HERA TRADING SRL

FINANCIAL STATEMENTS
as at 31/12/06

BOARD OF DIRECTORS
(duration of office: until the Shareholders' Meeting for the approval of the financial statements for the period ended on 31.12.2006)

Chairman	Montanari Nicodemo
Managing Director	Musolesi Pietro
	Barilli Roberto
	Chiarini Maurizio
	Lorenzi Loris
	Tani Bruno
	Tommasi di Vignano Tomaso
	Bernardini Mara

BOARD OF STATUTORY AUDITORS
(duration of office: until the Shareholders' Meeting for the approval of the financial statements for the period ended on 31.12.2006)

Chairman	Venturini Antonio
	Preti Antonio
	Santi Sergio

INDEPENDENT AUDITORS
(duration of mandate: until the Shareholders' Meeting for the approval of the financial statements for the period ended on 31.12.2011)

PricewaterhouseCoopers SpA

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DIRECTORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDING ON 31 DECEMBER 2006 ... 4
HERA TRADING S.r.l. is a company owned by Hera S.p.a, which handles procurement and wholesale sales of natural gas, electricity, transportation capacity, green certificates, energy and emissions securities and operational management of currency and/or commodity risk on local and international markets. ... 4
THE COMPANY'S ECONOMIC, ASSET AND FINANCIAL SITUATION IN BRIEF ... 4
- **THE RECLASSIFIED INCOME STATEMENT** ... 5
- **THE RECLASSIFIED BALANCE SHEET** ... 6
- **CHANGE IN NET FINANCIAL POSITION** ... 7
ANALYSIS OF THE BUSINESSES ... 8
THE REFERENCE SCENARIO ... 8
GAS DIVISION ... 10
ELECTRICITY DIVISION ... 13
RISK MANAGEMENT ... 14
HUMAN RESOURCES AND ORGANISATION ... 15
RELATIONS WITH THE PARENT COMPANY AND ITS SUBSIDIARIES ... 15
RELATIONS WITH OTHER INVESTEE COMPANIES ... 16
SIGNIFICANT EVENTS IN 2006 ... 17
ACCOUNTING AND ADMINISTRATIVE SEPARATION (AEEG RESOLUTIONS N. 310/01 AND 311/01) ... 17
PERFORMANCE IN THE INITIAL MONTHS OF FINANCIAL YEAR 2007 ... 18
THE PREDICTED COURSE OF MANAGEMENT ... 18
RELATIONS WITH THE INDEPENDENT AUDITORS ... 19
PROPOSALS OF THE BOARD OF DIRECTORS TO THE ORDINARY SHAREHOLDERS' MEETING 19
FINANCIAL STATEMENTS ... 20
NOTES TO THE FINANCIAL STATEMENTS ... 23
BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS ... 23
STRUCTURE AND CONTENT OF THE BALANCE SHEET AND INCOME STATEMENT ... 23
VALUATION CRITERIA AND BASIS OF ACCOUNTING ... 24
BALANCE SHEET ... 28
MEMORANDUM ACCOUNTS ... 37
INCOME STATEMENT ... 38
PARENT COMPANY FINANCIAL STATEMENT DATA ... 43

DIRECTORS' REPORT ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDING ON 31 DECEMBER 2006

HERA TRADING S.r.l. is a company owned by Hera S.p.a, which handles procurement and wholesale sales of natural gas, electricity, transportation capacity, green certificates, energy and emissions securities and operational management of currency and/or commodity risk on local and international markets.

The name HERA TRADING S.r.l. was chosen following an extraordinary shareholders' meeting which took place on 23 April 2004, thereby adding the corporate purpose to the name and replacing the previous name of Eos Energia S.p.a, a company which was inoperative at the time.

Also as from 23 April 2004, the company's headquarters were transferred from Ravenna, Via Romea Nord n. 180/182 to Imola, Via Molino Rosso 8.

From 1 July 2004, following a spin off of the Purchase and Trading assets of HERA COMM S.r.l.(a company which also belongs to Hera S.p.a.), HERA TRADING S.r.l. began operations as the sole link of the Hera Group with the wholesale energy market.

THE COMPANY'S ECONOMIC, ASSET AND FINANCIAL SITUATION IN BRIEF

The period from 01.01.2006 to 31.12.2006 closed with a net profit of € 148 thousand, after and amount of € 145 thousand which was set aside for taxes.

The performance of the period under review, insofar as the EBIT of € 462 thousand, shows an improvement of € 1,889 thousand which is mainly the result of improvements in the first gas margin of € 579 thousand and the first electricity margin of € 420 thousand, as well as the decrease in the management fee charged by the parent company HERA SpA of € 946 thousand.

The Notes to the Accounts provide an extended explanation on the accounting principles adopted for the preparation of these financial statements; please see these Notes, the auditing certificate and the report of the Board of Statutory Auditors for further accounting information.

- **THE RECLASSIFIED INCOME STATEMENT**

Reclassified income statement

(‘000s euro)

	FY 2006	FY 2005
A. Net income	**362,986**	**297,698**
Change in stock of finished and semi-finished goods and work in progress	-	-
Own work capitalised	-	-
B. Value of production	**362,986**	**297,698**
Use of raw materials and services (-)	(361,933)	(298,630)
C. Value-added	**1,053**	**(932)**
Labour cost (-)	(587)	(491)
D. EBITDA	**466**	**(1,423)**
Amortisation, depreciation and write-downs (-)	(4)	(4)
E. Net operating profit	**462**	**(1,427)**
Financial income (charges), net	16	1,281
Dividends	**-**	**-**
Revaluation (depreciation) of financial assets	**-**	**-**
F. Earnings before extraordinary items and taxes	**478**	**(146)**
Extraordinary income (charges)	(185)	(2)
G. Earnings before taxes and third party items	**293**	**(148)**
income taxes for the year	(145)	48
Profit (loss) for the year	**148**	**(100)**

- THE RECLASSIFIED BALANCE SHEET

('000s euro)

	FY 2006	FY 2005
A. Fixed assets:		
Intangible	8	11
Tangible	-	-
Financial	1,095	844
	1,103	**855**
B. Net capital for the year:		
Inventories	22,064	13,366
Trade receivables	92,979	181,624
Other assets	4,137	2,780
Trade payables (-)	(82,465)	(71,595)
Other liabilities (-)	(146)	(1,413)
Provisions for risks and charges (-)	(153)	-
	36,416	**124,762**
C. Invested capital less current liabilities (A+B)	**37,519**	**125,617**
D. Employee leaving indemnity (-)	**(119)**	**(114)**
E. Net invested capital (C+D)	**37,400**	**125,503**
Financed by:		
F. Shareholders' equity	**3,145**	**2,997**
G. Net financial indebtedness (liquidity):		
Long and medium term financial payables	-	-
Long and medium term financial receivables (-)	-	-
	0	**0**
Short term financial payables	43,983	131,544
Short term financial receivables (-)	(9,728)	(9,038)
	34,255	**122,506**
Total net financial indebtedness (liquidity)	**34,255**	**122,506**
H. Total sources of financing (F+G)	**37,400**	**125,503**

- CHANGE IN NET FINANCIAL POSITION

('000s euro)

	FY 2006	FY 2005
A. Opening net financial liquidity (indebtedness):	**(122,506)**	**(25,317)**
EBITDA	466	(1,423)
Change in current assets	90,817	(94,773)
Taxes paid (-)	-	(741)
Change in other assets (liabilities)	(2,797)	(44)
B. Operating cash flow	**88,486**	**(96,981)**
Investment in intangible fixed assets (-)	-	-
Investment in tangible fixed assets (-)	-	-
Investment in financial fixed assets (-)	(253)	(174)
Sales price of intangible fixed assets	-	-
Sales price of tangible fixed assets	-	-
Sales price of financial fixed assets	2	-
Dividends received	-	-
C. Available cash flow (cash generation)	**88,235**	**(97,155)**
Financial income (charges), net	16	1,281
Contributions of share capital and reserves	-	-
Refunds of share capital and reserves (-)	-	-
Dividends resolved upon (-)	-	(1,315)
D. Net cash flow for the period	**88,251**	**(97,189)**
E. Closing net financial liquidity (indebtedness) (A+D)	**(34,255)**	**(122,506)**

