



Consolidated  
Financial  
Statements

# Consolidated Income Statement

Notes Ref.		31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (Decrease) %
1	Revenue from sales and services	2,480,469	2,265,244	215,225	9.5%
2	Other operating income	82,992	64,756	18,236	28.2%
	<b>Consolidated net revenue</b>	<b>2,563,461</b>	<b>2,330,000</b>	<b>233,461</b>	<b>10.0%</b>
3	Staff costs	265,025	274,609	(9,584)	-3.5%
4	Costs of materials and overheads	1,172,180	1,056,394	115,786	11.0%
	<b>Consolidated operating costs</b>	<b>1,437,205</b>	<b>1,331,003</b>	<b>106,202</b>	<b>8.0%</b>
<b>5</b>	<b>Net income/(costs) from commodity risk management</b>	<b>3,152</b>	<b>(3,189)</b>	<b>6,341</b>	<b>198.9%</b>
	<b>Gross Operating Profit</b>	<b>1,129,409</b>	<b>995,809</b>	<b>133,600</b>	<b>13.4%</b>
6	Amortisation, depreciation, provisions and impairment charges	320,980	346,798	(25,819)	-7.4%
	<b>Operating profit/(loss)</b>	<b>808,429</b>	<b>649,011</b>	<b>159,419</b>	<b>24.6%</b>
7	Finance (costs)/income	(88,842)	(73,611)	(15,231)	20.7%
	Ordinary finance (costs)/income	(88,842)	(73,611)	(15,231)	20.7%
	Extraordinary finance (costs)/income	0	0	0	0.0%
8	Profit/(loss) on investments	2,572	819	1,753	213.9%
	<b>Profit/(loss) before tax</b>	<b>722,159</b>	<b>576,219</b>	<b>145,940</b>	<b>25.3%</b>
9	Taxation	69,779	138,129	(68,350)	-49.5%
	<b>Net profit/(loss) from continuing operations</b>	<b>652,380</b>	<b>438,090</b>	<b>214,290</b>	<b>48.9%</b>
10	Net profit/(loss) from discontinued operations	(552,359)	(485,110)	(67,250)	13.9%
	Net profit/(loss) for the period	100,020	(47,020)	147,040	312.7%
	Profit/(loss) attributable to minority interests	7,872	5,534	2,338	42.2%
	<b>Net profit/(loss) attributable to the Group</b>	<b>92,148</b>	<b>(52,554)</b>	<b>144,702</b>	<b>275.3%</b>
11	Earnings (loss) per share attributable to the Parent Company's shareholders				
	basic	0.4327	-0.2468	0.6795	
	diluted	0.4327	-0.2468	0.6795	
	Earnings (loss) per share from continuing operations attributable to the Parent Company's shareholders:				
	basic	3.0264	2.0311	0.9952	
	diluted	3.0264	2.0311	0.9952	

Amounts in thousands of euros

# Aggregate Consolidated Income Statement

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (Decrease) %
<b>Net profit/(loss) for the period</b>	<b>100,020</b>	<b>(47,020)</b>	<b>147,040</b>	<b>313%</b>
Profit/(Loss) from Conversion of Foreign Financial Statements	1,384	116	1,268	
Profit/(Loss) from the Effective Portion on Hedging Instruments	(2,772)	43,731	(46,503)	
Taxation	1,155	(14,573)	15,727	
<i>Total Operating Profit Net of Tax</i>	(233)	29,275	(29,507)	
<b>Total Profits Net of Tax</b>	<b>99,788</b>	<b>(17,745)</b>	<b>117,533</b>	<b>662%</b>
Consolidated Operating Profit/(Loss) Net of Tax attributable to:				
<b>Third Parties</b>	<b>7,598</b>	<b>5,253</b>	<b>2,345</b>	
<b>Group</b>	<b>92,189</b>	<b>(22,998)</b>	<b>115,187</b>	

