bimetano Servizi S.r.l. that has conferred its gas sales branch.

The conferral was completed on 28 December 2006, with effect as from 1 January 2007.

Establishment of Coge Calore S.r.l.

On 7 March 2007, the company Coge Calore S.r.l. was established, with its headquarters in Castelleone (CR) and authorised capital of 50,000 Euro.

The subsidiary is 55% held by Global Energy S.r.l..

Coge Calore S.r.l. mainly deals with the realisation and management of co-generation plants with a territorial focus on the Lombardy market.

Establishment of Etra Energia

In April 2007, Ascopiave and Etra, primary multiutilities company in Veneto, signed a strategic partnership for the constitution of a new company, named Etra Energia S.r.l.. This is held 51% by Global Energy S.r.l. (company of the Ascopiave Group) and 49% by Etra. Its operative and strategic focus is the sale of gas and electrical energy, and the supply of other energy services in the territory of reference of Etra, exploiting the deep territorial roots of the latter and the business competences of Ascopiave.

Ital Gas Storage S.r.l.

In May 2006, Ascopiave S.p.A. acquired an interest quota of 15% of Ital Gas Storage S.r.l., a company that is active in the development of a gas housing site in Cornegliano, in the province of Lodi.

On 25 July 2006, the extraordinary meeting of Ital Gas Storage S.rl. resolved to increase the share capital from Euro 10,000 to Euro 1,000,000. On the same date, the administrative body and Board of Auditors were appointed.

On 20 September 2006, Ascopiave underwrote the increase in capital for its interest quota, depositing 25% of the underwritten value. In 2007, Ascopiave completed payment of shares by paying Ital Gas Storage the remaining 75% in three equal amounts of 25% each (1 March 2007, 15 June 2007 and 25 October 2007).

Purchase of own shares

On 7 June 2007, Ascopiave's Board of Directors approved a plan for the purchase and allocation of the company's own shares. The plan involves the purchase, for a maximum period of 18 months, of the Company's ordinary shares up to a maximum limit of 10% of the share capital, and the possibility of allocating these shares. It has been examined by the Ordinary Shareholders' Meeting, which, on 25 June, duly authorised it. Compliance with the purchase plan and availability of own shares will allow for the realisation of any company acquisition and merger operations through the exchange of shares or investments consistent with Company strategy. In addition, the approved plan makes it possible to carry out stabilisation of the stock exchange trend of Company shares, as well as intervene on the share tendencies in relation to contingent market conditions, thus facilitating exchanges when there is little liquidity on the market, and encouraging regular negotiations.

Acquisition of ASM DG and 49% of ASM SET

On 27 September 2007, the town Board of Rovigo, only shareholder in the local multiutility operating in the sectors of gas, waste, parking and town pharmacies, unanimously decided, with regards to participation in the merger project of the multiutilities of the north east, to choose the strategic alliance and industrial integration proposal made by Ascopiave, with reference to the gas activities.

On 14 December 2007, Ascopiave completed the operation of company integration with the acquisition of 100% of ASM DG S.r.l., company operating in the management of the gas distribution service in the town of Rovigo, and of 49% of ASM SET S.r.l., company selling natural gas and electrical energy.

Payment of the shares of ASM DG S.rl. has been agreed by means of the loan of Ascopiave S.p.A.'s own shares. The first instalment of the price was paid on 14 December 2007, by means of the loan of 4,300 thousand shares. Payment must be completed by loan of Ascopiave S.p.A. shares by the month of June 2008.

Payment of the shares of ASM SET S.r.l., instead, has been agreed partly in cash and partly by means of the loan of Ascopiave S.p.A.'s own shares. The first instalment of the price was paid on 14 December 2007 by means of transferring 440 thousand shares, and payment of an amount in cash. The remaining instalments must be paid by means of exchange of Ascopiave S.p.A. shares by the month of June 2008.

Acquisition of 49% of Estenergy

On 13 September 2007, the Board of Directors of AcegasAps S.p.A. decided to choose Ascopiave S.p.A. as industrial partner for the development of the sale of gas and electrical energy. The operation decided consists of the acquisition by Ascopiave S.p.A. of 49% of the shares of Estenergy, a company entirely controlled by AcegasAps S.p.A. and which operates in the field of selling gas and electrical energy in the provinces of Padua and Trieste.

On 18 December 2007, the contract for the acquisition by Ascopiave S.p.A. of 49% of Estenergy S.p.A., was completed.

Protocol of understanding with Veritas

On 18 September 2007, Ascopiave S.p.A. signed a protocol of understanding with the Venetian company Veritas, for the acquisition of the control of Veritas Energia (previously Vesta 3 S.r.l.). The agreement states that the operation must take place following the merger of Spim Energia S.r.l., gas sales company on the town territory of Mogliano Veneto (Treviso), in Vesta 3. The ways by which entry will take place, have not yet been formalised.

Another sector that is currently being analysed, and in which a close collaboration will be set up, is that of energy management and the production of energy from renewable sources. We are basically talking about the installation of solar panels, the rationalisation of energy consumption, three-generation, tele-heating and other.

Another important development of the Veritas-Ascopiave understanding may concern the industrial treatment of waste. In Fusina, the Veritas group owns an integrated Pole for the disposal or waste, one of the most important platforms in Europe, that allows waste to be treated in a sustainable manner, and drastically reduces the use of dumps.

Constitution of the Energicamente consortium

On 19 November 2007, the companies Ascotrade S.p.A., Enìa Energia S.p.A., EstEnergy S.p.A., Eta 3 S.p.A. and Prometeo S.p.A. constituted the Energicamente consortium, a partnership aimed at improving the supply conditions of electrical energy aimed to satisfy the markets of reference of the various companies, and to support them in the business expansion processes.

Energicamente is a first step towards the definition of a wider ranging relationship and a greater integration in the field of the individual commercial strategies and development of the members.

Within the Consortium, which is based in Reggio Emilia, Enìa has the task of dispatching electrical energy. Estenergy has the responsibility for relations with IPEX, whilst Ascotrade will manage operations in line with the strategies defined by the members.

The basin of intervention includes Triveneto, Emilia Romagna, Marche and Tuscany, but the space of action of the company members is destined to expand well beyond the historical territories of operation.

## *Strategic reasons for the growth down stream*

The entrance of Ascopiave in the capital of Estenergy certainly represents the most important operation concluded in the sector of utilities in the last two years in the Triveneto area.

With this operation, a pole in the gas sector has been founded that, with more than 610,000 customers and approximately 1.4 billion cubic metres sold to the end market (2007 volumes) is located at the top of the Italian market, and in absolute first place in Triveneto, opening up very important development prospects for the companies involved.

The critical mass reached, which could grow further, driving further aggregate process, will make it possible to move with greater authority and possibilities of success in the market of gas supply upstream.

Consolidating their own customer base, and, therefore, the end outlet markets, Ascopiave and Acegas-Aps have, in fact, laid the industrial foundations by which to strengthen their competitive position and attraction as interlocutors of international gas manufacturing operators.

From Ascopiave's viewpoint, this operation should increase their possibilities of integrating into the chain upstream, one of the main objectives to gain significant and lasting improvement of profitability margins.

To make best use of the advantages of its current position and regional leadership, the new pole will widen the spectrum of activities, flanking the traditional sale of gas to the end customer, with sale as a wholesaler, which will take on greater importance.

Ascopiave is carrying out this activity for many companies, mainly on a regional level, and from which interesting margins can be expected, particularly if it succeeds in gaining independent supplies by signing long-term import contracts directly with international manufacturers, and participating in strengthening initiatives and the realisation of new infrastructures for gas adduction from abroad.

Today, Ascopiave offers itself as operator of reference for the supply of gas to regional and other municipal enterprises. Thanks partly to the operation with Estenergy, this role will grow yet further in the future.

The volumes of gas from the new pole will, therefore, exceed 1.4 billion cubic metres assured by the end customer market, and could correspond to a significant share of the gas consumption of Triveneto.

## *Sales of natural gas and electrical energy*

### Sales of natural gas

*Customers and volume sold*

As of 31 December 2007, the Group managed 352,623 end customers through the companies Ascotrade S.p.A. and Global Energy S.p.A., with an increase of 12.5% as compared with 31 December 2006 thanks to the commercial acquisitions and the confer of the gas sales branch of Bimetano Servizi (29,453 at end 2006).

The volumes of gas sold in 2007 exceeded one billion cubic metres. This result was made possible thanks to the sales activities at the Virtual Exchange Point (hereinafter also referred to as the 'PSV') and to other wholesalers, in addition to the direct sales to end customers.

The volumes sold to the PSVs equal approximately 200 million cubic metres, and those sold to other wholesalers exceeded 100 million cubic metres. Sales abroad exceeded 40 million cubic metres. Sales to end customers, equal to 813 million cubic metres, were lower than expected, mainly due to the negative climate of the first quarter of the year.

90 million cubic metres were purchased during the year, and injected into storage before being sold to Enìa Energia S.p.A. under the agreement signed with this company for the common management of a diversified portfolio of supply sources.

*Competitive context*

In 2007, the Authority re-proposed its desire to accelerate the supply exchange process by end customers.

The gas market, and particularly the higher end of the chain, would not appear to be yet ready to deal with great openings up to liberalisation, as:

§ Infrastructures are not yet suitable;

§ Storage is not yet sufficient to allow for a careful management of consumptions, with binding plans that oblige new entry operators, and particularly more minor ones, to adhere to rules governing many critical points;

§ Most of the regasification plants are still awaiting approval of projects, and it would not seem likely that in the short term they will be able to deal with the desired opening of supply sources;

§ The methane pipelines to be used to transport gas from other suppliers are still being studied for feasibility, and as such are a long way off being constructed, as yet.

Furthermore, the rules that govern behaviour between sellers, local distributors and national transporters are not yet regularly assimilated in a homogenous manner by all operators, and interfacing with new subjects is very slow, in order to avoid having to deal with charges, that are often high, for incorrect communication between parties.

Some indications provided by the Authority would appear to be the cause for confusion by operators. The attempt to allow all end customers to terminate a supply contract at any time, without the forfeit payment of a penalty or contribution for the storage and transport capacity reserved, is something that concerns all sellers. As a consequence, they are studying ways by which to include clauses to this effect in the new contracts with the more important end customers, in order not to have to deal with this rather unjust condition.

Another element that leaves operators rather perplexed is the project, which should be applied fully as from July 2008, with regards to data access by sales companies for the formulation of commercial proposals to customers. This project states that on request of any seller, distributors shall issue a list of all end customers hooked up to their distribution network, with the exclusion of those who have specifically denied the processing of their data. This will certainly lead to a rather frenetic contacting of end clients by the sales companies, with all different types of offers, often which cannot be understood even by sector experts, without being able to offer substantial advantages due to the current tariffs fixed by the Authority for the protected market. Current tariffs of reference for the protected market include acknowledgement of costs for the raw materials that are below the average costs of contracting on international markets.

The incomplete clarity that emerges from the application of the other resolutions is highlighted by the lack of conclusion of the procedure relating to Resolution no. 248/04. As of today, in fact, the ways by which balances relating to the first half 2006 will be returned to end customers, has not yet been defined. Despite the lack of the afore-stated regulation by the Authority, Ascotrade has concluded renegotiations of contracts with shippers, with whom it held a supply contract in 2006, in order not to risk being unable to make use of the incentives made available by the Authority under Resolution 79/07.

Resolution no. 79/07 mitigated the impact of Resolution no. 248/04 for the year 2005 and the first half of 2006, the period in which the Resolution remained in effect. It has also allowed the system made up of wholesalers and sellers to end customers to bear remaining costs, deeming in some way sustainable the impact of Resolution no. 248/04, as subsequently amended by Resolution no. 79/07.

In 2007, Ascotrade, together with another 15 sales companies participated in the call for tenders for the assignment of the ‘gas release’ shares made available by Eni on invitation by the Authority Guaranteeing Market Competition. Ascotrade has thus been able to obtain 3 batches of 40 million cubic metres of gas for a period of 2 years, which it later transferred to various wholesalers for payment of a suitable amount. The division amongst the associated companies in part shares of the amount received, has allowed Ascotrade to report a positive result of approximately Euro 800,000.

Another important operation carried out by Ascotrade in 2007, is that relating to the acquisition of transport capacity on TAG. Ascotrade has guaranteed that it will be able to import more than 100 million cubic metres / year for the next twenty years.

*Procurement of gas*

2007 saw the beginning of trading activities by Ascotrade.

With the development of this activity, the company intends being present in the higher parts of the chain too, where, following the concentration operations that will involve the sector, all sellers are obliged to compare in order to obtain more advantageous economic supply conditions. In this scenario, it will certainly be necessary to operate directly with the international hubs or national PSVs (national exchange points).

Contracting at virtual exchange points, which represent the gas stock exchange, mean, for all companies involved, the task of acquiring important competences in dispatch, transport and storage activities, as well as that of acquiring all necessary capacities by which to manage exchanges and sales / purchases with other operators.

As from April 2007, Ascotrade began filling storage for the relevant capacity to an important portion of the consumption of its end customers. This operation has also made it possible to exploit the opportunities supplied by the market as a consequence of the low summer price of gas offered by several operators, who have found themselves with excess stocks.

The volumes stored have exceeded 90 million cubic metres, sufficient to guarantee, together with appropriate constant supplies and 'spot' supplies, service to the domestic market of Ascotrade for a quantity equal to approximately 600 million cubic metres.

*Sales of electric energy*

In 2007, the quantities of electrical energy sold equalled approximately 100 million kWh. Sales were lower than those forecast by the budget. The main reason for this stopping is due to the difficulties that the sales companies have encountered with the manager of electrical networks in order to obtain correct data concerning the readings of electrical meters. Although more than 80% of meters installed should now be suitable for distance readings, very often it is not possible to obtain exact data. Furthermore, the data sent by the distributors relate to estimated consumptions, with no indication as to the progressive totals. This makes relations with end customers very difficult, as it is impossible to evaluate their disputes with regards to incorrect consumptions.

*Procurement of electrical energy*

In October 2007, Ascotrade, Enìa Energia, Prometeo, Estenergy and Eta3 constituted the 'Energicamente' consortium, a partnership founded to optimise supply conditions of electrical energy and to create synergies aimed at both minimising unbalancing of individual companies making up the consortium and common management of dispatch, purchase and sale activities with wholesalers.

The consortium began operating in October, with the purchase of electrical energy needed to carry out the sales activities of the individual companies in 2008.

## *Initiatives in storage*

### Storage in Italy

Storage plays a crucial rule in the flexibility of the gas system. In addition to the cyclical seasonal flexibility, which is also modified due to the increasing importance of the use of gas in the production of electrical energy, the supplies compete to provide an instrument of flexibility necessary to create a true market, and not only nationally.

The current existing reserve capacity of our country is able to (with difficulty in critical years) satisfy only seasonal needs. The reserve regulations in Italy call for the express subtraction from the reserves of the liberalised activities, confirming the reserve regime (20 years), according to that established in Law no. 170/74 (as amended by the Letta Decree).

**Ital Gas Storage**

On 15 May 2006, Ascopiave acquired a share equal to 15% of Ital Gas Storage S.r.l. The company was created in 2005, following the dissolution of ATI (Associazione Temporanea di Imprese), constituted by Ascopiave and another eleven companies active in the gas supply chain, which presented a request to the Ministry of Economic Development to obtain a gas reserve concession at the site of Cornegliano, in the province of Lodi.

Ital Gas Storage has as participants, in addition to Ascopiave S.p.A., Gestione Partecipazioni S.p.A., which holds the absolute majority of the capital, along with AIM Vendite S.r.l., Azienda Energetica Trading S.p.A., Confservizi International S.c.r.l., Petren S.r.l., and Speia S.p.A..

Through its participation in the Ital Gas Storage S.r.l. company, Ascopiave S.p.A. counts on having the availability of a significant amount of storage capacity on the developed site. In addition to the obvious ability to modulate consumption during peak phases, this operation allows Ascopiave to import non-EU gas, having the reserve capacity required by law.

In fact, according to the current norms, an importer must provide a provable declaration the effective guarantee that it has available the requested strategic reserve capacity, equal to 10% of the quantity of natural gas imported each year, and with a daily peak availability at the end of the peak season, equal to at least 50% of the medium daily importation predicted in the same peak period.

**The project**

The Ital Gas Storage project consists of the conversion to a ‘tank’ of the storage of natural gas of an existing methane reserve used by Eni S.p.A. as from the 1950s, and the commercial production of which was exhausted in 1997.

This type of intervention, as from the end of the 1990s, has been subjected to many provisions of law, the main aim of which is to guarantee an immediate spread of the interventions, whilst taking into account the ‘sustainability’ that must be guaranteed by authorised projects.

For our country, having natural gas reserves available for use, regardless of market trends and protected from the politics of foreign countries, is today of fundamental importance. This is precisely why the law states that the works comprising these projects must be of public utility, unable to be deferred, and urgent (see art. 30 of Legislative Decree no. 164 dated 23 May 2000, and art. 21 of Ministerial Decree dated 26 August 2005).

The Project falls fully within the new Energy policies that attempt to face up to current problems. In fact, the Ministry for Economic Development issued missive no. 0021023 dated 20 December 2006 clarified its intention to acknowledge the public utility of the specific project (already specified more generally and in an abstract manner by the law), and also 'in relation to the emergency conditions declared in the previous winter seasons, determined by an insufficient supply of natural gas in the period February-March, due to insufficient infrastructures’. Furthermore, the Project i salso mentioned in the Plan of Action for Energy, recently adopted by the Lombardy Region. The Plan in question also clarifies that the authorisation process of the Project is in an advanced phase.

The Project is particularly interesting from a point of view of ‘sustainable development’. The type of intervention planned should use, as a sort of natural tank, the existing underground geological formation, which naturally held gas and, precisely for this reason, has been used as such by Eni. In practise, gas is re-injected where it was previously. As such, ample reserves are guaranteed, reducing environmental impact to a minimum.

**The authorisation process**

Following the coming into effect of Ministerial Decree dated 26 August 2005, on 31 May 2006 Ital Gas Storage presented the request necessary to start up so-called ‘inspection procedure’ to the Ministry for the Environment and the Protection of the Territory and the Sea (MATTM). This procedure has the sole aim of evaluating whether a given work, not already specifically subject to Environmental Impact Assessment (VIA) by law, should or should not be subject to VIA.

Under provision no. DSA 20070021157 dated 26 July 2007, the MATTM decided to exclude the part of the Project relating to the realisation of 3D seismic prospects from the VIA, and to subject the remaining part of the Project to VIA. The MATTM also clarified that on a regional level, a so-called ‘incidence evaluation procedure’ must be carried out, in order to evaluate all possible effects of the Project.

As of today, Ital Gas Storage has practically concluded all obligations necessary to starting up the VIA procedure, which has consequently already begun.

Once the MATTM will have ruled positively on the VIA, the following phases will need to be followed:

- in the next 60 days, Ital Gas Storage and Eni will draw up the contribution to be paid by the company to Eni;
- at the same time as the above, the Ministry for Economic Development will inform the procedures manager, and begin the last investigation into the concession requested. The investigation must take place by means of a conference of services, and must be concluded within the ordered terms of 180 days, with a decision concerning the conferral or not of the concession;
- within 90 days of notification of the conclusive determination, Ital Gas Storage must pay the contribution set out on the basis of the agreement.

Following payment, storage concession is granted by means of decree issued by the Ministry for Economic Development, adopted together with the Ministry for the Environment and the Protection of the Territory and the Sea, and on an understanding with the Region involved.

## *Distribution of natural gas*

The management of natural gas distribution is articulated in a number of elementary activities:

§ the protection of and use of the distribution system;

§ ordinary and scheduled maintenance;

§ extraordinary maintenance and replacement of the system;

§ the expansion of and strengthening of the network;

- § the emergency intervention, as defined by AEEG Resolutions no. 47/00, no. 236/00, no. 168/04, no. 158/05, no. 243/05, no. 108/06, no. 247/07 and no. 324/07;
- § the acquisition and management of the concessions.

Following the obligatory separation of the selling activities from the distribution activities, the administrative onuses have greatly increased for the distribution company, linked to the necessity of guaranteeing impartial management of the service in the face of selling companies that request access to the network.

These new onuses bring with them the necessity to invest considerable sums in information technology.

The distributor's role is very important in guaranteeing an appropriate process of opening the market to competition, and in the experience of Ascopiave S.p.A., proper functioning of the system can only be guaranteed by companies that are technically qualified, capable in sufficiency for their dimensions, to face both in organizational and investment terms the complex administrative rules imposed for the transparent liberalization.

Among other things, distribution companies must be able to face switching requests (contractor change) from the selling companies in a quick and timely manner, they must guarantee a trustworthy billing service, and additionally, must provide for the correct allocation of the monthly costs between the numerous selling companies that use the network for the supply of gas to their personal end customers. Improper management of these processes contributes to making the system more complicated and the activities of the selling companies more risky, with the inevitable consequence of discouraging new entries into the market.

**Expansion and maintenance of the distribution network**

Ascopiave S.p.A. manages gas distribution activities throughout a territory consisting of 155 municipalities, with a total basin of over 1 million inhabitants.

Network development activities are planned and coordinated by the main headquarters.

Activities of planning, prevention and employee management for the implementation of new distribution systems are carried out centrally on the request of private customers or by the public administration. The central technical structure has a cartography and calculation system, which, through the creation of a fluid-dynamic model of the network's functional parameters, calibrated on seasonal consumption progress, allows the constant prediction of the effects produced to the network of sudden thermal changes, anomalies, or the insertion of new delivery points.

The tele-control system is centralised, based on the constant control of the peripheral systems by the central system. The first stage gas pressure reduction stations are all tele-controlled.

Ascopiave S.p.A. performs maintenance activities on the distribution systems in order to maintain adequate safety levels, ensure quality and continuity of service, in part through the work of internal personnel, and in part using third-party services.

Proper odorisation of the gas is periodically monitored, and some first stage gas pressure reduction stations use automatic injection systems that allow timely dosage of the odorisation contents.

On the first stage decompression systems, and on the GRF and GRM stations, preventive and corrective maintenance required under the norms in effect are performed for the most part by personnel employed by Ascopiave S.p.A.

In 2007, vast amounts were invested in the enlargement, expansion and maintenance of the distribution network.

Over the course of the year, over 85 kilometres of distribution network were placed, with work performed in over 100 cities.

With the aim of adjusting the systems to the increase in hourly consumption registered, and at the request coming from connections to the network, maintenance services were performed on first stage reduction and measurement systems, providing for extraordinary maintenance on 5 systems, expansion of another 2 systems, and the new construction (still underway) of 1 system.

In addition, 30 new final reduction groups were installed, and the extraordinary maintenance of 23 already existing final reduction groups was performed (substitution of out-of-date tools, adjustment to current norms, increase in delivery power following enlargement of the network, etc.).

Another 84 groups of reduction and measurement for industrial, artisan and commercial use were installed, and 88 groups were constructed by employees of Ascopiave.

10 interventions of moving pipelines were carried out, 86 interventions moving support columns and buried connections, 19 interceptions of pressure pipes, 51 intake cuts, 23 u-bolts, 27 insertions of dielectric joints and valves on pipes and connections, 86 installations / replacement of user reduction groups, 1,021 interventions on existing galvanised / supports, 43 installations / repair work for leaks, and 81 various interventions on network (air part).

The safety (search for leaks and odour levels) and continuity indicators (interruptions of service) foreseen by AEEG Resolution no. 168/04 have been kept efficiently under control, in full compliance with the pre-set service obligations.

Over the course of 2007, inspection of approximately 30% of the distribution network was carried out, with the aim of reducing risks coming from the uncontrolled loss of gas due to deterioration of or damage to the systems. The inspection program carried out is superior to the minimum standards required by the AEEG for distribution systems, and demonstrates the attention paid by Ascopiave S.p.A. to the safety of its services.

The company’s emergency intervention service can be contacted by means of the specific freephone number, that is operative 365 days a year, 24 hours a day. It has carried out 2,612 interventions, and in 98% of cases, arrival time was less than 60 minutes (average time 33 minutes).

**Estimates and new connections to methane-served areas**

The process of prevention and carrying out of new connections is carried out on a peripherical level by 10 territorial units, which, in this field, enjoy organisational autonomy, without prejudice to the meeting of quality standards and current price lists.

As from 1 January 2008, a new computer system is operative, replacing the previous one, and supporting the whole process of commercial quality and monitoring of the Service Charter.

In 2007, 4,983 estimates were issued following requests for connection to the service within methane-served areas. Following estimates accepted by customers, 4,234 works were carried out, almost exclusively subject to a specific standard (automatic indemnity in the event of failure to respect the maximum time specified by the Service Charter).

In 2007, the average effective time for the issue of simple estimates was equal to 5.4 working days (against a standard of 15 days), with only 21 outside the standards, of a total of 4,843.

The average time for the performance of simple jobs was 5.8 workdays (in comparison to a standard of 10 days), showing an improvement of 0.75 days with respect to 2006 and 1.8 days with respect to 2005, on an equal number of services supplied (between 4,100 and 4,800). The percentage of simple jobs performed outside the maximum times is in line with the national average, and equal to 9.2%.

In 2007, 10,500 meters were installed, of which 1,851 derivates from previous measurement groups.

Part of the improvement effected and solidified over the last few years can be attributed to constant dialogue with the bidding companies, in the framework of the rules defined in the bidding processes for the awarding of jobs. The bidding companies obtain incentive payments when they conclude projects in a time inferior to that pre-established in the contract, while on the other hand, they are penalized when they complete projects in violation of the contract standards.

This system stimulates the companies to reinforce their teams even in the presence of negative contingent factors, aggravated by the notable largeness of the territory in question and the dispersion of the main inhabited areas served.

**Meter activities**

Interventions on meters, such as activations, transfers, cancellations, reactivations after delayed payment, to the service of the sales company, are reported as less than 8% as compared with the year 2006. The total 28,300 were carried out in compliance with the standards specified by the company Service Charter.

The number of operations outside the standard during the year, which lead to the provision of automatic indemnities to end customers through sales companies has significantly decreased, both as compared with 2006and 2005. In 2007, the number of operations outside the standard was 51, and reimbursements paid out equalled Euro 1,770, a net reduction from the previous year (equal to Euro 2,610 in 2006).

The average time for activation of a new supply equals 7.3 working days (on a maximum standard of 10 days). These services are subject to ascertainment of documents of the gas user systems relating to the new hook-ups (Resolution no. 40/04).

As compared with the largest national distributors and Authority directives, in 2006 Ascopiave introduced an improvement standard for the take-over of supply (from cancelled ex-end customer) determining it as a measure of 50% of maximum time for a new activation (5 days).

The average time for takeover of such supplies is constant as compared with 2006, both in terms of number of services and quality: 15 outside the standard and 2.1 working days as average.

### *Heat Management*

Ascopiave, with a view to diversification in its field of operations, created the heating division to provide to its clients, principally local administrative organisations, a highly professional service that is able to:

(i) manage winter heating and summer cooling systems in buildings, in compliance with sector Laws and Norms;

(ii) offer avant-garde solutions for the implementation and/or technological reworking of systems, introducing, when the technical/economical ratio has found its correct balance, technology that optimises the use of traditional energy (condensation, micro cogeneration) and the use of renewable energy sources;

(iii) pursue the objective of energy saving and reduction of atmospheric pollution, in compliance with the Kyoto protocol.

In particular, the Heat Management division of Ascopiave reports the following main activities:

(i) Management, control, ordinary and extraordinary maintenance of winter heating systems, with the figure of the ‘third party manager’ and fuel supplier;

(ii) Management, ordinary and extraordinary maintenance of summer cooling systems;

(iii) design of thermal and/or air conditioning systems of all types, aimed at implementing and technological requalification, limiting consumption and fighting atmospheric pollution;

(iv) design and installation of thermo-regulation systems and tele-management for air conditioning systems;

(v) telematic monitoring of systems, aimed at:

- controlling and/or altering ‘real time’ comfort times and functioning parameters, in relation to the customer’s needs and without the need for local intervention;
- receipt of block alarms in real time, for quick interventions to resolve breakdowns;
- reduction of staff and vehicle movement, contributing to a reduction in traffic and atmospheric pollution.

As of 31 December 2007, the Heat Management Division of Ascopiave managed 420 thermal plants, of which:

- 335 in energy service conduction;

- 85 in conduction with the sole function of third party manager.

*Efficiency and energy saving*

In order to meet energy saving requirements as specified by Decree dated 20 July 2004, in 2006 and 2007 Ascopiave realised the following two projects (the second in several phases):

(i) The installation of thermoregulation and telemanagement tools in public buildings;

(ii) Distribution of florescent light bulbs for electrical energy savings and a kit including a low-flow shower head and a low-flow tap for saving hot water too all of its domestic clients.

Following the implementation of said projects, Ascopiave expects to obtain in five years a quantity of 29,628 White Certificates (of which 21,852 Type I, 6,834 Type II, and 942 Type III) with which it will cover part of (approximately 17%) of its energy savings objectives. As a consequence, Ascopiave will have to realise new energy saving projects and purchase a number of White Certificates on the market in a quantity to reach its requirements.

With EEN Resolution no. 01/08 dated 26 February 2008, the Authority for Electrical Energy and Gas defined the specific objectives of primary energy saving for 2008, for the distributors of electrical energy and natural gas, implementing Ministerial Decree dated 20 July 2004, as amended by Ministerial Decree dated 21 December 2007.

As obliged distributor, for 2008, Ascopiave has an objective of 28,038 TOE. The 2007 objective, equal to 9,054 TOE (defined by Resolution no. 293/06 dated 18 December 2006) has already been met, and the bonds will be deposited in 2008 within the specified terms.

As pertains to 2006, Ascopiave met its objective for energy savings, obtaining through its own projects, 4,729 White Certificates, as requested for their 2006 objective.These certificates were deposited in 2007. In addition, it obtained 10,600 Type I and II White Certificates to partially cover its requirements in the years to follow. Relative to 2006, the Authority provided Ascopiave with a contribution of 100 Euro for each Type I and II certificate delivered.

## Other significant events

Increase of authorised capital

The increase of authorised capital seen by the parent company through the operation of entering on the stock market, was given to the Register of Companies on 2 January 2007.

The new value of authorised capital following the entry on the stock market is 233,334 thousand Euro.

Council of State Judgement

On 17 April 2007, the Council of State rejected the appeal by the AEEG (Italian electricity and gas authority) for the annulment of sentence no. 613/2006 by the Lombardy TAR (Regional Administrative Tribunal) by which the right of Ascopiave to calculate the amount of the CGD (‘i costi di gestione della distribuzione’ i.e. distribution management costs) of the VRD (‘Vincolo dei Ricavi della Distribuzione’, i.e. Distribution Revenues Constraint) in reference to the whole tariff area has been sustained.

Subsequent to the publication of the grounds for the judgement of 17 April 2007, which took place towards the end of June, Ascopiave is providing for the restating of its distribution tariffs.

The restating of the distribution tariffs and the consequent application of adjustments, requires - in the opinion of the legal advisors who supported the company in the dispute - formal approval of the sentence by AEEG.

Alterations to the Company statute

The general meeting of the shareholders held on 25 June 2007 approved, in an extraordinary meeting, some alterations to the Company statute necessary mainly in order to comply with the new dispositions introduced by Law no. 262/2005 (the so-called ‘protection of savings' law) and by the Italian Leg. Decree no. 303/2006.

In particular, to this end, the statutory provisions in terms of the composition and appointment of the Board of Directors and Statutory Advisors Committee.

Approval of ‘Phantom stock option 2007’ plan

The shareholders’ meeting of 25 June 2007 deliberated an incentive plan based on phantom stock option earmarked for the Chairman of Ascopiave S.p.a., the Chairman and Vice chairman of Ascotrade S.p.a., and employees of the company and subsidiary companies.

The plan described as ‘phantom stock option 2007’ is aimed at involving and providing incentives to the subjects holding a fundamental role in the reaching of Group results.

The phantom stock option, differently from traditional stock option plans, does not provide for the attribution of a right to subscription or purchase of a stock, but rather entails recognition in favour of the beneficiaries of payment of an extraordinary nature based on the trend of the stock title.

The phantom stock option guidelines approved by the Meeting, provide for the attribution of a maximum of 4,666,680 options, divided into two tranches each with the same number of options, that give the right to an extraordinary cash payment of variable nature equal, for each option, to the difference between the value of the stock in the period of the option.

The options of the first tranche serve mainly as an incentive, as the exercise of these options is subordinate to the meeting of set results in terms of EBITDA (Gross Operating Margin), the target of Ascopiave S.p.a. and Ascotrade S.p.a..

The options of the second tranche work towards increasing loyalty, as their exercise is purely affected by the passing of time and the continuing of work relations and administrative relations.

Plan for purchase of own shares

Upon request made by the Board of Directors, the Shareholders’ Meeting of 25 June 2007 approved a plan for the purchase of its own shares.

This plan provides for the purchase, for a maximum period of 18 months, of the ordinary Company shares up to a maximum limit of 10% of the share capital, as well as having the unlimited availability of these shares.

The unitary consideration for the purchase of the shares will be no greater nor less than 10% against the price of reference recorded by the shares in the stock exchange meeting prior to each individual purchase operation.

Compliance with the purchase plan and availability of own shares will mainly allow for the realisation of any acquisition and merger operations through the exchange of shares or investments consistent with Company strategy.

In addition, the approved plan makes it possible to carry out stabilisation of the stock exchange trend of Company shares, as well as intervene on the share tendencies in relation to contingent market conditions, thus facilitating exchanges when there is little liquidity on the market, and encouraging regular negotiations.

## Objectives and policies of the Group

As the market conditions progressively change, for the most part due to the decreasing protection of tariffs in the face of a growing number of customers, in 2008, the Group will continue its commercial policy of retention and acquisition of new clients, concentrating its commercial strengths on small/medium commercial and industrial companies, characterized by median annual consumption of less than 200,000 cubic metres. This client group allows higher sales margins, both with respect to large industrial clients, where the commercial competition is notably high, and to residential customers, who have contact and management costs that are very high, and for which the Authority for Electrical Energy and Gas's tariff regulations have imposed selling prices that are not appropriate to be applied to the destination for which the gas would have.

Due to this viewpoint, Ascotrade is reinforcing its structure for the procurement of gas, in order to take advantage of all the opportunities that the market offers, in addition to spot supplies, and intensifying its selling strength, especially through increased training of its employees who have direct client with customers. It is also working to better its activities connected to the support of information services-CRM in its company, and the back-office personnel specialized in the management of supply contacts for the segment of customers with intermediate levels of consumption.

## Human resources

As of 31.12.07, Gruppo Ascopiave had 312 employees, divided between the various companies of the Group (Ascopiave S.p.A, Ascotrade S.p.A. and Global Energy S.r.l.) as outlined below:

| Company | 31.12.2006 | 31.12.2007 | Change |
|---|---|---|---|
| Ascopiave | 253 | 262 | 9 |
| Ascotrade | 42 | 45 | 3 |
| Global Energy | 5 | 5 | 0 |
| **Total** | **300** | **312** | **12** |

With respect to 31.12.06, the staffing level of the Group had increased by 12, following:

(i) an increase of 9 employees for Ascopiave S.p.A., by virtue of 23 hirings and 14 terminations; strengthening of staff was necessary in order to meet the commitments due to the obligations enforced by the Authority to natural gas distributors, and to deal with obligations linked to the listing of Ascopiave on the stock exchange;

(ii) increase of 3 employees for Ascotrade S.p.A., by virtue of 7 hirings and 4 terminations.

The following table illustrates the division of the staff complement by skill level/grade:

| Type | 31.12.2006 | 31.12.2007 | Change |
|---|---|---|---|
| Executives | 9 | 10 | 1 |
| Executive cadres | 15 | 16 | 1 |
| Office workers | 181 | 191 | 10 |
| Blue-collar workers | 95 | 95 | 0 |
| **Average number of employees** | **300** | **312** | **12** |

## Research and development activities

### Information systems

In 2007, the information systems service of the Group implemented the following projects:

§ Start-up of production of the Geutweb project, sales part, for Ascotrade customers acquired from Bimetano Servizi. The project includes a recovery and data conversion phase, for which the service has given a fundamental contribution;

§ the operative start-up within ‘Geutweb’ of the sales part of the company Global Energy and Etra Energia;

§ The realisation in ‘Geutweb’ of the module Resolution 40, complete with report and functional integrations;

§ The complete report of the accounts management of Global Energy within the operative and computing SAP R3 standards of the Ascopiave Group;

§ Maintenance of the data warehouse tool, fundamental for the processing of total annual and mid-year data. In particular, we should remember that the informative platform for human resources, which allows for the definition of monthly instalments for all types of labour cost (wages, contributions, etc.) and the definition of the average hourly tariff per month. The data warehouse tool also produces the various types of Ascotrade sales report;

§ Completion of the various specialised vertical integration modules with the SAP accounting system:

§ module for the management of active and passive billing, in accordance with a unified model, for the various types of service;

§ Module for the management of vehicles and related reporting;

§ Realisation of the module for the management of concession and insurance charges, according to the following points: Normalisation of data and automatic recovery from excel file, accounts in SAP and automatic determining of the relevant accruals;

§ Updating of ASCOMP procedure on planned maintenance;

§ Updating of the Emergency Intervention management module, completing the aspects relating to interruptions, suspension of the service and cathodic protection;

§ Constant maintenance activity for the distribution and sale of the GEUT system (enabled until 31 December 2007) with the development of complex tariff balances, the updating of the procedure being used by the contracting companies, and the completion of the document system for sales contracts;

§ The completion under GEUT management of the information process relating to the quarterly balancing of gas consumptions per system, complete with the simulation of revenues for distribution, in compliance with the preparation of the quarterly reports;

§ Management activities and help desks on server systems, PCs and printers, with a gradual renewal process and updating of park installed per PC and printer. Specifically, the new central system for Geutweb has been put into production, type Blade and SAN, in Vmware;

§ Updating of the territorial computer system, in relation to the new functional requests;

§ The strengthening project of the telecontrol system;

§ The adoption in production of a control and monitoring system for the positioning of the vehicle fleet;

§ Implementation within the MM system of supply in SAP of the management system of purchase requests, complete with documental integration.