ANALYSIS OF THE BUSINESSES

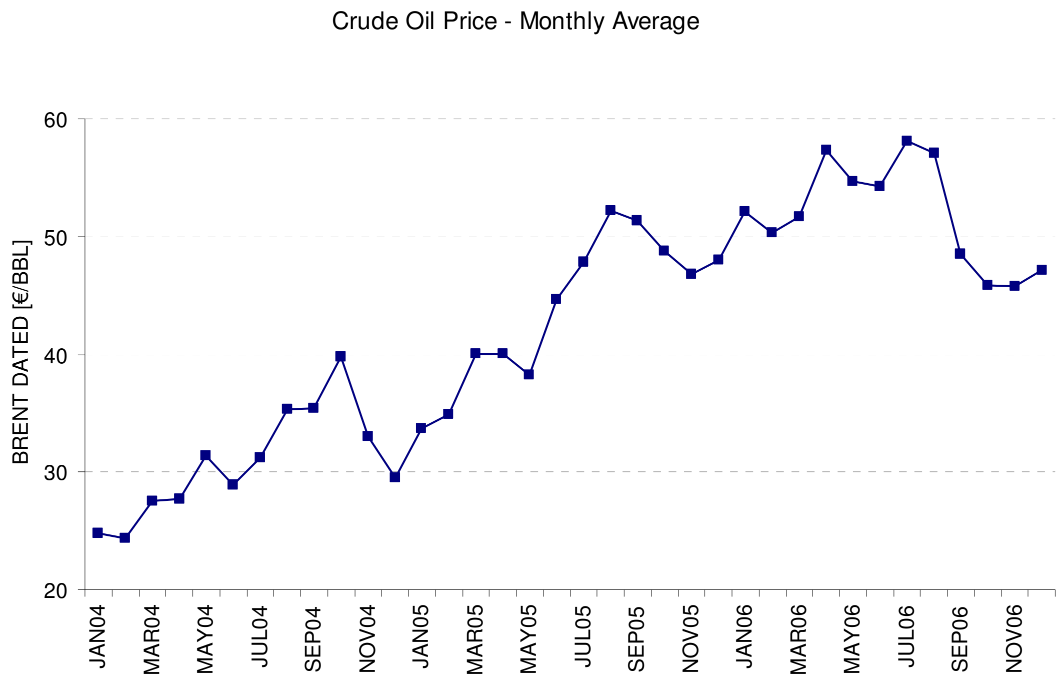
THE REFERENCE SCENARIO

The international economy continued to grow during 2006, even if a slowdown in the rate of expansion was seen during the last few months of the year, having emerged as particularly elevated during the first six months. Growth is influenced by a number of factors, including geopolitical uncertainty, the dynamics of oil prices, the weakening of the dollar and the persistence of imbalances in the balances of payments.
The drop in the global GDP growth rate during the second half of the year was in particular steered by the US, whose economic growth dropped slightly over the last two quarters mainly as a result of the decrease in investments in the residential property sector and the deficit of the trade balance, accompanied by slowdowns in Europe and China as well during the third quarter of 2006.
Even Italy, after a lengthy period of difficulty in 2006, finally restarted to grow, (+ 2% tendential rate), albeit at more reduced rates than those of its main European partners. An important role was played by internal demand with regards to said growth.
In relation to exchange rates, a new and progressive strengthening of the Euro against the Dollar was witnessed during 2006, essentially attributable to the afore-mentioned slowdown of the U.S. economy and the US trade imbalance. In detail, until April the exchange rate fluctuated within the interval ranging between 1.18 and 1.24 US$ per Euro; from the month of May it was always above the quota of 1.25 US$ per Euro and as from the end of November it remained constantly above the quota of 1.31 US$ per Euro, reaching an annual average of 1.26 US$ per Euro.
On the inflation front, the strengthening of the Euro and the reduction in energy prices during the latter part of the year had positive repercussions on the performance of the consumer price index which slowed down the economic cycle growth rate, standing at 2.1% for 2006 (tendential) as far as the Euro area was concerned.

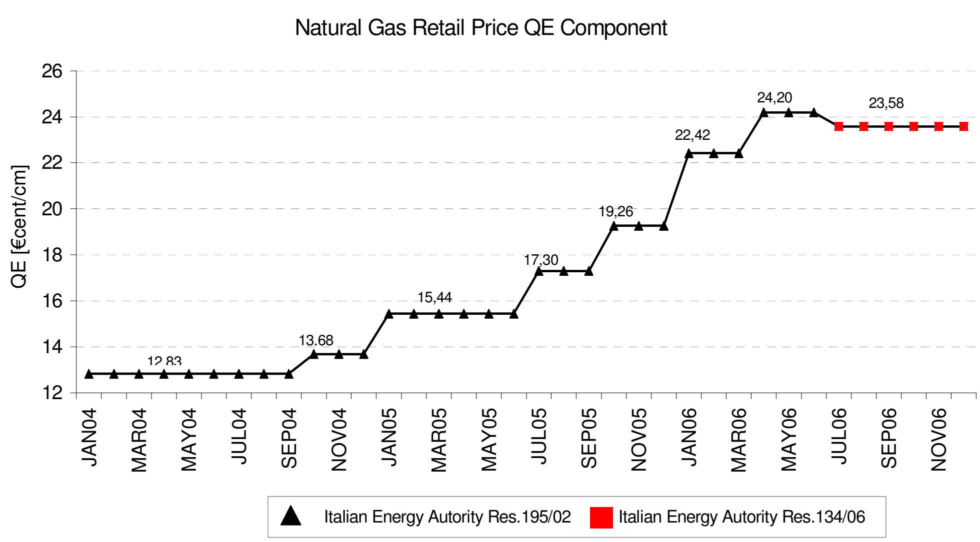
Reference Scenario

	FY 2006	FY 2005	Change %
Price of oil $/bbl	65.1	54.4	*19.7%*
$/euro exchange rate	1.26	1.24	*1.6%*
Price of oil euro/bbl	51.9	43.9	*18.3%*

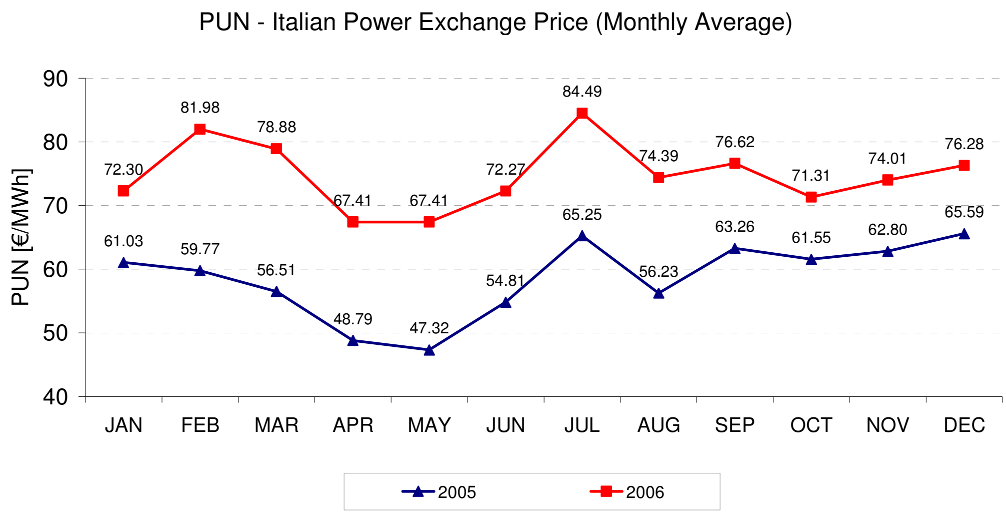
As far as the oil market was concerned, 2006 was a year which featured heavy fluctuations: the average Brent price in 2005 was 65$/barrel, up by +19.8% compared to the 2005 average (54$/barrel). In 2006, crude oil achieved a new record high of 73$/barrel, reaching a new historic high at the start of August, after which Brent prices then gradually dropped to 55$/barrel at the end of October, only to then return to a price of 65$/barrel at the start of December, and then once again start to drop.
The high, in addition to extremely volatile, prices, felt the effect of a series of factors identifiable, according to the experts, in the inadequacy of global refining capacity, geopolitical tensions and associated speculative activities on future crude markets.
Over the last three years, a long sequence of exceptional events also took place, each time temporarily reducing the extraction of crude in specific areas, the last of which took place in Alaska at the beginning of August.



Against this backdrop, as far as gas was concerned, the average value of the QE in 2006, calculated on the basis of the Electricity and Gas Authority (AEEG) resolution No. 195/02 for the entire first half of the year and the Electricity and Gas Authority (AEEG) resolution No. 134/06 subsequently, came to 23.45, compared with an average value of 16.86 in 2005 and an expected value of 21.26 for 2007. As can be seen from these figures, the drop in the price of oil recorded during the last few months of 2006, has not yet worked its way through to gas prices and is destined to have repercussions mainly during 2007. This is naturally due to the effect of the delays associated with the formulas for updating gas prices.



As far as electricity was concerned, the average exchange sales price (PUN) in 2006 came to 74.75 €/MWh, posting an increase of 28% when compared with the 58.59 €/MWh in the previous year.
During July, the highest average price since the launch of the electricity exchange in April 2004 was recorded (average monthly PUN of 84.49 €MWh).



GAS DIVISION

- **Legislative/Regulatory Framework**

AEEG RESOLUTIONS 248/04 AND 134/06
The dispute between gas operators and the AEEG relating to resolution No. 248/04 continued throughout 2006, concerning the methods for updating the raw material component of the natural gas financial conditions governing supply and the review of the variable fee relating to wholesale sales. This resolution, due to the complex development of the dispute, has not been applied by the operators in most cases. In November 2006 during a plenary session, the Council of State definitively sanctioned the cancellation, though it confirmed that the AEEG's adoption of such measures was legitimate.

In June 2006, the AEEG intervened once again on the subject by means of Resolution No. 134/06, relating to amendments and additions to the criteria for updating the economic gas supply conditions. Appeals by operators are still pending in spite of what has occurred in relation to Resolutions 248/04 and 134/06 and, even though the outcome of the dispute is still undetermined, it is applied by almost all operators (wholesalers and sales companies).

TTPC 2ND LOT PROCEDURE
In August, the TTPC (of the ENI Group), in agreement with the Italian Anti-Trust Authority (AGCM), launched a procedure for the non-discriminatory allocation of the capacity relating to the second lot of the upgrading of the TTPC methane pipeline (approximately 3.3 bn m3/year), capacity which will be available as from 1 October 2008
As already occurred for the first lot, even if for different reasons, participation in this procedure by all the operators, HERA TRADING included, essentially proved futile, given that SONATRACH, the only possible supplier of the gas, made a unilateral decision to finalize gas supply contracts - indispensable

for acquiring the necessary permits for transit in Tunisia and export to Italy - solely with its Italian branch (approximately 2 bn m^3/year) and with ENEL TRADE (approximately 1 bn m^3/year).

GAS EMERGENCIES IN THE WINTER OF 2006/2007

In August 2006, the MSE adopted specific measures which envisage the operator's obligation to maximize imports and for STOGIT to maximize stock volumes, with the intention of implementing action in advance so as to reduce the risk of a possible gas emergency in the following winter months. Incentives regarding the interruptible nature of industrial utilities and spot gas imports during the winter months have also been foreseen.