Amounts in thousands of euros

# Statement of Consolidated Financial Position

## Assets

Notes Ref.	Assets	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (Decrease) %	01.01.2009 Restated
12	Property, plant and equipment	1,904,563	2,209,912	(305,349)	-13.8%	2,040,255
13	Investment property	3,148	3,347	(200)	-6.0%	3,487
14	Goodwill	19,718	84,312	(64,594)	-76.6%	77,186
15	Concessions	1,418,071	1,286,810	131,261	10.2%	1,174,658
16	Other intangible assets	67,350	57,611	9,739	16.9%	35,911
17	Investments in subsidiaries and associates	32,066	28,250	3,815	13.5%	25,556
18	Other investments	3,650	6,149	(2,499)	-40.6%	6,155
19	Deferred tax assets	267,520	239,935	27,586	11.5%	217,270
20	Financial assets	7,553	17,206	(9,653)	-56.1%	30,294
21	Other assets	26,212	32,093	(5,881)	-18.3%	35,416
	<b>NON-CURRENT ASSETS</b>	<b>3,749,850</b>	<b>3,965,624</b>	<b>(215,774)</b>	<b>-5.4%</b>	<b>3,646,186</b>
	Inventories	58,039	66,437	(8,398)	-12.6%	76,572
	Trade receivables	1,144,811	1,191,608	(46,798)	-3.9%	1,201,223
	Other current assets	77,337	128,231	(50,893)	-39.7%	111,601
	Current tax assets	42,437	101,996	(59,558)	-58.4%	72,826
	Current financial assets	321,384	393,248	(71,865)	-18.3%	278,594
	Cash and cash equivalents	281,742	102,258	179,484	175.5%	212,060
<b>22</b>	<b>CURRENT ASSETS</b>	<b>1,925,750</b>	<b>1,983,779</b>	<b>(58,028)</b>	<b>-2.9%</b>	<b>1,952,876</b>
<b>23</b>	<b>Non-current assets held for sale</b>	<b>704,013</b>		<b>704,013</b>	<b>0.0%</b>	
	<b>TOTAL ASSETS</b>	<b>6,379,614</b>	<b>5,949,403</b>	<b>430,211</b>	<b>7.2%</b>	<b>5,599,063</b>

Amounts in thousands of euros

# Statement of Consolidated Financial Position

## Liabilities

Notes Ref.	Liabilities	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (Decrease) %	01.01.2009 Restated
	Shareholders' equity					
	share capital	1,098,899	1,098,899	0	0.0%	1,098,899
	legal reserve	111,785	107,096	4,689	4.4%	98,762
	other reserves	(272,132)	(241,736)	(30,396)	12.6%	(178,616)
	profit (loss) pertaining to previous years	276,004	303,314	(27,310)	-9.0%	357,898
	profit (loss) for the period	92,148	(52,553)	144,701	275.3%	
	<b>Total Group shareholders' equity</b>	<b>1,306,704</b>	<b>1,215,020</b>	<b>91,684</b>	<b>7.5%</b>	<b>1,376,943</b>
	Minority interests	74,623	71,705	2,917	4.1%	67,430
<b>24</b>	<b>Total shareholders' equity</b>	<b>1,381,326</b>	<b>1,286,725</b>	<b>94,601</b>	<b>7.4%</b>	<b>1,444,373</b>
25	Staff termination benefits and other defined benefit plans	106,934	123,297	(16,363)	-13.3%	127,588
26	Provision for liabilities and charges	191,683	242,874	(51,191)	-21.1%	184,379
27	Borrowings and financial liabilities	2,299,463	1,853,672	445,791	24.0%	1,708,037
28	Other liabilities	227,478	203,051	24,427	12.0%	187,522
29	Provision for deferred taxes	77,410	92,160	(14,750)	-16.0%	88,552
	<b>NON-CURRENT LIABILITIES</b>	<b>2,902,969</b>	<b>2,515,054</b>	<b>387,914</b>	<b>15.4%</b>	<b>2,296,078</b>
	Trade payables	883,498	1,028,661	(145,164)	-14.1%	1,055,798
	Other current liabilities	259,620	260,796	(1,176)	-0.5%	356,817
	Borrowings	250,045	788,610	(538,565)	-68.3%	381,344
	Tax payables	120,786	69,556	51,230	73.7%	64,653
30	CURRENT LIABILITIES	1,513,948	2,147,623	(633,675)	-29.5%	1,858,612
23	Liabilities directly linked with assets held for sale	581,371		581,371	0.0%	
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>6,379,614</b>	<b>5,949,403</b>	<b>430,211</b>	<b>7.2%</b>	<b>5,599,063</b>