For all of 2007, supplying of information services and bill printing for various cities and aqueduct consortiums continued.

## Quality

**Quality system and certification UNI EN ISO 9001:2000**

The Ascopiave Group places management of the quality system among its primary strategic objectives for its company, in order to ensure continuous customer satisfaction while simultaneously guaranteeing constant quality levels in the services it offers.

In 2001, Ascopiave obtained quality certification for its integrated services of distribution and sales of gas. Following the division of the company in conformance with Legislative Decree 164/2000 and the recent new norms in the sector, Ascopiave and Ascotrade each developed a personalized Quality Management System, obtaining as of 30 April 2004, UNI EN ISO 9001:2000 certification from the body Kiwa Italia S.p.A.. This was confirmed once again in 2007.

With regards to Heat Management, in March 1996, Ascopiave obtained UNI EN ISO 9001 certification, which was then adapted to the associated norms in May, 2004, and reconfirmed in June 2005 by the Group certification body.

The service for distribution of gas is subject to regulation by the Authority for Electrical Energy and Gas, with which its regulations defines the tariffs, quality levels, and the technical-commercial modalities to be used for the disbursement of the service.

In accordance with the Integrated Text "disposition for quality of service, measurement and sales of gas," in Resolution n. 168/04 and the associated modifications and integrations (Resolution no. 158/05, 243/05, 108/06 and 74/07), the Ascopiave Group adopted specific reference standards through the List of Services, which has been constantly updated. The last update was carried out on 4 February 2008.

The List of Services, also in compliance with art. 2 of the 2008 Financial Law, represents for the company organisation, an instrument in the process of improving the service supplied to end customers (users) and in addition to the certification of the same organisation.

**Customer satisfaction**

The Ascopiave Group's customer service process was created in conformance with the 2003 UNI 11098 norms, which provide "guidelines for the measurement of customer satisfaction and for the measurement of indicators of the relative process."

The customer satisfaction process, with reference to the distribution service, is usually carried out every two years, together with the investigation of the subsidiary sales company. It includes the involvement of all front and back office resources presiding Commercial and Technical Quality (Rapid Intervention) and, in particular, staff of the 10 territorial units.

## Comments on the economic and financial results of the year

### General operational performance - The economic Group results

| (In thousands of Euro) | 2007 | % net sales | 2006 | % net sales |
|---|---|---|---|---|
| **Revenues** | **451.871** | **100%** | **318.105** | **100%** |
| **Operating costs** | **406.195** | **89,9%** | **277.701** | **87,3%** |
| Amortization and depreciation | **11.816** | **2,6%** | **11.255** | **3,5%** |
| **Operating result** | **33.860** | **7,5%** | **29.149** | **9,2%** |
| Financial income | **3.701** | **0,8%** | **327** | **0,1%** |
| Financial expenses | **2.763** | **0,6%** | **2.191** | **0,7%** |
| **Income before taxes** | **34.798** | **7,7%** | **27.285** | **8,6%** |
| Taxation for the period | **12.673** | **2,8%** | **11.047** | **3,5%** |
| **Net result** | **22.125** | **4,9%** | **16.239** | **5,1%** |
| **Net income for the Group** | **21.764** | **4,8%** | **16.381** | **5,1%** |
| **Net income for the others** | **361** | **0,1%** | **(143)** | **0,0%** |

In accordance with the Consob Communication n. DEM/6064293 of 28 July 2006 we indicate here that the alternative Performance indicators are defined on page 7 of this report.

In 2007, income amounts to Euro 451,871 thousands as compared with Euro 318, 105 thousands of the previous year, reporting an increase of 42.1%. The following table reports details of income.

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| Revenues from gas sales | 410.014 | 285.771 |
| Revenues from connection services | 8.055 | 8.697 |
| Revenues from electric energy sales | 13.683 | 11.928 |
| Revenues from heat supply service | 4.052 | 3.570 |
| Revenues from gas conveyance and assignment of contracts | 6.495 | 1.630 |
| Other revenues | 9.572 | 6.509 |
| **Total Revenues** | **451.871** | **318.105** |

The increase is mainly due to gas sales and in particular to the contribution of the new activity of gas sales as trader and wholesaler, which has provided income of Euro 114,972 thousands.

Gross operating margin goes from Euro 40,405 thousands to Euro 45,676 thousands, up by Euro 5,273 thousands equal to 13%. The increase is significantly influenced by the use, in 2007, of the provision set up the previous year to cover the impact of decision no. 248/04 by the Authority for Electrical Energy and Gas, equal to Euro 4,300 thousands, as is explained in greater detail in the paragraph 'Resolution no. 248/04', under the section Commitments and Risks.

The net operating margin increases by Euro 4,711 thousands, going from Euro 29,149 thousands to Euro 33,860 thousands.

Financial management contributes to the year result for Euro 938 thousands, and as such the pre-tax result amounts to Euro 34,798 thousands, up from 2007 by Euro 7,513 thousands.

The year’s taxes amount to Euro 12,673 thousands, bringing the period result to Euro 22,125 thousands.

**General operational performance – Financial situation**

The table below shows the composition of the net financial position as requested in Consob communication no. DEM/6064293 of 28 July 2006:

| (In thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Cash and cash equivalents | 31.290 | 2.806 | 28.484 | 100.591 |
| Current financial assets | 2.533 | 0 | 2.533 | 0 |
| Current financial liabilities | (5.854) | (2.858) | (2.996) | 0 |
| Short-term borrowings | (115.153) | (7.777) | (107.376) | (3.587) |
| Payables due to the City Council of Castelfranco | 0 | 0 | 0 | (2.393) |
| Settlement of companies acquisitions | (10.212) | 0 | 0 | 0 |
| Short-term borrowings Leasing | (81) | 0 | (81) | 0 |
| Financial amounts due to parent company | 0 | 0 | 0 | (129) |
| **Net short-term financial position** | **(97.476)** | **(7.829)** | **(79.435)** | **94.482** |
| Medium/Long-term loans | (5.165) | (95) | (5.070) | (6.941) |
| Medium/Long-term loans Leasing | (4.189) | (3.351) | (838) | 0 |
| **Net Medium/Long-term financial position** | **(9.353)** | **(3.446)** | **(5.907)** | **(6.941)** |
| **Net financial position** | **(106.830)** | **(11.275)** | **(85.343)** | **87.541** |

The financial position goes from positive for Euro 87,541 thousands to negative for Euro 106,830 thousands, reporting a reduction of Euro 194,371 thousands. If we consider the contribution to the financial debt during the first consolidation of the companies acquired, it amounts to Euro 11,275 thousands. The cash requirements generated by the management during 2007 amounts to Euro 183,096.

Following are some figures relative to the financial flows of the Group.

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| Net income for the Group | 21.764 | 16.381 |
| Adjustments of net income and changes in assets and liabilities | (114.481) | 19.662 |
| **Cash flows provided/(used) by operating activities** | **(92.717)** | **36.044** |
| **Cash flows used in investing activities** | **(64.207)** | **(16.593)** |
| **Cash flows provided/(used) by changes in the net assets** | **(26.172)** | **158.078** |
| **Total cash flows provided/(used)** | **(183.096)** | **177.529** |

The negative cash flow generated by operations equals Euro 92,717 thousands, and is mainly due to dynamics of an extraordinary nature that have greatly penalised the working capital.

In particular, the commitment of resources in current activities derives mainly from:

- Management of payment/receipt of consumption taxes that have determined the inscription of UTF credits and regional additions for Euro 26,493 thousands.
- Early payment to suppliers of natural gas of a part of consumption of the last quarter of the year.
- Credit open at year end equal to 30.7 million euros for the sale of a lot of stored gas, already received in February 2008;

During the year, with the return to standard activity, a re-absorption of the working capital on normal values is forecast, with a significant consequent improvement of the net financial position.

The investments have generated a cash requirement of Euro 64,207 thousands, mainly linked to the acquirement of the shares in Estenergy S.p.A., Asm set S.r.l. and Asm Dg S.r.l. for a total amount of Euro 58,316 thousands, of which Euro 48,104 thousands already paid and Euro 10,212 thousands yet to be paid.
In relation to investments in intangible and tangible assets, please see the next paragraph.

Cash flow linked to movements of shareholders' equity is almost entirely due to the distribution of 2006 dividends and the deposit on 2007 dividends.

**General operational performance - Investments**

Investments for 2007, net of values deriving from the first consolidation of the companies acquired during 2007, equal Euro 25,098 thousands and are mainly due to the transfer of the Bimetano Servizi S.r.l. company gas sales branch to Ascotrade S.p.A. and the expansion and maintenance of the gas distribution network carried out by the Group parent Company Ascopiave S.p.A..

| **(In thousands of Euro)** | **2007** | **31 december 2007 value from company acquisitions** | **Net value of company acquisitions** |
|---|---|---|---|
| *Goodwill* | | | |
| Goodwill for gas sales branch Ascotrade | 43.008 | 38.987 | 4.021 |
| *Intangible fixed assets* | | | |
| Industrial patents and intellectual property rights | 94 | 46 | 48 |
| Concessions, licences, trademarks and similar rights | 1.820 | - | 1.820 |
| Other intangible fixed assets | 13.383 | 9.149 | 4.234 |
| Construction in progress and advance payments | 208 | - | 208 |
| *Property, plant and equipment.* | | | |
| Land and buildings | 309 | 260 | 49 |
| Plant and machinery | 23.107 | 11.963 | 11.144 |
| Industrial and commercial equipment | 113 | 68 | 45 |
| Other assets | 932 | 112 | 820 |
| Construction in progress and advance payments | 2.713 | 4 | 2.709 |
| **Total investments** | **85.687** | **60.589** | **25.098** |

Goodwill comprises the transfer of the company gas sales branch of Bimetano Servizi S.r.l. to Ascotrade S.p.A..
The new intangible investments equal to Euro 6,310 thousands mainly comprise reporting of the attributed value, on the basis of the opinion of an independent expert, on the so-called customer list of the company branch of gas sales conferred from Bimetano Servizi S.r.l. in Ascotrade S.p.A., from a several-year concession contract for the transport of natural gas on foreign pipelines, and from new energy efficiency certificates in Ascopiave S.p.A..
New tangible investments equal to Euro 14,767 thousands are mainly related to the constructions and modernisation of plants and the distribution network.
Investments generated by the new acquisitions relate to goodwill, customer lists and the greater values reported under tangible assets for participations acquired in: ASM DG S.r.l., ASM SET S.r.l. and Estenergy S.p.A. for the description of which, please see the paragraph 'Company Mergers'

## Statement linking shareholders' equity and net profit of ASCOPIAVE S.p.A. and the corresponding consolidated values at 31.12.07

The following is the statement linking shareholders' equity and net profit of Ascopiave S.p.A. and the corresponding consolidated values at 31.12.07, as requested by the Consob communication No. DEM/6064293 of 28 July 2006.

| (thousands of Euro) | Net income as of 31/12/2007 | Net shareholders' equity as of 31/12/2007 | Net income as of 31/12/2006 | Net shareholders' equity as of 31/12/2006 |
|---|---|---|---|---|
| Net income and results for the period as recorded in the statutory financial statements of the parent company. | **17.457** | **357.263** | **15.327** | **365.999** |
| Elimination of the book value of the consolidated equity investments: | **-** | **(36.782)** | **(152)** | **1.247** |
| *- results obtained by subsidiary companies* | **4.668** | **4.668** | **1.063** | **1.429** |
| *1) Goodwill* | - | *39.197* | - | *227* |
| *2) Trade relation value less tax effects* | - | *6.269* | - | - |
| *3) Apprecation of gas distribution network less tax effects* | - | *390* | - | - |
| *4) Other minor value* | - | *60* | - | - |
| - difference between book value and shareholders' equity, net of tax effects | **-** | **45.916** | **-** | **227** |
| **Net Shareholders' equity and result for the period as recorded in the consolidated financial statement** | **22.125** | **371.064** | **16.238** | **368.902** |
| Minority interests | (361) | (2.285) | 143 | (391) |
| **Shareholders' equity and result for the period as recorded in the consolidated financial statement** | **21.764** | **368.779** | **16.381** | **368.511** |

## Own shares

In accordance with the second paragraph of article 2428 Civil Code, we acknowledge that as of 31 December 2007, the Company owns own shares for a value equal to euro 637 thousands, that are reported as a reduction of the other reserves, as can be seen in the changes to the Shareholders’ Equity.

## Group objectives and policies and description of risks

With reference to new no. 6 bis of paragraph 2 of article 2428 cc, we would like to note that the principal financial instruments in use by our group are represented by commercial debt and credits, by liquidity, bank debt and other forms of financing. It is held that the Group is not exposed to credit risks greater than the product sector average, considering the numerous customers and the low physical risk in the service of gas delivery. To control for residual risks that are possible with credit, there is in any case a fund for the devaluation of credit equal to approximately 4% of the total gross credit of third parties. Significant commercial operations take place in Italy. With reference to the company financial management, the administrators consider as appropriate the generating of cash suitable at covering its needs, and as fair the allocation of liabilities among the short and long term borrowing in relation to the matching make up of the assets. The main payment obligations opened as of 31 December 2007 are associated to contracts for natural gas supply.

## Other informations

***List of companies' registered offices***

In accordance with Article 2429 Civil Code, the secondary offices of the company, divided between owned offices and leased offices, are listed:

# Owned offices

| Owner | Location | Intended use |
|---|---|---|
| Ascopiave S.p.A. | Villorba - Via Felissent n°20/C | Building hosting company offices and customer service center |
| Ascopiave S.p.A. | Pieve di Soligo - Via Verizzo 1030 | Building hosting company offices and customer service center |
| Ascopiave S.p.A. | Pieve di Soligo - Via Verizzo 940 | Building hosting warehouse and workshop |
| Ascopiave S.p.A. | Pieve di Soligo - Via Verizzo 1030 | Building to park and store company vehicles |
| Ascopiave S.p.A. | San Vendemiano - Complesso "Quaternario" | Building hosting company offices and customer service center |
| Ascopiave S.p.A. | Sandrigo - Via G.Galilei n°25 | Building hosting company offices and customer service center |
| Ascopiave S.p.A. | Sandrigo - Via G.Galilei n°27 | Build ing hosting warehouse and workshop |
| Ascopiave S.p.A. | Castelsangiovanni - Via Borgonovo | Building hosting company offices and customer service center |
| Ascopiave S.p.A. | Castelsangiovanni - Via Borgonovo | Building hosting warehouse and workshop |
| Ascopiave S.p.A. | Asolo - Via dei Tartari | Building (garage) hosting warehouse |

***Leased offices***

| Managing company | Location | Intended use |
|---|---|---|
| Ascopiave S.p.A. | Lentate sul Seveso - Via Padova n° 35 | Building hosting company offices |
| Ascopiave S.p.A. | Castelfranco - Piazza Serenissima n°40 | Building hosting company offices |
| Ascopiave S.p.A. | Castelfranco - Piazza Serenissima n°60 | Building hosting company garage |
| Ascopiave S.p.A. | Castelfranco - Via della Cooperazione n°8 | Building hosting company warehouse |
| Ascopiave S.p.A. | Novedrate (Co) - Via Papa Giovanni XXIII | Building hosting company offices |
| Ascopiave S.p.A. | Portogruaro - Via Giotto | Building hosting company offices |
| Ascopiave S.p.A. | Marchirolo - Via Cavalier Busetti n°7/h | Building hosting company offices |
| Ascopiave S.p.A. | Ormelle - Via Roma n°42 | Building hosting company offices |
| Ascopiave S.p.A. | Casteggio - Via Risorgimento n°29 | Building hosting company offices |
| Ascopiave S.p.A. | Porto Viro - Via dell'Artigianato n°9/A | Building hosting company offices |

***Safety and protection of personal data.***

Declaration in accordance with Legislative Decree 196 of 30 June 2003

The President, as the person responsible for the treatment of the personal data of the Company, declares the Programme Document on security of Legislative Decree 30 June 1996 has been prepared.

# CONSOLIDATED BALANCE SHEET

# CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2007

## Consolidated balance sheet

| (In thousands of Euro) | | 31/12/2007 | 31/12/2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | (1) | 65.120 | 22.112 |
| Other intangible assets | (2) | 16.044 | 1.412 |
| Property, plant and equipment, net | (3) | 288.471 | 273.772 |
| Investments | (4) | 151 | 39 |
| Other non-current assets | (5) | 3.816 | 2.865 |
| Deferred tax assets | (6) | 9.510 | 12.636 |
| **Total non-current assets** | | **383.112** | **312.836** |
| **Current assets** | | | |
| Inventories | (7) | 3.298 | 2.768 |
| Trade receivables | (8) | 264.276 | 101.673 |
| Other current assets | (9) | 39.765 | 3.626 |
| Current financial instruments- derivates | (10) | 2.533 | 0 |
| Tax recevables | (11) | 215 | 766 |
| Cash and cash equivalents | (12) | 31.290 | 100.591 |
| **Total current assets** | | **341.377** | **209.423** |
| **Total assets** | | **724.489** | **522.260** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | | 233.334 | 140.000 |
| Reserves | | 113.684 | 212.129 |
| **Net result** | | 21.764 | 16.381 |
| **Total shareholders' equity** | **(13)** | **368.782** | **368.511** |
| Share capital of others | | 1.925 | 534 |
| Income (losses) attributable to minority shareholders | | 361 | (143) |
| **Total shareholders' equity of others** | **(14)** | **2.285** | **391** |
| **Total shareholders' equity** | | **371.068** | **368.902** |
| **Non-current liabilities** | | | |
| Provisions for risks and changes | (15) | 215 | 4.441 |
| Termination indemnities | (16) | 2.305 | 1.538 |
| Long-term debt | (17) | 5.165 | 6.941 |
| Other non-current liabilities | (18) | 6.670 | 2.145 |
| Other non-current financial liabilities | (19) | 4.189 | 0 |
| Deferred tax liabilities | (20) | 19.607 | 17.807 |
| **Total non-current liabilities** | | **38.151** | **32.872** |
| **Current liabilities** | | | |
| Short-term borrowings | (21) | 115.153 | 3.587 |
| Trade payables | (22) | 167.864 | 86.864 |
| Tax liabilities | (23) | 439 | 4 |
| Other current liabilities | (24) | 25.880 | 29.903 |
| Current financial instruments derivates | (25) | 5.935 | 129 |
| **Total current liabilities** | | **315.270** | **120.486** |
| **Total liabilities** | | **353.421** | **153.358** |
| **Total shareholders' equity and liabilities** | | **724.489** | **522.260** |

## Consolidated income statement

| (In thousands of Euro) | | 2007 | 2006 |
|---|---|---|---|
| | | | |
| **Revenues** | (1) | **451.871** | **318.105** |
| | | | |
| **Operating costs** | (2) | **406.195** | **277.701** |
| Cost of gas purchases | | 351.254 | 232.709 |
| Cost of other materials and consumables | | 16.798 | 13.226 |
| Cost of services | | 22.984 | 10.115 |
| Personnel costs | | 12.091 | 10.878 |
| Other operating expenses | | 7.384 | 10.898 |
| Other operating income | | (4.315) | (127) |
| Depreciation and ammortisation | | 11.816 | 11.255 |
| **Operating income** | | **33.860** | **29.149** |
| Finacial income | (4) | 3.701 | 327 |
| Finacial expenses | (4) | 2.763 | 2.191 |
| **Income before taxes and discontinued operations** | | **34.798** | **27.285** |
| Income taxes | (15) | 12.673 | 11.047 |
| **Net result** | | **22.125** | **16.239** |
| **Net income for the Group** | | **21.764** | **16.381** |
| **Net income for the others** | | **361** | **(143)** |
| Basic earnings per share | | **0,09** | **0,11** |
| Diluted earnings per share | | **0,09** | **0,11** |

## *Consolidated cash flow statement*

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| **CASH FLOWS GENERATED BY OPERATING ACTIVITIES** | | |
| **Net income for the Group** | **21.764** | **16.381** |
| **Adjustments to reconcile net income to net cash provided by operating activities** | | |
| Net income of the other | 361 | (143) |
| Depreciation and amortisation | 11.816 | 11.255 |
| Provision for doubtful accounts | 831 | 705 |
| Net change in deferred tax assets and libilities | 902 | (4.304) |
| Provision for termination indemnities | 15 | (1.257) |
| Net change in other provinsions | (4.423) | 4.160 |
| **Changes in operating assets and liabilities** | | |
| Inventories | (268) | (330) |
| Trade receivables | (110.657) | (3.756) |
| Other currents assets | (28.186) | (934) |
| Currents financial assets | (0) | 564 |
| Tax receivables and payables | 675 | 3.546 |
| Trade payables | 38.433 | 16.836 |
| Other currents liabilities | (15.247) | (6.693) |
| Other non-currents assets | (863) | 32 |
| Other non-currents liabilities | (37) | 891 |
| **Total adjustments** | (106.646) | 20.573 |
| **Net cash provided/(used) by operating activities** | **(84.882)** | **36.954** |
| **Cash Flow from investing activities** | | |
| Additions to intagible assets | (2.757) | (1.383) |
| Disposals of intagible assets | 339 | 0 |
| Additions to property, plant and equipment | (14.764) | (15.351) |
| Disposals of property, plant and equipment | 1.191 | 84 |
| Change in investment | (45.297) | (37) |
| Acquisition of subsidiary, net of acquired cash | (112) | 94 |
| **Net cash used in investing activities** | **(61.401)** | **(16.593)** |
| **Cash flow from financing activities** | | |
| Clean variation debits towards other backers | 1.415 | 0 |
| Net proceed from capital increase | 0 | 161.481 |
| Net changes in short-term bank-borrowings | 103.789 | (78.036) |
| Financial payables to Asco Holding | (143) | 114 |
| Share buyback | (637) | 0 |
| Long-term debt repayments | (1.872) | (1.789) |
| Dividends paid | (19.833) | (3.750) |
| Interim dividend | (5.736) | 0 |
| **Net cash provided in financing activities** | **76.982** | **78.021** |
| **Increase in cash and cash equivalents** | (69.300) | 98.383 |
| **Cash and cash equivalents at beginning of the year afther contribution** | **100.591** | **2.208** |
| **Cash and cash equivalents at end of the year** | **31.291** | **100.591** |

| Additional information | 2007 | 2006 |
|---|---|---|
| Interest expense paid | 3.934 | 1.721 |
| Taxes paid | 11.105 | 4.379 |

# Statement of changes in the consolidated shareholders' equity items of the financial years closed on 31 December 2007 and 31 December 2006.

| (In thousands of Euro) | Share capital | Legal reserve | Company's own shares | Other reserves | Net result for the period | Group shareholders' equity | Net result of minority Interests | Minority Interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01 january 2007** | **140.000** | **29.171** | **-** | **182.959** | **16.381** | **368.511** | **(143)** | **534** | **368.902** |
| Allocation of 2006 result | - | 766 | - | 15.615 | (16.381) | - | 143 | (143) | - |
| 02 January 2007 capital increase | 93.334 | - | - | (93.334) | - | - | - | - | - |
| Contribution sales branch | - | - | - | 4.699 | - | 4.699 | - | 1.501 | 6.200 |
| Foundation Coge Calore S.r.l. | - | - | - | - | - | - | - | 23 | 23 |
| Attribution legal reserve | - | 16.730 | - | (16.730) | - | - | - | - | - |
| Dividends paid | - | - | - | (19.833) | - | (19.833) | - | - | (19.833) |
| Foundation Etra Energia S.r.l. | - | - | - | - | - | - | - | 12 | 12 |
| Share buyback | - | - | (637) | - | - | (637) | - | - | (637) |
| Dividend payable | - | - | - | (5.736) | - | (5.736) | - | - | (5.736) |
| Company's own shares adjustment | - | - | - | 13 | - | 13 | - | - | 13 |
| Net income for period | - | - | - | - | 21.764 | 21.764 | 361 | - | 22.125 |
| **Balance at 31 December 2007** | **233.334** | **46.667** | **(637)** | **67.653** | **21.764** | **368.781** | **361** | **1.926** | **371.068** |

| (In thousands of Euro) | Share capital | Legal reserve | Company's own shares | Other reserves | Net result for the period | Group shareholders' equity | Net result of minority Interests | Minority Interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01 genuary 2006** | **140.000** | **28.000** | **-** | **2.064** | **24.522** | **194.586** | **-** | **-** | **194.586** |
| Dividends paid | - | - | - | - | (3.750) | (3.750) | - | - | (3.750) |
| Allocation of 2005 result | - | 1.171 | - | 19.601 | (20.772) | - | - | - | - |
| Acquisition of Global Energy group | - | - | - | (17) | - | (17) | - | 534 | 516 |
| Paid capital increase | - | - | - | 167.279 | - | 167.279 | - | - | 167.279 |
| Offering expenses | - | - | - | (5.968) | - | (5.968) | - | - | (5.968) |
| Net income for 2006 | - | - | - | - | 16.381 | 16.381 | (143) | - | 16.239 |
| **Balance at 31 December 2006** | **140.000** | **29.171** | **-** | **182.959** | **16.381** | **368.511** | **(143)** | **534** | **368.902** |

# EXPLANATORY NOTES

## Company information

Publication of the Ascopiave S.p.A. consolidated balance sheet as of 31 December 2007 has been authorised by resolution of the Board of Directors of 27 March 2008. Ascopiave S.p.A. is a joint-stock company established and domiciled in Italy.

## The activities of the Ascopiave Group

The Ascopiave Group operates essentially in the distribution and sale of natural gas and is also involved in other sectors of the public services.

The Group operates the gas distribution service in 155 municipalities in Veneto, Friuli Venezia Giulia, Lombardy and Emilia Romagna regions of Italy, and, with 902 million cubic meters of gas sold during the period, 749 million cubic meters distributed throughout its own network and over 351 thousands clients supplied, represents one of the leading national operators in the sector.

The Group aims at consolidating its leadership position within the gas distribution sector at a regional level and, at the same time, is looking to reach an extremely prominent position at a national level.

## Drafting standards

This consolidated balance sheet of the Ascopiave Group refers to the year ended on 31 December 2007. The consolidated balance sheet has been prepared on the basis of historical cost, except for derivate financial instruments that are reported at fair value.

The Consolidated Financial Statements comprises the Balance Sheet, the Income Statement, the Cash Flow Statement and the Statement of Changes to the Shareholders' Equity and Explanatory Notes.

The consolidated financial statements are expressed in thousand of Euro, rounded off to the thousands unless otherwise stated.

## Accordance with IFRS standards

The Consolidated Financial Statements of the company Ascopiave S.p.A. have been prepared in accordance with International Financial Reporting Standards (IFRS) and all provisions issued implementing art. 9 of Legislative Decree no. 38/2005.

## Consolidation principles

The consolidated financial statements comprise the balances Ascopiave S.p.A. and those of the subsidiaries prepared as of 31 December of each year.

The subsidiary companies are integrally consolidated from the date of acquisition or the date that the group acquires control, and they cease to be consolidated on the date in which control is transferred outside of the group.

The statements of the subsidiary companies have been prepared, adopting the same accounting principles as the parent company, for each accounting period.

All balances and infragroup transactions, including any profits or losses that have not been realised, deriving from relations between companies of the group, have been entirely eliminated.
Minority interests represent part of the profits or losses and of the net assets not held by the group, and are indicated in a separate list on the income statement, and in the authorized patrimony among the net patrimony components, separate from the net group patrimony. The acquirements of minority interests are reported using the 'parent entity extension method' on the basis of which the difference between the price paid and the accounting value of the ‘hare part of the net assets acquired, is reported as goodwill.
The joint control companies are consolidated with the proportional method, summing up line by line their share in each asset, liability, income and cost of the joint control company, with the relevant items of the consolidated financial statements. The joint control companies prepare the statements for the same financial year of the group parent company, and apply similar accounting principles. Any lack of homogeneity in the accounting principles applied, are corrected by adjustment.

## Change of accounting standards

The accounting standards are consistent with those of the past year, with the exception of the following:
During the year, the Group adopted the following new or reviewed IFRS and the following new and reviewed IFRIC interpretations. The adoption of these reviewed principles and interpretations have not affected the Group balance. They have, however, given way to additional information, including, in some cases, an alteration of accounting policies.

- IFRS 7 - Financial instruments: Additional information
- IAS 1 - Presentation of the financial statements
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Appreciation of incorporated derivatives
- IFRIC 10 - Quarterly statements and lasting reduction of value

The main effects of these changes are shown hereafter:
IFRS 7 - Financial instruments: Additional information
The principle requires some explanatory notes to allow the users of the financial statements to evaluate the significance of the Group financial instruments and the nature of the risks associated with such financial instruments. The new information is shown in different parts of the financial statements. Although there have been no effects of the financial position or results, the comparative information has been reviewed where necessary.
IAS 1 - Presentation of the financial statements
This change requires the Group to provide new information to allow the users of the financial statements to evaluate the objectives, policies and procedures of the Group with reference to the management of the capital. This new information is shown in the note ‘Management of Capital’ and ‘Group objectives and policies’.
IFRIC 8 - Scope of IFRS 2
This interpretation requires the application of IFRS 2 to each operation in which the entity cannot specifically identify the assets received, or part thereof, in particular when the issue of capital instruments is forecast at a price that would appear to be lower than the fair value. As the issues of capital instruments are only made to the benefit of employees, on

the basis of any stock-option plans set up for the benefit of the employees, the interpretation has no effect on the Group result.

IFRIC 9 - Appreciation of implicit derivatives

IFRIC 9 sets out that the date by which to determine the existence of an implicit derivative is that on which the entity becomes, for the first time, the contractual counter party, with revaluation only where there is a change to the contract that significantly alters cash flow. As the Group does not hold any implicit derivatives that need to be separated from the guest contract, this interpretation has not impacted on the financial position or performance of the Group.

IFRIC 10 - Quarterly statements and lasting reductions of value

The Group has adopted IFRIC 10 interpretation as of 1 January 2007. The interpretation requires the entity not to recovery a lasting reduction of value reported in a previous quarter, on goodwill or on an investment in capital instruments or financial instruments held at cost. As the Group has not reported lasting reductions of value previously reported, the interpretation has not impacted on the financial position or performance of the Group.

## Future changes to accounting policies

Principles issued but not yet in effect:

IAS 23 - Financial Costs

In March 2007, an amended version of IAS 23 Financial Costs was issued, which will take effect for all years starting on 1 January 2009 or later. The principle was amended in order to require the capitalisation of the financial costs when such costs refer to a qualifying asset. A qualifying asset is one which requires a significant period of time in order to be ready for its intended purpose or for sale. In accordance with the transitory provisions of the principle, the Group will adopt it as a prospective change. As such, the financial costs will be capitalised on the qualifying assets, starting from a date following 1 January 2009. No change will be made for financial costs borne up to that date, and which have been reported on the income statement.

IFRIC 12 - Concession agreements

In November 2006, the IFRIC 12 interpretation was issued, which will take effect for the years starting as of 1 January 2008 and later. This interpretation shall apply to all operators providing services by concession, and explains how to report the commitments made and the rights received under a concession agreement.

IFRIC 13 - Loyalty programmes

In June 2007, the IFRIC 13 interpretation was issued, which will take effect for the years starting as of 1 July 2008 or later. This interpretation requires bonuses granted to customers as loyalty premiums to be recorded as a separate item of the sales transactions for which they were granted, and as such, that part of the fair value of the amount received is allocated to the premiums and amortised throughout the period in which the credits/premiums are paid out.

IFRIC 14 IAS 19 - Limits to the assets of a benefits plan defined minimum requirements of financing and their interaction

In July 2007, the IFRIC 14 interpretation was issued, which will take effect for the years starting as of 01.07.08 and later. The interpretation provides instructions as to how to determine the excess limit of a defined benefits plan that can be reported as assets, in accordance with IAS 19 Benefits for employees.

IFRS 2 - Payments based on shares - Conditions for maturing and cancellation

This amendment to IFRS 2 Payments based on shares was published in January 2008, and will take effect during the first year following 1 January 2009. The principle restricts the definition of ‘maturing conditions’ on the condition that

includes an explicit or implicit obligation to supply a service. Any other condition is a non-vesting condition, and must be taken into consideration in order to determine the fair value of the instrument representing the allocated capital.
Should the premium fail to mature as a consequence of the fact that it does not meet a non vesting condition, which is under the control of the entity or counter party, it must be reported as a cancellation.

IFRS 3R - Company mergers and IAS 27/R Consolidated and separated financial statements

The two principles were approved in January 2008, and will take effect as of the first year following 1 July 2009. IFRS 3R introduces some changes to the reporting of the business combination that will take effect on the amount of goodwill reported, on the result of the period in which the acquisition takes place, and on the results of the later periods. IAS 27R requires that any change in the share held in a subsidiary be reported as a capital transaction. Consequently, this change will not impact goodwill, nor cause profits or losses. Furthermore, the reviewed principles introduce changes in the reporting of a loss of a subsidiary, as the loss of control of the subsidiary. The changes introduced by the principles IFRS 3R and IAS 27R must be applied prospectively, and will impact future acquisitions and transactions with minority shareholders.

IAS 1 - Reviewed presentation of the financial statements

The reviewed principle IAS 1 Presentation of the financial statements was approved in September 2007 and will take effect as of the first period following 1 January 2009. The principle divides the changes in the shareholders' equity headed by the shareholders and non-shareholders. The statement of changes to the shareholders' equity will include only the detail of the transactions with shareholders, whilst all changes relating to transactions with non-shareholders will be shown in a single line. Furthermore, the principle introduces the statement of comprehensive income: this statement contains all items of income and costs relating to the period recorded on the income statement, and in addition all other items of revenue and reported cost. The statement of comprehensive income can be presented in the form of a single statement or two related statements.

Amendments to IAS 32 and IAS 1 Financial Instruments 'to be sold'

Amendments to IAS 32 and IAS 1 were approved in February and will take effect during the first year following 1 January 2009. The amendment to IAS 32 requires that some financial instruments to be sold, and bonds that arise at the time of liquidation, are classified as capital instruments if certain conditions occur. The amendment of IAS 1 requires that the explanatory notes contain information concerning bonds 'to be sold' classified as capital.

At present, the Group is analysing the principles and interpretations specified, and evaluating whether or not their adoption will have a significant impact on the financial statements.

## Consolidation area as of 31.12.07

The companies included in the consolidation area as of 31 December 2007 and consolidated through the line-by-line or proportional method are the following:

| Company name | Registered Officies | Subscribed capital | Paid-up capital | Group interest | direct controlling interest | indirect controlling interest |
|---|---|---|---|---|---|---|
| ***Parent conpany*** | | | | | | |
| Ascopiave S.p.A. | Pieve di Soligo (TV) | 233.334.000 | 233.334.000 | | | |
| ***Companies consolidated line-by-line*** | | | | | | |
| Ascotrade S.p.A. | Pieve di Soligo (TV) | 1.000.000 | 1.000.000 | 89% | 89% | |
| Global Energy S.r.l. | Mirano (VE) | 230.000 | 230.000 | 51% | 51% | |
| Le Cime Servizi S.r.l. (*) | Mirano (VE) | 20.000 | 20.000 | 41% | | 80% |
| Coge Calore S.r.l. (*) | Madignano (CR) | 50.000 | 50.000 | 28% | | 55% |
| Etra Energia S.r.l. (*) | Cittadella (PD) | 100.000 | 25.000 | 26% | | 51% |
| ASM DG S.r.l. | Rovigo | 7.000.000 | 7.000.000 | 100% | 100% | |
| ***Under common control companies proportional consolidated*** | | | | | | |
| ASM SET S.r.l. (**) | Rovigo | 98.000 | 200.000 | 49% | 49% | |
| ESTENERGY S.p.A. (***) | Trieste | 841.850 | 1.718.096 | 48,999% | 48,999% | |

* Subsidiary of Global Energy S.r.l.

** Joint control with ASM Rovigo S.p.A.

*** Joint control with Acegas-APS S.p.A.

The changes that took place in the consolidation area compared with 31 December 2006, are given below:

- incorporation of Coge Calore S.r.l., set up on 22 February 2007 with a percentage hold by Global Energy S.r.l. equal to 55%;
- incorporation of Etra Energia S.r.l., enrolled in the Padua companies register of the Chamber of Commerce on 17 April 2007, of which 51% is subscribed by Global Energy S.r.l..
- acquisition of the total holding of ASM DG S.r.l. of Rovigo;
- acquisition of a 49% holding in ASM SET S.r.l. of Rovigo;
- acquisition of a holding of 48.99% of ESTENERGY S.p.A. of Trieste.

During the year, the Group acquired the control of the company ASM DG S.r.l. (fully consolidated) and the joint control of the companies ASM Set S.r.l. and Estenergy S.p.A. (proportionally consolidated). Considering that the afore-stated acquisitions were all defined towards 31 December 2007, the consolidated financial statements of the Ascopiave Group only reports the asset values related to the afore-stated holdings, both for those held entirely and for those under joint control.

The effect of the first consolidation of the asset values of the new companies acquired during the year makes it more difficult to compare with the comparative data included for the previous year. In order to better read the changes during the year, the explanatory notes to the items of the balance sheet show, as a further detail as compared with the balance as of 31 December 2007, the effect of the values relating to the new acquisitions and, for difference, the value that the year end balance shows net of such acquisitions (with equal Group perimeter).

The explanatory notes therefore include, in addition to the year end data and the comparative data of the previous year, a column entitled 'values of new acquisitions' and 'values net of new acquisitions', whilst the notes illustrate the changes between the latter data and that of the previous year.

**Goodwill**: the goodwill obtained from the acquisition of business branches operating in the supply and sale of gas is initially booked at cost and represents the excess of the purchase price compared to the portion pertaining to the purchaser for the net fair value referred to values identifying the current and potential assets and liabilities. After the initial booking, goodwill can no longer be amortized and is reduced by any losses of value.

Goodwill is subjected to an annual recoverability analysis, or a more frequent one if events or changes in circumstances occur which can lead to the emergence of possible losses of value.

With the intent of analyzing said recoverability, the goodwill acquired through groups of company is allocated, as of the acquisition date, to each of the units (or groups of units) that generate financial flows with the Group that it is held would benefit from the synergy effects of the acquisition, without regard to the allocation of other assets or liabilities of said units (or groups of units).