LAST RESORT WHOLESALE SUPPLIERS

Following the tariff measures adopted by the AEEG (Resolution No. 134/06) and a tendentially short European market situation envisaged for the following winter, conditions were created during the summer so that the elevated prices applied on the European wholesale market emerged as incompatible with the sale prices set by the AEEG for the Italian domestic market.

The majority of the smaller wholesalers, who essentially base their activities on short/medium-term contracts, did not therefore find it convenient to import gas in Italy or, if they did so, they allocated it to the industrial and thermo-electric sectors not regulated by the AEEG, and which are therefore willing/obliged to pay the market price.

Even HERA TRADING was compelled to allocate the majority of its imports to the wholesale market and to the thermo-electric sector.

Against such a backdrop, at the end of September, a number of sales companies failed to find a Wholesale Supplier, for quantities which at national level came to around 800 million m^3 on an annual basis.

Also taking into account Last Resort Wholesale Suppliers, originally identified via tender by the AEEG, who were not able to take over since they lacked the necessary quantities of gas, the MSE adopted a specific measure for the establishment of the Last Resort Wholesale Supplier, which has the task of guaranteeing the gas supply under conditions regulated by the sales companies which lack supplies, without prejudice to the right to see the additional charges for the purchase of the necessary gas on the European market at market prices covered by the system.

- **Significant Events**

MANAGEMENT OF THE GAS EMERGENCY IN THE WINTER OF 2005/2006

The first few months of 2006 saw an emergency gas situation which was particularly serious as a result of the concurrence of several factors:

- a particularly cold spell in Italy during the winter months;
- improper use of stored gas for the production of electricity, necessary to compensate fewer imports and to be allocated to exports;
- lower gas supplies from Russia as a result of an exceptionally cold spell in that country.

This situation, which did not affect Hera Trading operations, saw the gas system resort to strategic storage of important quantities for the second winter running.

In relation to the afore-mentioned aspects, the AEEG subsequently launched formal investigations into the use of the stock for the 2004/2005 gas year and the 2005/2006 gas year in relation to ten companies including HERA TRADING (Resolution No. 37/06). On conclusion of the investigations, fines of **€ 135 million** were imposed on five companies while the evidence acquired disclosed the inexistence of offences for the remaining five companies, including HERA TRADING.

GAS CONTRACT FOR TAG CAPACITY

During January, negotiations were concluded for a gas option covering a quantity of 500 million m^3 per annum, for a period of five years, so as to avail of the gas to be imported via the capacity being

acquired under the non-discriminatory allocation procedure launched in November 2005 by TAG (ENI Group) under agreement with the AGCM (anti-trust authority).
Some months after the completion of the TAG procedure, the option was exercised, albeit for a value lower than the possible maximum, after having acquired further capacity with respect to that acquired under allocation on the secondary market.
This new five-year supply is of great strategic importance for HERA TRADING since it will become operative as from October 2008, at exactly the same time the outstanding gas release contracts will expire.

STOCKPILING CAPACITY T. Y. 2006/2007
During the month of April, besides the renewal of the contract with STOGIT for the modulation storage service for the 2006-07 thermal year, so as to reduce the risk of resorting to the strategic stock in the event of a cold spell, steps were taken to enter into an additional, albeit minor, contract with EDISON STOCCAGGI SpA.

ACQUISITION OF GAS AT THE PSV
Again during the month of April, a supply contract was concluded on an annual basis for approximately 40 million m3, featuring a delivery point at the virtual point of exchange (PSV).

ACQUISITION OF NEW TRANSITGAS IMPORT CONTRACTS
Despite the particularly difficult market situation due to the tariff measures of the Electricity and Gas Authority-AEEG (Resolution No. 134/06), in July 2006 capacity was acquired on the Transitgas via auction; part of the capacity has an annual duration and part a three-year duration, effective as from October 2007.
Subsequently, the related gas supply contracts were also finalized, with a delivery point at the German/Swiss border.

OPERATING START UP OF FLAME ENERGY
During the month of September, it was possible to finalize the first contracts, for around 50 million m3 on an annual basis, directly with FLAME ENERGY which thus become operative for all purposes.

GALSI CONTRACT
After staggered and complex negotiations, the industrial partners finalized the Memorandum of Agreement for the sale and purchase of gas via GALSI's methane pipeline with SONATRACH in the month of November. In HERA TRADING's case, this involves a contract worth 1 billion m3/year, for 15 years.
This agreement created the conditions for giving a boost to the negotiations underway for the transformation of GALSI SpA into an investment company, and for the resolution of the related share capital increase, an objective achieved the following December.

- **Economic figures for the gas business**

Despite the fact that, during 2005, the situation did not particularly favour the finalisation of new contracts for imports to be utilised in thermal year 2005/2006, HERA TRADING was able to once again confirm its significant role in the domestic wholesale operator sector, despite a contraction in the volumes handled.

The total revenue from gas sales amounted to € 152,140 thousand, of which € 76,000 thousand from HERA COMM, against a cost of sales net of the effects of the hedging derivatives which amounted to € 149,072 thousand.
The first gas margin, net of the services rendered to HERA COMM, was therefore € 3,068 thousand.

The volumes sold were 522 mil/m^3, of which 255/mil m^3 were sold to HERA COMM.

The final levels of stocked gas as at 31.12.2006 were 79.35 mil/m^3 , in line with the certification thereof by Snam Rete Gas, the value of which was € 20,771 thousand.

During 2006, HERA TRADING also provided services to HERA COMM for the negotiation and management of purchase contracts for gas modulated by third parties, for a total in excess of **1,750 mil/m^3.** The remuneration for this activity amounted to € **300 thousand.**

ELECTRICITY DIVISION

- **Legislative/Regulatory Framework**

During 2006, the legislative/regulatory framework relating to the electricity business did not have a significant impact on HERA TRADING's operations.
The changes to the electricity supply methods for dispatching by TERNA and the determination of the loss-of-balance fees (MSD) which occurred as a result of AEEG Resolution No. 165/06 will in fact only affect 2007, at the time of the commercial launch of the Teverola and Sparanise power stations.

- **Significant Events**

ACTIVATION OF THE ELECTRICITY TRADING DESK
A trading desk was started up at experimental level in 2006, with the aim of assessing the real potential on the Italian market, notoriously lacking liquidity, but also and above all else, with the aim of increasing HERA TRADING's visibility with regard to OTC electricity prices.
Likewise, it was also necessary to develop the skills required for correctly representing the assets in the financial statements by means of application of IAS (Hedge Accounting, Fair Value and M2M).

RENEGOTIATION OF THE ATEL CONTRACT
In the month of July and in the name and on behalf of Hera Comm, the renegotiation of the ATEL contract was completed, relating to the three-year period 2007-2009. The renegotiation concerned both the economic aspects and the nature of the contract.
So as to render it more compatible with the use in the sales portfolio, the decision was made to transform it from a contract for differences to a physical contract for sales to end customers.

FINALISATION OF THE SPARANISE POWER STATION CONTRACT
In the month of March, a contract was finalized with EGL AG for the supply of electricity generated by the Sparanise power station owned by HERA TRADING (15%). Subsequently, in December a contract was concluded between HERA TRADING and SCR SpA for the supply to the latter of the electricity it is due (5%).

FINALISATION OF AGREEMENTS FOR THE DEVELOPMENT OF ELECTRICITY BY THE TEVEROLA POWER STATION BEING STARTED UP AND DEFINITION OF PRINCIPLES FOR THE FULLY ON-STREAM PPA
During the second half of 2006, the methods for regulating the production of the Teverola power station during the start-up phase were established with the partner RATIA ENERGIE AG and steps were taken to finalize the related contract with SET S.p.A. At the same time, the principles were also defined for regulating the production once the power station is fully on-stream, so as to achieve the finalization of the PPA contract during the first few months of 2007.

QUALIFICATION OF HERA TRADING ON THE FRENCH ELECTRICITY GRID

In December 2006, Hera Trading took steps to qualify itself as the operator responsible for balance (Balance Responsible Entity) vis-à-vis the RTE, so as to independently handle the physical supply of the French market, by means of the interconnection capacities on the Italy/France border acquired at the time of auction from TERNA and said RTE.

- **Economic figures for the electricity business**

Insofar as the electricity business, total revenues from the sales of electricity and green certificates amounted to € 210,337 thousand, mainly in favour of Hera Comm, against a cost of sales, net of the effects of the hedging derivatives, which amounted to € 209,308 thousand.
The first business margin was therefore € 1,029 thousand.

The volumes sold were 2,550 GWh, of which 2,440GWh were sold to HERA COMM.

The Green Certificates amounting to € 1,292 thousand are included in the stock.

With regard to the result deriving from the Options/Formulas connected to the financial trading activity, the matured income amounted to € 1,381 thousand while the charges that mainly involve the fair value options/formulas of the 2007 contracts in the portfolio as at 31 December 2006, amount to € 1,387 thousand, with a negative margin of € 6 thousand.

During 2005, HERA TRADING also rendered services involving the negotiation and management of contracts for the purchase of electricity from third parties, scheduling management on the bilateral contract platform and management of purchases on IPEX. The remuneration for this activity amounted to € 200 thousand.

RISK MANAGEMENT

During 2006, operating management of commodity and/or exchange rate risk, was implemented in a "hedging" capacity, aimed at establishing the margins provided by the budget of the commercial transactions effected in both the Gas and Energy Divisions.

From the organisational point of view, during the year, hedging activities of the Gas Division and those of the Energy Division were centralised into a single department (Risk Management) in the Gas Division.
This approach, based on the creation of a Concentrated Risk Portfolio, enables the unitary management of homogeneous risks and, based on macrohedging instead of using specific hedging formulas, offers various advantages, such as:

- Achievement of greater levels of hedging with a consequent reduction in the volatility of economic results;
- Increased flexibility due to detaching the index-linking formulas for selling from those for buying;
- Elimination of constraints on the minimum volumes which can be hedged;
- Optimisation of costs for lesser recourse to the market, by netting the positions of single contracts and the positions generated by the Gas and Energy Divisions;
- Increased flexibility in structuring the products and services, with the possibility of proposing/quoting index-linking formulas other than those present in the acquisition portfolios;
- Increased visibility of the OTC commodities prices.