Amounts in thousands of euros

# Consolidated Cash Flow Statement

	31.12.2010	31.12.2009 RESTATED	Increase/ (Decrease)
<b>Cash flow from operating activities</b>			
Profit before tax from continuing operations	722,159	576,219	145,940
Profit before tax from discontinued operations	(536,740)	(475,473)	(61,268)
Amortisation/depreciation	230,818	219,443	11,375
Revaluations/impairment charges	61,319	38,011	23,308
Movement in provisions for liabilities	(42,057)	61,574	(103,631)
Net movement in staff termination benefits	(12,540)	(4,613)	(7,926)
Realised gains	9,466	714	8,752
Net financial interest expense	98,895	85,265	13,630
Income taxes paid	(40,866)	(160,670)	119,804
<b>Cash generated by operations before movements in working capital</b>	<b>490,454</b>	<b>340,471</b>	<b>149,983</b>
Increase in current receivables	(196,781)	(27,225)	(169,556)
Increase/decrease in current liabilities	74,476	(29,696)	104,173
Increase/(decrease) in inventories	(19,572)	10,214	(29,786)
<b>Movement in working capital</b>	<b>(141,877)</b>	<b>(46,708)</b>	<b>(95,169)</b>
<b>Changes in other assets/liabilities during the year</b>	<b>97,606</b>	<b>(89,776)</b>	<b>187,383</b>
<b>TOTAL CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>446,183</b>	<b>203,987</b>	<b>242,197</b>
<b>Cash flow from investing activities</b>			
Purchase/sale of property, plant and equipment	(192,414)	(295,973)	103,558
Purchase/sale of intangible assets	(227,343)	(217,569)	(9,774)
Investments	1,168	(13,338)	14,507
Proceeds/payments deriving from other investments	64,652	(96,232)	160,884
Dividends received	0	0	0
Interest income received	20,214	12,879	7,334
<b>TOTAL</b>	<b>(333,723)</b>	<b>(610,233)</b>	<b>276,509</b>
<b>Cash flow from financing activities</b>			
Minority interests in capital increases by subsidiaries	0	0	0
Repayment of mortgages and long-term borrowing	(69,238)	(61,685)	(7,553)
Provision of mortgages/other medium/long-term borrowings	680,337	191,952	488,385
Decrease/increase in other short-term borrowings	(429,636)	404,456	(834,092)
Interest expenses paid	(96,808)	(96,990)	182
Dividends paid	(2,851)	(141,289)	138,438
<b>TOTAL CASH FLOW</b>	<b>81,803</b>	<b>296,444</b>	<b>(214,641)</b>
<b>Cash flows for the year</b>	<b>194,263</b>	<b>(109,802)</b>	<b>304,065</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>102,258</b>	<b>212,060</b>	<b>(109,802)</b>
<b>Cash and cash equivalents at end of period</b>	<b>296,522</b>	<b>102,259</b>	<b>194,263</b>