Said units which generate financial flows:

(i) represent the lowest level, within the Group, to which the goodwill is monitored for internal management purposes

(ii) are no greater than one sector, as defined in the primary or secondary indication scheme of the Group

in accordance with Ias 14 "Product sector information."

Loss of value is determined by defining the recoverable value of a unit which generates flows (or groups of units) to which the goodwill is allocated. When the recoverable value of a unit which generates flows (or group of units) is inferior to the book value, a loss of value is indicated. In cases in which the goodwill is attributed to a unit which generates financial flows (or group of units) which is activated through partial abandonment the goodwill associated with the transferred profit is considered in order to determine the positive or negative change derived from the operation. Goodwill transferred in such cases is calculated on the basis of the values relative to the asset transferred with respect to the asset still held with reference to the same unit.

**Other intangible assets**: intangible assets acquired separately are initially capitalised at cost, whilst those acquired through company mergers are capitalised at the fair value as of the date of acquisition.

Following the initial reporting, as they have a defined useful life, intangible assets are booked net of the accumulated relevant amortization operations and net of any losses in value, determined with the same basis indicated below for tangible assets. The useful life is then re-examined on an annual basis, and any changes, if necessary, made prospectively.

Intangible fixed assets with an undefined life are verified annually in order to find any losses in their value when events or changes of situation indicate that the book value cannot be realized. No amortisation is reported for these assets.

Any profits or losses deriving from the sale of an intangible asset is determined as the difference between the disposal value and the book value of the asset, and are reported on the income statement at the time of the sale.

**Tangible fixed assets**: tangible assets are booked at their historic cost, including accessory costs directly ascribable to the putting into operation of the asset for the use for which it was acquired.

Lands - both free of constructions, and annexed to civil and industrial buildings - were generally accounted for separately and are not depreciated since they are elements with an unlimited useful life.

Maintenance and repair costs that are not subject to valuing and/or extending the residual useful life of assets, are spent in the year in which they are borne. Otherwise, they are capitalised.

Tangible assets are presented net of the relevant accumulated depreciation, and any losses of value determined according to the basis described below. Amortisation is calculated in uniform instalments on the basis of the estimated useful life of the asset for the company, which is re-examined annually, and any changes, if necessary, are made prospectively.

The main economical-technical rates used are as follows:

| **Category** | **Depreciation rates** |
|---|---|
| Buildings | 2% |
| Reduction appliances | 4% - 5% |
| Networks and connections | 2,2% - 4% |
| Meters | 5% |
| Equipment | 8,5% - 8,3% |
| Furniture and furnishing | 8,8% |
| Electronic machines | 16,2% |
| Basic hardware and software | 20% |
| Motorcars, motorvehicle and similar | 20% |

The book value of tangible fixed assets is subject to verification in order to report any loss of value, should events or changes of situation suggest that the book value may not be recovered. Should there be an indication of this type and, in the event that the book value should exceed the presumed realisation value, the assets are

devalued so as to reflect their realisation value. The realisation value of the tangible fixed assets is represented by the greater of the net sales price and the value o fuse.

Losses of value are reported on the income statement with the costs for amortisations and writedowns. Such losses of value are restored should the reasons for their cause cease to exist.

When the asset is sold or if there are no future economic benefits expected from the use of the asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is entered in the income statement of the year of the above mentioned elimination.

**Inventories**: inventories are booked at whichever of the following is lower: purchase and/or manufacturing cost, determined in accordance with the weighted average cost basis, or the estimated realizable net value. The net realisation value is determined on the basis of the estimated sales price in normal market conditions, net of direct sales costs.

Obsolete and/or slow to realise inventories are written down in relation to their presumed possibility of use or future realisation. The writedown is eliminated in the following years, should the reasons for its cause cease to exist.

**Trade receivables**: trade receivables, whose expiry is within normal commercial trading terms, are not discounted back and are booked at cost (identified by their par value) net of the relevant value losses. These are suited to their presumed realisation value through the reporting in a specific adjustment fund, which is constituted when there is objective evidence that the Group will be unable to receive credit for the original value. Provisions to the reserve for doubtful accounts are reported on the income statement.

**Derivative financial instruments**: The Group holds derivative financial instruments with the aim of covering its exposure to risk of change to exchange rates and risk of change to prices of methane gas. Relative to this activity, the Group must manage the risks connected with disaligning between formulas of indexing related to the purchase price of methane gas and those related to the sales prices. These derivative financial instruments are initially reported at the fair value on the date on which they are drawn up. Later, this fair value is updated. They are reported as assets when the fair value is positive, and as liabilities when it is negative.

The instruments used to manage the price risk, both in terms of indexing to the performance of the commodities of reference, and for the part related to the performance of the euro/dollar exchange rate, are stabilised in commodity-swap contracts and short-term purchase contracts and purchase options on dollars, aimed at pre-establishing the effects on the margins of sale of methane gas, independently of the changes of market conditions.

The operations that, in respecting the risk management policies, meet requirements set out by international accounting standards for hedge accounting treatment, are allocated as 'of coverage', whilst those which, despite being put into place with the intention of providing coverage, do not comply with the requirements set out by international accounting standards, are classified as 'trading'.

For accounting purposes, coverage operations are classified as fair value hedge, if against a risk of change in the market value of the assets or liabilities below. Alternatively, they are classified as cash flow hedge if against the risk of variability in derivative financial flows both from an existing asset or liability, or from a future operation.

As concerns the derivate financial instruments classified as fair value hedge, which comply with conditions for accounting processing such as coverage operations, the profits and losses deriving from the determining of their market value are posted on the income statement. The profits and losses deriving from adjustment to fair value of the element below the coverage are also posted on the income statement.

For instruments classified as cash flow hedge that comply with conditions for accounting treatment such as coverage operations, the profits and losses deriving from their valuation on the market are posted directly on the shareholders' equity.

Changes in the fair value of the derived financial instruments that are not qualified as coverage, are reported in the income statement of the period in which this takes place.

In this specific case, the Group presently only holds instruments of coverage classified as 'trading'.

**Own shares:** Re-acquired own shares are taken as a decrease of the assets. No profit or loss is reported on the income statement upon purchase, sale or cancellation of own shares.

**Cash and cash equivalents**: include the ready cash values, i.e. values with the following requirements: availability at sight or in a very short term, good outcome, and no collection expenses.

**Benefits for employees**: benefits guaranteed to employees, paid when or after employment ceases, by means of programs with defined benefits (Employees' leaving indemnities) or with other long-term benefits (retirement indemnity) are recognized in the period when the right accrues.

The liabilities relative to the program of defined benefits, net of eventual assets of the service plan, is determined on the basis of actuarial assumptions and indicated for fees coherently for the work that is necessarily performed in order to obtain the benefits. The liability was determined by independent actuaries using the projected unit credit method. Any profits or losses deriving from the actuarial calculation are reported on the income statement as a cost or income, regardless of the value of such, without using the so-called 'corridor method'.

The amount reflects not only the debts accrued at the financial statements closing date, but also future salary rises and the related statistical dynamics.

**Reserves for risks and charges:** The reserves for risks and charges concern costs and charges of a given type, and of certain or probable existence, which on the closing date of the reference period are undetermined in terms of amount or due date. Provisions are reported when there is a current obligation (legal or implicit) that derives from a past event, when an outlay of resources is probable in order to meet the obligation, and a reasonable estimate can be made as to the amount of the obligation.

On the other hand, where it is not possible to carry out a probable estimate as to the obligation, or alternatively, it is deemed that the outlay of

financial resources is only possible and not probably, the relevant potential liability is not marked in the financial statements, but rather mentioned appropriately in the explanatory notes.

Provisions are reported at the representative value of the best estimate of the amount that the company would pay to extinguish the obligation, or to transfer it to third parties upon period end. If the effect of discounting is significant, the allocations are determined by discounting back the expected future financial flows at a pre-tax rate which reflects the market's current valuation in relation to time. When discounting is carried out, the increase of the allocation due to the passing of time is reported as a financial charge.

**Medium/Long-term loans**: loans are initially booked at fair value, net of any transaction costs and, subsequently, are valued at amortization cost, calculated by applying the effective interest rate.

**Trade receivables and other payables**: trade receivables, whose expiry is within normal commercial terms, are not discounted back and are booked at cost (identified by their par value).

Payables in a currency differing from the account currency, are booked at the exchange rate of the day of the operation and, subsequently, are converted at the exchange rate as of the date of financial statements. Any profit or loss deriving from conversion is reported on the income statement.

Other payables are reported at cost (identified from the face value).

**Share-based payments**: Group employees (and in particular certain Directors) receive part of their salaries in the form of options that can only be sold for cash. The cost of cash operations is evaluated initially at the fair value as of the date of allocation, using an evaluation formula better explained under note 24. This fair value is spent in the period until maturation with reporting of a corresponding payable. The liability is re-calculated upon each closure of the period, until the date of regulation, with all changes made to the fair value reported on the income statement.

**Current financial liabilities**: Financial liabilities are stated at their face value.

**Revenues**: the revenues are entered net of all discounts, rebates and premiums, as well as the fees directly connected with the sale of the commodities and service performance.

The revenues for gas sales are recognized at the moment of disbursement and also depend on the type of customer.

In particular, the product sector norms hold that, in relation to customers that have not chosen to utilize the right to directly negotiate the conditions for supplies with the company that sells the gas, mainly consisting of domestic users, the tariffs for natural gas sales are regulated and updated quarterly on the basis of deliberations made by the Authority for Electrical Energy and Gas (AEEG).

The revenues for service performance are recognized on the basis of the service having occurred and in accordance with the relative contract. The revenues relative to works performed on the basis of orders are recognized in proportion to the stage of work of the relative project.

**Public contributions:** public contributions are reported when there is a reasonable certainty that they will be received and all relevant conditions are met. When public contributions are linked to cost components, they are reported as income, but are systematically divided up over the periods, so as to be measured to the costs they are intended to offset.

Should the contribution be connected to another asset, the asset and contribution are reported at face value, and the release to the income statement takes place progressively throughout the expected useful life of the asset of reference, in constant instalments.

**Interest**: income and costs are booked by competence according to the interest accrued on the net value of the relevant financial assets and liabilities, using the effective interest rate.

**Income taxes**: current active and passive taxes for the current and previous years are valued at the amount that is expected to be recovered or paid to the tax authorities. The rates and tax regulations used to calculate the amount are those issued or basically issued upon year end. Current taxation relating to elements reported directly under assets are reported directly as assets and not on the income statement.

Deferred taxes are calculated using the so-called liability method on the temporary differences resulting from the date of the statements between the tax values taken as reference for the assets and liabilities and the values reported on the statements. Deferred tax liabilities are reported against all taxable temporary differences:

- when deferred payable taxes derive from the initial reporting of goodwill or an asset or liability in a transaction that is not a company merger and that, at the time of the transaction itself, has no effect on the profit of the year calculated for the purposes of the statements, nor on the profit or loss calculated for tax purposes;
- with reference to temporary taxable differences associated with holdings in subsidiaries, associated companies and joint ventures, should the reversal of the temporary differences be able to be controlled, and it is probable that this does not take place in a foreseeable future.

Deferred tax assets are reported against all deductable temporary differences and for tax assets and liabilities brought forward, in the amount in which the existence of suitable future tax income is probable that can make the use of the deductible temporary differences and tax assets and liabilities brought forward applicable, with the exception of the following:

- when deferred payable tax assets connected with deductible temporary differences derive from the initial reporting of an asset or liability in a transaction that is not a company merger and that, at the time of the transaction itself, has no effect on the profit of the year calculated for the purposes of the statements, nor on the profit or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with holdings in subsidiaries, associated companies and joint ventures, the deferred tax assets are reported only in the amount in which it is probable that the deductible temporary differences will reverse in the immediate future and that there are suitable tax income against which the temporary differences can be used.

**Company aggregations:** Company mergers are posted according to the purchase method. This requires posting at equal value the identifiable assets (including intangible assets previously not recognised) and identifiable liabilities (including potential liabilities and excluding future restructuring) of the acquired company

**Earnings per share**: the basic earning per share is calculated by dividing the net income for the period attributable to the shareholders holding ordinary shares of the Parent Company by the weighted average number of ordinary shares in circulation during the period . Diluted profits for shares result as equal to those for shares in that ordinary shares that could have a dilutive effect do not exist and no shares or warrants exist that could have the same effect.

**Use of estimates**: The preparation of the financial statements and related explanatory notes in application of the IFRS requires that management provide estimates and assumptions that affect the values of the assets and liabilities reported on the

consolidated financial statements and information relating to potential assets and liabilities as of that date.

Estimates are used to report:

- Reductions in value of non-financial assets (including goodwill),
- Valuation of revenues for consumption of gas supplied for which an effective reading is not yet available,
- Provisions for risks on credits,
- The effects of disputes on the application of distribution and/or sales tariffs and those with the municipalities for the acknowledgement of the redemption value of assets as under the concession, returned upon expiry of such,
- Obsolete inventories,
- The useful lives of intangible and tangible fixed assets and related amortisation,
- Employee benefits and payment plans based on stock options (so-called phantom stock option)
- Taxes and
- allocations for risks and charges.

The estimates and assumptions are reviewed periodically, and the variations are immediately reflected in the income statement. In applying the Group accounting principles, the directors have taken decisions based on the stated discretional evaluations, with a significant effect on the values reported on the statements. However, the uncertainty surrounding these assumptions and estimates may determine results that, in the future, will need to be significantly adjusted at the book value of such assets and/or liabilities.

# COMMENTS ON THE MAIN CONSOLIDATED BALANCE SHEET ITEMS

## Non-current assets

### *1. Goodwill*

Goodwill, equal to Euro 65,120 thousands as of 31.12.07, refers in part to the surplus value created by the contribution of the gas distribution networks by member local authorities in the period between 1996 and 1999, and in part to the surplus value paid during the acquisition of some branches of the company related to the distribution and sale of natural gas, as well as the acquisition of certain holdings.
Specifically, during the course of 2007, the following changes were recorded:

**Bimetano Servizi S.r.l.**
Following transfer of the sales branch of Bitmetano Servizi S.r.l., a goodwill value of Euro 4,021 thousands was recorded, as is better described in the previous paragraph 'Company aggregations'. The posting in goodwill is due to the value of the synergies generated by the integration of the 29,453 consumers in the Group.

**ASM DG S.r.l.**
Following the acquisition of 100% of the shares in ASM DG S.r.l., a goodwill value of Euro 4,137 thousands was recorded, as is better described in the previous paragraph 'Company aggregations'. The posting in goodwill is due to the economic benefits expected from the activity of gas distribution linked to the concession of the municipality of Rovigo.

**ASM SET S.r.l.**
Following the acquisition of 49% of the shares in ASM SET S.r.l., a goodwill value of Euro 2,386 thousands was recorded, as is better described in the previous paragraph 'Company aggregations'. The posting in goodwill is due to the value of the synergies generated by the integration of the natural gas sales business.

**ESTENERGY S.p.A.**
Following the acquisition of 48.999% of the shares in ESTENERGY S.p.A., a goodwill value of Euro 32,463 thousands was recorded, as is better described in the previous paragraph 'Company aggregations'. The posting in goodwill is due to the value of the synergies generated by the integration of the natural gas sales business.

| (In thousands of Euro) | 31/12/2006 | Increase | Decrease | 31/12/2007 |
|---|---|---|---|---|
| Distribution of natural gas | 20.433 | 4.137 | - | 24.569 |
| Selling of natural gas | 1.679 | 38.871 | - | 40.550 |
| **Total** | 22.112 | 43.008 | - | 65.120 |

Goodwill has been allocated to the following financial cash flow-generating units:

The depreciation audit on goodwill has been carried out by checking the depreciation in the activities of natural gas distribution and natural gas sales, comparing the recoverable value of the relevant assets with their accounting value, including the goodwill allocated to them. As no reliable criteria exist to evaluate the sales value between the aware and available parties in the activities of the sales and distribution of gas, other than the criteria put forward in literature to evaluate the branches of a company, the recoverable value of the audited activity is defined by its use value. The value recoverable from the financial flow-generating units in the sales and distribution of natural gas has been estimated using the Discounted Cash Flow methodology, discounting back the operating financial flows generated by the activity itself at a discount rate representative of the cost of capital.

The financial flows used to calculate value recoverable are those of the Multi-annual Plan for the financial flow-generating gas distribution and sales units, which cover the forecasts formulated by management for the period 2008-2010.

Referring to the activity of gas distribution, considering that according to the current law in this field most concessions and credit worthiness will expire on 31/12/2010, it has been suggested that in 2009/2010 management generate financial flow in line with that generated in the two year period 2008/2009. Furthermore, considering the uncertainty that bears on the renewal of concessions, it has been decided to estimate the final value of the financial flow-generating gas distribution unit by supposing two alternative scenarios, *id est* that (i) In 2010 Ascopiave ends the activity of gas distribution and (ii) the company obtains in 2010 the renewal of all the concessions and credits in effect on 31 December 2007. With reference to the sale of natural gas, on the other hand, the current value of the future flows specified by the plan has been estimated, and a terminal value added, determined as an estimate of a perpetuity as from the last year specified in the financial forecasts.

The growth factor used for the purpose of calculating final value, estimated at 2% for both the financial flow-generating units, gas distribution and sales, takes into account inflation, growth of the client base and increased efficiency.

The cost of capital for both financial flow-generating unit was calculated assuming:

a) that coefficient b (beta levered) was defined based on the beta unlevered compared to a sample of comparable companies (local utilities quotation) and considering the specific target financial structure of the business;

b) The market risk taken from the average over a long period for an international sample group of countries;

c) the risk free rate assumed equal to the return of bonds of status at 10 years, reported as of 31 December 2007.

On the basis of these elements, the average weighted cost of the post-tax capital is equal to 6.57%, both for the financial flow distribution generating units, and for that relating to the sale of natural gas. Based on these considered hypotheses, the recoverable value of financial flow-generating units for gas sales and distribution is significantly higher than the accounting values and therefore the conditions are not met to proceed to devaluing the goodwill for depreciation.

Both for the financial flow distribution generating unit and for the sale of natural gas, a sensitivity analysis has been carried out on the results: in all cases the values of use remain greater than the book values, even taking on an increase of the average weighted cost of the capital of 50 basis points.

*2. Other intangible assets*

The changes in the historical cost and accumulated amortization of intangible assets qt the end period under examination are shown in the following table:

| | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Historic cost** | **Accumulated depreciation** | **Net balance** | **Historic cost** | **Accumulated depreciation** | **Net balance** |
| Industrial patents and intellectual property rights | 2.353 | (2.158) | 195 | 2.250 | (2.032) | 218 |
| Concessions, licences, trademarks and similar rights | 2.819 | (855) | 1.964 | 1.246 | (1.129) | 118 |
| Other intangible assets | 14.041 | (649) | 13.392 | 925 | (78) | 847 |
| Construction in progress and advance payments | 492 | - | 492 | 229 | - | 229 |
| **Total other intangible fixed assets** | **19.705** | **(3.661)** | **16.043** | **4.650** | **(3.239)** | **1.412** |

The changes in the inventory allowance for the other intangible assets in the year under examination, are shown in the following table:

| | 31/12/2006 | Changes for the period | | | | | | 31/12/2007 |
|---|---|---|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Net balance** | **31 december 2007 value from company acquisitions** | **Investments** | **Disposals** | **Depreciation** | **Accumulated depreciation** | **Reclassification** | **Net balance** |
| Industrial patents and intellectual property rights | 218 | 46 | 48 | 21 | 106 | 10 | - | 196 |
| Concessions, licences, trademarks and similar rights | 118 | - | 1.820 | - | 72 | - | 98 | 1.964 |
| Other intangible assets | 847 | 9.149 | 4.234 | 482 | 356 | - | - | 13.392 |
| Construction in progress and advance payments | 229 | - | 208 | - | - | - | 56 | 492 |
| **Total other intangible fixed assets** | **1.412** | **9.195** | **6.309** | **503** | **533** | **10** | **154** | **16.043** |

The amortization charged on other intangible assets is classified in the ‘Depreciation and amortization’ caption of the income statement. The investments reported as of 31 December 2007, inclusive of the values relating to the new acquisitions mainly refer to the recording of the value assigned to the so-called ‘lists of contracts with customers and relations with clients set out by these contracts’ relating to the company mergers carried out with Bimetano Servizi S.r.l. (Euro 3,556 thousands), ASM SET S.r.l. (Euro 963 thousands) and Estenergy S.p.A. (Euro 8,175 thousands).
The assigned value has been confirmed by the evaluation carried out by an independent subject, who considered the economic capital and informative and relational assets represented by the customers involved in the transfer to Ascotrade S.p.A. (in the case of the sales branch conferred), or of acquisition by Ascopiave S.p.A.. The thus reported figures will be subject to amortisation on the basis of a useful life cautiously considered as equal to ten years.
We would point out that in regards to the recording of the tax effect relating to future amortization of the sales branch of Bimetano Servizi S.r.l., the subsidiary Ascotrade S.p.a. has appealed to the competent Fiscal Authorities in order to gain access to the benefits provided by the financial Law 2007 for company mergers.

Among the ‘Other Intangible Assets’, an amount of Euro 641 thousands has been posted with regards other costs sustained in the period for the purchase of energy efficiency equities on the market of energy efficiency equities, in order to comply with the obligations for energy savings under Decree 20 July 2004 of the Ministry for Productive Activities.

*3. Tangible fixed assets*

The changes in the historical cost and accumulated amortization of tangible assets at the end of each year under examination are shown in the following table:

| | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Historic cost** | **Accumulated depreciation** | **Net balance** | **Historic cost** | **Accumulated depreciation** | **Net balance** |
| Land and buildings | 15.830 | (3.549) | 12.282 | 15.915 | (2.996) | 12.918 |
| Plant and machinery | 403.945 | (134.754) | 269.191 | 376.144 | (120.275) | 255.869 |
| Industrial and commercial equipment | 2.326 | (791) | 1.535 | 2.165 | (525) | 1.639 |
| Other assets | 9.291 | (6.663) | 2.628 | 8.098 | (5.719) | 2.379 |
| Construction in progress and advance payments | 2.836 | - | 2.836 | 967 | - | 967 |
| **Total tangible fixed assets** | **434.229** | **(145.758)** | **288.471** | **403.288** | **(129.516)** | **273.772** |

The changes in the tangible fixed assets in the year under examination are shown in the following table:

| | 31/12/2006 | | | | | 0 | | | 31/12/2007 |
|---|---|---|---|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Net balance** | **31 december 2007 value from company acquisitions** | **Investments** | **Disposals** | **Writedowns** | **Depreciation** | **Accumulated depreciation** | **Reclass.from tangible assets in progress** | **Net balance** |
| Land and buildings | 12.918 | 260 | 49 | 446 | - | 506 | 6 | - | 12.282 |
| Plant and machinery | 255.869 | 11.963 | 11.144 | 1.240 | - | 9.874 | 486 | 843 | 269.191 |
| Industrial and commercial equipment | 1.639 | 68 | 45 | 2 | - | 220 | 5 | - | 1.535 |
| Other assets | 2.379 | 112 | 820 | 39 | - | 684 | 39 | 1 | 2.628 |
| Construction in progress and advance payments | 967 | 4 | 2.709 | - | - | - | - | (844) | 2.836 |
| **Total other tangible fixed assets** | **273.772** | **12.407** | **14.766** | **1.727** | **-** | **11.283** | **536** | **-** | **288.471** |

During 2007, the Group has made investments for Euro 14,766 thousands. The increase recorded in the year refers mainly to extraordinary maintenance costs and the extension of the gas distribution systems and network.

<u>Lands and buildings</u>

This item is mainly made up of the buildings owned in relation to company offices, peripheral offices and warehouses, as well as the building works related to the transformer rooms. The increases recorded in the year relate to the purchase of land in the town of San Zenone degli Ezzelini in the province of Treviso.

<u>Plants and machinery</u>

Under this heading can be included the costs relating to the distribution network and distribution systems, such as the transformer room systems, connections, reduction groups and meters. The increase recorded in the year 2007 includes the reclassification of assets under construction, and is posted for Euro 7,423 thousands from connections of new end customers, for Euro 663 thousands from the installation of new gas meters, for Euro 3,219 thousands by the construction of 87,622 metres of new network, for Euro 406 thousands for construction/modernisation of pressure reduction plants, and for Euro 20 thousands for the acquisition of a co-generating plant.

The change in the item 'Plants and machinery' is mainly related to the net book value of the natural gas distribution plants in the municipality of Santorso, delivered in 2007 to the same municipality following natural expiry of the distribution concession on 31 December 2006.

As a consequence, the net book value was reclassified as of the network delivery date for Euro 748 thousands, at the item 'Other non-current assets'.

Industrial and commercial equipment

This heading includes costs for the purchase of equipment for the maintenance service (pipe detectors and leak detectors) and for measurement activity.

Other assets

The increase posted under this heading is mainly due for Euro 431 thousands for the purchase of hardware and software, for Euro 72 thousands for the purchase of furniture and for Euro 208 thousands for the purchase of new motorised vehicles.

Assets under construction and advances

This heading primarily covers costs relating to work to extend the network and the construction of distribution plants, carried out partially with savings.

The increase is mainly represented by construction processes of new networks and co-generation plant not completed at the end of the period in question.

*4. Holdings in other companies*

| | 31/12/2006 | | Changes for the period | | | | | 31/12/2007 |
|---|---|---|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Net balance** | | **Investments** | **Disposal** | **Depreciation** | **Accumulated depreciation** | | **Net balance** |
| **Equity investments** | | | | | | | | |
| Other companies | 39 | - | 111 | - | - | - | - | 151 |
| **Total equity investments in other companies** | **39** | **-** | **111** | **-** | **-** | **-** | **-** | **151** |

The increase of this item as compared with 31 December 2007 refers to the payment of a further share of the share capital of Ital Gas Storage S.r.l., fully subscribed but not fully paid-in by the shareholders. The share held by Ascopiave S.p.A. equals 15%.

*5. Other non-current assets*

The captions comprising 'Other non-current assets' are analysed in the following table:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Deposits and guarantees | 436 | - | 436 | 296 |
| Receivables for contributions | - | - | - | 114 |
| Other receivables | 3.380 | 89 | 3.291 | 2.454 |
| **Other non-current assets** | **3.816** | **89** | **3.727** | **2.865** |

The 'Other non-current assets' equal to Euro 3,727 thousands, relate to receivables for caution money for Euro 436 thousands, and other receivables for Euro 3,291 thousands.

The change in the item 'Other receivables' is mainly explained by the reporting of a receivable against the municipality of Santorso for Euro 748 thousands, corresponding to the net book value of the distribution plants consigned in 2007 to the same municipality following natural expiry of the distribution concession on 31 December 2006.

Under the heading 'Other accounts receivable' is a receivable from the local authority of Creazzo, to the value of Euro 2,141 thousands unchanged since 31 December 2005, corresponding to the net book value of the distribution plants awarded in June 2005 to the above-mentioned local authority following the natural expiry, on 31 December 2004, of the concession awarded by the above-mentioned local authority.

The value of the receivable from the municipality corresponds to the 'Letta' law, article 15, paragraph 5, as indemnification of the industrial value of the network, in line with the estimations outlined in a suitable appraisal.

At year end, legal procedures are in progress with both local authorities, with the aim of establishing the value of the indemnity of the awarded distribution plants. The Group, based on the views of their own legal advisors, are of the opinion that the outcome of the legal proceedings will be favourable.

This item also reports a receivable from the AEEG for Euro 485 thousands, due against the greater contribution paid by Ascopiave S.p.A. during the years 1998-2000, for which an instalment plan is in place, which specifies reimbursement by the Authority in four six-monthly instalments, as from the month of April 2008.

*6. Prepaid taxes*

The following table details the prepaid taxes as of 31.12.07 and 31 December 2006.

| | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| **(thousands of Euro)** | **Temporary differences** | **Tax rate** | **Total effect** | **Temporary differences** | **Tax rate** | **Total effect** |
| Allocation for writedown of receivables | 2.872 | 27,50% | 790 | 2.400 | 33,00% | 792 |
| Allocation for risk fund | 386 | 31,40% | 121 | - | 33,00% | - |
| Allocation for inventory writedown | 462 | 31,40% | 145 | 413 | 37,25% | 154 |
| amortization surpluses | 1.464 | 31,40% | 460 | 5.805 | 37,25% | 2.162 |
| amortization surpluses | 19.252 | 31,40% | 6.045 | 17.477 | 37,25% | 6.510 |
| Listing expenses | 5.706 | 31,40% | 1.792 | 7.608 | 37,25% | 2.834 |
| other | 410 | 31,40% | 129 | 487 | 37,25% | 181 |
| Phantom stock option | 106 | 27,50% | 29 | - | | - |
| **Amounts due for advance taxes paid** | **30.658** | | **9.511** | | **-** | **12.633** |

The calculation of deferred tax assets made reference to the IRES (company earnings tax) rate and, where applicable, to the IRAP (regional business tax) rate applicable at the time when the temporary differences are expected to be reversed. Specifically, the rate of 27.5% was used for IRES and 3.9% for IRAP, in consideration of Law no. 244/2007 (Financial Law 2008) that, at art. 1 paragraph 33 specified the reduction of the IRES rate by 5.5 percentage points, and at art. 1 paragraph 50, the reduction of the IRAP rate by 0.35%.

The prepaid taxes equal to Euro 9,511 thousands (of which Euro 602 thousands derive from new acquisitions) decrease, of equal perimeter, by Euro 3,724 thousands as compared with 31 December 2006.

The decrease is mainly due to the use of the gas risks fund in relation to resolution no. 248/04 for Euro 1,601 thousands, by teh decrease of tax rates applied for Euro 1,615 thousands, by the tax allowed amortisation of listing expenses for Euro 597 thousands, all effects partly compensated by the dynamics of the fiscal amortisation of tangible and intangible assets.

## Current assets

*7. Inventories*

The following table shows the make-up of the inventories as of 31.12.07 and 31 December 2006:

| | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| (in thousands of Euro) | Gross balance | Allowance for doubtful receivables | Net balance | Gross balance | Allowance for doubtful receivables | Net balance |
| Stock of natural gas | - | - | - | - | - | - |
| Fuels and warehouse materials | 3.261 | (413) | 2.848 | 3.102 | (413) | 2.689 |
| Contract work in progress | 201 | - | 201 | 79 | - | 79 |
| **31/12/2007 Consolidated area unchanged pre-acquisitions** | **3.462** | **(413)** | **3.049** | **3.182** | **(413)** | **2.768** |
| **31 december 2007 value from new acquisitions** | **298** | **(49)** | **249** | **0** | **0** | **0** |
| **Total inventories** | **3.559** | **(462)** | **3.298** | **3.182** | **(413)** | **2.768** |

As of 31.12.07, the inventories are equal to Euro 3,049 thousands and show an overall increase equal to Euro 281 thousands as compared to 31 December 2006.

The warehouse materials are used for maintenance works or to realise distribution plants. In the latter case the material is reclassified as Tangible Fixed Assets once construction work is completed.

Ordered Works in Progress refers to the construction of heating supply plants which are intended to be sold off.

Inventories are entered on the balance sheet under the Net Devaluation of Inventory fund in order to adapt their value to the opportunities for their clearance or use.

*8. Trade receivables*

The following table indicates the amount of trade receivables, all accorded to Italian clients, and the relevant adjustment funds as of 31.12.07 and 31 December 2006:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Trade receivables | 124.499 | 22.458 | 102.041 | 31.895 |
| Receivables for invoices to be issued | 147.010 | 28.029 | 118.981 | 74.306 |
| Trade receivables from subsidiary companies | 0 | 0 | 0 | 39 |
| Trade receivables from parent companies | 27 | 0 | 27 | 36 |
| (allowance for doubtful receivables) | (5.795) | (2.385) | (3.410) | (3.097) |
| (Provision of gas revenues) | (1.464) | 0 | (1.464) | (1.505) |
| **Trade receivables** | **264.276** | **48.102** | **216.174** | **101.673** |

Trade receivables in 2007 have gone from Euro 101,673 thousands to Euro 216,174 thousands with an increase equal to Euro 114,501 thousands.

The increase of commercial receivables is mainly due to the favourable weather conditions of the last quarter of the year, as compared with the same period of the previous year, to the increase of users conferred from Bimetano Servizi S.r.l. as from 1 January 2007, to the sale of stored gas equal to Euro 30,744 thousands that took place and had not yet been received at the end of the year, and to the new commercial trading operations on natural gas. We would also point out that during the year, the company made significant changes to its computer systems managing users, and this led to delays in invoicing, which, in turn, led to a significant increase of trade receivables.

The nominal value has been adjusted to the presumed realisable value by means of an allowance for doubtful accounts. The changes in the provision for doubtful accounts are shown in the following table:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Opening allowance for doubtful receivables** | **3.097** | **2.839** |
| Provisions | 831 | 705 |
| Utilisations | (517) | (447) |
| **Net value of company acquisitions** | **3.410** | **3.097** |
| **Value from company acquisitions** | 2.385 | **0** |
| **Closing allowance for doubtful receivables** | **5.795** | **3.097** |

On 31.12.07 the value of receivables decreased in the gas proceeds fund made up of the appropriated surplus occurring due to the tariffs system introduced by resolution no. 237/00 by the Authority for Electrical Energy and Gas, starting from 1 July 2001, for gas distribution activities and supply to clients in the fixed market. The above-mentioned tariffs system provides for a downwards trend in tariffs by increasing consumption brackets, applicable over the thermal year, which for 2007 runs for the period between 1 October 2007 and 30.09.08.

The changes in the provision for gas revenues are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Opening provision of gas revenues** | **1.505** | **2.280** |
| Provisions | 1.464 | 1.505 |
| Utilisations | (1.505) | (2.280) |
| **Closing provision of gas revenues** | **1.464** | **1.505** |

In 2007, the company evacuate, as assignment on a monthly basis of the distribution share of methane gas of each user, on revenues from sales, rather than on the basis of volumes of gas distributed, making the average distribution tariff higher in the summer periods than in the winter. In order to better represent the seasonality of the gas distribution activities, which is significantly influenced by the winter climate, we have deemed it appropriate to alter the way in which revenues relating to the fixed distribution share are allocated, which have been allocated proportionally to gas volumes distributed during the period of reference.

Alteration of the al location methods of the fixed share on the distribution revenues of methane gas, has meant a small allocation to a provision of gas revenues, equal to Euro 930 thousands. The lesser allocation has had a positive effect on the year’s profit and shareholder’s equity, equal to Euro 584 thousands.

*9. Other current assets*

The value of other current assets as of 31.12.07 and 31 December 2006, are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Receivables due from parent company for tax consolidation system | 398 | - | 398 | - |
| Tax credit | 35.384 | 6.531 | 28.853 | 2.244 |
| Receivables due from Cassa Conguaglio Settore Elettrico | 1.482 | - | 1.482 | 700 |
| Annual prepaid expenses | 130 | 57 | 73 | 140 |
| Advances to suppliers | 381 | - | 381 | 437 |
| Deposit for buildings | 620 | - | 620 | - |
| Annual accrued income | 9 | - | 9 | 22 |
| Other receivables | 1.362 | 1.365 | 3 | 84 |
| **Other currents assets** | **39.765** | **7.953** | **31.819** | **3.626** |

The item has increate as compared with 31 December 2006 by Euro 28,186 thousands, and also includes receivables due from indirect VAT taxation and gas taxation. Receivables from Asco Holding S.p.A. relate to deposits on taxes paid by Ascotrade S.p.A. to Asco Holding S.p.A. in relation to the tax consolidation contract.

Tax receivables go from Euro 2,244 thousands of the year 2006, to Euro 35,384 thousands of the year 2007, due to the increase of the credit from the Technical Financial Office for excise duty and from regions/provinces for additional taxes on natural gas consumption matured by effect of the payment of instalments significantly greater than the actual invoicing. The credit made up as such in 2007 will be fully recovered during the first half of 2008, with smaller payments on the occasion of monthly payments. These taxes were greater in 2006 than in 2007, in that the balances relating to the greater consumptions due to the favourable weather conditions of the last quarter 2005 were invoiced in the second quarter 2006.

Receivables from the electrical sector Adjustment Fund relate to receivables for the acknowledgement of Ascopiave S.p.A.'s white certificates and the green certificates of Le Cime Servizi S.r.l. for Euro 995 thousands, and for receivables for greater contributions paid in the past years to the AEEG for Euro 486 thousands (current share).

Receivables for confirmatory deposits on property relate to the purchase of offices in Milan and the new headquarters in the area of Treviso.

*10. Current financial assets*

The value of tax receivables at the end of each related period is analysed below:

| | 31/12/2007 | | | 31/12/2006 |
|---|---|---|---|---|
| **(in thousands of Euro)** | **Net value** | **31 december 2007 value from company acquisitions** | **Net value of company acquisitions** | **Net value** |
| Current financial instruments derivates | 2.533 | | | - |
| **Total current financial assets** | **2.533** | | | **-** |

Current financial assets, equal to Euro 2,533 thousands, relate to the signing of derivate contracts linked to the purchase price of natural gas signed by the subsidiary Ascotrade S.p.A. and represent the fair value of such as of 31 December 2007 against the contractual counter party Barclays Capital. Contracts in January 2008 were transferred to the company Enia Energia S.p.A. under the contract framework for the acquisition and joint management of supply sources of natural gas.

*11. Tax receivables*

The value of tax receivables at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Receivables related to IRAP | 126 | 10 | 116 | 748 |
| Other receivables | 88 | 42 | 46 | 18 |
| **Tax receivables** | **215** | **52** | **163** | **766** |

The item includes residual receivables from accounts IRAP paid, less taxes attributable to fiscal year 2007.

As compared with the previous year, receivables relating to indirect UTF, additional and VAT taxes have been reclassified under other current assets.

*12. Cash and cash equivalents*

The value of cash as of 31.12.07 and 31 December 2006, are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Bank and post office deposits | 31.262 | 2.788 | 28.474 | 100.582 |
| Cash and equivalents on hand | 28 | 18 | 10 | 9 |
| **Liquid funds** | **31.290** | **2.806** | **28.484** | **100.591** |

This refers primarily to the available liquid assets in mutual funds and banks.

The bank deposits are at sight and accrue interest based on Euribor rates at 1 month or at 3 months, inclusive of spreads arranged with the above-mentioned credit deposit institutions.