During 2007, the activity will be consolidated and structured further, in line with risk policies of the HERA Group that were approved by the Risk Committee in December, so as to ensure correct representation of the financial statements in compliance with IAS (Hedge Accounting).

HUMAN RESOURCES AND ORGANISATION

The company is organised along two distinct business areas which are structured as follows:

ELECTRICITY DIVISION
-Management of medium/long term positions
-Management of short positions
-Systems forecasting and settlement
-Administrative audits

GAS DIVISION and R.M.
-Purchases and sales
-Logistics
-Risk management
-Back office

HERA TRADING employed **11** persons as at December 2006.

During 2006, the Electricity Division continued to surface as a value producing centre; it was possible to further consolidate the "physical" management of HERA COMM's trade and hedging portfolio while activating a pilot trading desk. Furthermore, in the month of November, the contract for the supply of electricity produced by the Teverola power station began to run, with the aim of maximizing its development; this will be repeated for the Sparanise power station.

In relation to the above, three new employees will be added to the division in the initial months of 2007, to support the scheduling and settlement departments and complete the trading desk activity, by standardising operations and efficiently structuring the control/monitoring processes, in cooperation with the Analysis and Risk Control section of the Sales and Marketing Divisions and in line with the risk policies of the HERA Group, which were approved by the Risk Committee in December.

Insofar as the Gas Division, the increasing demands of HERA COMM to supply gas through third party networks so as to acquire a new end market and the increasing complexity of the logistics involved, have further affected the operations of HERA TRADING.
The REMI fed by HERA TRADING increased from **54** in December 2005 to **111** in December 2006.

After the reprogramming involving the implementation of the IT equipment to be used in support of the trading activities which was decided upon during 2006, the development of the gas forecasting system began and the aim is to implement this system by next June so that it can be tested over the summer and be fully operative as from next October, with the beginning of the new thermal year.

RELATIONS WITH THE PARENT COMPANY AND ITS SUBSIDIARIES

Hera S.p.A., located in Bologna, Viale Carlo Berti Pichat 2/4, is the sole shareholder of HERA TRADING S.r.l.

The following service contracts stipulated with the parent company became operative during 2005:

34	Fleets - Description and conditions of supply and management of the waste collection and equipment containers
35a	Property and facility management: Catering
35b	Property and facility management: Telephony

35c	Property and facility management: Leasing of equipped premises
35d	Property and facility management: Security, maintenance of premises and various services
35e	Property e facility management: Cleaning and hygiene service within the work area
36a	Information systems – Supply of information technology systems
36b	Information systems – Description and conditions of supply of the Territorial Information Systems
50-57	Coordination for the Holding Company
73	Payroll
85	Administrative services
-	Mandate for the carrying out of all collection and payment services for HERA TRADING with the relative crediting and debiting
-	Contract for the provision of legal, corporate and insurance services
-	for the support and assistance of risk management involving the health and safety of workers in the workplace

HERA COMM S.r.l. is a company which sells energy products that is entirely controlled by Hera S.p.a., with which a service contract was in place during 2006 for the provision by HERA TRADING of services to HERA COMM involving the management of third party gas purchases (amounting to **€ 300 thousand**) and the submission of withdrawal schedules involving bilateral contracts and the exchange, insofar as electricity is concerned (amounting to **€ 200 thousand**).

RELATIONS WITH OTHER INVESTEE COMPANIES

GALSI S.p.A.

HERA TRADING continues to maintain an equity investment in GALSO S.p.a. Following the re-negotiation of corporate agreements by the shareholders, the latter was transformed into an investment company and re-named "Società di Sviluppo, Realizzazione e Gestione del Gasdotto Algeria – Italia via Sardegna S.p.A.," while its duration was set until 31 December 2050.

The shareholders also resolved to raise the company's share capital to 30,838,000€.

This company's shareholder structure is:

- Sonatrach	**36%**
- Edison Gas	**18%**
- Enel Power	**13.5%**
- Wintershall	**13.5%**
- Hera Trading	**9%**
- Progemisa	**5%**
- SFIRS	**5%**

The completion of the detailed planning of the gas pipeline is expected in 2007 while the authorisations, issuing of tenders and the final investment decision are expected in the first half of 2008.

The project is expected to be activated within 2010.

FLAME ENERGY GmbH

In the month of January 2006, the FLAME ENERGY company was set up with HERA TRADING and VNG-Erdgascommersz GmbH as shareholders of equal standing, share capital of € 400,000 and headquarters in Vienna.
The company has decided not to employ its own staff, at least in the start-up phase, and uses the services provided by the shareholders. It has been active since last September in the wholesale trading of gas and has already concluded contracts amounting to approximately 50 mil/cm^3.

DYNA GREEN S.r.l.
HERA TRADING continues to hold an equity interest in DYNA GREEN, the corporate purpose of which is research and development of purchase opportunities and importation of gas from Libya, on behalf of its shareholders. The company's headquarters are in Milan, it duration has been set until December 2010 and its share capital is € 30,000.
The shareholder structure is:

- ACEA 33.33%
- DYNA NETWORK 33.33%
- HERA TRADING 33.33%

This company became operative in the first half of 2006. The shareholders are currently carrying out assessments aimed at reviewed the corporate purpose of this company.

SIGNIFICANT EVENTS IN 2006

The significant events of 2006, which have also been covered in the preceding business analysis, mainly involved:

- MANAGEMENT OF THE GAS EMERGENCY IN THE WINTER OF 2005/2006
- STIPULATION OF THE FIVE YEAR GAS CONTRACT FOR TAG CAPACITY
- ACQUISITION OF NEW TRANSITGAS IMPORT CONTRACTS
- OPERATING START UP OF FLAME ENERGY
- CONCLUSION OF THE PRELIMINARY GAS CONTRACT FOR GALSI
- ACTIVATION OF THE E.U. TRADING DESK
- RENEGOTIATION OF THE ATEL CONTRACT
- FINALISATION OF THE SPARANISE POWER STATION CONTRACT
- FINALISATION OF AGREEMENTS FOR THE DEVELOPMENT OF ELECTRICITY BY THE TEVEROLA POWER STATION BEING STARTED UP AND DEFINITION OF PRINCIPLES FOR THE FULLY ON STREAM PPA
- QUALIFICATION OF HERA TRADING ON THE FRENCH ELECTRICITY GRID

ACCOUNTING AND ADMINISTRATIVE SEPARATION (AEEG RESOLUTIONS N. 310/01 AND 311/01)

Resolutions 310/01 and 311/01 confirmed the obligation for "accounting and administrative separation" for legal persons operating in the energy and gas sector.
In particular, the aforementioned resolutions require the preparation of balance sheets and income statements, separated by "common activities and services" (art. 9 of the resolutions).
The activities of Hera Trading S.r.l. which were unbundled were:
- Sales of electricity
- Wholesale marketing of gas
- Gas sales

PERFORMANCE IN THE INITIAL MONTHS OF FINANCIAL YEAR 2007

The exceptionally mild weather throughout almost all of Europe during 2006 and in first two months of 2007 is having a negative impact on the current financial year, insofar as both gas and electricity.

With regard to gas, an extended situation is developing insofar as creation of significant stock levels, encouraged in part by the obligation to maximize imports, which has continued through the entire month of January of this year and has already resulted in a significant drop in the summer prices and threatens to require fill stocks, with a take or pay risk for operators that are less flexible.

As concerns electricity, again on account of the mild weather conditions, prices on European and French exchanges in particular have become less volatile and have settled at levels that are decidedly lower than those on the Italian market. In this setting, it has not been possible to activate those arbitrage transactions which, over the course of the preceding winter, had not generated favourable sales conditions,

On 24 January 2007, following the definitive cancellation of Resolution 284/04 by the Council of State, the AEEG launched a procedure through its Resolution 12/07 “to adopt the provisions on criteria for updating of the economic conditions for provision of natural gas as from 1 January 2005," thereby confirming that it does not consider this issue closed.
Within the context of this procedure, on 28 February, the AEEG published a consultation document which, taking note that the legal framework that ensued from the dispute “*does not allow a conclusion to be reached, while it is accompanied by a reasonable degree of certainty regarding the legislation for the applicable conditions in the past as well as the future”* provides for two possible alternatives for the definition of the economic conditions of supply starting from 1 January 2005.
On 28 February, with its Resolution 46/07, the AEEG finally extended to 30 April 2007 the deadline for the submission of re-negotiation proposals and the deadline for reaching an agreement, pursuant to Resolution 134/06, to 31 May 2007.

THE PREDICTED COURSE OF MANAGEMENT

ENI GAS RELEASE
ENI Gas & Power is expected to activate a new two-year gas release for a quantity of 2 billion m^3 per year in the very short term. This procedure, which is expected to render the wholesale market a bit more liquid, was proposed by ENI to palliate any sanctions imposed by the AGCM following the ongoing procedure to verify the alleged abuse of dominant position in the re-gasification plant of PANIGAGLIA.

FINALISATION OF THE PPA POWER STATION OF TEVEROLA
The contract for the supply of electricity produced by the Teverola power station for HERA starting from the plant’s operation which is set for next May, upon completion of the current activation phase, is expected to be finalised within next April.

RENOVATION OF GAS CONTRACTS EXPIRING IN SEPTEMBER 2007
During the summer, particular attention will be paid to the renewal of the gas contracts expiring next September, with a view to minimizing the economic impact of any surplus of stocked gas.