Amounts in thousands of euros

# Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
<b>Balances at 1 January 2009</b>	<b>1,098,899</b>	<b>98,762</b>	<b>(6,762)</b>	<b>186,285</b>	<b>1,377,184</b>	<b>67,279</b>	<b>1,444,463</b>
Change in accounting standards: IFRIC 12			(241)		(241)	151	(90)
<b>Balances at 1 January 2009 Restated</b>	<b>1,098,899</b>	<b>98,762</b>	<b>(7,003)</b>	<b>186,285</b>	<b>1,376,943</b>	<b>67,430</b>	<b>1,444,373</b>
Operating profit				(52,553)	(52,553)	5,534	(47,020)
Other total profit/(loss)			(282)	29,555	29,274	(281)	28,993
<b>Total profit (loss)</b>				<b>(22,998)</b>	<b>(23,280)</b>	<b>5,253</b>	<b>(18,027)</b>
Appropriation of result for 2008		8,334	132,438	(140,771)	0	668	668
Distribution of dividends			(94,130)	(45,513)	(139,644)	(1,645)	(141,289)
Change in basis of consolidation			1,000		1,000		1,000
<b>Balances at 31 December 2009</b>	<b>1,098,899</b>	<b>107,096</b>	<b>32,022</b>	<b>(22,998)</b>	<b>1,215,019</b>	<b>71,705</b>	<b>1,286,725</b>

Amounts in thousands of euros

	Share capital	Legal reserve	Other reserves	Profit for the period	Total	Minority interests	Total shareholders' equity
<b>Balances at 1 January 2010</b>	<b>1,098,899</b>	<b>107,096</b>	<b>32,022</b>	<b>(22,998)</b>	<b>1,215,019</b>	<b>71,705</b>	<b>1,286,725</b>
Operating profit				92,148	92,148	7,872	100,020
Other total profit/(loss)				41	41	(274)	(233)
<b>Total profit (loss)</b>				<b>92,189</b>	<b>92,189</b>	<b>7,598</b>	<b>99,788</b>
Appropriation of result for 2009		4,689	(27,686)	22,998	0	402	402
Distribution of dividends						(1,399)	(1,399)
Change in basis of consolidation			(506)		(506)	(3,684)	(4,190)
<b>Balances at 31 December 2009</b>	<b>1,098,899</b>	<b>111,785</b>	<b>3,830</b>	<b>92,189</b>	<b>1,306,704</b>	<b>74,623</b>	<b>1,381,326</b>

Amounts in thousands of euros

# Notes

## Basis of Presentation and Consolidation

### General information

The ACEA Group's consolidated financial statements for the year ended 31 December 2010 were approved by the Board of Directors on 23 March 2011. The Parent Company, ACEA SpA, is an Italian joint-stock company, with its registered office in Rome, at Piazzale Ostiense 2, and whose shares are traded on the Milan Stock Exchange.

The ACEA Group's principal areas of activity are described in the Management Operations' Report.

### Compliance with IAS/IFRS

The consolidated financial statements have been prepared under the IFRS effective at the end of the reporting period, and as approved by the International Accounting Standards Board (IASB) and adopted by the European Union. The standards consist of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC), collectively referred to as "IFRS".

### Basis of presentation

The consolidated financial statements consists of the consolidated balance sheet, consolidated income statement, statement of consolidated comprehensive income, consolidated cash flow statement and the statement of changes in consolidated shareholders' equity. The Report also includes notes prepared under the IAS/IFRS currently in effect.

The income statement is classified on the basis of the nature of expenses, the balance sheet is based on the liquidity method by dividing between current and non-current items, whilst the cash flow statement is presented using the indirect method.

The consolidated financial statements have been prepared in euros and all amounts have been rounded off to the nearest thousand euros, unless otherwise indicated.

The figures in these consolidated financial statements are comparable to the figures in the previous period.