Net financial position

At the end of the years in question, the net financial position of the Group is as follows:

| (In thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Cash and cash equivalents | 31.290 | 2.806 | 28.484 | 100.591 |
| Current financial assets | 2.533 | 0 | 2.533 | 0 |
| Current financial liabilities | (5.854) | (2.858) | (2.996) | 0 |
| Short-term borrowings | (115.153) | (7.777) | (107.376) | (3.587) |
| Payables due to the City Council of Castelfranco | 0 | 0 | 0 | (2.393) |
| Settlement of companies acquisitions | (10.212) | 0 | 0 | 0 |
| Short-term borrowings Leasing | (81) | 0 | (81) | 0 |
| Financial amounts due to parent company | 0 | 0 | 0 | (129) |
| **Net short-term financial position** | **(97.476)** | **(7.829)** | **(79.435)** | **94.482** |
| Medium/Long-term loans | (5.165) | (95) | (5.070) | (6.941) |
| Medium/Long-term loans Leasing | (4.189) | (3.351) | (838) | 0 |
| **Net Medium/Long-term financial position** | **(9.353)** | **(3.446)** | **(5.907)** | **(6.941)** |
| **Net financial position** | **(106.830)** | **(11.275)** | **(85.343)** | **87.541** |

For comments on the main dynamics that have led to the main changes, please see the analysis of the Group's financial data, reported at the start of this document.

## Consolidated shareholders' equity

*13. Net Shareholders' equity*

Ascopiave S.p.a.'s share capital as of 31.12.07 is made up of 233,334,000 common shares, fully subscribed and paid, with a par value of Euro 1 each.
Shareholders' equity is analysed in the following table:

| Structure of the shareholders' equity (thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Share capital | 233.334 | 140.000 |
| Legal reserve | 46.667 | 29.171 |
| Retained earnings | 67.017 | 182.959 |
| Net income (loss) for the year | 21.764 | 16.381 |
| **Group shareholders' equity** | **368.782** | **368.511** |
| Capital of minority interests | 1.925 | 534 |
| Income of minority interests | 361 | (143) |
| **Total net equity of minority interests** | **2.285** | **391** |
| **Total net equity** | **371.068** | **368.902** |

Here follows the reasoning behind the changes to the shareholders' equity that have taken place during the year.
Following registration and the Treviso Register of Companies on 2 January 2007 of the increase in share capital by Euro 93,334 thousands, following listing in the Star section of the Italian stock exchange, the amount of Euro 93,334 thousands was reclassified from 'Other reserves' to Share Capital.
On 8 May 2007, the ordinary shareholders' meeting deliberated the distribution of a dividend equal to Euro 19,833 thousands, using the profit of the year ended 31.12.07 for Euro 14,561 thousands and Other reserves for the remainder.
On 25 June 2007, following the resolution of the ordinary shareholders' meeting, the legal reserve was increased by Euro 16,730 thousands, by means of the use of the share premium fund. On that date, the legal reserve reached an amount equal to one fifth of the share capital.
At the same time as the resolution to alter the legal reserve, the Shareholders' Meeting also deliberated to authorise the Board of Directors, for a maximum of 18 months, to proceed with the acquisition of own shares, to a maximum of 10% of the share capital, in accordance with that specified by art. 2357 Civil Code.
During the year, the acquisition of own shares involved a number of ordinary shares equal to 5,119,000 for a value of Euro 9,198 thousands. In the same period, the agreements made for the payment of the acquisition of the shares of Asm Distribuzione Gas S.r.l. and Asm Servizi Energetici e Tecnologici S.r.l. led to the sale of 4,740,000 ordinary shares for a value of Euro 8,561 thousands to the company Asm Rovigo S.p.A.. We would point out that the conditions of sale of the ordinary shares of Asm Rovigo S.p.A. have generated a capital gains as compared with the purchase price of the own shares, equal to Euro 13 thousands net of the relevant tax effect, reported on the Shareholders' equity.
On 13 September 2007, the Board of Directors approved the distribution of the deposit on dividends, in accordance with article 2433-*bis*, paragraph 5 of the Civil Code, of Euro 0.025 per share. Dividend warrants were realised on 20 November 2007, bringing about the payment of dividends for Euro 5,736 thousands.

*14. Net equity of minority interests*

This comprises the net assets and the result not attributable to the Group, and refers to third party shares of the subsidiaries Ascotrade S.p.A., Global Energy S.r.l. and the companies controlled by the latter.

## Non-current liabilities

*15. Reserves for risks and charges*

The provisions for risk and charges as of 31.12.07 and 31 December 2006 are shown in the following table:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Provisions fro pensions and similar commitments | - | - | - | 47 |
| Other reserves for risks and charges | 215 | 197 | 18 | 4.394 |
| **Reserves for risks and charges** | **215** | **197** | **18** | **4.441** |

Reserves for risks and charges have gone from Euro 4,441 thousands to Euro 18 thousands with a variation equal to Euro 4,423 thousands.

In 2007, the risk reserve was used completely for Euro 4,300 thousands allocated during 2006 by the subsidiary Ascotrade S.p.A. to face charges connected with the dispute with the AEEG on the effects of Resolution 248/2004, following the 2007 issue by the AEEG of Resolution 79/2007 that definitively resolved all uncertainties with regards to purchase prices of natural gas and income from the sale of natural gas.

The afore-stated Resolution has made it possible to use the entire reserve, on the basis of information provided in this report in the paragraph ‘Legal Proceedings 248/2004’ as a setoff for the ‘Other operating income’.

The changes for 2007 are analysed in the following table:

| (in thousands of Euro) | | |
|---|---|---|
| **Other reserves for future risks and charges as of 31 December 2006** | | **4.394** |
| Allocations to other reserves for risks and charges | | - |
| 31 december 2007 value from company acquisitions | | 197 |
| Utilization other reserves for risks and charges | - | 4.376 |
| **Other reserves for future risks and charges as of 31 december 2007** | | **215** |

**Provisions fro pensions and similar commitments**

Pension fund and similar commitments refers to the additional allocations provided for in the trade union agreement of 27 June 1996 signed to establish the movement of employees from the Local Services Management Company S.r.l (now Ascotrade) to Ascopiave at the moment when the Piave Cooperative Company was set up. Over the course of 1999 further application-oriented agreements took effect, which defined the terms of use of the fund, subdividing the overall amount into individual shares, as well as the pay to be reserved for those employees who call a halt to employer-employee relations. The decreases relate to the amounts cleared during the year.

The changes in the provision for the year are analysed in the following table:

| (in thousands of Euro) | | |
|---|---|---|
| **Provisions for pensions as of 31 December 2006** | | **47** |
| Allocation of provisions fro pensions | | - |
| Utilization of provisions fro pensions | - | 47 |
| **Provisions for pensions as of 31 December 2007** | | **-** |

*16. Termination indemnities*

The changes in severance indemnity for IFRS (International Financial Reporting Standards) purposes of the Group are analyzed in the following table:

| (in thousands of Euro) | |
|---|---|
| **Severance indemnity as of 31 December 2006** | **1.538** |
| Payments | (158) |
| Cost of current services and work | 753 |
| **Value from company acquisitions** | **752** |
| Previous actuarial losses/(Profits) recorded | (565) |
| Actuarial loss/(Profit) recorded | (15) |
| **Severance indemnity as of 31 December 2007** | **2.305** |

The value of severance pay has been established using actuarial methods. The liability was determined by independent actuaries using the projected unit credit method based on the following assumptions.

- mortality rate: this information was determined by the actuary with reference to recent life-expectancy studies carried out by ANIA, which resulted in the creation of a new demographic benchmark known as IPS 55. These studies were based on a projection by ISTAT of mortality in the Italian population in the period 2001-2051, adopting an age-shifting approach to simplify the handling of the tables by generation;
- invalidity rate: the annual probability of ceasing work due to invalidity was determined with reference to the benchmark published by INPS in 2000;
- annual probability of ceasing work for other reasons: this was assumed to be 3%, based on the historical experience of the company in this regard;
- annual probability of requesting an advanced severance indemnity: this was assumed to be 2%, based on the historical experience of the company in this regard;
- discounting rates: this was assumed to be 4%, based on the forecast rate curve for the time period considered;
- annual rate of effective increase in remuneration: this rate was assumed to be 3%, based on management's estimates of the pay increases to be granted to employees;
- annual rate of inflation: this was estimated, in the time frame considered, as equal to 1.5%.

Between 1 January 2007 and 30 June 2007, employees had to decide allocation of their own severance indemnity, either explicitly or tacitly, by means of specific written communication. Severance indemnity matured up to 31 December 2006 remains, in any case, at the company. It is revaluated during the working relationship and paid out upon termination of said relationship.
In order to facilitate understanding of the data shown, please remember the following:

1. in accordance with Law 296/2006, amounts relating to severance indemnity maturing after 1 January 2007 are paid by the companies (with at least 50 employees) on a monthly basis (obligatory) into a specific treasury account held by the INPS (for all that is not paid, upon instructions given by the employee, into a complimentary welfare fund as per Legislative Decree 252/2005);
2. once this payment has been made to the INPS, the item relating to the severance indemnity no longer concerns the allocations, and the debt is deemed transferred. As such, for similar future obligations, an actuarial calculation is longer required, as neither is the discounting, as the debt is paid off periodically and, therefore, the companies no longer have any obligation to their employees.

In an attempt to summarise the valuation method of IAS 19 - Severance indemnities using the link with the declarations made by OIC, we can state the following:

- Severance indemnity matured up to 31 December 2006 = defined benefits plan (with actuarial calculation). No change from the past;
- Severance indemnity as from 1 January 2007 going to a complimentary welfare fund = defined contribution plan (without actuarial calculation and without discounting);
- Severance indemnity as from 1 January 2007 going to the treasury account held by the INPS = defined contribution plan (without actuarial calculation and without discounting).

The use of actuarial techniques to establish severance pay to IFRS standards at year end led to the recording of charges worth Euro 15 thousands.

*17. Medium/Long-term loans*

The following table shows the make-up of medium/long term loans as of 31 December 2007 and 31 December 2006:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Loans from Cassa Depositi e Prestiti repayable between 2006 and 2016 at a fixed interest rate periodically renegotiated. | 6.648 | 8.477 |
| Loans from Cassa Depositi e Prestiti repayable within 2009 at a fixed interest rate of 6%.. | 39 | 65 |
| Loans from Banca Regionale Europea repayable within 2011 at a euribor interest rate of 3/6 months plus 2 percentage points (Le Cime Servizi) | 164 | 212 |
| Loans from Unicredit Banca d'Impresa repayable within 2011 at a euribor interest rate of 3/6 months plus 1,5 percentage points (Le Cime Servizi) | - | 127 |
| **Total Medium/Long-term debt** | **6.955** | **8.881** |
| Less: current portion of medium / long-term loans | (1.790) | (1.941) |
| **Non current portion of medium / long-term loans** | **5.165** | **6.941** |
| Value from company acquisitions | 105 | - |
| **Net value of company acquisitions** | **6.850** | **8.881** |
| Value from company acquisitions | (9) | (1.941) |
| **Net value of company acquisitions** | **5.156** | **6.941** |

Medium/Long-term maturity loans for the year are analysed in the following table:

Long-term Bank Loans received by Ascopiave S.p.A.

| (in thousands of Euro) | 31/12/2007 |
|---|---|
| Financial year 2008 | 1.733 |
| Financial year 2009 | 1.058 |
| Financial year 2010 | 851 |
| Financial year 2011 | 663 |
| Financial year 2012 | 571 |
| Beyond financial year 2012 | 1.811 |
| Total Medium/Long-term debt | 6.686 |

The following table shows the loan liabilities of the company Le Cime Servizi S.r.l.:

| (in thousands of Euro) | 31/12/2007 |
|---|---|
| Financial year 2008 | 50 |
| Financial year 2009 | 52 |
| Financial year 2010 | 54 |
| Financial year 2011 | 9 |
| Total Medium/Long-term debt | 164 |

The following table shows the mortgage relations with Cassa depositi e Prestiti and the company ASM D.G. S.r.l.

| (in thousands of Euro) | 31/12/2007 |
|---|---|
| Financial year 2008 | 8 |
| Financial year 2009 | 9 |
| Financial year 2010 | 10 |
| Financial year 2011 | 11 |
| Financial year 2012 | 11 |
| Beyond financial year 2012 | 56 |
| Total Medium/Long-term debt | 105 |

Medium/Long-term loans refer to:

- residual liabilities to the Cassa Depositi e Prestiti S.p.a. equalling Euros 6,686 thousands, of which Euro 5,825 thousands non-current share, against investments in extension works to the gas distribution networks. This overall payable is made up of various payables positions towards the above mentioned institution, with due dates falling between 2006 and 2016 and with fixed rates between 6% and 7.5%,
- Funding from the European Regional Bank equalling Euro 188 thousands, of which Euro 140 thousands is a non-current share, taken out by subsidiary Le Cime Servizi S.r.l, due in 2011 with euribor 3/6 month rate increased by 2 percentage points.
- the mortgages agreed by ASM DG S.r.l. with Cassa Depositi e Prestiti S.p.A. for the construction of the methane gas distribution network of Rovigo.

The reductions in funding result in the regular payment of instalments due in the financial year.

*18. Other non-current liabilities*

The value of this heading at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Long-term deferred income | 739 | 699 | 40 | 31 |
| Caution money | 3.121 | - | 3.121 | 2.103 |
| Other payables | 2.811 | 2.811 | - | 10 |
| **Total other non current liabilities** | **6.670** | **3.510** | **3.161** | **2.145** |

'Other non-current liabilities' include primarily caution money paid by users according to their gas supply contracts. The increase of the entry is mainly attributable to the transfer of caution money of the gas sales branch transferred from Bimetano Servizi S.r.l..

*19. Non-current financial liabilities*

The value of this heading at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Leasing financing | 839 | - | 839 | - |
| Acegas-APS S.p.A. financial liabilities | 3.350 | 3.350 | - | - |
| **Total other non current financial liabilities** | **4.189** | **3.350** | **839** | **-** |

Non-current financial liabilities equal to Euro 839 thousands are represented by liabilities contracted by the company Le Cime Servizi S.r.l. in relation to the subscription of a financial leasing contract with the company Locafit S.p.A., for the co-generation plant located in Mirano (Veneto).

Moreover, the following table shows the informations demanded by the IAS 17 in relation to financial leasing agreement:

| (thousands of Euro) | 31/12/2007 |
|---|---|
| Value of future rental | 1.290 |
| Interest share | 370 |
| **Total annual value for leasing rental** | **920** |
| Non current assets for financial locations | 81 |
| Current assets for financial locations | - |
| **Total financial liabilities for financial locations** | **81** |
| | |
| **Other information** | |
| Total financial costs settled during 2007 | 36 |
| Totale higher costs for taxes indexation | 5 |

The following table shows the due dates per period of financing:

| (thousands of Euro) | 31/12/2007 Lowest payments for leasing rentals | 31/12/2007 Current value of lowest payments |
|---|---|---|
| Within the next financial year | 81 | 45 |
| Since the 2nd to the 5th financial year | 360 | 204 |
| In the future | 849 | 671 |
| **Total** | **1.290** | **920** |

*20. Deferred tax liabilities*

The provision for deferred taxation at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2007 | 31/12/2007 | 31/12/2006 | 31/12/2006 | 31/12/2006 |
|---|---|---|---|---|---|---|
| **Descrizione** | **Temporary differences** | **Tax rate** | **Total Effect** | **Temporary differences** | **Tax rate** | **Total Effect** |
| - amortization surpluses | 41.478 | 31,40% | 13.024 | 41.066 | 37,25% | 15.297 |
| -Severance indemnities | 377 | 27,50% | 104 | 300 | 33,00% | 98 |
| - goodwill deductibility for tax purposes | 7.765 | 31,40% | 2.438 | 6.473 | 37,25% | 2.411 |
| - Deferred tax liabilities on sales branch | 12.793 | 31,40% | 4.017 | - | 37,25% | - |
| - other deferred tax liabilities | 78 | 31,40% | 24 | - | 0,00% | - |
| **Deferred tax liabilities** | **62.491** | | **19.607** | | | **17.807** |

The heading 'deferred tax liabilities' contains primarily the deferred tax liabilities allocated to temporary differences in the tax base between tax laws and balance sheet values, relative to the amortization surpluses of tangible fixed assets and of the goodwill for tax purposes. The calculation of deferred taxation made reference to the IRES (company earnings tax) rate and, where applicable, to the IRAP (regional business tax) rate applicable at the time when the temporary differences are expected to be reversed. Specifically, the rate of 27.5% was used for IRES and 3.9% for IRAP, in consideration of Law no. 244/2007 (Financial Law 2008) that, at art. 1 paragraph 33 specified the reduction of the IRES rate by 5.5 percentage points, and at art. 1 paragraph 50, the reduction of the IRAP rate by 0.35%.

The deferred taxation of the year of reference is reported at Euro 19,607 thousands (of which Euro 3,411 thousands from the amounts referring to the new acquisitions) as compared with the Euro 17,807 thousands of the previous year, showing an increase of Euro 1,611 thousands.

The change is mainly due to the decrease of tax rates for Euro 2,776 thousands, partially offset by the increase due to the reporting of the tax fund on the client list conferred from Bimetano Servizi S.r.l. due to the non-deductibility of future amortisations. In the same way, deferred taxation deriving from the new acquisitions is mainly attributed to the fiscal irrelevance of the values attributed to the customer lists of Estenergy S.p.A. and Asm Set S.r.l..

## Current liabilities

*21. Amounts due to banks and current portion of medium / long-term loans*

Amounts due to banks and current portion of medium/long-term loans as of 31.12.07 and 31 December 2006, are analysed in the following table:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Amounts due to banks | 113.363 | 7.767 | 105.596 | 1.646 |
| Current portion of medium / long-term loans | 1.790 | 9 | 1.781 | 1.941 |
| **Total amounts due to banks and current portion of medium / long-term loans** | **115.153** | **7.776** | **107.377** | **3.587** |

The short term bank payables is made up by payable accounting balances to credit institutions and short term loan portions.

The following schedule shows the allocation of Ascopiave S.p.A. credit lines utilised and available and relative rates applied as of 31.12.07:

| Lender | Type of line of credit | Max credit | Inter. rate as of 31.12.2007 | Utilization as of 31.12.2007 |
|---|---|---|---|---|
| Banca Popolare di Vicenza | Bank credit | 35.032 | 5,25 | 34.619 |
| Veneto Banca SpA | Bank credit | 30.000 | 6,342 | 6.000 |
| Banca Popolare Friuladra | Bank credit | 10.000 | 5,333 | 9.975 |
| Banca di Credito Cooperativo delle Prealpi | Bank credit | 5.000 | 5,436 | 5.000 |
| Unicredit Banca d'Impresa | Loan 27/12/2007-10/01/2008 | 37.000 | 4,726 | 37.000 |
| Banca di Trento e Bolzano | Loan 18/12/2007-18/01/2008 | 3.000 | 5,25 | 3.000 |
| Banca di Trento e Bolzano | Loan 18/12/2007-18/01/2008 | 5.000 | 5,25 | 5.000 |
| Banca di Trento e Bolzano | Loan 27/12/2007-14/01/2008 | 5.000 | 4,8 | 5.000 |
| **Total** | | **130.032** | | **105.594** |

* (Thousands of Euro)

*22. Accounts Payable*

The value of accounts payable as of 31 December 2007 and 31 December 2006 is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Due to suppliers of goods and services | 65.196 | 19.168 | 46.028 | 51.498 |
| Commercial due for invoices to be | 102.668 | 19.621 | 83.047 | 35.365 |
| **Total trade payables** | **167.864** | **38.789** | **129.075** | **86.864** |

Accounts payable due to national creditors, at year end amount to Euro 129,75 thousands, as compared with the Euro

86,864 thousands of the previous year, showing an increase of Euro 42,211 thousands.

The change is mainly explained by the increase in gas volumes acquired during the last quarter of the year, under new natural gas commercial trading operations and by the increase in consumption due to increase in customers, partly due to the new customers from the conferral of Bimetano Servizi S.r.l.. The increase in volumes of natural gas acquired due to the favourable weather conditions of the last quarter 2007, as compared with the last quarter 2006, did not increase accounts payable as, under the privileged commercial relations with Enìa Energia S.p.A., payment of natural gas supplies for the month of November was prepaid to the month of December, with regards to the natural expiry for the month of January 2008.

*23. Payables to tax authorities*

The value of this heading at the end of the related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| IRES payables | 225 | 225 | 0 | - |
| IRAP payables | 214 | 166 | 48 | 4 |
| **Total payables to tax authorities** | **439** | **391** | **48** | **4** |

Tax payables include the debt for IRAP and IRES for the year. We would point out that VAT debts due to UTF for consumption and additional taxes towards the regions/provinces on gas consumption, have been reclassified as compared with the previous year, under other current liabilities.

*24. Other current liabilities*

The value of other current liabilities as of 31.12.07 and 31.12.07 is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Customer advances | 6.880 | 38 | 6.842 | 7.365 |
| Amounts due to parent company for tax consolidation system | 2.911 | 31 | 2.880 | 9.863 |
| Due to social security institutions | 794 | 123 | 671 | 547 |
| Due to employees | 2.127 | 222 | 1.905 | 1.744 |
| Annual deferred income | 212 | | 212 | 186 |
| Payables amount payable to the local authority of Castelfranco Veneto | | | | 2.393 |
| Payables amount payable to ASM Rovigo S.p.A. of company acquisition | 8.887 | | 8.887 | |
| Payables amount payable to Acegas-APS S.p.A. of company acquisition | 1.325 | | 1.325 | |
| IVA payables-Payables to UTF and Regional/Provincial Additional Tax | 80 | | 80 | 5.357 |
| Other tax payables for withholding tax and other | 646 | 202 | 444 | 895 |
| Annual accrued expenses | 1.694 | 408 | 1.286 | 1.054 |
| Other payables | 323 | | 323 | 498 |
| **Total other current liabilities** | **25.880** | **1.024** | **24.856** | **29.902** |

Customer advances

Clients payments on account represent the amounts paid by the clients as contribution to works of allotments and connection, current as of the balance sheet date.

Amounts due to parent company for tax consolidation system

The item includes payables matured to the parent company Asco Holding S.p.A. for the contract of the national consolidation tax law signed by the Asco Holding S.p.A. Group companies. The balance corresponds to the IRES debt matured for taxes relating to the year 2007 for Euro 2,911.

<u>Amounts due to social security bodies</u>

The amount due to social security institutions mainly relates to charges for the year that were paid at the start of the following year.

<u>Amounts due to employees</u>

The amounts due to employees for untaken vacation, deferred remuneration and bonuses earned relate to the vacation accumulated by 31.12.07 but not yet taken at the reference date. The increase, equal to Euro 161 thousands in the year of reference, is mainly explained by increases in salaries and by the increase in staffing by a total of 17 employees.

<u>Benefits based on financial instruments</u>

The group acknowledges additional benefits to the President of Ascopiave S.p.A., to the President and vice president of Ascotrade S.p.A. and to some employees holding important positions within the Group, through payment plans based on financial instruments.

In particular, the plans adopted by the Group include the allocation of rights including acknowledgement in favour of the beneficiaries of an extraordinary payment linked to the reaching of pre-set objectives, and the financial regulation of which is based on the trend of the share title (so-called phantom stock option).

The cost reported for additional benefits during the year is shown in the following table:

| **Financial years** | **2007** | **2006** |
|---|---|---|
| Costs for additional benefits during the year | 106 | - |
| **Total costs** | **106** | **-** |

(in thousands of Euro)

During the second half of the year, Ascopiave's Board of Directors allocated the first tranche of phantom stock options under the Plan approved by the Shareholders' meeting of 25 June 2007.

The adoption of the Plan is aimed at providing incentive to loyalty of Group directors and employees holding more important positions, and who are therefore more directly responsible for company results.

The Presidents of the Board of Directors of Ascopiave S.p.A. and Ascotrade S.p.A., the Vice President of Ascotrade S.p.A. and the chosen employees of Ascopiave S.p.A. and Ascotrade have been selected as beneficiaries of the incentive Plan - at the sole judgement of the Board of Directors of Ascopiave, on proposal by the Emoluments Committee - amongst the subjects charged with the strategically relevant roles within, respectively, Ascopiave and Ascotrade, with a view to creating value. All managers and directors are included in the list of employees to benefit from the plan.

The Plan concerns free, non-transferrable *inter vivos* phantom stock options, each of which allocates the Beneficiary the right to receive, under the terms and conditions specified by the Plan Regulations, a gross amount (Capital Gain) equal to the difference between the market value of the share at the time of exercise of such option (the Normal Value) and the market value of the share at the time of allocation of the option (the Initial Value). As such, Beneficiaries can gain advantage of any increase in the share title, without this affecting operations on the share capital and the issue of shares for the specific purpose of the Plan.

The Options are allocated in two tranches, respectively the 'Options of the First Tranche' for a maximum number of 2,333,340 Options, and the 'Options of the Second Tranche' for a maximum number of 2,333,340 Options. The Options of the First Tranche serve mainly as incentives, in that the exercise of these options by the Beneficiary is subject to the reaching of certain results in terms of EBITDA 2007 and 2008 targets of Ascopiave and Ascotrade (respectively for the Ascopiave Beneficiaries and Ascotrade Beneficiaries). With regards to the Options of the First Tranche, the performance objectives have been pre-set separately for Ascopiave and Ascotrade. As such, the Ascopiave Beneficiaries may exercise their options following the reaching by Ascopiave of the performance objectives assigned it, and Ascotrade Beneficiaries may exercise their options following the reaching by Ascotrade of the performance objectives assigned it. These options will become Exercisable Options as from 30 June 2009. The Options of the Second Tranche have, instead, a loyalty function, as their exercise is marked by the simple completion of terms specified in the Regulations and maintenance of the Working Relationship or Administrative Relationship. The Options of the Second Tranche allocated to each Beneficiary will mature, by effect of the expiry of the terms and maintenance of the Working or Administrative Relationship, thereby becoming Exercisable Options:

- 10% of the Options of the Second Tranche, as of 30 June 2009;
- 15% of the Options of the Second Tranche, as of 30 June 2010;
- 20% of the Options of the Second Tranche, as of 30 June 2011;
- 25% of the Options of the Second Tranche, as of 30 June 2012;
- 30% of the Options of the Second Tranche, as of 30 June 2013.

The last terms for the exercise of the Options of the First Tranche and the Options of the Second Tranche, is 30 June 2014. Once these terms have expired, the Options not yet exercised, will not be able to be exercised.

The fair value of these instruments are measured using a Black and Schole model, and taking into account the terms and conditions on the basis of which the rights are allocated. The cost of these instruments, reported on the income statement under labour costs, and the related payables, are reported throughout the period of maturation. Until such time as the payable is not extinguished, the fair value is recalculated at each year end and on the date of effective outlay, reporting all change to the fair value on the income statement.

The following table shows the number (no.) and the average weighted prices of the year (PMPE) of the phantom stock options during the year, and their changes:

| **Financial years** | **2007(n.)** | **2007 (PMPE)** |
|---|---|---|
| In circulation as of January, the 1st | - | - |
| Assigned during the year | 2.315.000 | 1,909 |
| Cancelled (1) | (135.000) | |
| Exercised during the year | - | - |
| Overdue during the year | - | - |
| In circulation as of 31 December 2007 | 2.180.000 | 1,909 |
| No more allotable as of 31 December 2007 - First Tranche options (2) | 18.340 | |
| Allotable as of 31 December 2007 - Second Tranche options | 2.333.340 | |

(1) These options have been extinguished, in that they can no longer be exercised following termination of the working relationship and/or other reasons (e.g. renunciation by the relevant party).
(2) These are options of the First Tranche not allocated as of 31 December 2007, and therefore can no longer be allocated, in accordance with the Regulations.

As of 31 December 2007, the phantom stock option assigned to Ascopiave Beneficiaries are no longer exercisable in that the objectives linked to the company's EBITDA have not been reached. We should specify that these objectives were particularly ambitious, and the fact of not having reached them is due to events that management could not avoid.
As already explained in the explanatory notes to the financial statements (see paragraph 'Restating of the CGD (Distribution Management Costs) component'), Ascopiave's 2007 EBITDA target included the economic effects of the restating of the CGD component of the revenue restrictions for the distribution of the thermal year 2003-2004 and for the updating of values for the second regulatory period.
On 15 October 2007, Ascopiave S.p.A. send the Authority for Electrical Energy and Gas a request for the reclassification of the value of the CGD component of the VRD for the thermal year 2003/2004 and for the updating of the values for the second regulatory period, following the judgement made by the State Council under sentence no. 3476/2007 VI section.
Ascopiave asked the Authorities to follow up the judgement of the Supreme Panel in its favour, and therefore to approve the rectified tariffs proposed by the appealer for the thermal year 20032004, taking into account the specifications with regards the legal sentencing and considering, furthermore, that the event has already been peaceably resolved by administrative jurisprudence. Whilst awaiting a response from the AEEG, Ascopiave S.p.A. has suspended the performance of related positive adjustments.
This negative effect has only partially been mitigated by the important extraordinary operations implemented by management in 2007, including the acquisition of the joint control of Estenergy S.p.A., ASM Set S.r.l. and all shares of ASM DG S.r.l..

As concerns the 520,000 Options of the First Tranche allocated to Ascotrade S.p.A. Beneficiaries, we would specify that the 2007 EBITDA target has been reached.

As of 31 December 2007, the total cost linked to the incentive instruments assigned equals Euro 106 thousands.

Payables to ASM Rovigo S.p.A. for balance of acquisition

The year's increase is due for Euro 8,887 thousands to the reporting of the residual debt to Asm Rovigo S.p.A. for payment of the purchase price of the shares of the companies Asm Distribuzione S.r.l. and Asm Servizi Energetici e Tecnologici S.r.l.. Payment of this amount will take place during the first half 2008.

Payables to Acegas-APS S.p.A. for balance of acquisition

The year's increase is due for Euro 1,325 thousands to the reporting of the residual debt to Acegas-APS S.p.A. for payment of the purchase price of the shares of the company Estenergy S.p.A. under the conditional contractual clauses signed by the parent company Ascopiave S.p.A..

Accrued expenses and deferred income
Accrued liabilities are mainly referred to fees matured on state owned property concessions.

Other payables

Other payables include primarily payables to social security institutions for contributions on staff accruals, as estimated on 31.12.07 and payables for family allowance contributions.

*25.Current financial liabilities*

The current liabilities at the end of each period is analysed in the following table:

| (in thousands of Euro) | 31/12/2007 | 31 december 2007 value from company acquisitions | Net value of company acquisitions | 31/12/2006 |
|---|---|---|---|---|
| Financial liabilities on derivative contracts | 2.995 | | 2.995 | 0 |
| Current leasing financing | 82 | | 82 | 0 |
| Other liabilities | 2.858 | 2.858 | (0) | 129 |
| **Total current financial liabilities** | **5.935** | **2.858** | **3.077** | **129** |

Current financial liabilities at year end amount to Euro 3,077 thousands, with an increase equal to Euro 2,948 thousands as compared with the previous year.

The change is mainly due to the effect of derivate contracts linked to the Euro/Dollar exchange rate and represents the fair value of such as of 31 December 2007 towards the contractual counter party Barclays Capital.

# COMMENTS ON THE MAIN CONSOLIDATED INCOME STATEMENT ITEMS

## Revenues

*25. Revenues*

The following table shows the breakdown of revenues by activity sector over the relevant period.

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| Revenues from gas sales | 410.014 | 285.771 |
| Revenues from connection services | 8.055 | 8.697 |
| Revenues from electric energy sales | 13.683 | 11.928 |
| Revenues from heat supply service | 4.052 | 3.570 |
| Revenues from gas conveyance and assignment of contracts | 6.495 | 1.630 |
| Other revenues | 9.572 | 6.509 |
| **Total Revenues** | **451.871** | **318.105** |

Over the course of 2007, the Ascopiave Group revenues equal Euro 451,871, an increase with respect to the corresponding period in 2006 of Euro 133,767 thousands, or 42.1%.

The increase of revenues in the period of reference is mainly due to the change in gas revenues for Euro 124,243 thousands, equal to 43.5% of the increase of revenues from the sale of electrical energy for Euro 1,755 thousands, equal to 14.7%, by the increase in revenues from gas transport and transfer capacity for Euro 4,865 thousands, by the increase in revenues from heat supply services for 482 thousands, equal to 13.5% of the increase of the item ‘other revenues’ for Euro 3,064 thousands, equal to 47.1%. The overall increase of revenues is partially mitigated by the decrease in revenues for connection to the natural gas distribution network for Euro 642 thousands, equal to 7.4%.

Revenues from the sale of gas in 2007 go from Euro 285,771 thousands in 2006 to Euro 410,014 thousands, up by Euro 124,243 thousands. The change is due to the new commercial trading operations on natural gas, to the significant increase in users, that go from 313,355 in 2006 to 352,524 in 2007, recording an increase of 12%. This increase is due to the conferral operations of the branch of Bimetano servizi S.r.l. for 30,839 units (at year end), and to the acquisition of the company Global Energy S.r.l., for 1,463 units, and for the remainder, to the growth of users in the historic area of the Group.

Revenues from gas transport and transfer capacity in 2007 go from Euro 1,630 thousands of 2006 to Euro 6,495 thousands. The change is due for Euro 3,726 thousands to the transfer of gas supply contracts in relation to the Gas Release allocation procedure in October 2007-September 2009, for Euro 1,500 thousands to the revenues for the transfer of natural gas transport rights to the 'TAG system'. This increase is partially mitigated by the reduction of natural gas transport revenues due to the decreases of volumes which go from 806.3 million cubic metres of year 2006 to 748.6 million cubic metres of 2007. The decrease of volumes in 2007, equal to 57.7 million cubic metres is mainly explained by the natural expiry of natural gas distribution concessions and the unfavourable thermal conditions.

Revenues from electrical energy increase, going from Euro 11,928 thousands of 2006 to Euro 13,683 thousands of 2007. The change is determined by the increase of the average cost per Kwh now due to the increase of electrical tariffs, due to the significant increase in the cost of raw materials that took place during the year. The Kwh sold in 2007 are in line with those of the previous year, equal to 101.2 million.

Revenues for heat supply services go from Euro 3,570 thousands for 2006 to Euro 4,052 thousands for 2007. The increase is partly due to the acquisition of the company Global Energy S.r.l., and for the remainder to the increase in plants managed in the historical Group area, which go from 393 to 420.

Revenues for connection services go from Euro 8,697 thousands for 2006 to Euro 8,055 thousands for 2007. The decrease is due to the decrease in the number of new customers requiring connection to the distribution network, which go from 12,126 to 10,500.

Other revenues go from Euro 6,509 thousands fro 2006 to Euro 9,572 thousands for 2007. The increase is mainly due for Euro 1,602 thousands to acknowledgement by the AEEG of the energy saving objectives and greater amounts paid as contributions in 1998-2000, and for the remainder to the increase of payment services requested by users on distribution plants.

## Costs

*26. Cost of gas purchase*

The purchase price of gas has gone from Euro 232,709 thousands of 2006 to Euro 351,254 thousands for 2007, with an increase of Euro 118,545 thousands or 50.9%. The increase in the cost of natural gas is mainly due to the commercial trading operations on natural gas for Euro 47,228 thousands, to the significant increase in users, and to the increased cost of raw materials.

We would point out that the increased cost of raw materials is mainly due to the increase of the basket of prices of hydrocarbons to which the cost of natural gas is indexed.

Cubic metres of gas purchased go from 790.2 million cubic metres of 2006 to 1,248 million cubic metres of 2007, with an increase of 458 million cubic metres or 57%.

*27. Cost of other raw materials*

The following table reports on costs relating to the purchase of other raw materials over the relevant financial periods:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Purchase of electric energy | 13.702 | 11.715 |
| Materials for ordinary maintenance | 3.096 | 1.511 |
| **Total cost of raw materials** | **16.798** | **13.226** |

Costs for purchase of electrical energy amount to Euro 13,702 thousands with an increase of Euro 1,987 thousands caused by an increase in the unitary cost of electrical energy.

Costs for materials and contracts amount to Euro 3,096 thousands in 2007, with an increase of 1,584 thousands as compared with the previous year. The increase is due to the different make-up of the consolidation area, due to the acquisition of Global Energy S.r.l. and Le Cime S.rl..

*28. Costs for services*

Cost of services for the relevant periods is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Costs of conveyance on secondary networks | 5.461 | 783 |
| Costs for meters reading | 934 | 687 |
| Costs for mailing bills | 734 | 769 |
| Postage and telegraphic costs | 1.175 | 1.145 |
| Maintenance and repairing | 1.598 | 1.218 |
| Consulting services | 2.260 | 881 |
| Commercial services and advertisements | 284 | 720 |
| Sundry consumers | 1.336 | 509 |
| Directors' and Statutory Auditors' fees | 962 | 477 |
| Insurance | 226 | 205 |
| Payroll and related costs | 572 | 522 |
| Other managing expenses | 5.574 | 682 |
| Costs for use of third party assets | 1.866 | 1.516 |
| **Total services costs** | **22.984** | **10.115** |

Cost of services total Euro 22,984 thousands compared to Euro 10,115 thousands for the previous fiscal year, with an increase of Euro 12,869 thousands. The change is mainly due to the holding in the Gas Release allocation procedure for Euro 2,851 thousands, to the purchase charge of TAG transport rights for natural gas for Euro 1,500 thousands, to the increase of costs on secondary networks for Euro 4,678 thousands, to the increase in reading costs for Euro 247 thousands, to the new consolidation of Global Energy S.r.l. and Le Cime S.r.l. for Euro 386 thousands and to the increase in costs for consultancy services for Euro 1,379 thousands.
We would point out that the increase in costs relating to the allocation of Gas Release as purchase charge for TAG transport rights, are offset by the increased revenue for Euro 5,226 thousands.

The main cost for services are represented by cost for maintenance and repairs, consulting services which include technical, administrative and legal services, cost for mailing bills to customers and cost for leased assets which included mainly fees for renting warehouses and offices and crossing fees for works of connections and network laying.

Cost for business services and advertisement include charges for activities of market surveys and advertisement campaigns.