CONSOLIDATION OF IT PROCESSES AND SYSTEMS DEVELOPMENT
The activities of development, implementation and inspection of the gas forecasting system, consolidation and formalisation of operating processes and analysis of the contract management,

optimization and risk management IT software that is most appropriate to the operations of HERA TRADING, in cooperation with the Services Division and the Analysis and Risk Control Section, will continue.

RELATIONS WITH THE INDEPENDENT AUDITORS

Being owned by a company listed on the Stock Exchange (Hera S.p.a.), Hera Trading Srl is required to carry out audits of its financial statements pursuant to Legislative Decree 58/98 Draghi Law and PricewaterhouseCoopers SpA has been given a mandate to carry out this audit for the financial years from 2006 to 2011, including a limited audit of the half-year report and a quarterly assessment.

PROPOSALS OF THE BOARD OF DIRECTORS TO THE ORDINARY SHAREHOLDERS' MEETING

Dear Shareholders,

The financial statements of your company for the period ended 31 December 2006, showed a net profit of €147,766.68.

If the following criteria applied in the preparation of the financial statements and the accounting principles and methods applied therein as set forth in the statements of the Board of Statutory Auditors and the independent auditors for the financial statements of the year ended 31 December 2006 are agreeable to you, we propose:

- approval of the directors' report on operations;
- approval of the financial statements for the period ended on 31 December 2006 in its entirety and its individual entries;
- allocation of the profits of €147,766.68 as follows:
  - € 100,036.04 in coverage of losses carried forward;
  - €7,388.33, or 5%, to increase the Legal Reserve;
  - €40,342.31 to increase the Extraordinary Reserve.

Bologna, 22 March, 2007

The Board of Directors
The Chairman

Nicodemo Montanari

FINANCIAL STATEMENTS

Balance Sheet as at 31 December 2006

Assets (in euros)			31.12.2006	31.12.2005
A) Subscribed capital unpaid				
- called portion			-	-
- uncalled portion			-	-
Total capital unpaid			0	0
B) Fixed assets				
I- Intangible fixed assets:				
3 patents and know-how			7,600	11,400
Total			7,600	11,400
	amounts collectible within the next financial year			
III-Financial assets	**31.12.2006**	**31.12.2005**		
1 Equity investments in:				
b) associated companies			452,576	200,000
d) other companies			639,000	639,000
Total			1,091,576	839,000
2 Receivables:				
d) from others	-	-	3,300	4,846
Total	0	0	3,300	4,846
Total			1,094,876	843,846
Total fixed assets (B)			**1,102,476**	**855,246**
C) Current assets:				
I-Inventories:				
1) raw materials and consumables			22,064,255	13,366,266
Total			22,064,255	13,366,266
	amounts collectible later than the next financial year			
II-Loans	**31.12.2006**	**31.12.2005**		
1) to customers	-	-	92,075,177	164,748,043
4) to parent companies	-	-	966,050	5,534,344
4-*bis*) tax receivables	-	-	69,352	139,407
4-*bis*) deferred tax assets	27,734	37,550	27,734	37,550
5) to others	-	-	391	16,084,829
Total	27,734	37,550	93,138,704	186,544,173
	amounts collectible later than the next financial year			
III-Financial assets (short term):	**31.12.2006**	**31.12.2005**		
7) other financial assets	-	-	4,586,867	-
Total	0	0	4,586,867	0
IV - Cash and cash equivalents:				
1) banks and postal current accounts			5,140,929	5,069,422
3) cash on hand			281	475
Total			5,141,210	5,069,897
Total current assets (C)			**124,931,036**	**204,980,336**
D) Accrued income and prepayments			**3,977,829**	**1,827,985**
Total Assets			**130,011,341**	**207,663,567**

Balance Sheet as at 31 December 2006

Liabilities (in euros)			**31.12.2006**	**31.12.2005**
A) Shareholders' equity				
Capital and reserves:				
I - *Capital*			2,600,000	2,600,000
II - *Share premium reserve*			-	-
III - *Revaluation reserve*			-	-
IV - *Legal reserves*			337,020	337,020
V - *Reserve for treasury stock owned*			-	-
VI - *Reserves required by the articles of association*			-	-
VII - *Other reserves*			160,001	160,001
VIII - *Retained earnings (losses)*			(100,036)	-
IX - *Profit (loss) for the year*			147,767	(100,036)
Total shareholders' equity			**3,144,752**	**2,996,985**
B) Provisions for risks and charges				
1) Pensions and similar commitments			-	-
2) for taxes, including deferred taxes			153,055	-
3) other			-	-
Total provisions for risks and charges (B)			**153,055**	**0**
C) Employee leaving indemnity			**119,046**	**114,320**
	amounts collectible later than the next financial year			
D) Payables	**31.12.2006**	**31.12.2005**		
5) due to other financing institutions	-	-	6,867,248	-
7) due to suppliers	-	-	74,873,151	49,860,663
10) due to associated companies	-	-	568,099	-
11) due to parent companies	-	-	44,139,736	140,902,590
12) tax liabilities	-	-	61,953	15,309
13) due to social security	-	-	31,360	20,509
14) other	-	-	52,941	13,753,191
Total payables (D)	0	0	**126,594,488**	**204,552,262**
E) Accrued liabilities and deferred income			**-**	**-**
Total liabilities			**130,011,341**	**207,663,567**

Memorandum accounts (in euro)	**31.12.2006**	**31.12.2005**
1) Personal guarantees given		
a) Sureties provided		
- on behalf of third parties	**-**	**-**
Total	0	0
Total personal guarantees	**0**	**0**
3) Commitments, risks and other memorandum accounts		
a) Forward financial transactions and derivative contracts:		
- off-balance sheet items price risk hedging	12,279,431	64,627,649
Total	12,279,431	64,627,649
d) Other		
- sureties granted by banks on behalf of the company	58,042,594	60,539,890
Total	58,042,594	60,539,890
Total commitments, risks and other memorandum accounts	**70,322,025**	**125,167,539**
Total memorandum accounts	**70,322,025**	**125,167,539**

Income statement as at 31 December 2006

(in euro)	FY 2006	FY 2005
A) Value of production:		
1) Revenues from sales and services	362,976,822	297,641,152
5) Other income and revenues:		
b) other revenues and income	9,235	57,090
Total	9,235	57,090
Total value of production (A)	**362,986,057**	**297,698,242**
(B) Cost of production		
6) Raw, ancillary and consumable materials and goods for resale	354,056,594	275,036,536
7) For services	16,536,169	21,679,670
8) Use of third-party assets	25	90
9) Personnel expenses:		
a) wages and salaries	432,150	363,188
b) social security costs	131,959	109,016
c) employee leaving indemnity	22,571	19,197
Total	586,680	491,401
10) Amortisation, depreciation and write-downs:		
a) amortisation of intangible [fixed] assets	3,800	3,800
Total	3,800	3,800
11) Change in stock of raw materials, consumables and goods for resale	(8,697,989)	1,697,491
14) Other operating costs	38,841	216,737
Total cost of production (B)	**362,524,120**	**299,125,725**
Difference between value and cost of production (A-B)	**461,937**	**(1,427,483)**
C) Financial income and charges		
16) Other financial income		
d) other income:		
4) other	18,059,675	3,979,262
Total	18,059,675	3,979,262
17) interest payable and other financial charges:		
d) other	18,043,335	2,697,352
Total	18,043,335	2,697,352
17-*bis)*) Exchange gains and losses	34	(293)
Total financial income and charges (C) (15+16-17+-17-*bis*)	**16,374**	**1,281,617**
E) Extraordinary income and charges		
20) Income		
b) other extraordinary income	110,914	499
Total	110,914	499
21) Charges:		
b) tax relating to previous years	-	2,655
c) other extraordinary charges	296,412	-
Total	296,412	2,655
Total extraordinary items (E) (20-21)	**(185,498)**	**(2,156)**
Pre-tax profit (A-B+-C+-D+-E)	**292,813**	**(148,022)**
22) Income taxes for the year , current, deferred and pre-paid		
- current	17,825	12,593
- deferred/pre-paid	(162,871)	35,393
Profit (loss) for the year	**147,767**	**(100,036)**

NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2006 (amounts in € thousands)

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements as at 31 December 2006 were prepared according to the provisions of the Italian Civil Code and the accounting principles developed by the National Board of Chartered Accountants and the Italian Accounting Board (O.I.C.) and, where unavailable from the latter, the International Accounting Standards Board (IASB).

In application of art. 27 of Legislative Decree 127/91, consolidated financial statements were note drawn up as these are prepared by the parent company, Hera Spa, Via Berti Pichat 4/2 Bologna.

The information in the notes accompanying the balance sheet and the income statement is expressed in thousands of Euro, given their relevance.

STRUCTURE AND CONTENT OF THE BALANCE SHEET AND INCOME STATEMENT

The structure and content of the balance sheet and the income statement have not changed with respect to the previous financial year.

VALUATION CRITERIA AND BASIS OF ACCOUNTING

The valuation criteria adopted have not changed compared to the previous financial year.

The valuation criteria adopted for the preparation of the financial statements, in compliance with art. 2426 of the civil code, are the following:

INTANGIBLE FIXED ASSETS

The intangible fixed assets are recorded at purchase cost, internal production cost or transfer value on the basis of an expert appraisal, including accessory costs and amortised systematically based on their expected useful life.

The amortisation commences when the asset is available for utilisation or in any case begins to produce an economic benefit for the business.

The advertising expenses are charged directly to the income statement.

Industrial patent rights and know-how are representative of assets which are identifiable and can be individually assessed, while they must be protected by law. They are amortised on the basis of their presumed useful life, which is never longer than the duration set by the license contracts. They are usually amortised within five financial years. Software purchase costs are amortised on a straight-line basis over a three year period.

Intangible fixed assets are written down when their value is consistently lower than their potential residual use; if in future years the reason for the write-down should fail to materialize, the asset is restored to its original value, adjusted only for amortisation.