### Alternative performance indicators

In line with recommendation CESR/05-178b, the content and meaning of non-GAAP measures of performance and other alternative performance indicators used in these financial statements are described below:

1. **gross operating profit** is used by the ACEA Group as an indicator of operating performance and is calculated by adding "Amortisation, depreciation, provisions and impairment charges" to the operating result;
2. **net debt** indicates the state of the Acea Group's financial structure and is obtained by adding non-current borrowings and financial liabilities, less non-current financial assets (loans and receivables and securities other than investments), to current borrowings and other current liabilities, less current financial assets and cash and cash equivalents;
3. **net invested capital** is the sum of "Current assets", "Non-current assets" and assets and liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account in calculating net debt.

### Use of estimates

In application of IFRS, preparation of the consolidated financial statements required management to make estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities and the disclosure of contingent assets and liabilities at the end of the reporting period. The actual amounts may differ from such estimates. Estimates are used in order to make provisions for credit risk, obsolescent inventories, impairment charges incurred on assets, employee benefits, fair value of derivatives, taxes and other provisions. The original estimates and assumptions are periodically reviewed and the impact of any change recognised in the income statement.

In addition, it should be noted that said evaluated processes, in particular the more complex ones such as the calculation of any impairments of non-current assets, are generally carried out fully during drafting of the financial statements, except where there are impairment



indicators that call for an immediate evaluation of losses of value.

## Accounting standards and policies

The most significant accounting standards and policies are described below.

### Business combinations

Acquisitions of subsidiaries are accounted for under the acquisition method. The cost of the acquisition is determined as the sum of the fair value, at the date of exchange, of the assets given, the liabilities incurred or acquired, and the financial instruments issued by the Group in exchange for control of the acquired company. The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS 3 are accounted for at fair value at the date of acquisition, with the exception of non-current assets (or disposal groups), which are classified as held for sale under IFRS 5 and accounted for at fair value less costs to sell.

If the business combination is recognised in several phases, the purchaser has to recalculate the fair value of the investment previously held (in case of equity method valuation) or the group of net assets attributable to the subsidiary (in case of consolidation according to the proportional method) and recognise any resulting profit or loss in the income statement.

The purchaser has to recognise any contingent consideration at the fair value, at the date of acquisition. The change in fair value of the contingent consideration classified as asset or liability will be recognized according to the provisions included in IAS 39, in the income statement or in other comprehensive income. If the contingent consideration is classified in the shareholders' equity, its value has not to be recalculated until its settlement is recognised to the shareholders' equity.

Goodwill arising on acquisition is recognised as an asset and initially valued at cost, represented by the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and

contingent liabilities acquired. This goodwill is not amortised, but is tested for impairment. If, on the other hand, the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the relevant amounts are re-determined. If the Group's interest in the resulting fair value of the identifiable assets, liabilities and contingent liabilities still exceeds the cost of the acquisition, the difference is immediately recognised in the income statement.

For every business combination, the purchaser must value any minority stake in the acquired entity at fair value or in proportion to the share of the minority interest in net identifiable assets of the acquired entity.

### Non-current assets held for sale and discontinued operations

Non-current assets (and assets included in disposal groups) classified as held for sale are accounted for at the lower of their previous carrying amount and their fair value less costs to sell.

Non-current assets (and assets included in disposal groups) are classified as held for sale when their carrying amount is expected to be recovered through a sale transaction rather than through their continued use. This condition is only met when the sale is highly probable, the asset (or asset included in a disposal group) is available for immediate sale in its present condition and management is committed to the sale, which is expected to take place within twelve months of the classification of this item.

In the case of discontinued operations, the post-tax gain or loss on disposal and the matching comparative amounts for the previous year are shown separately in a specific item in the income statement.

### Goodwill

Goodwill from business combinations (among which, as an example only, the acquisition of subsidiaries, jointly controlled entities, or the acquisition of business units or other extraordinary transactions) represents the excess of the cost of the acquisition over the Group's

interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity at the date of the acquisition. Goodwill is recognised as an asset and is subject to an annual impairment review. Any impairment charges are immediately recognised in the income statement and are not subsequently reversed.