Labour costs include costs for automobiles assigned to employees, cost for cafeteria service and costs for personnel training and development. .

Costs for use of third party assets are up by Euro 350 thousands or 23%, going from Euro 1,516 thousands in 2006 to Euro 1,866 thousands in 2007. The change is mainly due to concession charges paid to local bodies in exchange for the extension of natural gas distribution concessions for one year.

Other managing expenses include various day-to-day operating expenses (costs for business trips, cleaning, security, etc.) net of the purchase charge of TAG transport rights and the charges for the Gas Release procedure.

*29. Personnel costs*

The cost of services is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Wages and salaries | 9.172 | 8.869 |
| Social security contributions | 3.638 | 2.735 |
| Severance indemnities | 753 | 619 |
| Pensions and similar commitments | 0 | 48 |
| Other costs | 117 | 25 |
| **Payroll and related costs:** | **13.681** | **12.297** |
| Capitalised payroll and related costs: | (1.590) | (1.418) |
| **Net payroll and related costs** | **12.091** | **10.878** |

Personnel costs are up by Euro 1,212 thousands or 11.15%, going from Euro 10,878 thousands to Euro 12,091 thousands. The change is caused partially by the increases in the number of employees for 17 persons (as compared to 2006) and partially due to the 'one-shot' payment for the contractual delay indemnity provided by the renewal of labour contract for the sector of gas and water finalised on 9 March 2007 and effective for the years from 2007 to 2009. It is also due to the increase recognised with the renewal of the labour contract for the sector of Gas Electric Energy that took place during the month of February.

Capitalised personnel costs refer to the share of costs suspended against the realisation of new extensions of network by the mother company.

The table below shows the average number of employees of the Group by category over the relevant financial periods:

| Type | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Executives | 10 | 9 |
| Office workers | 203 | 190 |
| Blue-collar workers | 95 | 94 |
| **Average number of employees** | **308** | **293** |

We would point out that some Group employees own phantom stock option plans, as explained in the paragraph 'Other significant events' of these explanatory notes.

*30. Other operating costs*

Other operating expenses for the related period are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Provision for risks on credits | 831 | 705 |
| Other provisions | - | 4.300 |
| Membership fees and AEEG | 1.626 | 1.530 |
| Capital losses | 787 | 354 |
| Out-of-period expense | 0 | 46 |
| Other taxes | 1.288 | 1.097 |
| Other costs | 1.001 | 934 |
| Costs of contracts | 1.855 | 1.933 |
| **Total other operating costs** | **7.389** | **10.898** |

Other costs add up to Euro17,389 thousands, down by Euro 3,509 thousands compared to the previous financial year. The decrease is due for Euro 4,300 thousands to the extinction of the dispute with the AEEG as concerns tariffs (Dispute 248/04), partially mitigated by the increase of other taxes and costs for contracts.

Other costs mainly include fuel, miscellaneous materials, consumables and stationery.

*31. Other operating income*

Other operating expenses are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Out-of-period income | - | 99 |
| Other income | 4.315 | 27 |
| **Total other operating income** | **4.315** | **127** |

The other operating income is posted for Euro 4,300 thousands in relation to the release of the reserve set up by the subsidiary Ascotrade S.p.A. during the financial year 2007 in relation to the so-called 'Dispute 248/2004' resolved in the early months of 2007, and the effects of which are fully explained in the management report.

*32. Amortisation and depreciation*

Depreciation and amortisation for the related period are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Intangible fixed assets | 533 | 228 |
| Property, plant and equipment. | 11.283 | 11.026 |
| **Total depreciation and amortization** | **11.816** | **11.255** |

Amortisation of intangible assets mainly refer to the amortisation of the sales branch customer list relating to the merger with Bimetano Servizi Srl.

Amortisation of tangible fixed assets comprise primarily amortisations on methane gas distribution plants.

## Financial income and expense

*33. Financial income and expense*

Net financial expense for the related period is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Interest income on bank and post office accounts | **2.035** | **214** |
| Swap financial income | **1.482** | **0** |
| Other financial income | **184** | **113** |
| **Financial income** | **3.701** | **327** |
| Interest expense on banks | **180** | **977** |
| Interest expense on mortgage loans | **627** | **752** |
| Swap financial expense | **1.713** | **0** |
| Other financial expense | **243** | **462** |
| **Financial charges** | **2.763** | **2.191** |
| **Total net financial expenses** | **(938)** | **1.864** |

The change in the financial position has led to a significant increase in financial income that goes from Euro 327 thousands for 2006, to Euro 3,701 thousands for 2007, with a change of Euro 3,374.

We would point out that following signing of derivate contracts related to the Euro/Dollar exchange rate and the price of natural gas, financial income for Euro 1,482 thousands has been reported, and financial costs for Euro 1,713 thousands, that represent the market value upon year end, as stated by the contractual counter party Barclays Capital.

## Tax

*34. Income taxes*

The income tax charge for the related period is analysed in the following table, distinguishing the current element from the provisions for deferred tax assets and liabilities;

| (In thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| IRES current taxation | 9.942 | 10.719 |
| IRAP current taxation | 1.832 | 1.891 |
| (Advanced) / deferred taxes | 899 | (1.563) |
| **Total Income Taxes** | **12.673** | **11.048** |

The incidence of income taxes on income before taxes for the related years is shown in the following table:

| (thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| PRE-TAX RESULTS | 34.798 | 27.286 |
| Total effective tax charges | 12.673 | 11.047 |
| **Effective rate** | **36,4%** | **40,5%** |

The effective tax rate went from 40.5% in the 2006 financial year to 36.4% in the 2007 financial year.
The decrease of the effective tax rate of the year is mainly due to the positive effect of the release to the income statement of the decrease of IRES and IRAP tax rates as specified by the 2008 Financial Law.

The reconciliation of the theoretical tax charges and the actual charges is offered to a certain extent by IRES , whose structure bears the typical characteristics of a corporation tax , considering the tax rate applicable to the Company. For the regional business tax, no reconciliation between the theoretical tax charges and the actual charges was arranged, in light of the different basis used to calculate the tax.

| (thousands of Euro) | Financial year 2007 | | Financial year 2006 | |
|---|---|---|---|---|
| Ordinary tax rate applicable | 33% | | 33% | |
| PRE-TAX RESULTS | 34.798 | | 27.286 | |
| Theoretical tax charges | 11.483 | 33,0% | 9.004 | 33,0% |
| Facilitated incomes | 0 | 0,0% | 0 | 0,0% |
| Dividends taxation | 0 | 0,0% | 0 | 0,0% |
| Non-deductible costs | (642) | -1,8% | 152 | 0,6% |
| Substitute tax | 0 | 0,0% | 0 | 0,0% |
| **Effective tax charges IRES** | **10.842** | 31,2% | **9.156** | 33,6% |
| IRAP (current and deferred) | 1.832 | 5,3% | 1.891 | 6,9% |
| **Total effective tax charges** | **12.673** | 36,4% | **11.047** | 40,5% |
| **Effective rate** | **36,4%** | | **40,5%** | |

## Non-recurring components

In accordance with CONSOB communication 15519/2005, we would report the non-recurring economic components reported in the consolidated financial statements as of 31 December 2007.

In terms of the item 'Other revenues' reported in note 25, there is extraordinary income relating to the acknowledgement of receivables for greater contributions paid to the AEEG for Euro 650 thousands. This income is of an extraordinary and non-repeatable nature, and relates to greater contributions paid from 1998 to 2000.

In terms of the reporting of the economic effects relating to the closure of the dispute with the AEEG for resolution no. 248/04, these are fully explained in the paragraph 'Dispute 248/04' of the chapter 'Commitments and Risks' of these notes and notes 15 and 31.

# OTHER COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31.12.07

## Company aggregations

***Transfer of gas sale branch from Bimetano Servizi S.r.l.***

On 13 December 2006 the sole shareholder of Ascotrade S.p.A. deliberated a capital increase of Euro 110 thousands reserved to Bimetano Servizi S.r.l. totalling Euro 6,200 thousands, of which Euro 6,090 thousands as share premium.

On 28 December 2006 the transfer of Bimetano Servizi S.r.l. gas sales branch has been finalised with effect from January 1st 2007, which has meant an increase of the Group consumer base of 29,453, located in the province of Belluno.

The total cost of the merger is Euro 6,200 thousands, against which the company Ascotrade S.p.A. has issued 110,000 ordinary shares with a fair value of Euro 56.36 per share based on the estimated value assigned by an independent expert appointed by the Court of Belluno. Furthermore, the company has accepted the opinion from Reconta Ernst & Young S.p.A. about the appropriateness of the share issuing price for the capital increase with the exclusion of right of option based on art. 158 of Legislative Decree no. 58. dated 24/02/98.

The fair price attributed to Bimetano Service S.r.l. identifiable assets and liabilities as of the date of transfer is the following:

| **(In thousands of Euro)** | **Book value** | **Fair value recorded on acquisition** |
|---|---|---|
| **Non-curent assets** | | |
| Goodwill generated by the acquisition | 163 | |
| Other non-current assets | - | 3.556 |
| Deferred tax assets | 110 | 110 |
| **Total non-current assets** | **272** | **3.665** |
| **Current assets** | | |
| Inventoires | 12 | 12 |
| Trade receivables | 4.921 | 4.921 |
| **Total current assets** | **4.933** | **4.933** |
| **Total assets** | **5.205** | **8.598** |
| **Non-current liabilities** | | |
| Other non-current liabilities | 1.071 | 1.071 |
| Deferred tax liabilities | - | 1.324 |
| **Total non-current liabilities** | **1.071** | **2.395** |
| **Current liabilities** | | |
| Trade payables | 4.024 | 4.024 |
| **Total current liabilities** | **4.024** | **4.024** |
| **Total liabilities** | **5.095** | **6.419** |
| **Total assets/liabilities gas sales branch** | 110 | 2.179 |
| **Difference between assets and liabilities book value and fair value** | - | 4.021 |
| **Total cost of the acquisition** | - | 6.200 |

The company merger has been definitively reported in 2007, according to that specified by the International accounting policies IFRS 2. In order to allocate the greater value of the company branch acknowledged during the operation, with respect to the book value, the company has requested the intervention of an independent external expert.

On 13 April 2007, the independent expert evaluated the sustainability of the enrolment of intangible assets with a representative defined life of the value of contracts with customers and of customer relations established by these contracts, as equal to Euro 3,556 thousands (hereinafter 'Sales branch customer list').

Based on fiscal non-deductibility of future amortizations of the ‘Sales branch customer list’, we have proceeded to post a liability for Deferred Taxes for Euro 1,324 thousands.

In reference to the posting of the fiscal effect for future amortisation of the ‘Sales branch customer list’, the company is currently evaluating accessing to the benefits provided by articles 242-249 of the Law 296/06, which facilitate aggregation operations by granting the deduction of a maximum of Euro 5,000 thousands for surplus value deriving from operations of transfer, prior an opinion issued by the Fiscal Authority based on the company request for consultation.

The residual value of the allocation of the price has been reported as Goodwill in relation to the acquisition of the gas sales branch of the company Bimetano Servizi S.r.l. and equals Euro 4,020 thousands.

Given the importance of matters concerning the tax effects of the operation and the consequent change that could take place on the quantification of Deferred Taxation, the reporting of the company merger, although definitive, could lead to the reporting of an income equal to Euro 1,324 thousands and the corresponding charge for the decrease in goodwill reported as specified by the accounting principle IFRS 3.65. We would point out that the temporary reporting of the merger, which took place in 2007, assigned a useful life to the customer list of the sales branch of 50 years, whilst the definitive reporting forecasts a useful life of 10 years. The change in the useful life is due to the homogenisation of the useful lives of customer list sales branch, reported following the mergers of December 2007.

***Acquisition of the holding in ASM DG S.r.l.***

On 14 December 2007, Ascopiave S.p.A. acquired 100% of the shares of ASM DG S.r.l. with headquarters in Rovigo, and which operates in the distribution of natural gas in the area of Rovigo at the agreed price of Euro 15,025 thousands, whilst the total cost of the merger, inclusive of all accessory charges equals Euro 15,138 thousands.

Payment of the ASM DG S.rl. shares has been agreed by means of transfer of shares in Ascopiave S.p.A., which the parent company had obtained as forecast by the approved purchase plan of own shares.

The first instalment of the price was paid on 14 December 2007 by means of transfer of 4,300 thousand shares, for a total value of Euro 7,782 thousands, whilst the remaining instalments are to be paid by means of transfer of shaes of Ascopiave S.p.A. by end June 2008.

The temporary fair price attributed to ASM DG S.r.l. identifiable assets and liabilities as of 31 December 2007 is the following:

| **Assets/liabilities acquisited with ASM DG S.r.l. company purchase** | **Book value** | **Fair value recorded on acquisition** |
|---|---|---|
| **Non-curent assets** | | |
| Goodwill | - | - |
| Other intangible assets | 42 | 42 |
| Property, plant and equipment, net | 10.639 | 12.353 |
| Other non-current assets | 1 | 1 |
| Deferred tax assets | 506 | 412 |
| **Total non-current assets** | **11.188** | **12.807** |
| **Current assets:** | | |
| Inventories | 250 | 250 |
| Trade receivables | 1.419 | 1.419 |
| Other current assets | 18 | 18 |
| Tax recevables | 0 | 0 |
| Cash and cash equivalents | 1 | 1 |
| **Total current assets** | **1.688** | **1.688** |
| **Total assets** | 12.876 | 14.495 |
| **Non-current liabilities** | | |
| Provisions for risks and changes | - 41 | - 41 |
| Termination indemnities | - 650 | - 584 |
| Long-term debt | - 96 | - 96 |
| Other non-current liabilities | - | - 700 |
| Deferred tax liabilities | - 0 | - 519 |
| **Total non-current liabilities** | **- 787** | **- 1.939** |
| **Current liabilities** | | |
| Short-term borrowings | - 321 | - 321 |
| Trade payables | - 704 | - 704 |
| Tax liabilities | - 267 | - 267 |
| Other current liabilities | - 243 | - 263 |
| **Total current liabilities** | **- 1.535** | **- 1.555** |
| **Total liabilities** | **- 2.323** | **- 3.495** |
| | | |
| Total assets/liabilities branch company | **10.554** | **11.001** |
| Goodwill coming from acquisition | | 4.137 |
| | | |
| **Total cost of the acquisition** | | **15.138** |
| | | - |
| | | |
| Liquid assets of branche company | | 1 |
| Payments | | - 7.782 |
| **Cash flow** | | **- 7.781** |

The company merger has been temporarily reported in the financial year 2007, according to that specified by the international accounting principle IFRS 3.62. Specifically, the company has allocated a part of the greater value acknowledged to the distribution network on the basis of a technical expert opinion, that has forecast an increase in value for these assets and a reduction for others. This opinion has made it possible to increase the book value as of 31 December 2007, for a net value of Euro 1,714 thousands.

Given the fact that part of the greater value attributed is non-deductible, a payable for deferred taxation has been reported for Euro 817 thousands, whilst the tax deductible part of the lower values reported at the distribution network has meant that an asset for prepaid taxation has been reported at Euro 462 thousands. The residual value paid has been reported under goodwill as Euro 4,137 thousands.

The company acquired reports the purchase cost of the distribution networks net of contributions received: in order to make reporting homogenous with that of the parent company Ascopiave S.p.A., current liabilities and non-current liabilities have been reported respectively as Euro 20 thousands and Euro 700 thousands. These amounts will be released to the Income Statement, on the basis of the useful life of the distribution networks to which they refer.

## *Acquisition of holdings in joint control companies*

### *Acquisition of the holding in ASM SET S.r.l.*

On 14 December 2007, Ascopiave S.p.A. acquired 49% of the shares of ASM SET S.r.l. with headquarters in Rovigo, and which operates in the distribution of natural gas in the area of Rovigo at the agreed price of Euro 3,315 thousands, whilst the total cost of the merger, inclusive of all charges equals Euro 3,340 thousands.

Against the percentage of the share capital acquired, the company has agreed, through appropriate shareholders' agreements, a structure of governance and deliberative quorum by the administrative bodies and meetings, such as to be able to boast the joint control of the subsidiary, in accordance with the international accounting principle IAS 31.

Payment of the shares of ASM SET S.r.l. has been made partly in cash for Euro 875 thousands, and partly by means of the transfer of Ascopiave S.p.A. shares, which were made available under the own share purchase plan.

The first tranche of the price was paid on 14 December 2007 by means of transfer of 440 thousand shares, for a total value of Euro 796 thousands and cash payment of Euro 875 thousands, whilst the remaining tranches are to be paid by means of transfer of shares of Ascopiave S.p.A. by end June 2008.

The acquired holding has been externally evaluated by an independent expert, in order to determine the allocation of the greater value paid with respect to the book values as of 31 December 2007. The expert's evaluation marked the existence of an intangible asset with a defined useful life representative of the value of the purchase contracts with customers and relations with customers set out under these contracts, equal to Euro 1,965 thousands, of which the parent company benefits proportionally for Euro 963 thousands (hereinafter 'customer list sales branch), on which the corresponding deferred tax effect has also been reported. The directors have cautiously considered a useful life for this type of intangible asset of 10 years.

The residual value paid has been reported under goodwill as Euro 2,373 thousands.

The share of assets and liabilities of the joint control subsidiary included in the consolidated financial statements as of 31 December 2007, is as follows:

| Assets/liabilities acquisited with 49% ASM DG S.r.l. company purchase | Book value | Fair value recorded on acquisition |
|---|---|---|
| **Non-curent assets** | | |
| Goodwill | 16 | - |
| Other intangible assets | 1 | 963 |
| Property, plant and equipment, net | 12 | 12 |
| Deferred tax assets | 97 | 97 |
| **Total non-current assets** | **126** | **1.072** |
| **Current assets:** | | |
| Trade receivables | 2.875 | 2.875 |
| Other current assets | 1.081 | 1.081 |
| Tax recevables | 57 | 57 |
| Cash and cash equivalents | 479 | 479 |
| **Total current assets** | **4.491** | **4.491** |
| **Total assets** | **4.618** | **5.564** |
| **Non-current liabilities** | | |
| Provisions for risks and changes | - 14 | - 14 |
| Termination indemnities | - 43 | - 37 |
| Other non-current liabilities | - 86 | - 86 |
| Deferred tax liabilities | - 1 | - 304 |
| **Total non-current liabilities** | **- 144** | **- 440** |
| **Current liabilities** | | |
| Short-term borrowings | - 344 | - 344 |
| Trade payables | - 3.781 | - 3.781 |
| Tax liabilities | | |
| Other current liabilities | - 32 | - 32 |
| **Total current liabilities** | **- 4.157** | **- 4.157** |
| **Total liabilities** | **- 4.301** | **- 4.597** |
| Total assets/liabilities | **317** | **967** |
| Goodwill coming from acquisition | | 2.373 |
| **Total cost of the acquisition** | | **3.340** |
| **Total** | | |
| Liquid assets of branche company | | 479 |
| Payments | | - 1.671 |
| **Cash flow** | | **- 1.192** |

***Acquisition of the holding in Estenergy S.p.A.***

On 18.12.07, Ascopiave S.p.A. acquired 48.999% of the shares of Estenergy S.p.A. with headquarters in Trieste, and which operates in the distribution of natural gas, at the agreed price of Euro 39,838 thousands, whilst the total cost of the merger, inclusive of all charges equals Euro 503 thousands. The price has been paid in cash for Euro 38,010 thousands at the same time as the transfer of shares: the part payment of the price that is contractually based on the data of the financial statements as of 31 December 2007, has been estimated as Euro 1,325 thousands, and is yet to be paid as of 31 December 2007.

Against the percentage of the share capital acquired, the company has agreed, through appropriate shareholders' agreements, a structure of governance and deliberative quorum by the administrative bodies and meetings, such as to be able to boast the joint control of the subsidiary, in accordance with the international accounting principle IAS 31.

The acquired holding has been evacuate by an independent expert for the determining of the allocation of the greater value paid with respect to the book values as of 31 December 2007.

The evaluation of the independent expert marked the existence of an intangible asset with a defined useful life representative of the value of the contracts acquired with customers and the relations with the customers set out under such contracts, equal to Euro 16,684 thousands, of which the parent company benefits proportionally for Euro 8,175 thousands (hereinafter 'customer list sales branch) on which the corresponding deferred tax effect is reported.

The directors have cautiously considered a useful life for this type of intangible asset of 10 years.

The residual surplus value has been reported under goodwill in relation to the acquisition of the gas sales activity of the company Estenergy S.p.A. for an amount equal to Euro 32,462.

The share of assets and liabilities of the joint control subsidiary included in the consolidated financial statements as of 31 December 2007, is as follows:

| Assets/liabilities acquisited with 49% Estenergy S.p.A. company purchase | | Book value | | Fair value recorded on acquisition |
|---|---|---|---|---|
| **Non-curent assets** | | | | |
| Goodwill | | - | | - |
| Other intangible assets | | 15 | | 8.190 |
| Property, plant and equipment, net | | 44 | | 44 |
| Other non-current assets | | 88 | | 88 |
| Deferred tax assets | | 93 | | 93 |
| **Total non-current assets** | | 240 | | 8.415 |
| **Current assets:** | | | | |
| Trade receivables | | 43.808 | | 43.808 |
| Other current assets | | 6.854 | | 6.854 |
| Tax recevables | | 24 | | 24 |
| Cash and cash equivalents | | 2.326 | | 2.326 |
| **Total current assets** | | **53.011** | | **53.011** |
| **Total assets** | | **53.251** | | **61.426** |
| **Non-current liabilities** | | | | |
| Provisions for risks and changes | - | 142 | - | 142 |
| Termination indemnities | - | 125 | - | 125 |
| Other non-current liabilities | - | 2.725 | - | 2.725 |
| Other non-current financial liabilities | - | 3.350 | - | 3.350 |
| Deferred tax liabilities | - | 22 | - | 2.589 |
| **Total non-current liabilities** | **-** | **6.364** | **-** | **8.931** |
| **Current liabilities** | | | | |
| Short-term borrowings | - | 7.111 | - | 7.111 |
| Trade payables | - | 34.304 | - | 34.304 |
| Tax liabilities | - | 117 | - | 117 |
| Other current liabilities | - | 730 | - | 730 |
| Other current financial liabilities | - | 2.858 | - | 2.858 |
| **Total current liabilities** | **-** | **45.120** | **-** | **45.120** |
| **Total liabilities** | **-** | **51.485** | **-** | **54.051** |
| Total assets/liabilities | | **1.767** | | **7.375** |

| | | |
|---|---|---|
| Goodwill coming from acquisition | | 32.461 |
| **Total cost of the acquisition** | | **39.836** |

| | | |
|---|---|---|
| Liquid assets of branche company | | 2.326 |
| Payments | - | 38.088 |
| **Cash flow** | **-** | **35.762** |

## Business segment reporting

The sector information is provided in reference to the business sectors in which the Group operates. Business sectors are identified as primary segments of activities. The criteria used for identifying the activity segments were, among other things, inspired by the methods whereby management runs the Group and assigns managerial responsibilities.

Based on the information required by the IAS 14 'Segment Reporting', the company has identified as segments subjects of the reporting the activities of gas sales and distribution.

Information for geographic sectors is not provided, since the Group does not have any business activity outside of the national territory.

The following tables show the information on revenues, financial results and balance sheet items concerning the business segments of the Group for the years ended respectively as of 31 December 2007 and 2006.

| (thousands of Euro) | Distribution | Selling | Other | Trading | 31 December 2007 company's new acquisitions | Elimination | Total |
|---|---|---|---|---|---|---|---|
| **Financial year 2007** | | | | | | | |
| Net revenues from other customers | 15.711 | 302.916 | 18.270 | 114.973 | - | | 451.871 |
| Intercompany revenues between segments | 44.473 | 1.600 | 417 | | | (46.489) | - |
| **Segment revenues** | 60.184 | 304.516 | 18.687 | 114.973 | | (46.489) | 451.871 |
| | | | | | | | |
| Operative result before amortisations | 34.611 | 9.121 | 870 | 1.074 | | | 45.676 |
| Amortisations | 11.317 | 408 | 91 | 0 | | | 11.816 |
| **Operative result** | 23.294 | 8.713 | 779 | 1.074 | | | 33.860 |
| **Operative result before taxes** | 26.015 | 6.975 | 735 | 1.074 | | | 34.799 |
| | | | | | | | |
| Activities | 509.469 | 268.737 | 11.440 | | 62.156 | (127.313) | 724.489 |
| Liabilities | (157.922) | (253.375) | (7.281) | | (62.156) | 127.313 | (353.420) |

| (thousands of Euro) | Distribution | Selling | Other | Elimination | Total |
|---|---|---|---|---|---|
| **Financial year 2006** | | | | | |
| Net revenues from other customers | 16.157 | 287.178 | 14.769 | | 318.105 |
| Intercompany revenues between segments | 43.354 | 2.228 | 65 | (47.647) | - |
| **Segment revenues** | **61.511** | **289.407** | **14.833** | **(47.647)** | **318.105** |
| | | | | | |
| Operative result before amortisations | 38.803 | 367 | 1.235 | | 40.405 |
| Amortisations | 11.133 | 30 | 91 | | 11.255 |
| **Operative result** | 27.669 | 336 | 1.144 | | 29.150 |
| **Operative result before taxes** | **24.237** | **1.810** | **1.150** | | **27.286** |
| | | | | | |
| Activities | 434.469 | 114.476 | 3.697 | (30.383) | 522.260 |
| Liabilities | (74.432) | (106.875) | (3.434) | (30.383) | (154.358) |

## Earnings per share

As required by the IAS 33 accounting standard, the following information is provided about the calculation of basic and diluted earnings per share.

The basic earning per share is calculated by dividing the net income for the period attributable to the Company's shareholders by the number of shares.

For the purposes of calculating the profit per base share, the numbering used the financial result of the period less the share attributable to third parties.

There are no preference dividends, conversions of preferred shares or similar effects that would adjust the results attributable to the holders of ordinary shares in the Company.

Diluted profits for shares result as equal to those for shares in that ordinary shares that could have a dilutive effect do not exist and no shares or warrants exist that could have the same effect.

Further to this are displayed the results and the number of ordinary shares used for the purposes of calculating the profit per base share, established according to the methods set out in IAS standard 33:

| (thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Shares | 233.334.000 | 140.000.000 |
| Intercompany net result | 22.125 | 16.239 |
| **Net result *per* share** | 0,09 | 0,11 |

The registration in the Register of Companies of the increase in the company's capital due to the listing took place on 2 January 2007.This led to the company's capital increasing by Euro 93,334 thousands, corresponding to 93,334,000 new shares issued. Further to this, profit per share drops to Euro 0.09 due to the effect of the dilution of the net assets as shown below.

## Dividends

On 8 May 2007, Ascopiave S.p.A. shareholders' general meeting deliberated the distribution of dividends for an amount totalling Euro 19,833,390.00 corresponding to Euro 0.085 per share, by utilising part of the yearly result for Euro 14,560,500.53 and drawing from the available reserves for Euro 5,272,889.47. The dividends were paid on 17 May 2007, with the date for the dividend warrants set for 14 May 2007.

On 13 September 2007, the Board of Directors approved the distribution of the deposit on dividends, in accordance with article 2433-*bis*, paragraph 5 of the Civil Code, of Euro 0.025 per share. Dividend warrants were realised on 20 November 2007, bringing about the payment of dividends for Euro 5,736 thousands.

The dividends proposed for approval by the Shareholders’ Meeting (not reported as liabilities as of 31 December 2007) equal Euro 0.085 per share, for a total of Euro 19.9 million, from which the above-specified deposits on dividends already paid during 2007, will be detracted.

## Seasonability of the business

Gas consumption varies considerably based on the season, with a higher demand for the winter period (January –March) related to the average winter temperature levels and consequent need for heating. Seasonability affects the criteria for calculating prices for the supply of gas and consequently the Group revenues. On the other hand, fixed costs are sustained by the Group on a uniform fashion throughout the entire fiscal year. Seasonability of the business practised also affects the trend of the Group net financial position, because the revenue cycles are not aligned with that of the costs based on the fact that actual consumptions by the household customers are subject to invoice adjustments subsequent to the payment of cost for gas provisioning.

Therefore, the figures and information contained in the accounting schedules do not allow drawing immediate representative information of the overall annual trend.

## Commitments and risks

## Sureties given

The Group has provided the following potential sureties as of 31.12.07:

- Euro 9,280 thousands on the carrying out of works;
- Euro 8,665 thousands to UTF offices and regions for taxes on gas;
- Euro 4,277 thousands to participate in calls for tenders to supply methane;
- Euro 17 thousands for commercial lease contracts;
- Euro 261 thousands for distribution contracts;
- Euro 8,238 for the purchase of gas;
- Euro 582 thousands for gas supply contracts.

Resolution No.248/2004

Resolution No. 248/04 issued by the Italian Electricity and Gas Authority (the "AEEG") has changed the updating mechanism of the "raw material" component of the gas sales tariff, from January 1st, 2005, with the purpose to stabilize the effects of the increase of the prices of oil on the final prices paid by the final customers. Ascotrade, together with other operators in the sector of gas sales, has appealed against such resolution before the Regional Administrative Tribunal (the "TAR") of Lombardy which, through order nr. 182/05 dated January 25th, 2005, has suspended the enforcement of the Resolution No. 248/2004 and subsequently, through sentence 3708/05 dated October 6th, 2005 has sustained the merit of the appeal filed by Ascotrade.
The AEEG has thus brought an appeal, with request for suspension, to the State Council to obtain the cancellation of the sentence handed down by Lombardy Regional Administrative Tribunal

While waiting for the affair to be resolved, the Ascopiave Group, like other operators in the sector, applied over 2005 the price-updating methodology set out in the previous Resolution No. 195/2002.

Concerning the first quarter of financial year 2006, the AEEG, with Resolution 298/05 ordered that the price revision would take place according to the terms established by Resolution 248/04. The Regional Administrative Tribunal of Lombardy, within the proceedings against Resolution 298/05 promoted by Federutility, with Order No. 262 dated January 31st, 2006, had initially suspended the effect of the same. Based on this order, Ascotrade applied, to the invoices issued for the first quarter 2006, the tariff updating mechanism set out in the previous, Resolution No. 195/2002. Consequently, the Lombardy Regional Administrative Tribunal rejected a further request for the suspension of Resolution 298/05, which in this way came back into effect while awaiting a definitive judgement by the Lombardy Regional Administrative Tribunal on the matter.

Further to the unsuccessful confirmation of the suspension of Resolution 298/2005 on April 11th, 2006 by the Lombardy Regional Administrative Tribunal and in compliance with the law as set out by Resolution No. 63/2006, Ascotrade applied, from the second quarter of 2006, the tariff updating modalities compliant with the criteria of Resolution 248/2004 while from July 1st, 2006, Ascotrade applied the new updating modalities recently introduced by Resolution 134/06. The latter, in particular, provides for some modifications to the mechanism for updating the economic conditions for supplying ‘raw materials’ as set out in Resolution 248/04, also considering the international trend of the energy market, which tends to favour sales companies.

In the meantime, Resolution No. 65/06 has also provided for a mechanism of partial restitution by selling company to the end customer as partial settlement for amounts not payable in 2005. The amount had been calculated at about Eurocent 0.25 per standard cubic meter to be applied to the volumes consumed in the second quarter of 2006.
Successively the same provision was confirmed by Resolution No. 134/06 for the third quarter of 2006 and by the Resolution No. 205/06 for the last quarter of 2006.
Ascotrade has applied the measures relating to the previous AEEG resolutions.

The Resolution No. 248/2004 has also provided that the wholesale gas sellers must offer to their own customers new economic conditions formulated according to the outcomes of the first update of the raw material component, carried out under the same Resolution. The so-called “consistent renegotiation” between retailers and wholesalers proved to concern the purveyance in course of execution at the time of issuing the same Resolution No. 248/04.

The successive Resolution 134 dated 28 June 2006, the AEEG has “extended” the obligation of “consistent renegotiation” in the supply contracts stipulated following the date that Resolution 248/04 took effect and up to the date of publication of Resolution 65/06.

The offer of new economic conditions by the shippers, under Resolution 134/06, should consider the supply contracts stipulated for the thermal years 2004/2005 and 2005/2006 with reference, thus, to the period from 1st January 2005 (date on which Resolution 248/04 took effect) to 30th September 2006 (end date of thermal year 2005/2006).

Under Art. 3 of Resolution No. 134/06, the wholesalers ended up being bound to present the offers mentioned above before the deadline of November 30th, 2006. Before the December 31st, 2006, the sales company and shipper would have had to communicate to AEEG the outcome of the renegotiation.

The AEEG has also provided, for the companies that fulfil the obligation to renegotiate the supply contracts established by the same Authority, to encourage such renegotiations through according to sales companies 50% of the amount deriving from the difference due to the application, in the course of 2005, of the gas price revision mechanism established by Resolution 248/04 instead of the one provided for by Resolution 195/02.
On 29 March 2007, the AEEG website published decision 79/07 which definitively resolved the legal proceedings concerning the application of sales tariffs of natural gas during the years 2005 and 2006.
The resolution thus prescribed:

- the amount charged to the system for expenses relating to the application of resolution 248/04 in place of Resolution no. 195/02 in reference to year 2005;
- the amount charged to the system for 50% of the expenses relating to the application of Resolution no. 248/04 in place of Resolution no. 195/02 in reference to the first half of 2006.
- payment of the remaining 50% of the expenses relating to the application of Resolution no. 248/04, in place of Resolution no. 195/02 in reference to the first half 2006, charged to the sales company and shippers. The

suppliers of natural gas (shippers) are thus obliged to reformulate the proposal of contractual renegotiation related to the purchase conditions of national gas to the sales companies.

Resolution no. 79/07 has determined a positive economic change on the income statement of the second quarter 2007 equal to Euro 3,933 thousands, and a consequent variation of an equal amount on the shareholders' equity.

The positive economic change has been determined by the combination of the following values:

- less income from the sales of natural gas to household customers for the first quarter 2006, equal to Euro 4,252 thousands, due to the difference between the tariffs guaranteed by Resolution no. 195/02 originally applied, and Resolution no. 248/04;
- greater income from the sales of natural gas to household customers for the second quarter 2006, equal to Euro 1,068 thousands, due to the difference between the tariffs guaranteed by Resolution no. 195/02 and Resolution no. 248/04 originally applied;
- lower purchase costs for natural gas obtained from the shippers Eni S.p.a. and Edison S.p.a., for Euro 2,817 thousands, for the first half of the year 2006, due to the effect of the renegotiations during the month of June of this financial year.
- use of the provision for risks, set aside for this purpose upon approval of the third mid-year situation 2006 of the company ASCOTRADE S.p.a., due to the solution of the causes of uncertainty that had justified the setting aside of an amount equal to Euro 4,300 thousands.

<u>Legal proceedings</u>

As of 31.12.2007, three claims are pending before the Veneto TAR, presented by Ascopiave S.p.a in regards to resolutions implemented by the licensing municipalities (the municipalities of Galliera Veneta, Tezze sul Brenta, and Tombolo) in reference to the duration of concessions, and four claims against calls for tenders published by the municipalities (those of Costabissara, Santorso, Marano Vicentino and Isola Vicentina), for the choice of the new public gas distribution operator service.

With regards 2 of these claims (Marano Vicentino and Costabissara, the Veneto TAR, during the summary assessment phase, had sustained the notices of motion submitted by Ascopiave S.p.A.. On 24 July and 31 July, the Council of State admitted the appeals against the Order of the Veneto TAR, by both municipalities. Recently, the hearing has been set for the discussion of both claims, as 12 December 2007. In this last hearing, with regards to one of the claims (Costabissara), the Veneto TAR, with 2007 Order no. 940 sustained the application for suspension formulated by Ascopiave S.p.A. against the determination of definitive judgement, and the provision stating to deliver the plants to the town administration, whilst the related discussion has been postponed to after such time as the Constitutional Court will have sentenced as to the legitimacy of the institute of the advance payment. With regards to the other claim (Marano Vicentino), it has been agreed to postpone the hearing.

With regards the concession of the municipality of Santorso, we would point out that the call for tenders by the municipality has been granted to a company other than Ascopiave S.p.A., and that on 23 July 2007, Ascopiave S.p.A. and the Municipality signed the minutes of the delivery of the methane gas distribution plants. In this act, Ascopiave S.p.A. declared having transferred availability of the plant, in accordance with art. 13 of the Law Order (Decreto Letta). As of the time of 6.00 on 1 August 2007, management of the service of methane gas distribution in this municipality by Ascopiave S.p.A. officially ceased. With reference to the dispute relating to the call for tenders held by this municipality, on 26 October 2007, Ascopiave S.p.A. formulated a request for withdrawal before the Veneto TAR.

Because the above-described proceedings are still pending before the Judicial Authorities, Ascopiave S.p.A. does not believe to be able in calculating the estimates regarding the expiration of these concessions and in reference to the date and companies which will be definitively granted these contracts for the gas distribution service.

**Management of financial risk: objectives and criteria**

The main Group financial liabilities, other than derivates, include bank loans, financial leasing contracts, hire contracts with purchase options, and short-term at sight bank deposits. The main aim of these liabilities is to finance Group operative activities. The Group has various financial assets, such as accounts receivable and cash and short-term deposits, that derive directly from the operative activities.

The Group has also carried out derivate operations, mainly options on exchanges and raw materials. The aim is to manage the risk generated by the change in the Euro/Dollar exchange rate and the price of materials, with reference to the supply of natural gas.

The main risks generated by the Group financial instruments are the interest rate risk, the liquidity risk and the receivables risk. The Board of Directors re-examines and agrees policies for managing said risks, as summarised hereto.

**Interest rate risk**

Group exposure to the risk of changes in market rates is mainly linked to the loans taken out with credit institutes, with variable interest rates.

Group policy, depending on the seasonality of the business cycle, aims to manage the need for cash by means of temporary loans at variable rates, that given their constant change, do not make it possible to suitably cover the interest rate risk.

The Group also manages fixed rate loans for insignificant amounts that depend on the conferral fo the gas distribution networks of the local bodies, now shareholders of Asco Holding S.p.A..