FINANCIAL FIXED ASSETS

EQUITY INVESTMENTS

Equity investments are recorded at cost including accessory charges; the book value is determined on the basis of the acquisition or subscription price, or the values attributed to the transferred assets. The cost is reduced in the case of consistent losses in value if the investees have incurred losses and profits of an amount that would absorb such losses in the immediate future are not anticipated. The original value is restored in subsequent financial years in the event that the reasons for the write down cease to exist.

For additional equity investments that result from a rights increase, which is subscribed to and paid by the holder, the amount that corresponds to the cost of the subscription is added to the cost at which the equity investment is recorded. In the event of a reduction in the share capital of an investee due to losses which are considered to be of a durable nature, the value of the equity investment is decreased; in the event of share capital increases following reductions due to losses, the value of the equity investment is decreased and the value is written back to the amount which corresponds to the share capital increase carried out.

Equity investments with negative shareholders' equity on the year end date are dropped to zero and, when the investee assumes the recapitalisation charges, a risk provision in the amount of the percentage held of the negative shareholders' equity is set up.

RECEIVABLES

Financial receivables (loans) represent a durable use of capital, regardless of their due date (short or medium term); they are recorded at their expected realisable value.

Trade receivables are included in current assets,

INVENTORIES

Inventories are measured at the purchase cost, which is calculated using the weighted average method and does not exceed the current market value.

The net market value is calculated on the basis of the current costs of the inventories at year's end.

RECEIVABLES

Receivables are recorded at their estimated realisable value. The recording of receivables at their estimated realisable value is carried out by creating a bad debt provision which is set off in the balance sheet against the receivables caption. This provision is considered to be sufficient to cover losses in cases of uncollectibility, whether this has been confirmed or not.

Receivables from others recorded under current assets include prepaid tax assets, which are set forth under the valuation criteria that are relative to the taxes on the profits for the financial year.

ACCRUALS AND DEFERRALS

This item includes revenues and expenses pertaining to two or more financial years the amount of which varies over time and are recognized on an accruals basis.

PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges include costs and expenses of a specific nature that are certain or likely to be incurred but which could not be quantified or timed at the end of the year. The allowances reflect the best possible estimate on the basis of the elements at our disposal.

EMPLOYEE LEAVING INDEMNITY

The leaving indemnity provision is set aside to cover the entire liability accrued in favour of employees in accordance with current legislation and collective bargaining labour contracts and staff additions.

PAYABLES

Payables are recorded at face value.

MEMORANDUM ACCOUNTS

The guarantees are recorded in the scheme under the balance sheet at the face value of the guarantee granted. Real guarantees are recorded in this scheme only if provided for third party debts. Real guarantees provided for own debts are indicated within the balance sheet item in which the object of the guarantee is recorded.

Commitments referring to derivative contracts (foreign exchange transactions, swaps, futures, etc.) which involve an exchange of capital or other assets or a differential thereof are recorded at the contract settlement price. Other commitments are recorded in the scheme under the balance sheet at the amount which corresponds to the actual obligation at the period closing date.

Potential but not highly likely risks from claims or disputes are recorded in the scheme under the balance sheet at the amount of the claim or, if the claim is judged as unfounded or if the risks cannot be quantified, they are mentioned under commitments and risks which are not shown in the balance sheet.

REVENUES AND COSTS

Revenues and income are stated net of returned items, discounts and rebates, and net of taxes directly related to the sales of products and services rendered.

Specifically:

- revenues from electricity and gas sales are recognised and accounted for at the time of provision; the item includes the revenue provisions for sales which have not yet been invoiced at the end of the financial year;
- revenues from services rendered are recognised on the basis of services provided, as per the relevant contracts,
- revenue from the sales of goods are recognised upon transfer of the assets;
- costs are stated on an accrual basis;
- financial income and charges are recognised on an accrual basis;
- dividends from investee companies are accounted for on an accrual basis, from the date the relative credit arises, even if it becomes collectible only from the dates the dividends are paid. The dividends from subsidiaries, in which the Parent Company has majority control during Shareholders' Meetings, are recorded in the year in which they accrue, provided that the draft financial statements of the Parent Company are approved by its Board of Directors after the approval of the draft financial statements of the subsidiary companies.

INCOME TAXES

Current income taxes are calculated on the basis of the estimated taxable income according to applicable legislation. The debt which relates to the IRAP (Regional business tax) refers to the "tax liabilities" caption. The debt which relates to the IRES (Corporation tax) is recorded under the "debts to parent companies," net of any advance payments, withheld amounts and any offsettable surplus taxes, since the company is included in the tax consolidation under the parent company, Hera Spa. In the event of a tax loss, pursuant to the regulation governing the tax consolidation which has been approved by both parties, the parent company is credited with an amount that is equal to the losses used, which are assessed according to the IRES rate applicable at the time of use.

Deferred taxes are calculated with reference to the temporary differences in taxation and are entered in the deferred tax provision only if they give rise to a charge. When a positive component emerges, a prepaid tax asset is entered under other receivables included in current assets only if there is reasonable certainty of the existence of taxable income which is no lower than the amount of the differences that will be offset, in the years in which the deductible temporary differences that resulted in the recording of the prepaid income will be reversed. The amount of the prepaid taxes is reviewed each year in order to verify that there is still reasonable certainty of achieving future taxable income, such as to recover the prepaid taxes in full.

Deferred taxes are determined on the basis of the tax rates in force at the time the temporary differences are recorded. Any variations, as a result of amendments to taxes and/or to rates, will be recorded in the year in which the new provisions will come into force and become effectively applicable.

TRANSLATION OF FOREIGN CURRENCY ITEMS

Foreign currency assets and liabilities, with the exception of fixed assets, are recorded using the exchange rate in force as at the year end date and the related exchange gains and losses are duly charged to the Income Statement; any net gain which might arise, is set aside in a specific restricted reserve until the date of realization.

OFF BALANCE SHEET ITEMS

Within the context of its wholesale activity, Hera Trading must handle the risks associated with the misalignment between the index-linking formulas relating to the purchase of gas and electricity and the index-linking formulas relating to the sale of said commodities.
The instruments used for the handling the price risk, both with regard to the price of the goods and the related Euro/Dollar exchange rate, are substantiated in commodity-swap agreements, aimed at pre-establishing the effects on the sales margins irrespective of the changes in the afore-mentioned market conditions.
The total notional amount of the hedging contracts in existence at the end of the year is set forth in the memorandum accounts, thus accepting the contracts concluded for management purposes which are linked to the coverage of previously open purchase/sale positions by multiplying the covered quantities by the relative coverage amount fixes, while no effect is reflected in the income statement.

The company also carries out trading transactions which do not qualify as hedging instruments as part of its broking operations. The net effect of the transactions finalised during the year are set forth in the income statement under the financial income and charges item.
The effects of transactions of this type which exist at the end of the financial year are reflected in the income statement only if they can generate negative effects and their value can be determined on the basis of a liquid market or inferred from market listings for similar instruments or if the company has created appropriate valuation models which allow the fair value to be reliably estimated.
If none of the above conditions are fulfilled, thus making it quite difficult to determine the fair value of the existing operations, the relative effects will be reflected in the balance sheet only upon maturity.

BALANCE SHEET

ASSETS

ASSETS

INTANGIBLE FIXED ASSETS

Intangible assets comprise:

(in € thousands)	Franchise, licenses, trademarks and similar rights					Total
Amounts as a 31.12.2005 (A)	11	-	-	-	-	11
Changes from 2006:						
- purchases(+)						0
- disposals (-)						0
- write-down (-)						0
-amortisation (-)	(3)					(3)
-reclassifications(±)						0
- other movements (±)						0
Total changes (B)	(3)	0	0	0	0	(3)
Amounts as at 31.12.2006 (A+B)	**8**	**0**	**0**	**0**	**0**	**8**

Franchises, licenses, trademarks and similar rights (€ 8 thousand) concern purchases of software which took place in FY 2004, net of the relative amortisation rates.

FINANCIAL ASSETS

EQUITY INVESTMENTS

Equity investments are made up as follows:

(in € thousands)	Amounts as at 31.12.05	Purchases	Disposals	Value adjustments	Other movements	Amounts as at 31.12.06
Shareholdings in associated companies:						
Dyna Green Srl	200					**200**
Flameenergy Gmbh	-	253				**253**

Shareholdings in other companies:						
Galsi Spa	639					**639**
Total equity investments	**839**	**253**	**0**	**0**	**0**	**1,092**

INVESTMENTS IN ASSOCIATED COMPANIES

These amount to € 453 thousand, which represents an increase of € 253 thousand compared to the amount at the end of the preceding financial year, due to the establishment (50%) of Flameenergy Gmbh, a company which is active in the trading of energy products.

The amounts relating to the latest financial statements of the aforementioned investments are:

Name	*Registered offices*	*Share capital*	*Latest financial statements*		*% held*	*Net value as at 31/12/06*	*Net assets pro-quota*	*Difference compared to net assets pro-quota*
			Shareholders' equity	*of which profit (loss)*				
Subsidiary companies:								
Dyna Green Srl	Milan	30	91	(111)	33.33%	200	30	170
Flameenergy Gmbh	Vienna	400	421	21	50.00%	253	211	42

The difference between the book value of the equity investment in Dyna Green Srl and the relative net assets pro-quota (€ 170 thousand), is the result of accumulated losses, as the company continues to be inactive,
The difference between the book value of Flameenergy Gmbh and the relative net assets pro-quota (€ 42 thousand e) is the result of the higher price paid upon acquisition, even though it was reduced by the pro-quota profit for the year.

EQUITY INVESTMENTS IN OTHER COMPANIES

This amount of € 639 thousand remains unchanged compared to the amount at the end of the preceding financial year,

RECEIVABLES

Long term receivables from others of € 3 thousand have decreased by € 2 thousand compared to the end of the preceding financial year due to the refund of some guarantees which had existed.