**Sensitivity analysis to the interest rate risk**

The following table shows the sensitivity of the Group's pre-tax result, following reasonably possible variations in interest rates, keeping all other variables constant.

| | january | february | march | april | may | june | july | august | september | october | november | december | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Financial position of financial year 2007 | (54.676) | (79.128) | (49.411) | (77.077) | (11.899) | (59.002) | (36.665) | (50.178) | (14.414) | (1.843) | 20.916 | 87.731 | |
| Lending/borrowing average rate | 3,70 | 3,58 | 4,21 | 3,86 | 4,16 | 3,96 | 4,26 | 3,83 | 4,55 | 4,21 | 3,48 | 4,84 | |
| Average rate increased of 0,5 | 4,20 | 4,08 | 4,71 | 4,36 | 4,66 | 4,46 | 4,76 | 4,33 | 5,05 | 4,71 | 3,98 | 5,34 | |
| Average rate decreased of 0,5 | 3,20 | 3,08 | 3,71 | 3,36 | 3,66 | 3,46 | 3,76 | 3,33 | 4,05 | 3,71 | 2,98 | 4,34 | |
| Negative effect to income before taxes | 23 | 33 | 21 | 32 | 5 | 25 | 15 | 21 | 6 | 1 | (9) | (37) | **136** |
| Positive effect to income before taxes | (23) | (33) | (21) | (32) | (5) | (25) | (15) | (21) | (6) | (1) | 9 | 37 | **(136)** |

The effect obtained by simulating a variation in the interest rates applied to the Group loans equal to 50 basis points up and down, brings us to an estimated effect on the pre-tax result, respectively negative or positive for Euro 136 thousands.

**Receivables risk**

The Group constantly monitors this type of risk through an appropriate credit management procedure, helped in that sense, also by the division of a significant component of accounts receivable. The Group policy is that of fully writing down the receivables that show an older expiry date than the year, and to apply writedown percentages determined by historical series on the remaining part of the credit. Consequently, representation of the customer types is not deemed significant, as they do not have significant credits that have not been written down.

**Liquidity risk**

The Group constantly pursues a maintenance of the balance and flexibility of financing sources and uses.
The two main factors influencing Group liquidity are on the one hand the resources generated or absorbed by the operative or investment assets, on the other hand the expiry characteristics and debt renewal.

Division according to expiry, as of 31 December, of financial debts is reported at note 21.

Liquidity requirements are monitored by the treasury function of the parent company with a view to guaranteeing an efficient recovery of financial resources, or a suitable investment of any available funds.

The directors believe that the funds and loans currently available, apart from those generated by operative or financing assets will allow the Group to meet requirements deriving from investment, management of circulating capital and reimbursement of debts at natural expiry.

**Risk of variation of prices of raw materials or components**

The parent company deals with any risks of variation in price of the main raw materials or components, with a careful market policy.

**Management of Capital**

The primary objective of the management of Group capital, is to guarantee that a solid credit rating is maintained, and suitable levels of capital indicator. The Group can adapt the dividends paid to shareholders, reimburse capital or issue new shares.
The Group checks its capital by means of a debt/capital ratio, i.e. comparing the net debt to the total of the capital plus the net debt. Group policy aims at keeping this ratio between 20% and 35%.
The Group includes financial charges, accounts payable and other liabilities in the net liabilities, net of liquid funds and equivalent.

| (thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Medium/Long-term debt | 5.165 | 6.941 |
| Loans from banks at net of equivalents on hand | 83.863 | (97.004) |
| **Financial gross debt** | 89.028 | (90.063) |
| Share capital | 233.334 | 140.000 |
| Reserves | 115.609 | 212.663 |
| Net result | 22.125 | 16.239 |
| **Net assets** | **371.068** | **368.902** |
| **Total capital and gross debit** | **460.095** | **278.839** |
| Relation between debt/Net assets | 0,24 | |

**Derivate risk**

The Group holds derivative financial instruments with the aim of covering its exposure to risk of change to exchange rates and risk of change to prices of methane gas. Relative to this activity, the Group must manage the risks connected with disaligning between formulas of indexing related to the purchase price of methane gas and those related to the sales prices.

**Derivative instruments on exchange rates**

As of 31 December 2007, the Group holds a contract of windows forward plus option. The structure of this instrument specifies that the counter party may sell dollars at the exchange rate of 1.3807, should, in the period of reference, the dollar/euro exceed the exchange rate barrier set at 1.4205. Contracts include expiries at the end of each month in the period between 31 December 2007 and 29 August 2008. The potential loss of fair value of the derivative financial instruments on the exchange rate held by the Group as of 31 December 2007, as a consequence of a hypothetical unfavourable and immediate change of 2% (greater than the historical change during the previous 24 months) of the Euro/US$ exchange rate on which the derivative insists, equal to approximately dollars 700 thousands. Should such an adverse scenario occur, the fair value of the derivative would report a decrease from a negative fair value equal to approximately dollar 2,600 thousands to approximately dollars 3,300 thousands.
The fair value of the derivative instrument determined at the end of the year has been reported on the income statement, as it is expected that the derivative instrument shall not meet the conditions to be classed as coverage, in accordance with international accounting principles.

**Derivative instruments on raw materials**

As of 31 December 2007, the Group holds two contracts on commodity risk (raw material). The structure of such instruments includes an obligation for the counter party to pay or receive the difference between the price of the raw material specified upon signing of the contract, and the price generated on the market on teh basis of an index formula of a basket of hydrocarbons.

Contracts specify expiries at the end of each month of the period from 31 December 2007 to 29 February 2008. The potential loss of fair value of the derivative financial instruments on raw materials held by the Group as of 31 December 2007 as a consequence of a hypothetical unfavourable and immediate variation of 10% (greater than the historic change during the previous 24 months) of the main energy commodities on which the formulas of the derivatives insist, it would equal approximately dollars 2,400 thousands. Should such an adverse scenario occur, the fair value of the derivative would report a decrease from approximately dollar 3,100 thousands to approximately dollars 760 thousands.
The fair value of the derivative instrument determined at the end of the year has been reported on the income statement, as it is expected that the derivative instrument shall not meet the conditions to be classed as coverage, in accordance with international accounting principles.

## Transactions with related parties

The details on transactions with related parties over period in question is summarised in the following tables:

| (In thousands of Euro) | 31/12/2007 | | | | Financial year 2007 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Company | Trade | Other | Accounts | Other | Expense | | | Revenues | | |
| | | | | | Assets | Services | other | Assets | Services | Other |
| *Associated Companies* | | | | | | | | | | |
| Asco Tlc S.p.A. | 41 | - | 64 | - | - | 243 | - | - | 193 | - |
| Seven Center S.r.l. | - | - | 68 | - | - | 324 | - | - | 1 | - |
| Mirant Italia S.r.l. | 3 | - | - | - | - | - | - | - | 3 | - |
| *Subsidiary companies:* | | | | | | | | | | |
| Asco Holding S.p.A. | - | 394 | - | 2.879 | - | - | 2 | - | 36 | - |
| **Total** | 44 | 394 | 132 | 2.879 | - | 567 | 2 | - | 233 | - |

Furthermore, for the 2007 financial year, Ascopiave S.p.A and Ascotrade S.p.A agreed to consolidating tax relations in the head of the group, Asco Holding S.p.A, entered among the other current liabilities.

Cost for services to the subsidiary Asco TLC S.p.A. refers to a rental fee for the server. Revenues for the aforementioned subsidiary derive from the contract to supply gas and electrical energy and from service contracts drawn up between the parties.

The costs for services for the subsidiary Seven Centre S.r.l refer mainly to maintenance services for the natural gas distribution network.
Furthermore:

- the economic relations between the companies of the Group and the subsidiary companies occur at market prices and are eliminated in the process of consolidation;
- the operations set up by the companies of the Group with correlated parties are part of normal management activity and are regulated at market prices;
- referring to the provisions of art. 150, paragraph 1 of Legislative Decree no. 58 of 24 February 1998, no operations have been carried out that could potentially be conflicts of interest with companies of the Group, by members of the Board of Directors.

## Significant events after the end of the year and management outlook

Memorandum of understanding proposed by Veneto Sviluppo

On 22 February 2008, Ascopiave signed the protocol of understanding that summarised the main terms and conditions on the basis of which the merger of the multiutility of the north east can begin, as proposed by the regional financing company Veneto Sviluppo S.p.A., sponsor of the project 'Merger of Multiutilities North East'. On the basis of the terms of the memorandum of understanding, once all adhesions of the companies involved have been collected (Ascopiave, Acegas-Aps, Agsm Verona, Veritas Venezia and Aim Vicenza), there will be a feasibility study aimed at constituting a new company (a public holding to which the five companies will be connected) and the definition of the areas of value creation, as a consequence of the merger.

Veritas Energia

Within the scope of the consolidation of local energy services, Ascopiave has begun an understanding for the acquisition of the control of Veritas Energia, a company founded by the merger of Spim Energia S.r.l. (company of the Veritas Group operating in the energy sector, in the territory of Mogliano Veneto - Treviso) in Vesta3 S.r.l. (company of the Veritas Group operating in the marketing of natural gas and electrical energy, and supplying energy management services in the territory of Venice).

Ecoprogetto Venezia

Ascopiave has recently begun discussions for the acquisition of a minority holding in Ecoprogetto Venezia S.p.A., a company held 76.6% by Veritas Venezia and 23.4% by the Ladurner Group, operating in the business of thermo-valuation (Integrated pole of Fusina - Venice).

Concessions

On 9 January 2008, a new claim was issued against the municipality of Tezze sul Brenta, concerning resolution no. 46 dated 29 October 2007 by the town council, containing indications as to the assignment by means of call for tenders of the gas distribution service.
With regards to the call for tenders held by the municipality of Marano Vicentino, initially suspended with resolution no. 148 dated 26 September 2007, on 17 March 2008, the new date of opening for tenders was fixed.
On 28 February 2008, appeals against Order no. 940 dated 12 December 2007 were notified, which had admitted the suspension claim made by Ascopiave S.p.A. with regards to the determination of definitive judgement, and the provision stating the need to deliver the plants to the municipality of Costabissara. The State Council has fixed the discussion hearing for 1 April 2008.

Increase of share capital

On 17 January 2008, Mediobanca S.p.A. declared that the number of free shares to be assigned to those with such rights, equalled Euro 1,078 thousands. The increase of the Share Capital in relation to the bonus shares has been reported to

Treviso Companies' Register on 29 January 2008.

Reclassification of CGD component of distribution Income Constraint

Restatement of the CGD (Operating Costs) component of the Distribution Revenue restrictions, on 29 July 2005, Ascopiave S.p.A. filed a petition before the Lombardy TAR (Regional Administrative Tribunal) against the note by the Fees Office of the Gas and Electric Energy Authority by which the Authority has rejected the request by Ascopiave to restate the value of the CGD (operating costs regarding distribution activities) of the VRD with reference to the comprehensive intended fee area.

The Lombardy Regional Administrative Court, with judgement no. 613 of 28 February 2006, admitted Ascopiave's appeal, making a provision that the definition of the MCD of the VRD for the thermal year 2003/2004 was established with consideration for the general tariffs context.

Through its Sentence, the Authority for Electrical Energy and Gas, on 14 April 2006, appealed to the State Council with the request for suspension, which was not accepted by the Court. On the basis of this sentence, the parent company Ascopiave S.p.A. may restate the fee proposal for the heating year 2003-2004 and ask the consumers for the payment of additional amount for adjustments. The difference between the Restrictions for Distribution Revenues deliberated at the time to define the tariff approved by the AEEG and the new Restrictions resulting from the calculation of the CGD component for the entire intended area is estimated at 2 million Euro.

Given that the CGD for the heating year 2003-2004 represents a parameter for the calculation of the regulatory period, as indicated by the Deliberation nr. 170/04, any restatement of such component would involve also a restatement of the fees the heating years 204/2005, 2005/2006 and 2007/2008.

On 17 April 2007, the Council of State rejected the appeal by the Italian Electricity and Gas Authority for the annulment of sentence no. 613/2006 by the Lombardy TAR (Regional Administrative Tribunal) by which the right of Ascopiave S.p.A. to calculate the amount of the CGD ('i costi di gestione della distribuzione' i.e. distribution management costs) of the VRD ('Vincolo dei Ricavi della Distribuzione', i.e. Distribution Revenues Constraint) in reference to the whole tariff area has been sustained.

On 15 October 2007, Ascopiave S.p.A. presented a claim to the AEEG to implement the judgement of the State Council and, therefore, to approve the restated tariffs proposed for the thermal year 2003-2004 and subsequent.

On 21 February 2008, the AEEG notified Ascopiave S.p.A. of its decision of 8 February 2008, with which it confirms the validity of the distribution tariffs approved for the thermal year 2007-2008 with deliberation 261/07, 321/07, rejecting all requests for a new determination of the constraints on distribution revenues, for the first and second regulation periods.

In the light of the adoption of the stated resolution, the company has presented an appeal for the implementation of the sentence of the State Council number 3476 dated 22 June 2007, rejecting the appeal proposed by the AEEG against the sentence of the Lombardy TAR no. 613 dated 28 February 2006.

Furthermore, with separate appeal against the stated resolution and all related acts, asking, at the same time, the ascertainment of Ascopiave S.p.A.'s right to update base tariff options for the second obligatory period, on the basis of the constraints of distribution revenues 2003/2004, as recalculated with reference to the overall understanding.

Relations with Control Authorities

On 7 March 2008, the National Commission for Companies and the Stock Exchange began a sanction procedure against ASCOPIAVE S.p.A. due to the delayed communication by the latter of the purchase of own shares carried out on the market in October 2007. The company Ascopiave S.p.A. presented its deductions to this regard once procedures had begun, and as of today does not deem it possible to predict the outcome of the procedure.

### Management Outlook

In 2008, the Group results are forecast to grow, thanks to the widened perimeter of consolidation due to the company acquisitions concluded at end 2007, to the development of gas trading activities, and to an expected increase in gas sales due to a more favourable thermal trend as compared with that of last year.

Considering the physiological growth of the clients, and taking into account the weather conditions of the first few months of the current year, which are better than those of the first few months of 2007, it is deemed that under normal weather conditions for the remainder of the year, in 2008 the volumes of gas distributed may reach 900 million cubic metres, whilst the volumes of gas sold - considering both volumes to the end market and those to the intermediaries, such as traders and wholesalers - may reach 1.8 billion cubic metres.

For 2008, the investments in the expansion and maintenance of the gas distribution network are to increase, as compared with previous years.

## Objectives and policies of the Group

As the market conditions progressively change, for the most part due to the decreasing protection of tariffs in the face of a growing number of customers, in 2008, the Group will continue its commercial policy of retention and acquisition of new clients, concentrating its commercial strengths on small/medium commercial and industrial companies, characterized by median annual consumption of less than 200,000 cubic metres. This client group allows higher sales margins, both with respect to large industrial clients, where the commercial competition is notably high, and to residential customers, who have contact and management costs that are very high, and for which the Authority for Electrical Energy and Gas's tariff regulations have imposed selling prices that are not appropriate to be applied to the destination for which the gas would have.
Due to this viewpoint, the subsidiary Ascotrade S.p.A. is reinforcing its structure for the procurement of gas, in order to take advantage of all the opportunities that the market offers, in addition to spot supplies, and intensifying its selling strength, especially through increased training of its employees who have direct client with customers. It is also working to better its activities connected to the support of information services-CRM in its company, and the back-office personnel specialized in the management of supply contacts for the segment of customers with intermediate levels of consumption.

## *Proposals by the Board of Directors to the Shareholders' Meeting*

**Allocation of net income for the year**

Considering that for the 2007 fiscal year the Ascopiave S.p.A. company ends with profits equal to Euro 17,457,423.73 thousands, the board of directors proposes to the meeting of members:

- to allocate Euro 215,515 to the legal reserve;
- to distribute dividends to the amount of Euro 14,188,883.88, equating to Euro 0.085 per share, net of the deposit of Euro 0.025 per share paid to the shareholders in November;
- to allocate the remainder, equal to Euro 3,053,024.85 to other reserves.

Pieve di Soligo, 27 March 2008

The Chairman of the Board of Directors
Gildo Salton

# INDIVIDUAL FINANCIAL STATEMENT AS OF 31 DECEMBER 2007

## ASCOPIAVE S.p.A.

Registered offices in VIA VERIZZO 1030 - 31053 PIEVE DI SOLIGO (TREVISO) - Share capital Euro 234,411,575. fully paid-in

### Balance sheet as of 31 December 2007 and 31 December 2006

| (In thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Goodwill | 20.433.126 | 20.433.126 |
| Other intangible assets | 1.823.433 | 1.407.017 |
| Property, plant and equipment, net | 274.507.402 | 272.680.353 |
| Investments | 63.976.011 | 5.548.789 |
| Other non-current assets | 3.663.560 | 2.827.148 |
| Deferred tax assets | 8.117.443 | 10.224.406 |
| **Total non-current assets** | **372.520.975** | **313.120.838** |
| **Current assets** | | |
| Inventories | 3.048.676 | 2.765.826 |
| Trade receivables | 4.938.445 | 6.475.693 |
| Trade receivables to controlled companies | 14.339.000 | 18.076.000 |
| Other current assets | 3.642.962 | 1.260.684 |
| Current financial instruments- derivates | 111.097.210 | 0 |
| Tax recevables | 121.221 | 423.104 |
| Cash and cash equivalents | 7.142.099 | 97.909.058 |
| Total current assets | **144.329.613** | **126.910.365** |
| **Total assets** | **516.850.588** | **440.031.203** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **Shareholders' equity** | | |
| Share capital | 233.334.000 | 140.000.000 |
| Reserves | 106.471.336 | 210.672.251 |
| **Net result** | 17.457.424 | 15.326.843 |
| **Total shareholders' equity** | **357.262.760** | **365.999.093** |
| **Non-current liabilities** | | |
| Provisions for risks and changes | 18.073 | 137.495 |
| Termination indemnities | 1.443.131 | 1.462.625 |
| Long-term debt | 4.954.000 | 6.675.384 |
| Other non-current liabilities | 295 | 31.398 |
| Deferred tax liabilities | 15.045.745 | 17.660.065 |
| **Total non-current liabilities** | **21.461.244** | **25.966.966** |
| **Current liabilities** | | |
| Amount due to banks and current portion of medium/long term loans | 107.326.680 | 3.513.478 |
| Trade payables | 9.744.804 | 10.181.213 |
| Other current liabilities | 21.055.101 | 22.566.351 |
| Current financial instruments derivates | 0 | 11.806.219 |
| **Total current liabilities** | **138.126.585** | **48.067.262** |
| **Total liabilities** | **159.587.829** | **74.034.228** |
| **Total shareholders' equity and liabilities** | **516.850.588** | **440.033.321** |

## Income statement of the financial years closed on the 31 December 2007 and on 31 December 2006

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| | | |
| **Revenues** | **74.920.268** | **65.303.743** |
| | | |
| Revenues from others | 30.775.853 | 20.440.487 |
| Revenues from controlled companies | 44.144.415 | 44.863.256 |
| | | |
| **Operating costs** | | |
| Cost of gas purchases | 10.363.904 | 0 |
| Cost of other materials and consumables | 2.910.379 | 2.793.818 |
| Cost of services | 9.992.374 | 7.731.496 |
| Personnel costs | 10.037.130 | 9.289.369 |
| Other operating expenses | 6.097.291 | 5.662.012 |
| Other operating income | (15.165) | (126.364) |
| Depreciation and ammortisation | 11.346.047 | 11.204.174 |
| **Operating income** | **24.188.308** | **28.749.239** |
| Finacial income | (3.647.852) | (201.180) |
| Finacial expenses | 922.365 | 3.530.210 |
| **Income before taxes** | **26.913.796** | **25.420.209** |
| Income taxes | 9.456.372 | 10.093.367 |
| **Net result** | **17.457.424** | **15.326.843** |

## Cash flow statement of the financial years closed on 31 December 2007 and on 31 December 2006

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| **Net income for the Group** | **17.457** | **15.327** |
| **Adjustments to reconcile net income to net cash provided by operating activities** | | |
| Depreciation and amortisation | 11.346 | 11.204 |
| Provision for doubtful accounts | 0 | 90 |
| Net change in deferred tax assets and libilities | (507) | (2.789) |
| Provision for termination indemnities | (19) | (1.263) |
| Net change in other provinsions | (119) | (132) |
| **Changes in operating assets and liabilities** | | |
| Inventories | (283) | (328) |
| Trade receivables | 5.274 | (4.315) |
| Other currents assets | (2.382) | (920) |
| Currents financial assets | (0) | 7.532 |
| Tax receivables and payables | 302 | (2.567) |
| Trade payables | (436) | 3.455 |
| Other current liabilities | (12.286) | (3.425) |
| Other non-current assets | (836) | 42 |
| Other non-current liabilities | (31) | (82) |
| **Total adjustments** | 21 | 6.503 |
| **Net cash provided/(used) by operating activities** | **17.478** | **21.830** |
| **Cash Flow from investing activities** | | |
| Additions to intagible assets | (1.076) | (1.153) |
| Disposals of intangible assets | 482 | 0 |
| Additions to property, plant and equipment | (14.190) | (14.262) |
| Disposals of property, plant and equipment | 1.194 | 81 |
| Acquisition of subsidiary, net of acquired cash | (47.649) | 16.011 |
| **Net cash used in investing activities** | **(61.239)** | **678** |
| **Cash flow from financing activities** | | |
| Cash used in the quotation operation | 0 | 161.481 |
| Clean variation debits towards controlled companies | (122.775) | (3.081) |
| Clean variation debits towards parent companies | (129) | 114 |
| Net changes in short-term bank-borrowings | 103.813 | (77.357) |
| Medium/Long terms debt repayments | (1.721) | (2.054) |
| Share buyback | (19.833) | (3.750) |
| Dividends paid | (5.736) | 0 |
| Interim dividend | (625) | 0 |
| **Net cash provided in financing activities** | **(47.005)** | **75.352** |
| **Increase in cash and cash equivalents** | (90.767) | 97.860 |
| **Cash and cash equivalents at beginning of the year** | **97.909** | **49** |
| **Cash and cash equivalents at end of the year** | **7.142** | **97.909** |

| Additional information | 2007 | 2006 |
|---|---|---|
| Interest paid | 889 | 1.721 |
| Tax paid | 9.942 | 4.019 |

## Statement of changes in the shareholders' equity items of the financial years closed on the 31 December 2007 and 31 December 2006

| (In thousands of Euro) | Share capital | Legal reserve | Company's own shares | Other reserves | Net result for the period | Ascopiave net assets |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2005** | **140.000** | **28.000** | **-** | **382** | **24.729** | **193.111** |
| Dividends paid | - | - | - | - | (3.750) | - |
| Allocation of 2005 result | - | 1.171 | - | 19.808 | (20.979) | - |
| Listing of Ascopiave S.p.A. in the stock exchange | - | - | - | 167.279 | - | 167.279 |
| Costs of listing | - | - | - | (5.968) | - | (5.968) |
| Result for the year 2005 | - | - | - | - | 15.327 | - |
| **Balance at 31 December 2006** | **140.000** | **29.171** | **-** | **181.501** | **15.327** | **354.422** |
| Allocation of 2006 result | - | 766 | - | 14.561 | (15.327) | - |
| 02 January 2007 capital increase | 93.334 | - | - | (93.334) | - | - |
| Attribution legal reserve | - | 16.730 | - | (16.730) | - | - |
| Dividends paid | - | - | - | (19.833) | - | (19.833) |
| Net income for period | - | - | - | - | 17.457 | 17.457 |
| Share buyback | - | - | (637) | - | - | (637) |
| Company's own shares adjustment | - | - | - | 13 | - | 13 |
| Dividend payable | - | - | - | - | (5.736) | (5.736) |
| **Balance at 31 December 2007** | **233.334** | **46.667** | **- 637** | **66.177** | **11.721** | **345.685** |

The Chairman of the Board of Directors
Dott. Gildo Salton

## IFRS accounting principles adopted in the preparation of the financial statements as of 31 December 2007

**Drafting standards**

The consolidated financial statements were prepared on the basis of the historic cost principle. The accounting principles, criteria and estimates adopted are comparable with those used in the preparation of the financial statements as of 31 December 2006. These statements comprise the Balance Sheet and Income Statement, both prepared in euros, as required by art. 2423 Civil Code, the Cash Flow Statement, the Statement of Changes to the Shareholders' Equity and the Explanatory Notes, in which, instead, information is provided in thousands of euros.

Accordance with IFRS standards

The financial statements closed on 31 December 2007 have been prepared in accordance with IFRS adopted by the European Union (IFRS) and provisions issued in implementation of art. 9 of Legislative Decree no. 38/2005.

**Change of accounting standards**

The accounting standards are consistent with those of the past year, with the exception of the following: During the year, the Company adopted the following new or reviewed IFRS and the following new and reviewed IFRIC interpretations. The adoption of these reviewed principles and interpretations have not affected the Company balance. They have, however, given way to additional information, including, in some cases, an alteration of accounting policies.

- IFRS 7 - Financial instruments: Additional information
- IAS 1 - Presentation of the financial statements
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Appreciation of incorporated derivatives
- IFRIC 10 - Quarterly statements and lasting reduction of value

The main effects of these changes are shown hereafter:

IFRS 7 - Financial instruments: Additional information

The principle requires some explanatory notes to allow the users of the financial statements to evaluate the significance of the Company financial instruments and the nature of the risks associated with such financial instruments. The new information is shown in different parts of the financial statements. Although there have been no effects of the financial position or results, the comparative information has been reviewed where necessary.

IAS 1 - Presentation of the financial statements

This change requires the Company to provide new information to allow the users of the financial statements to evaluate the objectives, policies and procedures of the Company with reference to the management of the capital.

IFRIC 8 - Scope of IFRS 2

This interpretation requires the application of IFRS 2 to each operation in which the entity cannot specifically identify the assets received, or part thereof, in particular when the issue of capital instruments is forecast at a price that would appear to be lower than the fair value. As the issues of capital instruments are only made to the benefit of employees, on the basis of any stock-option plans set up for the benefit of the employees, the interpretation has no effect on the Company result.

IFRIC 9 - Appreciation of implicit derivatives

IFRIC 9 sets out that the date by which to determine the existence of an implicit derivative is that on which the entity becomes, for the first time, the contractual counter party, with revaluation only where there is a change to the contract that significantly alters cash flow. As the Company does not hold any implicit derivatives that need to be separated from the guest contract, this interpretation has not impacted on the financial position or performance of the Company.

IFRIC 10 - Quarterly statements and lasting reductions of value

The Company has adopted IFRIC 10 interpretation as of 1 January 2007. The interpretation requires the entity not to recovery a lasting reduction of value reported in a previous quarter, on goodwill or on an investment in capital instruments or financial instruments held at cost. As the Company has not reported lasting reductions of value previously reported, the interpretation has not impacted on the financial position or performance of the Company.

**Future changes to accounting policies**

Principles issued but not yet in effect:

IAS 23 - Financial Costs

In March 2007, an amended version of IAS 23 Financial Costs was issued, which will take effect for all years starting on 1 January 2009 or later. The principle was amended in order to require the capitalisation of the financial costs when such costs refer to a qualifying asset. A qualifying asset is one which requires a significant period of time in order to be ready for its intended purpose or for sale. In accordance with the transitory provisions of the principle, the Company will adopt it as a prospective change. As such, the financial costs will be capitalised on the qualifying assets, starting from a date following 1 January 2009. No change will be made for financial costs borne up to that date, and which have been reported on the income statement.

IFRIC 12 - Concession agreements

In November 2006, the IFRIC 12 interpretation was issued, which will take effect for the years starting as of 1 January 2008 and later. This interpretation shall apply to all operators providing services by concession, and explains how to report the commitments made and the rights received under a concession agreement.

IFRIC 13 - Loyalty programmes

In June 2007, the IFRIC 13 interpretation was issued, which will take effect for the years starting as of 1 July 2008 or later. This interpretation requires bonuses granted to customers as loyalty premiums to be recorded as a separate item of the sales transactions for which they were granted, and as such, that part of the fair value of the amount received is allocated to the premiums and amortised throughout the period in which the credits/premiums are paid out.

IFRIC 14 IAS 19 - Limits to the assets of a benefits plan defined minimum requirements of financing and their interaction

In July 2007, the IFRIC 14 interpretation was issued, which will take effect for the years starting as of 01.07.08 and later. The interpretation provides instructions as to how to determine the excess limit of a defined benefits plan that can be reported as assets, in accordance with IAS 19 Benefits for employees.

IFRS 2 - Payments based on shares - Conditions for maturing and cancellation

This amendment to IFRS 2 Payments based on shares was published in January 2008, and will take effect during the first year following 1 January 2009. The principle restricts the definition of ‘maturing conditions’ on the condition that includes an explicit or implicit obligation to supply a service. Any other condition is a non-vesting condition, and must be taken into consideration in order to determine the fair value of the instrument representing the allocated capital.

Should the premium fail to mature as a consequence of the fact that it does not meet a non vesting condition, which is under the control of the entity or counter party, it must be reported as a cancellation.

IFRS 3R - Company mergers and IAS 27/R Consolidated and separated financial statements

The two principles were approved in January 2008, and will take effect as of the first year following 1 July 2009. IFRS 3R introduces some changes to the reporting of the business combination that will take effect on the amount of goodwill reported, on the result of the period in which the acquisition takes place, and on the results of the later periods. IAS 27R requires that any change in the share held in a subsidiary be reported as a capital transaction. Consequently, this change will not impact goodwill, nor cause profits or losses. Furthermore, the reviewed principles introduce changes in the reporting of a loss of a subsidiary, as the loss of control of the subsidiary. The changes introduced by the principles IFRS 3R and IAS 27R must be applied prospectively, and will impact future acquisitions and transactions with minority shareholders.

IAS 1 - Reviewed presentation of the financial statements

The reviewed principle IAS 1 Presentation of the financial statements was approved in September 2007 and will take effect as of the first period following 1 January 2009. The principle divides the changes in the shareholders' equity headed by the shareholders and non-shareholders. The statement of changes to the shareholders' equity will include only the detail of the transactions with shareholders, whilst all changes relating to transactions with non-shareholders will be shown in a single line. Furthermore, the principle introduces the statement of comprehensive income: this statement contains all items of income and costs relating to the period recorded on the income statement, and in addition all other items of revenue and reported cost. The statement of comprehensive income can be presented in the form of a single statement or two related statements.

Amendments to IAS 32 and IAS 1 Financial Instruments 'to be sold'

Amendments to IAS 32 and IAS 1 were approved in February and will take effect during the first year following 1 January 2009. The amendment to IAS 32 requires that some financial instruments to be sold, and bonds that arise at the time of liquidation, are classified as capital instruments if certain conditions occur. The amendment of IAS 1 requires that the explanatory notes contain information concerning bonds 'to be sold' classified as capital.

At present, the Company is analysing the principles and interpretations specified, and evaluating whether or not their adoption will have a significant impact on the financial statements.

**Use of estimates:**

Use of estimates: to draft the financial statements and the relevant notes in the application of the IFRSs, management must: make estimates and assumptions which influence the values of the assets and liabilities of the consolidated financial statements and the information regarding potential assets and liabilities at the date of the financial statements. The final results could differ from such estimates. Estimates are used to report:

- Reductions in value of non-financial assets (including goodwill),
- Valuation of revenues for volumes of gas distributed for which an effective reading is not yet available,
- Provisions for risks on credits,
- The effects of disputes on the application of distribution and those with the municipalities for the acknowledgement of the redemption value of assets as under the concession, returned upon expiry of such,
- Obsolete inventories,
- The useful lives of intangible and tangible fixed assets and related amortisation,

- Employee benefits and payment plans based on stock options (so-called phantom stock option)
- Taxes and
- allocations for risks and charges.

The estimates and assumptions are reviewed periodically, and the variations are immediately reflected in the income statement. In applying the Group accounting principles, the directors have taken decisions based on the stated discretional evaluations, with a significant effect on the values reported on the statements. However, the uncertainty surrounding these assumptions and estimates may determine results that, in the future, will need to be significantly adjusted at the book value of such assets and/or liabilities.

**Implementing new accounting standards**

We present the accounting standards adopted by Ascopiave S.p.A.:

**Non-current assets**

**Goodwill** The goodwill transferred on January 1st, 2005 is attributable to surplus values paid for the acquisition of some Companies operating in the business of distribution besides the surplus values paid during transfer of the distribution network. Such goodwill has been posted at cost values. After the transition date to IFRS (1 January 2005), goodwill can no longer be amortised and is reduced by any long-term losses of value.

Goodwill is subjected to an annual recoverability analysis, or a more frequent one if events or changes in circumstances occur which can lead to the emergence of possible losses of value.
With the intent of analyzing said recoverability, the goodwill acquired through groups of company is allocated, as of the acquisition date, to each of the units (or groups of units) that generate financial flows with the Company that it is held would benefit from the synergy effects of the acquisition, without regard to the allocation of other assets or liabilities of said units (or groups of units).
Said units which generate financial flows:
represent the lowest level, within the Company, to which the goodwill is monitored for internal management purposes

are not greater in a sector, as defined in the primary or secondary indication scheme of the Company in accordance with Ias 14 "Product sector information."
Loss of value is determined by defining the recoverable value of a unit which generates flows (or groups of units) to which the goodwill is allocated. When the recoverable value of a unit which generates flows (or group of units) is inferior to the book value, a loss of value is indicated. In cases in which the goodwill is attributed to a unit which generates financial flows (or group of units) which is activated through partial abandonment the goodwill associated with the transferred profit is considered in order to determine the positive or negative change derived from the operation. Goodwill transferred in such cases is calculated on the basis of the values relative to the asset transferred with respect to the asset still held with reference to the same unit.

**Other intangible fixed assets**: other intangible assets are recorded at cost, determined by the same methods indicated for tangible assets. As they have a defined useful life, intangible assets are booked net of the

accumulated relevant amortisation operations and net of any losses in value, determined with the same basis indicated below for tangible assets.
The useful life is then re-examined on an annual basis, and any changes, if necessary, made prospectively.
Intangible assets with a defined life are verified in order to find any losses in their value when events or changes of situation indicate that the book value cannot be realized.
Any profits or losses deriving from the sale of an intangible asset is determined as the difference between the disposal value and the book value of the asset, and are reported on the income statement at the time of the sale.

**Tangible fixed assets:** tangible assets are booked at their historic cost, including accessory costs directly ascribable to the putting into operation of the asset for the use for which it was acquired.

Lands - both free of constructions, and annexed to civil and industrial buildings - were generally accounted for separately and are not depreciated since they are elements with an unlimited useful life.

Maintenance and repair costs that are not subject to valuing and/or extending the residual useful life of assets, are spent in the year in which they are borne. Otherwise, they are capitalised.

Tangible assets are presented net of the relevant accumulated depreciation, and any losses of value determined according to the basis described below. Amortisation is calculated in uniform instalments on the basis of the estimated useful life of the asset for the company, which is re-examined annually, and any changes, if necessary, are made prospectively.

The main economical-technical rates used are as follows:

| **Category** | **Depreciation rates** |
|---|---|
| Buildings | 2% |
| Reduction appliances | 4% - 5% |
| Networks and connections | 2,2% - 4% |
| Meters | 5% |
| Equipment | 8,5% - 8,3% |
| Furniture and furnishing | 8,8% |
| Electronic machines | 16,2% |
| Basic hardware and software | 20% |
| Motorcars, motorvehicle and similar | 20% |

The book value of tangible fixed assets is subject to verification in order to report any loss of value, should events or changes of situation suggest that the book value may not be recovered. Should there be an indication of this type and, in the event that the book value should exceed the presumed realisation value, the assets are written down until they reflect their realisation value. The realisation value of the tangible fixed assets is represented by the greater of the net sales price and the value o fuse.

Losses of value are reported on the income statement with the costs for amortisations and writedowns. Such losses of value are restored should the reasons for their cause cease to exist.

When the asset is sold or if there are no future economic benefits expected from the use of the asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between the sale value and the book value) is entered in the income statement of the year of the above mentioned elimination.

Amortisation of such assets are calculated on the basis of the useful economic life, in the same way as is the case for other tangible fixed assets.

**Equity investments:** The equity investments in subsidiaries, associated companies and joint control companies are valued at cost method. Equity investments are carried at cost; the book value is determined on the basis of the purchase or subscription prices, possibly adjusted for any losses in value. If in future fiscal years the presupposition about devaluation is not held to be true, the original value is reset.
The equity investments in other companies are reported, at the time of acquisition, under financial assets 'available for sale' under non-current assets, and are valued at costs as unlisted shares, or for which the fair value is not believable or determinable. The changes in value of the shares classed as available for sale, because they are valued at cost, are reported directly on the income statement.

**Current assets**

**Inventories:** inventories are booked at whichever of the following is lower: purchase and/or manufacturing cost, determined in accordance with the weighted average cost method, or the estimated realizable net value. The net realisation value is determined on the basis of the estimated sales price in normal market conditions, net of direct sales costs.
Obsolete and/or slow to realise inventories are written down in relation to their presumed possibility of use or future realisation. The writedown is eliminated in the following years, should the reasons for its cause cease to exist.

**Trade receivables and other current assets:** trade receivables, whose expiry is within normal commercial trading terms, are not discounted back and are booked at cost (identified by their par value) net of the relevant value losses. These are suited to their presumed realisation value through the reporting in a specific adjustment fund, which is constituted when there is objective evidence that the Company will be unable to receive credit for the original value. Provisions to the reserve for doubtful accounts are reported on the income statement.

**Cash and cash equivalents:** include the ready cash values, i.e. values with the following requirements: availability at sight or in a very short term, good outcome, and no collection expenses.

**Own shares:** Re-acquired own shares are taken as a decrease of the assets. No profit or loss is reported on the income statement upon purchase, sale or cancellation of own shares.

**Non-current liabilities**

**Benefits for employees:** benefits guaranteed to employees, paid when or after employment ceases, by means of programs with defined benefits (Employees' leaving indemnities) or with other long-term benefits (retirement indemnity) are recognized in the period when the right accrues.
Liabilities relating to defined benefits programs, net of any assets supporting the plan, are determined according to actuarial hypotheses, and are competence-booked in line with the work performance required to obtain benefits; the valuation of the liabilities is carried out by independent actuaries, using the credit unitary projection method. Any profits or losses deriving from the actuarial calculation are reported on the income statement as a cost or income, regardless of the value of such, without using the so-called ‘corridor method’.