The receivables above are collectible within 5 years.

CURRENT ASSETS

INVENTORIES

Inventories are made up as follows:

(in € thousands)	31.12.2006	31.12.2005	Changes
Raw, ancillary and consumable materials	22,064	13,366	8,698
Total inventories	**22,064**	**13,366**	**8,698**

Inventories of raw materials include € 20,772 thousand of gas for sale and € 1,292 thousand of "green certificates".

LOANS

(in € thousands)	31.12.2006	31.12.2005	Changes
to customers	92,075	164,748	(72,673)
- customers	*40,138*	*15,683*	*24,455*
- foreign customers	*931*	*-*	*931*
-on invoices to be issued	*51,006*	*149,065*	*(98,059)*
- minus:bad debt provisions	*-*	*-*	*0*
• to subsidiaries	-	-	0
• to associates	-	-	0
• to parent companies	966	5,534	(4,568)
• tax receivables	69	139	(70)
- consumption taxes	*69*	*13*	*56*
-inland revenue / Irap	*-*	*126*	*(126)*
- withheld taxes Ires	*-*	*-*	*0*
- inland revenue/ VAT	*-*	*-*	*0*
• prepaid taxes	28	38	(10)
• to others	0	16,085	(16,085)
- suppliers	*-*	*16,080*	*(16,080)*
- advances to customers	*-*	*-*	*0*
- advances to personnel and associates	*-*	*-*	*0*
- other	*-*	*5*	*(5)*
Total loans	**93,138**	**186,544**	**(93,406)**

Loans to customers (€ 92,075 thousand) relate almost exclusively to sales of gas and electricity.

€ 904 thousand of the loans to parent companies (totalling € 966 thousand) refer to trade receivables, while € 62 thousand refer to sundry loans related to inclusion in the Group's tax consolidation for IRES purposes.

The composition and movements of the prepaid taxes entry (€ 28 thousand), which almost entirely derives from the IRES (33%), are shown in the table below:

(in € thousands)	**Amounts as at 31.12.2005**	**Prov.**	**Uses**	**Other movements**	**Amounts as at 31.12.06**
Unpaid directors' fees	15	15	(15)		**15**
Remuneration of auditing firm	14		(14)		**0**
Remuneration of board of statutory auditors	3		(3)		**0**
Entertainment expenses	1	1			**2**
Prov. for productivity bonuses	5	11	(5)		**11**
Totals	**38**	**27**	**(37)**	**0**	**28**

The amounts which relate to the 2006 provisions have been moved to the income statement, under income taxes for the year.
As at 31.12.2006, no material items were excluded from the estimate for tax receivables and, in particular, there were no amounts for tax losses for the year which were not accounted for in this item for reasons other than their inexistence.

Receivables are broken down, by type and maturity, as follows:

(in € thousands)	**31.12.2006**	**31.12.2005**
Receivables collectible within the next year	93,110	186,506
• *Trade*	*92,979*	*181,624*
• *Loans*	-	*3.968*
• *Other*	*131*	*914*
Receivables collectible later than the next year	28	38
• *Trade*	-	-
• *Loans*	-	-
• *Other*	*28*	*38*
	93,138	**186,544**
With durations exceeding five years	-	-

There were no receivables granted without recourse on the balance sheet date which were not included in the total receivables.

SHORT-TERM INVESTMENTS

OTHER FINANCIAL ASSETS

These amount to € 4,587 thousand, and have increased by this amount compared to the end of the preceding financial year. They include the positive fair values of derivative trading contracts which relate to the electricity sector, in existence at the end of the financial year.

The main characteristics of these contracts, broken down by category, are summarised below:

Type	Underlying	No. of contracts	Units of meas.	Quantity	Fair value (€/000)
SWAP	Energy prices	28	MWh	120,540	2,207
SWAP	Fuel oil formula	2	MWh	175,200	2,348
Option	Fuel oil formula	1	MWh	120,000	32
					4,587

The fair values of these contracts were determined on the basis of market listings insofar as the swaps are concerned and internal valuation models for the options.

CASH AND CASH EQUIVALENTS

These amount to € 5,141 thousand, representing an increase of € 71 thousand compared to the end of the preceding financial year, as they are almost entirely composed of bank and postal deposits which are available for current operations.

ACCRUED INCOME AND PREPAYMENTS

These amount to € 3,978 thousand, up by € 2,150 thousand compared to the end of the preceding financial year.

This is entirely composed of prepayments, of which:

- € 3,375 thousand are fixed gas transport and stocking costs pertaining to periods later than the year ended on 31.12.2006 and in particular, costs for the use of the TAG gas pipeline (€ 2,369 thousand) have been charged up to the end of 2013.
- € 594 thousand for gas release rights which concern future periods;
- € 9 thousand for other prepayments of a different type.

LIABILITIES

SHAREHOLDERS' EQUITY

The changes which took place in the year are set forth in the table below:

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ACCOUNTS

(in € thousands)	Share capital	Legal reserve	Other reserves	Retained profit (loss)	Profit (loss) for the year	Total shareholders' equity
Amounts as at 31.12.2005	**2,600**	**337**	**160**	**-**	**(100)**	**2,997**
Allocation of the profit for FY 2005:						
- to reserves				(100)	100	**0**
- distribution of dividends						**0**
Net profit for FY 2006					148	**148**
Amounts as at 31.12.2006	**2,600**	**337**	**160**	**(100)**	**148**	**3,145**

The shareholders' equity and reserves are composed as follows:

Type/description	*Amount*	*Possibility of use*	*Portion available*	*Summary of utilisation in the three preceding years*	
				For coverage of losses	*For other reasons*
Share capital	2,600				
Reserves:					
Legal reserve	337	B			
Extraordinary reserve	157	A, B, C	157		
Profits	3	A, B, C	3		
Total	3,097		160		
Restricted portion			-		
Residual unrestricted portion			160		

Key:
A for share capital increases
B for coverage of losses
C for distribution to shareholders.

PROVISIONS FOR RISKS AND CHARGES

FOR TAXES, INCLUDING DEFERRED TAXES

These amount to € 153 thousand and concern the IRES tax in their entirety that pertain to the bad debt provisions which were not included in the income statement but calculated exclusively for tax deduction purposes pursuant to art. 109, par. 4 b).

EMPLOYEE LEAVING INDEMNITY

The changes in the employee leaving indemnity are as follows:

Use as at 31.12.2005 (A)	114
Changes from 2005:	
- provisions (+)	23
- uses (-)	(17)
- adjustments (±)	
- other movements(±)	(1)
Total changes (B)	5
Amount as at 31.12.2006 (A+B)	**119**

PAYABLES

These are:

(in € thousands)	**31.12.2006**	**31.12.2005**	**Changes**
• to others	6,867	-	6,867
• to suppliers	74,873	49,861	25,012
- for invoices received	*29,129*	*16,153*	*12,976*
- for invoices to be received	*45,744*	*33,708*	*12,036*
• to subsidiaries	-	-	0
• to associated companies	568	0	568
- for trade payables	*568*	*-*	*568*
- for financial payables	*-*	*-*	*0*
-for other payables	*-*	*-*	*0*
• to parent companies	44,140	140,903	(96,763)
- for trade payables	*7,024*	*8,044*	*(1,020)*
- for financial payables	*37,116*	*131,544*	*(94,428)*
- for other payables	*-*	*1,315*	*(1,315)*
• tax liabilities	62	15	47
- IRAP tax	*38*	*-*	*38*
- internal revenue for VAT	*-*	*-*	*0*
- employee withholdings payable	*23*	*14*	*9*
- self-employed workers withholdings payable	*1*	*1*	*0*
- other tax liabilities	*-*	*-*	*0*
• social security institutions	31	20	11
• others	53	13,753	(13,700)

- against credit notes to be issued to customers	*-*	*13,690*	*(13,690)*
- personnel	*50*	*37*	*13*
- board of statutory auditors	*-*	*26*	*(26)*
- guarantees	*-*	*-*	*0*
- other	*3*	*-*	*3*
Total payables	**126,594**	**204,552**	**(77,958)**

Payables to others amount to € 6,867 thousand, and have increased by this amount compared to the end of the preceding financial year. They include the negative fair values of electricity sector related derivative trading contracts in existence at the end of the financial year.

The main characteristics of these contracts, broken down by category, are summarised below:

Type	Underlying	No. of contracts	Unit of meas.	Quantity	Fair value (€/000)
SWAP	Energy prices	31	MWh	1,003,930	3,099
SWAP	Fuel oil formula	3	MWh	219,000	2,907
SWAP	Fuel oil formula	1	MT	63,299	123
Option	Fuel oil formula	1	MWh	120,000	738
					6,867

The fair values of these contracts were determined on the basis of market listings insofar as the swaps are concerned and internal valuation models for the options.

Payables to suppliers of € 74,873 thousand almost exclusively concern purchases of gas and electricity; the increase compared to the end of the preceding financial year is due to the higher costs of raw materials and electricity in particular as well as a shift in the payment deadlines compared to last year.

Payables to parent companies of € 44,140 thousand concern the relations with Hera Spa and in particular the financial relations (€ 37,116 thousand) which involve financing and treasury activities.

Payables are broken down, by type and maturity, as follows:

(in € thousands)	**31.12.2006**	**31.12.2005**
Amounts payable within the next financial year:	126,594	204,552
• *Trade*	*82,465*	*71,595*
• *Financial*	*43,983*	*131,544*
• *Other*	*146*	*1,413*
Amounts payable later than the next financial year	0	0
• *Trade*	-	-
• *Financial*	-	-
• *Other*	-	-
Total payables	**126,594**	**204,552**

ACCRUED LIABILITIES AND DEFERRED INCOME

There is no amount posted under this heading within these financial statements.

MEMORANDUM ACCOUNTS

OFF BALANCE SHEET ITEMS FOR THE MANAGEMENT OF PRICE RISK

The management policies which apply to derivative contracts are set forth under the paragraph on off balance sheet items within the section on valuation criteria and the basis of accounting.
The posted amount of € 12,279 thousand (€ -52,348 thousand compared to 31.12.2005) corresponds to the total notional amount of the hedging contracts in existence as at 31 December 2006, obtained by multiplying the hedged amounts for deliveries after 31 December 2006, by the relative hedging price set.

The fair value of derivative hedging contracts in existence at the end of the financial year is set forth in the statement below:

Type of transaction	Hedged underlying	N. contracts	Notional	Fair Value (€/000)		
				Positive	*Negative*	*Net*
A) Hedging derivatives						
- Swap on gas prices	Future natural gas sales	3	138,390,000 Sm^3	0	(1,115)	(1,115)
- Swap on crude oil prices	Future natural gas sales	3	38,205 Bbl	74	0	74
- Swap on gas-oil prices	Future natural gas sales	3	16,604 Ton	0	(745)	(745)
TOTAL				74	(1,860)	(1,786)

OTHER MEMORANDUM ACCOUNTS

The guarantees provided by banks on behalf of the company of € 58,043 thousand (€ -2,497 thousand compared to 31.12.2005) concern the guarantees provided to suppliers of gas pursuant to the existing supply contracts.

INCOME STATEMENT

VALUE OF PRODUCTION

REVENUES FROM SALES AND SERVICES

The revenues from sales and services are:

(in € thousands)	FY 2006	FY 2005	change.
- for methane gas sales	138,608	150,938	(12,330)
- for electricity sales	209,658	132,037	77,621
- for gas transport and stocking services	13,532	13,734	(202)
- for sales of green certificates	678	381	297
- for other services	500	551	(51)
	362,976	**297,641**	**65,335**

The company operates mainly in Italy.

OTHER INCOME AND REVENUES

These are:

(in € thousands)	FY 2006	FY 2005	change
-positive adjustments to provisions prev. FY	.	49	(49)
- other lesser amounts	9	8	1
	9	**57**	**(48)**

COST OF PRODUCTION

FOR RAW MATERIALS, CONSUMABLES AND GOODS FOR RESALE

(in € thousands)	FY 2006	FY 2005	change
- methane gas	140,482	136,400	4,082
- electricity	167,340	131,689	35,651
- *green certificates*	1,293	1,148	145
- net charges from derivative hedging contracts	44,936	5,790	(4)
- consumables	5	9	39,146
- other	-	-	(4)
	354.056	**275.036**	**79.020**

FOR SERVICES

(in € thousands)	FY 2006	FY 2005	change
- gas transport and stocking costs	12,295	16,733	(4,438)
- costs for Group intercompany services	2,897	3,786	(889)
- gas release assignment rights	592	592	0
- other trading costs	185	50	135
- legal and consulting	163	153	10
- remuneration of Board of Statutory Auditors	-	17	(17)
- remuneration of auditing firm	40	47	(7)
- remuneration of B.o.D.	42	44	(2)
-bank commissions	204	211	(7)
- insurance services	23	-	23
- other administrative services	6	4	2
- services for the personnel	89	43	46
- other lesser amounts	-	-	0
	16,536	**21,680**	**(5,144)**

Of the remuneration of the Board of Directors which amounts to € 42 thousand, € 41 thousand are paid to the parent company Hera Spa, for the directors who hold offices for which they receive remuneration from the latter.

USE OF THIRD-PARTY ASSETS

This entry does not carry significant weight, as the total amount is only € 25.

PERSONNEL COSTS

Personnel costs reached € 587 thousand, an increase of € 96 thousand compared to the previous financial year. It pertains to the personnel indicated below, the composition of which was the following during the financial year:

	31.12.2005	Additions	Departures	Other movements	31.12.2006	Average composition
Executives	-			1	1	1
Managers& white collar staff	8	3		(1)	10	8,5
Workers	-				0	0
Total	**8**	**3**	**0**	**0**	**11**	**9.5**

2 employees with fixed term contracts are included above.
Overall, the average per capita cost as at 31 December 2006 was € 62 thousand.

AMORTISATION, DEPRECIATION AND WRITE-DOWNS

This amounted to € 4 thousand, posting no change compared to last year. Please see the note on the intangible fixed assets.

No assets were written down in the financial year under review.

CHANGE IN STOCK OF RAW MATERIALS, CONSUMABLES AND GOODS FOR RESALE

For analysis of this € 8,698 thousand entry, please see the relative note under assets which refers to inventories.

OTHER OPERATING COSTS

(in € thousands)	FY 2006	FY 2005	change
- Subscriptions to newspapers and magazines	7	19	(12)
- membership fees	17	17	0
- negative adjustments to 2004 provisions	-	171	(171)
- other lesser amounts	15	10	5
	39	**217**	**(178)**

FINANCIAL INCOME AND CHARGES

<u>Other financial income</u>

d) other income

(in € thousand)	FY 2006	FY 2005	change
- interest income from parent company Hera Spa	-	-	0
- interest income from banks	23	15	8
- income from derivative contracts	18,037	3,964	14,073
- interest income on other short term receivables	-	-	0
-other financial income	-	-	0
	18,060	**3,979**	**14,081**

Please see the paragraph on accounting entries and the relative purposes of derivative contracts within the paragraph on off balance sheet transactions in the section on valuation criteria and the basis of accounting.

INTEREST PAYABLE AND OTHER FINANCIAL CHARGES

d) other

(in € thousand)	FY 2006	FY 2005	change
-interest payable to parent company Hera Spa	-	-	0
- interest payable to banks	-	-	0
- charges for derivative contracts	18,043	2,697	15,346
- other financial charges	-	-	0
	18,043	**2,697**	**15,346**

Please see the paragraph on accounting entries and the relative purposes of derivative contracts within the paragraph on off balance sheet transactions in the section on valuation criteria and the basis of accounting.

EXCHANGE GAINS AND LOSSES

(in € thousands)	FY 2006	FY 2005	change
Gains	1	8	(7)
Losses	1	8	(7)
	0	**0**	**(14)**

The exchange gains and losses refer to transactions which have already been completed.

EXTRAORDINARY INCOME AND CHARGES

These are:

(in € thousands))	FY 2006	FY 2005	change
- insurance reimbursements	-	-	0
- contingent assets and non-existent liabilities	111	1	110
- other extraordinary income	-	-	0
TOTAL EXTRAORDINARY INCOME	**111**	**1**	**110**

(in € thousands)	FY 2006	FY 2005	change
- contingent liabilities and non-existent assets	296	-	296
- taxes pertaining to prior periods	-	3	(3)
- other extraordinary charges	-	-	0
TOTAL EXTRAORDINARY CHARGES	**296**	**3**	**293**

INCOME TAXES FOR THE YEAR

(in € thousands)	FY 2006	FY 2005	change
Current income taxes			
- IRES	56	13	43
- IRAP	(38)	-	(38)
Deferred tax assets (liabilities)	(163)	35	(198)
TOTAL TAXES	**(145)**	**48**	**(193)**

The current IRES taxes are positive as they correspond to the theoretical rate of 33% applied to Hera Trading's negative tax result for the year under review; the parent company Hera Spa was credited with this amount pursuant to the rules underlying the application of the "tax consolidation" within the Hera Group.

With regard to deferred taxes, the balance of € 163 thousand derives from uses of prepaid taxes in the amount of € 10 thousand and provisions for deferred tax liabilities in the amount of € 153 thousand, which are analysed further in the notes on the respective balance sheet entries.

PARENT COMPANY FINANCIAL STATEMENT DATA

SUMMARY FINANCIAL STATEMENT DATA PERTAINING TO THE 2005 FINANCIAL YEAR OF THE PARENT COMPANY HERA SpA, WHICH IS RESPONSIBLE FOR DIRECTION AND COORDINATION

Information pursuant to art. 2497-bis of the Italian Civil Code

Pursuant to art, 2497 bis, art. 4, we note that the direction and coordination of the company is carried out by Hera Spa, a company with registered offices in Bologna, via Berti Pichat 2/4, tax identification code n. 04245520376, which prepares the consolidated financial statements. Information from the financial statements of Hera Spa is set forth below (*amounts in euro*):

BALANCE SHEET	***31.12.2005***	***31.12.2004***
ASSETS		
A) Subscribed capital unpaid	-	-
B) Fixed assets	2,098,694,594	1,545,937,713
C) Current assets	1,323,818,029	958,696,237
D) Accrued income and prepayments	16,504,782	18,097,307
Total assets	3,439,017,405	2,522,731,257
LIABILITIES		
A) Shareholders' equity		
Share capital	1,016,752,029	839,903,881
Reserves	164,352,705	65,828,173
Profit(loss) for the year	75,413,347	59,368,150
B) Provisions for risks and charges	191,307,727	136,805,432
C) Employee leaving indemnity	32,733,850	23,706,490
D) Payables	1,900,886,088	1,347,191,476
E)Accrued liabilities and deferred income	57,571,659	49,927,655
Total liabilities	3,439,017,405	2,522,731,257
GUARANTEES, COMMITMENTS AND OTHER RISKS	**1,829,420,492**	**1,726,876,823**

INCOME STATEMENT		
A) Value of production	1,597,078,063	1,268,081,483
B) Cost of production	(1,520,459,074)	(1,220,053,771)
C) Financial income and charges	25,115,951	30,523,426
D) Value adjustments to financial assets	(1,272,694)	(993,181)
E) Extraordinary income and charges	(1,073,079)	(4,947,495)
Income taxes for the year	(23,975,820)	(13,242,312)
Profit (loss) for the year	**75,413,347**	**59,368,150**

Bologna, 22 March, 2007

The Board of Directors
The Chairman

Nicodemo Montanari