The amount reflects not only the debts accrued at the financial statements closing date, but also future salary rises and the related statistical dynamics.

**Reserves for risks and charges:** The reserves for risks and charges concern costs and charges of a given type, and of certain or probable existence, which on the closing date of the reference period are undetermined in terms of amount or due date. Provisions are reported when there is a current obligation (legal or implicit) that derives from a past event, when an outlay of resources is probable in order to meet the obligation, and a reasonable estimate can be made as to the amount of the obligation.
On the other hand, when it is not possible to create a reliable estimate for the bond, or if it is held that the expenditure of financial resources is merely possible and not probable, the relative potential liabilities are not included on the balance sheet, but adequate information regarding it is noted in the comments.
Provisions are reported at the representative value of the best estimate of the amount that the company would pay to extinguish the obligation, or to transfer it to third parties upon period end. If the effect of discounting of cash value is significant, the allocations are determined by discounting back the expected future financial flows at a pre-tax rate which reflects the market's current valuation of the cost of cash in relation to time. When discounting is carried out, the increase of the allocation due to the passing of time is reported as a financial charge.

**Medium / long-term loans:** loans are initially booked at fair value, net of any transaction costs and, subsequently, are valued at amortisation cost, calculated by applying the effective interest rate.

**Current liabilities**

**Trade receivables and other payables:** trade receivables, whose expiry is within normal commercial terms, are not discounted back and are booked at cost (identified by their par value).
Payables in a currency differing from the account currency, are booked at the exchange rate of the day of the operation and, subsequently, are converted at the exchange rate at year end. Any profit or loss deriving from conversion is reported on the income statement.
Other payables are reported at cost (identified from the face value).

**Current financial liabilities:** Financial liabilities are stated at their face value.

**Share-based payments:** Group employees (and in particular certain Directors) receive part of their salaries in the form of options that can only be sold for cash. The cost of cash operations is evaluated initially at the fair value as of the date of allocation, using an evaluation formula better explained under note 24. This fair value is spent in the period until maturation with reporting of a corresponding payable. The liability is re-calculated upon each closure of the period, until the date of regulation, with all changes made to the fair value reported on the income statement.

**Revenues and costs:**

**Revenues** and cots are indicated according to the principle of economic competence. Revenues and income are booked at fair value, net of returns, discounts, allowances, and bonuses.
Revenues for conveying services are recognised on the basis of service actually supplied. Revenues from customers for connections or based on allotting works are considered revenues for services supplied during the fiscal year and therefore are accounted for according to the standard of accrual basis.

**Public contributions:** public contributions are reported when there is a reasonable certainty that they will be received and all relevant conditions are met. When public contributions are linked to cost components, they are reported as income, but are systematically divided up over the periods, so as to be measured to the costs they are intended to offset. Should the contribution be connected to another asset, the asset and contribution are reported at face value, and the release to the income statement takes place progressively throughout the expected useful life of the asset of reference, in constant instalments.

**Interest:** revenues and costs are booked by competence according to the interest accrued on the net value of the relevant financial assets and liabilities, using the effective interest rate.

**Income taxes:** current active and passive taxes for the current and previous years are valued at the amount that is expected to be recovered or paid to the tax authorities. The rates and tax regulations used to calculate the amount are those issued or basically issued upon year end. Current taxation relating to elements reported directly under assets are reported directly as assets and not on the income statement.

Deferred taxes are calculated using the so-called liability method on the temporary differences resulting from the date of the statements between the tax values taken as reference for the assets and liabilities and the values reported on the statements. Deferred tax liabilities are reported against all taxable temporary differences:

- when deferred payable taxes derive from the initial reporting of goodwill or an asset or liability in a transaction that is not a company merger and that, at the time of the transaction itself, has no effect on the profit of the year calculated for the purposes of the statements, nor on the profit or loss calculated for tax purposes;

- with reference to temporary taxable differences associated with holdings in subsidiaries, associated companies and joint ventures, should the reversal of the temporary differences be able to be controlled, and it is probable that this does not take place in a foreseeable future.

Deferred tax assets are reported against all deductable temporary differences and for tax assets and liabilities brought forward, in the amount in which the existence of suitable future tax income is probable that can make the use of the deductible temporary differences and tax assets and liabilities brought forward applicable, with the exception of the following:

- when deferred payable tax assets connected with deductible temporary differences derive from the initial reporting of an asset or liability in a transaction that is not a company merger and that, at the time of the transaction itself, has no effect on the profit of the year calculated for the purposes of the statements, nor on the profit or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with holdings in subsidiaries, associated companies and joint ventures, the deferred tax assets are reported only in the amount in which it is probable that the deductible temporary differences will reverse in the immediate future and that there are suitable tax income against which the temporary differences can be used.

## Comments on the main items of the balance sheet as of 31 December 2007

***Non-current assets***

*1. Goodwill*

Goodwill, equal to Euro 20,433 thousands on 31.12.07, refers in part to the surplus value created by the contribution of the gas distribution networks by member local authorities in the period between 1996 and 1999, and in part to the surplus value paid during the acquisition of some branches of the company related to the distribution and sale of natural gas.

Goodwill, as it is understood by International Accounting Standard 36, is not subject to amortisation, but to depreciation audits at a rate of at least once a year. The aim of this is to define the principles that the company applies to guarantee that its assets are not recorded at a higher value than that which is recoverable.

The depreciation audit on goodwill has been carried out by checking the depreciation in the activities of gas distribution and natural gas sales, comparing the recoverable value of the relevant assets with their accounting value, including the goodwill allocated to them.
As no reliable criteria exist to evaluate the sales value between the aware and available parties in the activities of the sales and distribution of gas, other than the criteria put forward in literature to evaluate the branches of a company, the recoverable value of the audited activity is defined by its use value.

The value recoverable from the financial flow-generating unit in the sales and distribution of natural gas has been estimated using the Discounted Cash Flow methodology, discounting back the operating financial flows generated by the activity itself at a discount rate representative of the cost of capital.
The financial flows used to calculate value recoverable for the financial flow-generating gas distribution units, which cover the forecasts formulated by management for the period 2008/2010.
Under current sector regulation, according to which most concessions and assignments will expire on 31/12/2010, and in consideration of the uncertainty that bears on the renewal of concessions, it has been decided to estimate the final value of the financial flow-generating gas distribution unit by supposing two alternative scenarios, *id est* that (i) In 2010 Ascopiave ends the activity of gas distribution and (ii) the company obtains in 2010 the renewal of all the concessions and credits in effect on 31/12/2007.

The growth factor used for the purpose of calculating final value, estimated at 2% for both the financial flow-generating units, gas distribution and sales, takes into account inflation, growth of the client base and increased efficiency.

The cost of capital per financial flow-generating gas distribution unit was calculated assuming:
a) that coefficient *β* (beta levered) was defined based on the beta unlevered compared to a sample of comparable companies (local utilities quotation) and considering the specific target financial structure of the business;
b) The market risk taken from the average over a long period for an international sample group of countries;
c) The assumed Risk Free Rate equal to the average yield of 10 year State bonds.

On the basis of these elements, the average weighted cost of the post-tax capital equals 6.57% and, considering the hypotheses described, the recoverable value of the financial flow generating unit for gas distribution is greater than the book values, and as such the conditions do not exist by which to write down the goodwill for loss of value. Finally, sensitivity analyses have been carried out on the results: in all cases the value of use remains greater than the book values, even taking on an increase of the average weighted cost of the capital of 50 basis points.

*2. Other intangible assets*

The changes in the historical cost and accumulated amortisation of intangible assets during the periods under examination are shown in the following table:

The changes in other intangible asset for the period 2007 are shown in the following table:

| (In thousands of Euro) | Historic cost | Accumulated depreciation | Net balance | Historic cost | Accumulated depreciation | Net balance |
|---|---|---|---|---|---|---|
| Industrial patents and intellectual property rights | 2.255 | (2.111) | 144 | 2.233 | (2.020) | 213 |
| Concessions, licences, trademarks and similar rights | 997 | (853) | 144 | 902 | (785) | 118 |
| Other intangible assets | 1.044 | 0 | 1.044 | 1.811 | (964) | 847 |
| Construction in progress and advance payments | 492 | - | 492 | 229 | - | 229 |
| **Total other intangible fixed assets** | **4.788** | **(2.964)** | **1.823** | **5.175** | **(3.768)** | **1.407** |

| | 31/12/2006 | Changes for the period | | | 31/12/2007 |
|---|---|---|---|---|---|
| **(In thousands of Euro)** | **Net balance** | **Investments** | **Disposals** | **Depreciation** | **Net balance** |
| Industrial patents and intellectual property rights | 213 | 36 | - | 105 | 144 |
| Concessions, licences, trademarks and similar rights | 118 | 98 | - | 72 | 144 |
| Other intangible assets | 847 | 680 | 482 | - | 1.044 |
| Construction in progress and advance payments | 229 | 264 | - | - | 492 |
| **Total other intangible fixed assets** | **1.407** | **1.076** | **482** | **177** | **1.823** |

***Industrial patents and intellectual property rights***

The main reference is to the costs of purchasing and updating software.

***Concessions, licenses, trademarks and similar rights***

These represent costs for the purchase of user licenses and property rights connected to the gas distribution network.

Other intangible assets

To comply with the obligations for energy savings under Decree 20 July 2004 of the Ministry for Productive Activities, Ascopiave S.p.A., over the course of 2006, took actions to implement two projects:

- The installation of thermoregulation and tele-management tools in public buildings;
- Distribution of florescent light bulbs for electrical energy savings and a kit including a low-flow shower head and a low-flow tap for saving hot water too all of its domestic clients.

For such measures the Company has been awarded with energy efficiency certificates (so-called 'blank certificates') that attest to achievements in energy saving, and can be traded on the energy efficiency bond market. The projects carried out over the year 2006 will lead to the Company receiving further blank certificates in coming financial years.
In 2007, the company acquired on the marked all bonds necessary to reaching the energy saving objectives set by the Authority for Electrical Energy and Gas (AEEG) for the period under consideration. Charges relating to the purchase cost of energy efficiency certificates on the market, together with those relating to the projects that have made it possible to obtain such, have been capitalised in other intangible assets and are not subject to amortisation, but rather debited on the income statement, on the basis of the effective use of said certificates.

*3. Tangible fixed assets*

The changes in the historical cost, accumulated depreciation and net book value of property, plant and equipment in the years under examination are shown in the following table:

| | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| (In thousands of Euro) | Historic cost | Accumulated depreciation | Net balance | Historic cost | Accumulated depreciation | Net balance |
| Land and buildings | 15.303 | (3.479) | 11.824 | 15.706 | (2.991) | 12.715 |
| Plant and machinery | 386.049 | (129.610) | 256.438 | 374.491 | (120.234) | 254.257 |
| Industrial and commercial equipment | 2.209 | (744) | 1.465 | 2.161 | (525) | 1.636 |
| Other assets | 8.756 | (6.401) | 2.354 | 7.881 | (5.643) | 2.238 |
| Construction in progress and advance payments | 2.426 | - | 2.426 | 1.834 | - | 1.834 |
| **Total tangible fixed assets** | **414.742** | **(140.235)** | **274.507** | **402.073** | **(129.392)** | **272.680** |

The changes in other tangible assets for the period 2007 are shown in the following table:

| | 31/12/2006 | Changes for the period | | | | | 31/12/2007 |
|---|---|---|---|---|---|---|---|
| (In thousands of Euro) | Net balance | Investments | Disposals | Depreciation | Accumulated depreciation | Reclass.from tangible assets in progress | Net balance |
| Land and buildings | 12.715 | 43 | 446 | 494 | 6 | - | 11.824 |
| Plant and machinery | 254.257 | 11.022 | 1.200 | 9.823 | 446 | 1.736 | 256.438 |
| Industrial and commercial equipment | 1.636 | 48 | - | 220 | - | - | 1.465 |
| Other assets | 2.238 | 748 | 39 | 632 | 39 | 1 | 2.354 |
| Construction in progress and advance payments | 1.834 | 2.330 | - | - | - | (1.737) | 2.426 |
| **Total tangible fixed assets** | **272.680** | **14.190** | **1.685** | **11.169** | **491** | **-** | **274.507** |

Lands and buildings

This item is mainly made up of the buildings owned in relation to company offices, peripheral offices and warehouses, as well as the building works related to the transformer rooms. The increases recorded in the period mainly relate to the purchase of land in the town of San Zenone degli Ezzelini in the province of Treviso.

Plants and machinery

Under this heading can be included the costs relating to the distribution network and distribution systems, such as the transformer room systems, connections, reduction groups and meters. The increase recorded in the year 2007 includes the reclassification of assets under construction, and is posted for Euro 7,423 thousands from connections of new end customers, for Euro 663 thousands from the installation of new gas meters, for Euro 3,219 thousands by the construction of 87,622 metres of new network, for Euro 406 thousands for construction/modernisation of pressure reduction plants, for 114 thousands by works on electrical and conditioning plants, for Euro 20 thousands by work on cathodic protection plants, and for Euro 20 thousands for the acquisition of a co-generating plant.
The decrease in Plants and machinery is mainly related to the tangible assets due to the concession obtained from the municipality of Santorso, which following the natural expiry of said concession, in August 2007, was redelivered to the same municipality, in that it was requested to reverse as indemnity of the network value (in accordance with the 'Letta' Legislative Decree, art. 15, paragraph 5) an amount greater than the net book value (quantified as Euro 748 thousands) determined on the basis of valuations made by an expert appointed by ourselves.
As a consequence, the credit was then cautiously quantified as an amount equal to the net book value as of the date of delivery of the network, under the item 'Other non-current assets'.

Industrial and commercial equipment

This heading includes costs for the purchase of equipment for the maintenance of distribution service, such as pipe detectors and leak detectors.

Other assets

The increase recorded in the item 'Other assets' is mainly due: for Euro 431 thousands to the purchase of hardware and software, Euro 208 thousands to the purchase of vehicles, and for Euro 72 thousands to the purchase of assets.

The transfers from the item are mainly related to the transfer of vehicles and the elimination of hardware.

Assets under construction and advances

This heading primarily covers costs relating to work to extend the network and the construction of distribution plants, carried out partially with savings.

the increase is mainly represented by construction processes of new networks not completed at end 2007.

4. Equity investments

In the following schedule are summarised the list of holdings held by Ascopiave S.p.A. as of 31 December 2007.

| Company name | Registered Offices | Subscribed capital | Net assets | Net result | % | Balance sheet-value |
|---|---|---|---|---|---|---|
| ***Controlled company*** | | | | | | |
| Ascotrade S.p.A. | Pieve di Soligo (TV) | 1.000.000 | 18.669.629 | 5.023.332 | 89% | 4.809.636 |
| Global Energy S.r.l. | Mirano (VE) | 230.000 | 690.095 | - 198.240 | 51% | 700.000 |
| ASM Distribuzione Gas S.r.l. | Rovigo (RO) | 7.000.000 | 10.553.313 | 413.991 | 100% | 15.137.833 |
| ***Under common control companies*** | | | | | | |
| *ESTENERGY S.p.A.* | Trieste | 1.718.096 | 3.605.580 | 1.974.142 | 49% | 39.838.121 |
| ASM Servizi Energetici e Tecnologici S.r.l. | Rovigo (RO) | 200.000 | 625.526 | 76.653 | 49% | 3.339.895 |
| ***Investments in other companies*** | | | | | | |
| ITAL GAS Storage S.r.l. | Roma | 1.000.000 | - | - | 15% | 150.000 |
| B.Cred.Coop.Prealpi | Tarzo (TV) | 77 | - | - | 0,33% | 528 |

The Company holds shares in subsidiary companies represented by 89% interest in the capital share of Ascotrade S.p.A., for Euro 4,810 thousands Euro and shares for 51% interest in the capital share of Global Energy S.r.l. company for Euro 700 thousands

On 14 December 2007, the Company acquired a holding equal to 100% of the share capital of Asm Distribuzione Gas S.r.l., with headquarters in Rovigo, from the company Asm Rovigo S.p.A.. The acquisition of the holding has led to a financial outlay equal to Euro 15,138 thousands (of which Euro 7,243 thousands yet to be paid as of 31 December 2007), of which Euro 15,025 thousands for the purchase of shares and the remainder for the consultancy costs necessary to the acquisition.

On 14 December 2007, the Company acquired a holding equal to 49% of the share capital of Asm Servizi Energetici e Tecnologici S.r.l., with headquarters in Rovigo, from the company Asm Rovigo S.p.A.. The acquisition of the holding has led to a financial outlay equal to Euro 3,340 thousands (of which Euro 1,644 thousands yet to be paid as of 31 December 2007), of which Euro 3,315 thousands for the purchase of shares and the remainder for the consultancy costs necessary to the acquisition.

On 18 December 2007, the Company acquired a holding equal to 48.99% of the share capital of Estenergy S.p.A., with headquarters in Trieste, from the company Acegas-APS S.p.A.. The acquisition of the share has led to a financial outlay equal to Euro 39,838 thousands, of which Euro 38,000 thousands for the purchase of the shares, Euro 1,325 thousands for price adjustments (still listed amongst payables at year end) and for the remainder, for the consultancy costs necessary to the acquisition.

In addition, the Company controls indirectly through Global Energy S.r.l., the Le Cime Servizi S.r.l. held for 80% of the capital share.

Further we summarise the movements occurred in the holdings during the period being reviewed in the following schedule:

| | 31/12/2006 | Changes for the period | | 31/12/2007 |
|---|---|---|---|---|
| **(In thousands of Euro)** | **Net balance** | **Investments** | **Depreciation** | **Net balance** |
| **Equity investments** | | | | |
| Controlled companies | 5.510 | 15.138 | - | 20.647 |
| Under common control companies | - | 43.178 | - | 43.178 |
| Other companies | 39 | 111 | - | 151 |
| **Total equity investments in other companies** | **5.549** | **58.427** | **-** | **63.976** |

The increase in the item 'holdings in controlled and joint control companies' as compared with 31 December 2006, refers to the acquisition of the holding in Asm Distribuzione Gas S.r.l., whilst that in the 'holdings in joint control companies' relates to the acquisition of a share in Asm Servizi Energetici e Tecnologici S.r.l. and Estenergy S.p.A..
The increase in the item 'holdings in other companies' as compared with 31 December 2006 refers to payment of a further instalment of the share capital of Ital Gas Storage S.r.l., already subscribed by Ascopiave S.p.A. during 2006.

5. Other non-current assets

The captions comprising "Other non-current assets" at the end of the related periods are analysed in the following table:

| **(in thousands of Euro)** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Deposits and guarantees | 288 | 258 |
| Receivables for contributions | - | 114 |
| Other receivables | 3.375 | 2.455 |
| **Other non-current assets** | **3.663** | **2.827** |

'Other non-current assets' comprise receivables for caution money paid for Euro 288 thousands, and other receivables for Euro 3,375 thousands.
'Other receivables' include:

- a receivable from the local authority of Creazzo, to the value of Euro 2,141 thousands unchanged since 31 December 2006, corresponding to the net book value of the distribution plants awarded in June 2005 to the above-mentioned local authority following the natural expiry, on 31 December 2004, of the concession awarded by the above-mentioned local authority. The amount requested of the local authority of Creazzo, in accordance with the 'Letta' legislative decree, article 15, paragraph 5, as indemnity of the industrial value of the network, is greater than that amount and has been determined on the basis of the valuations specified in an appropriate expert opinion. It is to be noted that legal procedures are in progress with the above-mentioned local authority, with the aim of establishing the value of the indemnity of the awarded distribution plants. The company, based on the views of their own legal advisors, are of the opinion that the outcome of the legal proceedings will be favourable.

- the receivable from the local authority of Santorso, equal to Euro 748 thousands, equal to the net book value of the plants returned following expiry of concession. In this situation too, the value of the receivable is lower than the amount requested to be remitted to the local authority of Creazzo, according to the 'Letta' law, article 15, paragraph 5, as indemnification of the industrial value of the network, determined on the basis of valuations outlined in a suitable appraisal.
- The receivable from the AEEG reported on 31 December 2006 for Euro 313 thousands, is equal to Euro 485 thousands, given the full acknowledgement by such of the greater amounts paid by Ascopiave S.p.A. as contributions during the years 1998-2000, equal to Euro 970 thousands. We would point out that the agreement for the return of the amounts over several years, has led to the re-classification of Euro 485 thousands to 'Other current assets'.

*6. Prepaid taxes*

The captions comprising other non-current assets at the end of each period under consideration, are analysed in the following table:

| (thousands of Euro) | 31/12/2007 | | | 31/12/2006 | | |
|---|---|---|---|---|---|---|
| **Type** | **Temporary differences** | **Tax rate** | **Total effect** | **Temporary differences** | **Tax rate** | **Total effect** |
| Allocation for writedown of receivables | 413 | 31,40% | 130 | 413 | 37,25% | 154 |
| Allocation for risk fund | 1.464 | 31,40% | 460 | 1.505 | 37,25% | 561 |
| Amortization surpluses | 17.896 | 31,40% | 5.619 | 17.477 | 37,25% | 6.510 |
| Other | 372 | 31,40% | 117 | 443 | 33,00% | 165 |
| Phantom stock option | 5.706 | 31,40% | 1.792 | 7.608 | 37,25% | 2.834 |
| **Amounts due for advance taxes paid** | | | **8.117** | | **-** | **10.224** |

The calculation of deferred tax assets made reference to the IRES (company earnings tax) rate and, where applicable, to the IRAP (regional business tax) rate applicable at the time when the temporary differences are expected to be reversed. Specifically, the rate of 27.5% was used for IRES and 3.9% for IRAP, in consideration of Law no. 244/2007 (Financial Law 2008) that, at art. 1 paragraph 33 specified the reduction of the IRES rate by 5.5 percentage points, and at art. 1 paragraph 50, the reduction of the IRAP rate by 0.35%.

Prepaid taxes in the period of reference are down by Euro 2,107 thousands, going from Euro 10,224 thousands for 2006 to Euro 8,117 thousands. The change is mainly due to the decrease in the tax rates applied for Euro 1,513 thousands, to tax allowed amortisation of listing costs for Euro 597 thousands, partially offset by the dynamics of the tax amortisation of tangible and intangible assets.

***Current assets***

7. Inventories

The value of inventories at the end of each period is analysed in the following table:

| (in thousands of Euro) | 31/12/2007 Gross balance | Depreciation fund | Net balance as of 31.12.2007 | 31/12/2006 Gross balance | Depreciation fund | Net balance as of 31.12.2006 |
|---|---|---|---|---|---|---|
| Fuels and warehouse materials | 3.261 | (413) | 2.848 | 3.100 | (413) | 2.686 |
| Contract work in progress | 201 | - | 201 | 79 | - | 79 |
| **Total inventories** | **3.462** | **(413)** | **3.049** | **3.179** | **(413)** | **2.766** |

The inventories generally consist of material used for maintenance work or the creation of distribution plants. In the latter case the material is reclassified as Tangible Fixed Assets once construction work is completed.

Ordered Works in Progress refers to the construction of heating supply plants which are intended to be sold off.

Inventories are entered on the balance sheet under the net devaluation of inventory fund set up in order to adapt their value to the opportunities for their clearance or use.

*8. Trade receivables*

The following table indicates the amount of account receivables and the relevant adjustment funds at the end of every financial year.

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| *Trade receivables from others* | | |
| Trade receivables | 1.681 | 4.873 |
| Receivables for invoices to be issued | 4.779 | 3.162 |
| Trade receivables from parent companies | 33 | 36 |
| (Allowance for doubtful receivables) | (90) | (90) |
| (Provision of gas revenues) | (1.464) | (1.505) |
| | **4.939** | **6.476** |
| *Trade receivables from controlled companies* | | |
| Trade receivables from controlled companies | 14.339 | 18.076 |
| | **14.339** | **18.076** |
| **Trade receivables** | **19.277** | **24.552** |

The changes in the provision for doubtful accounts in the periods under consideration are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Opening allowance for doubtful receivables** | **90** | **0** |
| Provisions | 0 | 90 |
| Utilisations | 0 | 0 |
| **Net value of company acquisitions** | **90** | **90** |

The changes in the provision for gas revenues for each related period are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| **Opening provision of gas revenues** | **1.505** | **2.280** |
| Provisions | 1.464 | 1.505 |
| Utilisations | (1.505) | (2.280) |
| **Closing provision of gas revenues** | **1.464** | **1.505** |

Account receivables are fully represented by receivables from Italian customers. These are reported net of deposits of invoicing received on all those due within the next year, and include receivables relating to heat division assets, gas tran sport service on secondary networks for sellers external to the Group.

The receivables from subsidiaries equal to Euro 14,339 thousands, are mainly represented by invoices to be issued to Ascotrade S.p.A. for conveyance and service contracts. The decrease of Euro 3,737 thousands of receivables from subsidiaries, is mainly due to the different invoice timing of conveyance in the year 2007, as compared with 2006.

On the 31 December 2007 the value of receivables decreased, including in the gas proceeds fund made up of the appropriated surplus occurring due to the tariffs system introduced by resolution no. 237/00 by the Authority for Electrical Energy and Gas, starting from July 1st, 2001, for gas distribution activities and supply to clients in the fixed market. The above-mentioned tariffs system provides for a downwards trend in tariffs by increasing consumption brackets, applicable over the thermal year, which for 2007 runs for the period between 1 October 2007 and 30 September 2008. During the preparation of the consolidated balance sheet for 31 December 2007 it was deemed necessary to earmark Euro 1,464 thousands of the gas proceeds fund in order to standardize the profit margin from gas distribution over administrative financial periods including over the thermal year.

In 2007, the company evacuate, as assignment on a monthly basis of the distribution share of methane gas of each user, on revenues from sales, rather than on the basis of volumes of gas distributed, making the average distribution tariff higher in the summer periods than in the winter. In order to better represent the seasonality of the gas distribution activities, which is significantly influenced by the winter climate, we have deemed it appropriate to alter the way in which revenues relating to the fixed distribution share are allocated, which have been allocated proportionally to gas volumes distributed during the period of reference.

Alteration of the al location methods of the fixed share on the distribution revenues of methane gas, has meant a small allocation to a provision of gas revenues, equal to Euro 930 thousands. The lesser allocation has had a positive effect on the year's profit and shareholder's equity, equal to Euro 584 thousands.

During the year, it has not been necessary to make provisions to the reserve for doubtful accounts to adjust receivables to their presumed value of realisation.

9. Other current assets

The value of other current assets at the end of each related period are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Annual prepaid expenses | 66 | 44 |
| Advances to suppliers | 207 | 429 |
| Annual accrued income | 5 | 21 |
| Receivables due from Cassa Conguaglio Settore Elett | 946 | 700 |
| VAT receivables | 726 | - |
| Other receivables | 1.693 | 67 |
| **Other currents assets** | **3.643** | **1.261** |

The 'Other current assets' refers primarily to annual prepaid expenses and credits claimed on the Electrical Sector Adjustment Fund, relating to the energy saving initiatives put in place.

'Other current assets' at year end amount to Euro 3,643 thousands, with an increase equal to Euro 2,382 thousands as compared with the previous year. The change is mainly due to the increase in 'Other receivables' for Euro 1,626 thousands, and to the increase of 'VAT receivables' for Euro 726 thousands.

We would point out that the change in the 'Other receivables' is mainly due to the payment of deposits on the purchase of fixed assets for Euro 620 thousands, to acknowledgement by the AEEG of a credit equal to Euro 387 thousands, the credit matured against the parent company Asco Holding S..p.A. under the contract of national fiscal consolidation signed by the companies of the Group with Asco Holding S.p.A. equal to Euro 388 thousands, and for the remainder to the reclassification of receivables from the Veneto Region from long to short term.

10. Current financial assets
The value of other current financial assets at the end of each related period are analysed below:

| (in thousands of Euro) | 31/12/2007<br>Net value | 31/12/2006<br>Net value |
|---|---|---|
| **Revenues** | | |
| *Controlled companies* | | |
| Ascotrade S.p.A. intercompnay account | 110.957 | - |
| Global Energy S.r.l. intercompany account | 140 | - |
| **Total current financial assets** | **111.097** | **-** |

The item comprises the balance of the intercompany current account held with the subsidiary Ascotrade S.p.A. and is not comparable with respect of the terms of the previous year, in that on that date the Company was in debt towards the subsidiary Ascotrade S.p.A. for Euro 11,678 thousands. The change in the balance of current financial assets equal to Euro 111,097 thousands, is due to the reduction of capital by the subsidiary Ascotrade S.p.A. (connected to the operation of conferral of the sales branch of Bimetano Servizi S.r.l.) with the consequent distribution of the reserves, and to the seasonality of the business cycle, to the alteration of supply conditions of natural gas by the subsidiary Ascotrade S.p.A., and to the delayed invoicing process by the subsidiary Ascotrade S.p.A. due to the replacement of end users' management software.

*11. Tax receivables*

The value of tax receivables at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| IRAP receivables | 121 | 423 |
| **Tax receivables** | **121** | **423** |

The item includes residual receivables from accounts IRAP paid, less taxes attributable to fiscal year 2007.

*12. Cash and cash equivalents*

Cash and cash equivalents at the end of each related period are analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Bank and post office deposits | 7.138 | 97.903 |
| Cash and equivalents on hand | 4 | 6 |
| **Liquid funds** | **7.142** | **97.909** |

The change for Euro 90,767 thousands as compared with the previous year is mainly due to payment of the acquisition of holdings in other companies for Euro 47,649 thousands, to the distribution of dividends for Euro 19,833 thousands, to deposits on dividends for Euro 5,736 thousands, and to the increase of receivables from the subsidiary Ascotrade S.p.A.. For a detailed analysis of the change in liquid funds, please see the cash flow statement. The bank deposits are at sight and accrue interest based on Euribor rates at 1 month - 3 months, inclusive of spreads arranged with the above-mentioned institutions.

***Shareholders' equity***

*13. Shareholders' equity*

The value of net equity at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Capital and reserves | 339.805 | 350.672 |
| Net income for the year | 17.457 | 15.327 |
| **Total net assets** | **357.263** | **365.999** |

Ascopiave S.p.A.'s share capital as of 31 December 2007 comprises 233,334,000 shares of a face value of Euro 1.00. The previous year's profit was allocated for Euro 766 thousands to the Legal Reserve, in accordance with relevant regulations, and for the remaining Euro 14,561 thousands distributed to shareholders.

Make-up of shareholders equity

| Structure of the net assets (thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Share capital | 233.334 | 140.000 |
| Company's own shares | (637) | - |
| Legal reserve | 46.667 | 29.171 |
| Retained earnings | 51.247 | 67.977 |
| Other reserves | 14.930 | 113.525 |
| Interim dividend | (5.736) | - |
| Net income (loss) for the year | 17.457 | 15.327 |
| **Total net assets** | **357.263** | **365.999** |

Following registration and the Treviso Register of Companies on 2 January 2007 of the increase in share capital by Euro 93,334 thousands, following listing on the Italian Sedex Market in the Star section of the Italian stock exchange, the amount of Euro 93,334 thousands was reclassified from 'Other reserves' to Share Capital.

On 8 May 2007, the ordinary shareholders' meeting deliberated the distribution of a dividend equal to Euro 19,833 thousands, using the profit of the year ended 31 December 2006 for Euro 14,561 thousands and Other reserves for the remainder. The dividend warrant was paid on 21 May 2007.

On 25 June 2007, following the resolution of the ordinary shareholders' meeting, the legal reserve was increased by Euro 16,730 thousands, by means of the use of the share premium fund. On that date, the legal reserve reached an amount equal to one fifth of the share capital.

At the same time as the resolution to alter the legal reserve, the Shareholders' Meeting also deliberated to authorise the Board of Directors, for a maximum of 18 months, to proceed with the acquisition of own shares, to a maximum of 10% of the share capital, in accordance with that specified by art. 2357 Civil Code.

During the year, the acquisition of own shares involved a number of ordinary shares equal to 5,119,000 for a value of Euro 9,198 thousands. In the same period, the agreements made for the payment of the acquisition of the shares of Asm Distribuzione Gas S.r.l. and Asm Servizi Energetici e Tecnologici S.r.l. led to the sale of 4,740,000 ordinary shares for a value of Euro 8,561 thousands to the company Asm Rovigo S.p.A.. We would point out that the conditions of sale of the ordinary shares of Asm Rovigo S.p.A. have generated a capital gains as compared with the purchase price of the own shares, equal to Euro 18 thousands net of the relevant tax effect, reported on the Shareholders' equity.

On 13 September 2007, the Board of Directors approved the distribution of the deposit on dividends, in accordance with article 2433-*bis*, paragraph 5 of the Civil Code, of Euro 0.025 per share. Dividend warrants were realised on 20 November 2007, bringing about the payment of dividends for Euro 5,736 thousands.

Changes in capital in 2007 are shown in the following schedules:

**Reconciliation between number of shares in circulation as of 31 December 2006 and as of 31 December 2007**

| **Number of shares** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Common shares | 233.334 | 140.000 |
| Emission of ordinary shares (stock exchange quotation as of 31 December 2006) | | 93.334 |
| Company's own shares | (379) | - |
| | **232.955** | **233.334** |

| **Value of shares in circulation (thousands of Euro)** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Share capital subscribed | 233.334 | 140.000 |
| Company's own shares | (637) | - |
| | **232.697** | **140.000** |

We would point out that the overall value of the own ordinary shares, Euro 637 thousands, has been reported for the share part related to the face value (Euro 379 thousands) reducing the face value of the capital issued, and for the remainder reducing the other reserves.

With reference to that stated by art. 2427-*bis* of the Civil Code, here follow schedules showing the origin, possible use and distributable nature of the items comprising the shareholders' equity.

| | **Amount** | **Possibility of utilization** | **Retention quotas** | **Three previous years** | |
|---|---|---|---|---|---|
| | | | | **Losses coverage** | **Other** |
| Share Capital | 233.334 | - | - | | |
| | | | | | |
| Reserves | | | | | |
| Bonus share reserve | 1.078 | A | - | | |
| Share premium reserve | 50.170 | A, B | 50.170 | | |
| Riserve di rivalutazione | - | A, B | - | | |
| | | | | | |
| Income reserves | | | | | |
| Legal reserve | 46.667 | B | | | |
| Surplus reserve | - | A, B, C | - | | |
| Free reserve | - | A, B, C | - | | |
| Other reserve | 14.930 | A, B, C | 14.930 | | 5.273 |
| *Profit brought forward from previous years* | | | | | |
| **total** | | | **65.100** | | **5.273** |
| **Not retention quotas** | | | **-** | | |
| **Retention quotas** | | | **65.100** | | |

Legend: "A" increase for capital, "B" losses coverage, "C" distribution to partners

BONUS SHARE

On 5 July 2006, the Meeting resolved to increase the Share Capital by payment in the form of subscription under public offer for subscription, offering, as incentive, the assignment of a bonus share.

This incentive specified that those adhering to the Public Purchase Offer and who retained ownership of their shares for at least 12 months, would then have the right to be assigned ‘additional shares’ without further outlay. The increase in capital aimed at the issue of the additional shares must take place by 31 December 2008.

The Meeting specifies that “The funds necessary to pay for the Additional Shares will derive from a special fixed reserve fund set up specifically for this purpose and as such unavailable for any other use than that specified hereafter, by means of the provision of a part of the total price paid by the subscribers to the Public Offer”.

On 17 January 2008, Mediobanca S.p.A. declared that the number of free shares to be assigned to those with such rights, equalled Euro 1,078 thousands. The increase of the Share Capital in relation to the bonus shares has been reported to Treviso Companies’ Register on 29 January 2008.

***Non-current liabilities***

*14. Reserves for risks and charges*

The provisions for risk and charges for each related period are shown in the following table:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Provisions fro pensions and similar commitments | - | 44 |
| Other reserves for risks and charges | 18 | 94 |
| **Reserves for risks and charges** | **18** | **137** |

*Provisions fro pensions and similar commitments*

Pension fund and similar commitments refers to the additional allocations provided for in the trade union agreement of 27th June 1996 signed to establish the movement of employees from the Local Services Management Company S.r.l (now Ascotrade) to Ascopiave at the moment when the Piave Cooperative Company was set up. Over the course of 1999 further application-oriented agreements took effect, which defined the terms of use of the fund, subdividing the overall amount into individual shares, as well as the pay to be reserved for those employees who call a halt to employer-employee relations. The decreases relate to the amounts cleared during the period.

The changes in the provision for the related period are analysed in the following table:

| (in thousands of Euro) | |
|---|---|
| **Provisions for pensions as of 31 December 2006** | **44** |
| Allocation of provisions for pensions | - |
| Utilization of provisions for pensions | (44) |
| **Provisions for pensions as of 31 December 2007** | **-** |

*Other reserves for risks and charges*

The changes in the provision for the related period are analysed in the following table:

| (in thousands of Euro) | |
|---|---|
| **Other reserves for future risks and charges as of 31 December 2006** | **94** |
| Allocations to other reserves for risks and charges | - |
| Utilization other reserves for risks and charges | (76) |
| **Other reserves for future risks and charges as of 31 December 2007** | **18** |

The heading 'reserves risks and charges' includes primarily budgeted amounts for liabilities considered probable that could emerge from the judicial proceedings in progress. The allocation was estimated with the support of company's legal advisors.

15. Severance indemnities

The changes in the severance indemnities for the related period are analysed in the following table:

| (in thousands of Euro) | |
|---|---|
| **Severance indemnity as of 31 December 2006** | **1.463** |
| Payments | (580) |
| Cost of current services and work | 557 |
| Previous actuarial losses/(Profits) recorded | (5) |
| Actuarial losses/(Profits) recorded | 9 |
| **Severance indemnity as of 31 December 2006** | **1.443** |

The value of severance pay has been established using actuarial methods. The liability was determined by independent actuaries using the projected unit credit method based on the following assumptions.

- mortality rate: this information was determined by the actuary with reference to recent life-expectancy studies carried out by ANIA, which resulted in the creation of a new demographic benchmark known as IPS 55. These studies were based on a projection by ISTAT of mortality in the Italian population in the period 2001-2051, adopting an age-shifting approach to simplify the handling of the tables by generation;
- invalidity rate: the annual probability of ceasing work due to invalidity was determined with reference to the benchmark published by INPS in 2000;
- annual probability of ceasing work for other reasons: this was assumed to be 3%, based on the historical experience of the company in this regard;
- annual probability of requesting an advanced severance indemnity: this was assumed to be 2%, based on the historical experience of the company in this regard;
- discounting rates: this was assumed to be 4%, based on the forecast rate curve for the time period considered;
- annual rate of effective increase in remuneration: this rate was assumed to be 3%, based on management's estimates of the pay increases to be granted to employees;
- annual rate of inflation: this was estimated, in the time frame considered, as equal to 1.5%.

Between 1 January 2007 and 30 June 2007, employees had to decide allocation of their own severance indemnity, either explicitly or tacitly, by means of specific written communication. Severance indemnity matured up to 31 December 2006 remains, in any case, at the company. It is revaluated during the working relationship and paid out upon termination of said relationship.
In order to facilitate understanding of the data shown, please remember the following:

1. in accordance with Law 296/2006, amounts relating to severance indemnity maturing after 1 January 2007 are paid by the companies (with at least 50 employees) on a monthly basis (obligatory) into a specific treasury account held by the INPS (for all that is not paid, upon instructions given by the employee, into a complimentary welfare fund as per Legislative Decree 252/2005);
2. once this payment has been made to the INPS, the item relating to the severance indemnity no longer concerns the allocations, and the debt is deemed transferred. As such, for similar future obligations, an actuarial calculation is longer required, as neither is the discounting, as the debt is paid off periodically and, therefore, the companies no longer have any obligation to their employees.

In an attempt to summarise the valuation method of IAS 19 - Severance indemnities using the link with the declarations made by OIC, we can state the following:

- Severance indemnity matured up to 31 December 2006 = defined benefits plan (with actuarial calculation). No change from the past;
- Severance indemnity as from 1 January 2007 going to a complimentary welfare fund = defined contribution plan (without actuarial calculation and without discounting);
- Severance indemnity as from 1 January 2007 going to the treasury account held by the INPS = defined contribution plan (without actuarial calculation and without discounting).

The use of actuarial techniques to establish severance pay to IFRS standards at year end led to the recording of charges worth Euro 9 thousands.

*16. Medium/Long-term loans*

Medium/Long-term loans at the end of each related period are analysed in the following table:

| **(in thousands of Euro)** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Loans from Cassa Depositi e Prestiti repayable between 2006 and 2016 at a fixed interest rate periodically renegotiated. | 6.648 | 8.477 |
| Loans from Cassa Depositi e Prestiti repayable within 2009 at a fixed interest rate of 6%.. | 39 | 65 |
| **Total Medium/Long-term debt** | **6.686** | **8.542** |
| Less: current portion of medium / long-term loans | (1.732) | (1.867) |
| **Non current portion of medium / long-term loans** | **4.954** | **6.675** |

Medium - long-term loans refer to residual liabilities to the Cassa Depositi e Prestiti S.p.a. equalling Euro 6,686 thousands, of which Euro 4,954 thousands non-current share, subscribed against investments in extension works to the gas distribution networks. This overall payable is made up of various payables positions towards the above mentioned institution, with due dates falling between 2009 and 2016 and with fixed rates between 6% and 7.5%;

Medium/Long-term maturity loans for the year are analysed in the following table:

| **(in thousands of Euro)** | **31/12/2007** |
|---|---|
| Financial year 2008 | 1.733 |
| Financial year 2009 | 1.058 |
| Financial year 2010 | 851 |
| Financial year 2011 | 663 |
| Financial year 2012 | 571 |
| Beyond financial year 2012 | 1.811 |
| Total Medium/Long-term debt | 6.686 |

The reductions in funding result in the regular payment of instalments for the financial year.

*17. Other non-current liabilities*

The value of the item at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Long-term deferred income | 0 | 31 |
| Other payables | - | - |
| **Total other non current liabilities** | **0** | **31** |

*18. Deferred tax liabilities*

The provision for deferred taxation at the end of each related period is analysed below:

| (in thousands of Euro) | 31/12/2007 | 31/12/2007 | 31/12/2007 | 31/12/2006 | 31/12/2006 | 31/12/2006 |
|---|---|---|---|---|---|---|
| Descrizione | Temporary differences | Tax rate | Total Effect | Temporary differences | Tax rate | Total Effect |
| - amortization surpluses | 39.899 | 31,40% | 12.528 | 41.066 | 37,25% | 15.297 |
| - severance indemnities | 268 | 27,50% | 74 | 277 | 33,00% | 91 |
| - goodwill deductibility for tax purposes | 7.765 | 31,40% | 2.438 | 6.097 | 37,25% | 2.271 |
| - other deferred tax liabilities | 18 | 31,40% | 6 | - | 37,25% | - |
| **Deferred tax liabilities** | | | **15.046** | | | **17.660** |

The heading 'deferred tax liabilities' contains primarily the deferred tax liabilities allocated to temporary differences in the tax base between tax laws and balance sheet values, relative to the amortisation surpluses of tangible fixed assets and of the goodwill for tax purposes. The calculation of deferred taxation made reference to the IRES (company earnings tax) rate and, where applicable, to the IRAP (regional business tax) rate applicable at the time when the temporary differences are expected to be reversed. Specifically, the rate of 27.5% was used for IRES and 3.9% for IRAP, in consideration of Law no. 244/2007 (Financial Law 2008) that, at art. 1 paragraph 33 specified the reduction of the IRES rate by 5.5 percentage points, and at art. 1 paragraph 50, the reduction of the IRAP rate by 0.35%. Deferred taxation for the year equal to Euro 15,046 thousands are down by Euro 2,614 thousands. The change is mainly due to the decrease of tax rates for Euro 2,776 thousands.

***Current liabilities***

*19. Amounts due to banks and current portion of medium / long-term loans*

Short-term borrowings from banks are analysed in the following table:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Amounts due to banks | 105.594 | 1.646 |
| Current portion of medium / long-term loans | 1.732 | 1.867 |
| **Total amounts due to banks and current portion of medium / long-term loans** | **107.327** | **3.513** |

The increase in bank exposure for Euro 103,948 thousands as compared with 31 December 2006, has been mainly obtained by the increase of debtor balances towards credit institutes.

The following schedule shows the allocation of Ascopiave S.p.A. credit lines utilised and available and relative rates applied as of 31 December 2007:

| Lender | Type of line of credit | Max credit | Inter. rate as of 31.12.2007 | Utilization as of 31.12.2007 |
|---|---|---|---|---|
| Banca Popolare di Vicenza | Bank credit | 35.032 | 5,25 | 34.619 |
| Veneto Banca SpA | Bank credit | 30.000 | 6,342 | 6.000 |
| Banca Popolare Friuladria | Bank credit | 10.000 | 5,333 | 9.975 |
| Banca di Credito Cooperativo delle Prealpi | Bank credit | 5.000 | 5,436 | 5.000 |
| Unicredit Banca d'Impresa | Loan 27/12/2007-10/01/2008 | 37.000 | 4,726 | 37.000 |
| Banca di Trento e Bolzano | Loan 18/12/2007-18/01/2008 | 3.000 | 5,25 | 3.000 |
| Banca di Trento e Bolzano | Loan 18/12/2007-18/01/2008 | 5.000 | 5,25 | 5.000 |
| Banca di Trento e Bolzano | Loan 27/12/2007-14/01/2008 | 5.000 | 4,8 | 5.000 |
| **Total** | | **130.032** | | **105.594** |

* Thousands of Euro

*20. Accounts Payable*

Accounts payable at year end amount to Euro 9,745 thousands, as compared with the Euro 10,181 thousands of the previous year, showing a decrease of Euro 436 thousands.

*21. Other current liabilities*

The "Other current liabilities" item at the end of each related period is analysed in the following table:

| (in thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Customer advances | 6.880 | 7.306 |
| Amounts due to parent company for tax consolidation system | 0 | 7.704 |
| Due to social security institutions | 566 | 474 |
| Due to employees | 1.600 | 1.557 |
| IVA payables | 0 | 682 |
| Due to revenues for withholding tax at source | 430 | 754 |
| Annual deferred income | 31 | 186 |
| Payables amount payable to the local authority of Castelfranco Veneto | 0 | 2.393 |
| Annual accrued expenses | 1.089 | 1.018 |
| Other payables | 10.459 | 492 |
| **Total other current liabilities** | **21.055** | **22.566** |

Customer advances

Clients payments on account represent the amounts paid by the clients as contribution to works of allotments and connection, current as of the year end.

Amounts due to parent company for tax consolidation system

In the year ended on 31 December 2007, payment of tax deposits for Euro 8,355 thousands as compared with the payables for direct taxes matured during the year equal to Euro 7,963 thousands, has led to the total extinction of the item.

Amounts due to social security bodies

The amount due to social security institutions mainly relates to charges for the year that were paid at the start of the following year.

Amounts due to employees

The amounts due to employees for untaken vacation, deferred remuneration and bonuses earned relate to the vacation accumulated by 31 December 2007 but not yet taken at the reference date.

VAT payables

We would point out that the VAT payables of 2006 equal to Euro 682 thousands have been reclassified from 'tax payables' to 'other current liabilities'.

Accrued expenses and deferred income

Accrued liabilities are mainly referred to fees matured on state owned property concessions.

Other payables

'Other payables' at year end amount to Euro 10,459 thousands, as compared with the Euro 492 thousands of the previous year, showing an increase of Euro 9,967 thousands.

The year's increase is mainly due for Euro 8,887 thousands to the reporting of the residual debt to Asm Rovigo S.p.A. for payment of the purchase price of the shares of the companies Asm Distribuzione S.r.l. and Asm Servizi Energetici e Tecnologici S.r.l.. Payment of this amount will take place during the first half 2008.

We would point out that on the basis of a price regulation clause in the purchase contract of the shares of Estenergy S.p.A., an amount to be borne by the Company has been quantified as Euro 1,324 thousands, which whilst awaiting agreement with Acegas-APS S.p.A. has been reported under other payables.

The residual value of other payables equal to Euro 247 thousands is due to payables to welfare institutes for personnel contributions estimated as of 31 December 2007, and payables for family allowance contributions.

*22. Current financial liabilities*

The "Other current liabilities" item at the end of each related period is analysed in the following table:

| **(in thousands of Euro)** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Financial liabilities on parent companies | 0 | 129 |
| Financial liabilties on controlled companies | 0 | 11.678 |
| **Total current financial liabilities** | **0** | **11.806** |

The Company has paid the financial debt as of 31 December 2006 owed to the parent company Asco Holding S.p.A. and the subsidiary Ascotrade S.p.A.. Upon year end on 31 December 2007, the company is creditor of Euro 110,957 thousands against the subsidiary Ascotrade S.p.A.. The change in the balance of financial liabilities is due to the seasonality of the activity, the alteration of the supply methods of natural gas by the subsidiary Ascotrade S.p.A. and the delayed invoicing by the subsidiary Ascotrade S.p.A. due to the replacement of end users' management software.

***Net financial position***

The table below shows the composition of the net financial position as requested in Consob communication no. DEM/6064293 of 28 July 2006:

| **(thousands of Euro)** | **31/12/2007** | **31/12/2006** |
|---|---|---|
| Cash and cash equivalents | 7.142 | 97.909 |
| Financial receivables from controlled companies | 111.097 | - |
| Loans from controlled companies | | (11.678) |
| Loans from controlling company | | (129) |
| Loans from banks and borrowings | (107.327) | (3.513) |
| Payables due to the City Council of Castelfranco | | (2.393) |
| Loans from regulation of partecipation prices | 10.212 | |
| **Net short-term financial position** | **21.125** | **80.196** |
| Medium/long term loans | (4.954) | (6.675) |
| **Net medium/long term financial position** | **(4.954)** | **(6.675)** |
| **Net financial position** | **16.171** | **73.521** |

Ascopiave S.p.A.'s available funds on 31 December 2007 are Euro 16,171 thousands due mainly to the loan agreed with the subsidiary Ascotrade S.p.A. that during the year requested financial means for Euro 122,634 thousands and to payment of the acquisition of holdings for Euro 47,649 thousands.

We point out that short and long term bank loans do not provide for covenants or negative pledges.

## Comments on the main income statement items of the financial year 2007

***Revenues***

*23. Revenues*

The following table shows the increase in revenues in the years under consideration:

| (In thousands of Euro) | 2007 | 2006 |
|---|---|---|
| Revenues from gas conveyance | 40.067 | 40.504 |
| Revenues from gas sales | 10.504 | 0 |
| Revenues from connection services | 8.055 | 8.703 |
| Revenues from heat supply services | 3.778 | 3.505 |
| Revenues from distribution services | 2.628 | 2.290 |
| Revenues from billing and tax services | 224 | 287 |
| Revenues from joint venture services | 3.576 | 4.796 |
| Other revenues | 6.088 | 5.219 |
| **Total Revenues** | **74.920** | **65.304** |

Revenues from gas conveyance have decreased by Euro 437 thousands following the decreases of volumes which go from 806.3 million cubic metres of fiscal year 2006 to 748.6 million cubic metres of 2007 or a decrease of 57.7 million cubic metres representing a percentage variation of 7.1%, partially offset by the increase of the average natural gas distribution tariff, which goes from Euro cents 50.24 of 2006 to Euro cents 53.52 of 2007, with a percentage variation of 6.5%.

Income from the sale of gas is equal to Euro 10,504 thousands and relate to wholesale trading operations on the foreign market of natural gas, to a single counter party.

Income for connections to the gas distribution network undergo a change of 7.4% in the year, going from Euro 8,703 thousands for 2006 to Euro 8,055 thousands for 2007, due to the decrease in the number of new users connected to the network, going from 12,126 to 10,500.

Revenues for heat supply show an increase of 7.8% going from Euro 3,505 thousands to Euro 3,778 thousands; such increase is due to new managed plants which go from 393 to 420.

Revenues from distribution services relate to services requested by users and have sustained an increase of 14.8% going from Euro 2,290 thousands for 2006 to Euro 2.628 thousands in 2007.

Other revenues of Euro 6,088 thousands refer mainly to contributions for the network development which go from Euro 3,231 of fiscal year 2006 to Euro 2,887 for 2007, from contributions recognised by the Gas and Electric Energy Authority for Euro 945 thousands relative to the recognition of the energy saving objectives, from transfer of materials which go from Euro 685 thousands of 2006 to 828 thousands, from contingent assets which go from Euro 367 thousands in 2006 to Euro 1,132 thousands, and other residual revenues and proceeds. The increase in contingent assets of the year is due to recognition by the AEEG of the greater amounts paid by Ascopiave S.p.A. as contributions from 1998-2000 for Euro 657 thousands.

***Operating expenses***

24. Cost for gas purchases

Cost for gas purchases for resale abroad

The following schedule shows the costs referred to the purchase of raw materials during the fiscal years being reviewed:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Purchase of natural gas for resale | 10.364 | - |
| **Total cost of raw materials** | **10.364** | **-** |

25. Cost of product

The following schedule shows the costs referred to the purchase of raw materials during the fiscal years being reviewed:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Purchase of natural gas | 1.275 | 1.179 |
| Purchase of GPL and gasoil | 115 | 157 |
| Purchase of other material | 1.520 | 1.458 |
| **Total cost of raw materials** | **2.910** | **2.794** |

The cost for raw materials include mainly the cost for fuels utilised in the gas distribution stations and heat supply service beside costs of materials utilised in maintenances of the distribution network.

26. Costs for services
Cost of services is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Costs for meters reading | 734 | 740 |
| Postage and telegraph costs | 331 | 375 |
| Maintenance and repairing | 1.520 | 1.204 |
| Consulting services | 1.772 | 614 |
| Commercial services and advertisements | 178 | 434 |
| Different consumers | 1.250 | 1.167 |
| Directors' and Statutory Auditors' fees | 725 | 305 |
| Insurances | 220 | 200 |
| Payroll and related costs | 549 | 510 |
| Other managing expenses | 923 | 749 |
| Costs for use of third party assets | 1.790 | 1.432 |
| **Total services costs:** | **9.992** | **7.731** |

2007 costs for services amount to Euro 9,992 thousands, as compared with Euro 7,731 thousands for 2006, showing an increase of 29.2%. The increase, equal to Euro 2,261 thousands, is mainly due to the increase in consultancy service costs for Euro 1,158 thousands, to directors' and auditors' fees for Euro 420 thousands, to costs for the use of third party assets for Euro 358 thousands, and to maintenance and repair costs for Euro 316 thousands. The change in costs for the use of third party assets is mainly due to the increase for Euro 355 thousands of concession charges paid to local bodies. The increase in concession charges is due to the signing with local concession bodies of agreements aiming to increase the duration of the concessions.

Cost for business services and advertisement include charges for activities of market surveys and advertisement campaigns.

Labour costs include costs for automobiles assigned to employees, cost for cafeteria service and costs for personnel training and development. .

Other operating costs include various day-to-day operating expenses (costs for business trips, cleaning, security, etc.).

*27. Labour and related costs*

The cost of services is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Wages and salaries | 8.224 | 7.707 |
| Social security contributions | 2.773 | 2.391 |
| Severance indemnities | 570 | 544 |
| Pensions and similar commitments | 0 | 45 |
| Other costs | 21 | 21 |
| **Payroll and related costs:** | **11.588** | **10.708** |
| Capitalised payroll and related costs: | (1.551) | (1.418) |
| **Net payroll and related costs:** | **10.037** | **9.289** |

Labour cost is shown less the capitalised costs based on increases of internal works.

The increase for Euro 748 thousands as compared with 2006 is due to the new employees, as shown in the table below that highlights the average number of company employees, to the supply of a one off contractual holiday payment as foreseen by the renewal of the contract of the gas and water sector, and which took place on 9 March 2007, valid for the years 2007-2009, and to the increase recognised by the same renewal of the employment contract.

| Type | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Executives | 8 | 7 |
| Office workers | 159 | 145 |
| Blue-collar workers | 95 | 95 |
| **Average number of employees** | **262** | **247** |

*28. Other operating costs*

Other operating expenses are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Provision for risks on credits | - | 90 |
| Membership fees and AEEG | 1.527 | 1.453 |
| Capital losses | 611 | 333 |
| Out-of-period expenses | 0 | 47 |
| Other taxes | 1.171 | 992 |
| Other costs | 935 | 814 |
| Costs of contracts | 1.853 | 1.933 |
| **Total other operating costs** | **6.097** | **5.662** |

Other operating costs go from Euro 5,662 thousands for 2006 to Euro 6,097 thousands for 2007, with an increase of 7.7%. They relate to associative contributions paid to the AEEG, to other taxation and to costs for contracts.

The increase of the losses on disposals equal to Euro 278 is mainly due to the elimination of materials from the warehouse.

Other costs mainly comprise cost for vehicle fuel, for energy efficiency certificates linked to the contribution recognised by the Electrical Sector Adjustment Fund with reference to the energy saving objective for 2007, for the purchase of various materials, consumable materials and stationery.

*29. Other operating income*

Other operating expenses are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Out-of-period incomes | - | 99 |
| Other incomes | 15 | 27 |
| **Total other operating income** | **15** | **126** |

*30. Amortisation and depreciation*

Depreciation and amortisation for the related period are analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Intangible fixed assets | 178 | 227 |
| Property, plant and equipment. | 11.169 | 10.977 |
| **Total depreciation and amortization** | **11.346** | **11.204** |

2007 amortisation amounts to Euro 11,346 thousands, showing a change of Euro 142 thousands as compared with the previous year.

***Financial income and expense***

*31. Net financial income and expense*

Net financial expense for the related period is analysed in the following table:

| (in thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Interest income on bank and post office accounts | (1.985) | (182) |
| Other financial income | (1.663) | (19) |
| **Financial income** | **(3.648)** | **(201)** |
| Interest expense on banks | 180 | 969 |
| Interest expense on mortgage loans | 612 | 752 |
| Other financial expense | 130 | 1.809 |
| **Financial charges** | **922** | **3.530** |
| **Total net financial expenses** | **(2.725)** | **3.329** |

The change in the financial position has led to a significant increase in financial income that goes from Euro 201 thousands for 2006, to Euro 3,648 thousands for 2007, with a change of Euro 3,447.

Other financial income includes Euro 1,643 thousands of interest relating to the corresponding current account held with the subsidiary Ascotrade S.p.A..

***Taxes and duties***

*32. Income taxes*

The income tax charge for the related period is analysed in the following table, distinguishing the current element from the provisions for deferred tax assets and liabilities:

| (In thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| IRES current taxation | 8.503 | 8.554 |
| IRAP current taxation | 1.466 | 1.586 |
| (Advance)/deferred taxes | (512) | (47) |
| **Total Income Taxes** | **9.456** | **10.093** |

While the following schedule shows the effect of taxes on income:

| (In thousands of Euro) | Financial year 2007 | Financial year 2006 |
|---|---|---|
| Income before taxes | 26.914 | 25.420 |
| Income taxes | 9.456 | 10.093 |
| **Percentage of income before taxes** | **35,1%** | **39,7%** |

The incidence of taxes on the pre-tax income goes from 39.7% for 2006 to 35.2% for 2007.

| Data stated in thousands of Euro | Financial year 2007 | | Financial year 2006 | |
|---|---|---|---|---|
| Ordinary tax rate applicable | 33% | | 33% | |
| **PRE-TAX RESULTS** | **26.914** | | **25.420** | |
| Theoretical IRES tax charge | 8.882 | 33,0% | 8.389 | 33,0% |
| Non-deductible costs | (891) | -3,3% | 119 | 0,5% |
| **Effective IRES tax charge** | **7.991** | 29,7% | **8.507** | 33,5% |
| IRAP (current and deferred) | **1.466** | 5,4% | **1.586** | 6,2% |
| **Total effective tax charges** | **9.456** | 35,1% | **10.093** | 39,7% |
| **Effective rate** | **35,1%** | | **39,7%** | |

The change in the tax rate is mainly due to the effect of the decrease in tax rates under the 2008 Financial Law on the provisions of prepaid and deferred taxation.

***Non-recurring components***

In accordance with CONSOB communication 15519/2005, we would report the non-recurring economic components reported in the financial statements as of 31 December 2007.

The item ‘revenues from gas sales’ equal to Euro 10,504 thousands reported in note 23 relating to a single wholesale trading operation on the market of natural gas, realised by the parent company Ascotrade S.p.A..
In terms of the item 'Other revenues' reported in note 23, there is extraordinary income relating to the acknowledgement of receivables for greater contributions paid to the AEEG for Euro 657 thousands. This income is of an extraordinary and non-repeatable nature, and relates to greater contributions paid from 1998 to 2000.

## Information on related parties

In compliance with art 2497-*bis* of the Italian Civil Code, we notify that the Company is a subsidiary of Asco Holding S.p.A.
Operations with the Group companies are carried out at fair market values. There aren't any other operations carried out during fiscal year with companies and entities referable to Shareholders or administrators or holding or subsidiary companies.

| (In thousands of Euro) | 31/12/2007 | | | | Financial year 2007 | | | Financial year 2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Company | Trade receivables | Other receivables | Accounts Payable | Other payables | Expense | | | Revenues | | |
| | | | | | Assets | Services | other | Assets | Services | other |
| *Controlled companies* | | | | | | | | | | |
| Ascotrade S.p.A. | 14.320 | 110.957 | 1.314 | - | 1.294 | 393 | 9 | - | 44.126 | 1.639 |
| Global Energy S.r.l. | 19 | 140 | - | - | - | - | - | - | 18 | 4 |
| ***Total controlled companies*** | ***14.339*** | ***111.097*** | ***1.314*** | ***-*** | ***1.294*** | ***393*** | ***9*** | ***-*** | ***44.144*** | ***1.643*** |
| *Associated companies* | | | | | | | | | | |
| Ascotlc S.p.A. | 29 | - | 64 | - | - | 380 | - | - | 68 | - |
| Seven Center S.r.l. | - | - | 68 | - | - | 278 | - | - | 1 | - |
| Mirant Italia S.r.l. | 3 | - | - | - | - | - | - | - | 3 | - |
| ***Total associated companies*** | ***32*** | ***-*** | ***132*** | ***-*** | ***-*** | ***658*** | ***-*** | ***-*** | ***72*** | ***-*** |
| *Parent companies* | - | - | - | - | - | - | - | - | - | - |
| Asco Holding S.p.A. | - | 394 | - | - | - | - | 2 | - | 36 | - |
| ***Total parent companies*** | ***-*** | ***394*** | ***-*** | ***-*** | ***-*** | ***-*** | ***2*** | ***-*** | ***36*** | ***-*** |
| **Total** | **14.371** | **111.491** | **1.446** | **-** | **1.294** | **1.051** | **11** | **-** | **44.252** | **1.643** |

Revenues from the subsidiary Ascotrade S.p.A. and residual credits at end 2007, refer mainly to conveying service supplied by Ascopiave S.p.A..

Receivables from Asco Holding S.p.A. for Euro 394 thousands include receivables deriving from the adhesion to the contract of national tax consolidation relating to the debt matured for taxes relating to the year ended on 31 December 2007. Costs for services to the associated company Asco TLC S.p.A. refer to the hire charges of the servers. The revenues from the same are generated by a gas supply contract and from service contracts stipulated between the parties.

Following are reported the salaries matured for the Administrators and Auditors for the offices fulfilled by the same in Ascopiave S.p.A...

*Remunerations paid to administrators for fiscal year 2007*

| Individual | Office | Duration of office | Annual remuneration from Ascopiave S.p.A. | Annual remuneration from controlled companies | Total |
|---|---|---|---|---|---|
| Salton Gildo | President of the Board of Directors | 2005-2007 | 310.000 | - | 310.000 |
| Beninatto Alfonso | Member of a board | 2005-2007 | 50.000 | | 50.000 |
| Bortolin Gianantonio | Member of a board | 2005-2007 | 50.000 | 5.650 | 55.650 |
| Trinca Flavio | Indipendent member of a board | 2005-2007 | 52.000 | | 52.000 |
| Bresolin Ferruccio | Consigliere indipendente | 2005-2007 | 50.000 | | 50.000 |
| **Totale** | | | **512.000** | **5.650** | **517.650** |

*Remunerations paid to the board of auditors*

| Individual | Office | Duration of office | Annual remuneration from Ascopiave S.p.A. | Annual remuneration from controlled companies | Total |
|---|---|---|---|---|---|
| De Luca Lino | President of the Board of Statutory Auditors | 2005-2007 | 90.264 | | 90.264 |
| Visentin Graziano | Statutory Auditor | 2005-2007 | 61.051 | | 61.051 |
| Sforza Fabio | Statutory Auditor | 2005-2007 | 61.468 | | 61.468 |
| **Totale** | | | **212.783** | **-** | **212.783** |

*Remuneration for strategic directors*

| Individual | Office | Duration of office | Total |
|---|---|---|---|
| Gumirato Roberto | Chief Financial Officer | Open-ended contract | |
| Favaro Giovanni | Chief Technology Officer | Open-ended contract | |
| Belliato Cristiano | Managing Director | Open-ended contract | |
| Bignucolo Giacomo | Management Control Director | Open-ended contract | |
| **Total** | | | **459.217** |

*Fees to the Auditing Company*

In accordance with art. 149-*duodecies* of the Consob Issuer Regulations, we have shown the amounts due for 2007 for auditing, and for those other than the auditing carried out by the auditing company. No services have been provided by entities belonging to its network.

| Type of service | Supplier | Receiver | Wages (thousands of Euro) |
|---|---|---|---|
| Accountant Auditor | Reconta Ernst & Young S.p.A. | Ascopiave S.p.A. | 164 |
| | | controlled company | 30 |
| Certification service | Reconta Ernst & Young S.p.A. | Ascopiave S.p.A. | 55 |
| | | controlled company | 39 |
| Advisory service | Reconta Ernst & Young S.p.A. | Ascopiave S.p.A. | 26 |
| | | controlled company | |
| **Total** | | | **314** |

## Commitments and risks

Sureties given

The company has provided the following potential sureties as of 31 December 2007:

- Euro 9,283 thousands on the carrying out of works;
- Euro 1,677 thousands to participate in calls for tenders to supply methane;
- Euro 17 thousands for commercial lease contracts;

Legal proceedings

As of 31.12.2007, three claims are pending before the Veneto TAR, presented by Ascopiave S.p.a in regards to resolutions implemented by the licensing municipalities (the municipalities of Galliera Veneta, Tezze sul Brenta, and Tombolo) in reference to the duration of concessions, and four claims against calls for tenders published by the municipalities (those of Costabissara, Santorso, Marano Vicentino and Isola Vicentina), for the choice of the new public gas distribution operator service.

With regards 2 of these claims (Marano Vicentino and Costabissara, the Veneto TAR, during the summary assessment phase, had sustained the notices of motion submitted by Ascopiave S.p.A.. On 24 July and 31 July, the Council of State admitted the appeals against the Order of the Veneto TAR, by both municipalities. Recently, the hearing has been set for the discussion of both claims, as 12 December 2007. In this last hearing, with regards to one of the claims (Costabissara), the Veneto TAR, with 2007 Order no. 940 sustained the application for suspension formulated by Ascopiave S.p.A. against the determination of definitive judgement, and the provision stating to deliver the plants to the town administration, whilst the related discussion has been postponed to after such time as the Constitutional Court will have sentenced as to the legitimacy of the institute of the advance payment. With regards to the other claim (Marano Vicentino), it has been agreed to postpone the hearing.

With regards the concession of the municipality of Santorso, we would point out that the call for tenders by the municipality has been granted to a company other than Ascopiave S.p.A., and that on 23 July 2007, Ascopiave S.p.A. and the Municipality signed the minutes of the delivery of the methane gas distribution plants. In this act, Ascopiave S.p.A. declared having transferred availability of the plant, in accordance with art. 13 of the Law Order (Decreto Letta). As of the time of 6.00 on 1 August 2007, management of the service of methane gas distribution in this municipality by Ascopiave S.p.A. officially ceased. With reference to the dispute relating to the call for tenders held by this municipality, on 26 October 2007, Ascopiave S.p.A. formulated a request for withdrawal before the Veneto TAR.
Because the above-described proceedings are still pending before the Judicial Authorities, Ascopiave S.p.A. does not believe to be able in calculating the estimates regarding the expiration of these concessions and in reference to the date and companies which will be definitively granted these contracts for the gas distribution service.

**Management of financial risk: objectives and criteria**

The main financial liabilities of Ascopiave S.p.A. include bank loans, hire contracts with purchase options, and short-term at sight bank deposits. The main aim of these liabilities is to finance operative activities. Ascopiave S.p.A. has various financial assets, such as accounts receivable and cash and short-term deposits, that derive directly from the operative activities. We would point out that accounts receivable such as financial receivables, are mainly due from the subsidiary Ascotrade S.p.A..

The main risks generated by Ascopiave S.p.A. financial instruments are the interest rate risk, the liquidity risk and the credit risk. The Board of Directors re-examines and agrees policies for managing said risks, as summarised hereto.

**Interest rate risk**

Ascopiave S.p.A.'s exposure to the risk of change in market interest rates is mainly connected to the loans taken out with credit institutes with variable interest rates, as the Company is charged with managing financial requirements of the subsidiaries.
Ascopiave S.p.A.'s policy, depending on the seasonality of the natural gas business cycle, aims to manage the need for cash by means of temporary loans at variable rates, that given their constant change, do not make it possible to suitably cover the interest rate risk.
Ascopiave S.p.A. also manages fixed rate loans for insignificant amounts that depend on the conferral fo the gas distribution networks of the local bodies, now shareholders of Asco Holding S.p.A..
We would point out that as Ascopiave S.p.A.'s exposure to the bank system is generated by financial receivables from the subsidiary Ascotrade S.p.A., regulated by conditions on rates in line with the market of reference, the interest rate risk is transferred to the subsidiary.

**Receivables risk**

The activity of natural gas distribution does not lead to significant receivables risks, in that the main creditor is the subsidiary Ascotrade S.p.A., and the supply of services relating to the construction of networks or management of such are all subject to advance payment.

**Liquidity risk**

Ascopiave S.p.A. constantly pursues maintenance of balance and flexibility of financing sources and uses, acting as Group treasury manager.

The two main factors influencing liquidity of Ascopiave S.p.A. are on the one hand the resources generated or absorbed by the operative or investment assets, on the other hand the expiry characteristics and debt renewal.

Division according to expiry, as of 31 December, of financial debts is reported at note 19.

Liquidity requirements are monitored by the treasury function of Ascopiave S.p.A. with a view to guaranteeing an efficient recovery of financial resources, or a suitable investment of any available funds.

The directors believe that the funds and loans currently available, apart from those generated by operative or financing assets will allow them to meet requirements deriving from investment, management of circulating capital and reimbursement of debts at natural expiry.

**Management of Capital**

The primary objective of the management of Ascopiave S.p.A. capital, is to guarantee that a solid credit rating is maintained, and suitable levels of capital indicator. Ascopiave S.p.A. can adapt the dividends paid to shareholders, reimburse capital or issue new shares.

Ascopiave S.p.A. checks its capital by means of a debt/capital ratio, i.e. comparing the net debt to the total of the capital plus the net debt. Group policy aims at keeping this ratio between 20% and 35%.

Ascopiave S.p.A. includes financial charges, accounts payable and other liabilities in the net liabilities, net of liquid funds and equivalent.

| (thousands of Euro) | 31/12/2007 | 31/12/2006 |
|---|---|---|
| Medium/Long-term debt | (4.954) | (6.645) |
| Loans from banks at net of equivalents on hand | (114.469) | (101.422) |
| **Financial gross debt** | (119.423) | (108.067) |
| Share capital | (233.334) | (140.000) |
| Reserves | (112.208) | (210.672) |
| Net result | (11.721) | (15.327) |
| **Net assets** | **(357.263)** | **(365.999)** |
| **Total capital and gross debit** | **(476.686)** | **(474.096)** |
| Relation between debt/Net assets | 0,33 | |

## Subsequent events

## Concessions

On 09.01.08, a new claim was issued against the municipality of Tezze sul Brenta, concerning resolution no. 46 dated 29 October 2007 by the town council, containing indications as to the assignment by means of call for tenders of the gas distribution service.

With regards to the call for tenders held by the municipality of Marano Vicentino, initially suspended with resolution no. 148 dated 26 September 2007, on 17 March 2008, the new date of opening for tenders was fixed.
On 28.02.08, appeals against Order no. 940 dated 12.12.07 were notified, which had admitted the suspension claim made by Ascopiave S.p.A. with regards to the determination of definitive judgement, and the provision stating the need to deliver the plants to the municipality of Costabissara. The State Council has fixed the discussion hearing for 1 April 2008.

Reclassification of CGD component of distribution Income Constraint

Restatement of the CGD (Operating Costs) component of the Distribution Revenue restrictions, on 29 July 2005, Ascopiave S.p.A. filed a petition before the Lombardy TAR (Regional Administrative Tribunal) against the note by the Fees Office of the Gas and Electric Energy Authority by which the Authority has rejected the request by Ascopiave to restate the value of the CGD (operating costs regarding distribution activities) of the VRD with reference to the comprehensive intended fee area.
The Lombardy Regional Administrative Court, with judgement no. 613 of 28 February 2006, admitted Ascopiave's appeal, making a provision that the definition of the MCD of the VRD for the thermal year 2003/2004 was established with consideration for the general tariffs context.
Through its Sentence, the Authority for Electrical Energy and Gas, on 14 April 2006, appealed to the State Council with the request for suspension, which was not accepted by the Court. If Ascopiave wins the recourse, the company will have to restate the fee proposal for the heating year 2003-2004 and ask the consumers for the payment of additional amount for adjustments. The difference between the Restrictions for Distribution Revenues deliberated at the time to define the tariff approved by the AEEG and the new Restrictions resulting from the calculation of the CGD component for the entire intended area is estimated at 2 million Euro.
Given that the CGD for the heating year 2003-2004 represents a parameter for the calculation of the regulatory period, as indicated by the Deliberation nr. 170/04, any restatement of such component would involve also a restatement of the fees the heating years 204/2005, 2005/2006 and 2007/2008, with consequent adjustments to be requested of users.
On 17 April 2007, the Council of State rejected the appeal by the AEEG (Italian electricity and gas authority) for the annulment of sentence no. 613/2006 by the Lombardy TAR (Regional Administrative Tribunal) by which the right of Ascopiave to calculate the amount of the CGD (‘i costi di gestione della distribuzione’ i.e. distribution management costs) of the VRD (‘Vincolo dei Ricavi della Distribuzione’, i.e. Distribution Revenues Constraint) in reference to the whole tariff area has been sustained.
On 21 February 2008, the AEEG notified Ascopiave S.p.A. of its decision of 8 February 2008, with which it confirms the validity of the distribution tariffs approved for the thermal year 2007-2008 with deliberation 261/07, 321/07, rejecting all requests for a new determination of the constraints on distribution revenues, for the first and second regulation periods.
The company contrary to the provision of the AEEG, will present an appeal in accordance with art. 2, paragraph 25 of Law no. 481 dated 14 November 1995, to the Lombardy Regional Administrative Court.

Pieve di Soligo, 27 March 2008

The Chairman of the Board of Directors
Dott. Gildo Salton

# Certification
## of the Financial Statement in accordance with article 81-*ter* of Consob Regulation no. 11971 of May 1999 and subsequent amendments.

1. The undersigned Gildo Salton, President of the Board of Directors of Ascopiave S.p.A., and Cristiano Belliato, Director responsible for preparing the company accounts of Ascopiave S.p.A., hereby certify, in consideration of that specified by article 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 dated 24 February 1998:
   a) the suitability in relation to the characteristics of the business, and
   b) the effective application

   of the administrative and accounting procedures for the preparation of the Financial Statement and the Consolidated Balance Sheet for the period 01 January 2007 - 31 December 2007.
2. We would also certify that the Financial Statement and Consolidated Balance Sheet:
   a) comply with the results of the books and accounts;
   b) are drawn up in accordance with International Accounting Standards as issued by the International Accounting Standard Board (IASB) and approved by the European Union, their contents suitably provide a true and fair view of the equity, financial and economic standing of the Issuer and all companies included in the consolidation.

Pieve di Soligo, 27 March 2008

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|---|---|
| The President of the Board of Directors | The Director responsible for preparing the company accounting documents |
| Gildo Salton | Cristiano Belliato |