Goodwill emerging at the date of acquisition is allocated to each of the cash-generating units expected to benefit from the synergies deriving from the acquisition. Impairment charges are identified via tests that assess the capacity of each unit to generate cash sufficient to recover the portion of goodwill allocated to it. Should the recoverable amount of the cash-generating unit be less than the allocated carrying amount, an impairment charge is recognised.

On the sale of a subsidiary or jointly controlled entity, any unamortised goodwill attributable to it is included in the calculation of the gain or loss on disposal.

### Foreign currencies

ACEA and its European subsidiaries have adopted the euro as their functional and presentation currency. Foreign currency transactions are initially recognised at the spot rate on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency at the exchange rate at the end of the reporting period. Exchange differences are recognised in the consolidated income statement, with the exception of differences deriving from foreign currency loans forming part of a net investment in a foreign entity. Such exchange differences are taken directly to shareholders' equity until disposal of the net investment, at which time any differences are recognised as income or expenses in the income statement. The tax effect and tax credits attributable to exchange differences deriving from this type of loan are also taken directly to shareholders' equity. Foreign currency non-monetary items accounted for at historical cost are translated at the exchange rate on the date the transaction was initially recorded. Non-monetary items accounted for at fair value are translated at the exchange rate at the date the value was determined.

The functional currency used by the Group's Latin Amer-

ican companies is the US dollar. At the end of the reporting period the assets and liabilities of these companies are translated into the Parent Company's presentation currency at closing rates, whilst income and expenses are translated at average rates for the period or at the rates ruling at the date of the related transactions. Exchange differences, resulting from the use of different rates to translate income and expenses as opposed to assets and liabilities, are taken directly to shareholders' equity and recognised as a separate component of equity. On disposal of a foreign economic activity, the cumulative exchange differences deferred in a separate component of shareholders' equity are recognised in the income statement.

### Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Group. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria.

#### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, the revenue can be reliably measured and collectability is probable.

#### Rendering of services

Revenue is recognised with reference to the stage of completion of the transaction based on the same criteria used for contract work in progress. When the amount of the revenue cannot be reliably determined, revenue is recognised only to the extent of the expenses recognised that are recoverable.

In particular, **revenue from the sale and transport of electricity and gas** is recognised at the time the service is provided, even when yet to be billed, and includes an estimate of the quantities supplied to customers between their last meter reading and the end of the period. Revenue is calculated on the basis of the related

laws, provisions contained in Electricity and Gas Authority resolutions in effect during the period and existing provisions regarding equalisation.

**Revenue from integrated water services** is recognised on the basis of the quantities supplied during the period, even if such quantities have not yet been measured on the basis of meter readings or billed by the end of the period, and applying the tariffs in force, including any approved increases for the area of operation concerned.

Any differences between revenue billed and the amount guaranteed by the corresponding Area Plan, in compliance with art. 11, paragraph 2.b of the Galli Law, or art. 151, paragraph 2.c of Legislative Decree 152/2006, are also recognised in revenue for the period. The water company's failure to account for the so-called regulatory assets deriving from tariff adjustments would distort the effect on the financial statements.

#### **Finance income**

Interest income is recognised on a time proportion basis that takes account of the effective yield on the asset (the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset). Interest is accounted for as an increase in the value of the financial assets recorded in the accounts.

#### **Dividend income**

Dividend income is recognised when the shareholder's right to receive payment is established. Dividend income is classified as a component of finance income in the income statement.

### **Grants**

Grants related to plant investments received from both public and private entities are accounted for at fair value when there is reasonable assurance that they will be received and that the conditions attaching to them will be complied with.

Water connection grants are recognised as non-current liabilities and taken to the income statement over the life of the asset to which they refer if they relate to an investment, or recognised in full as income if matched by costs incurred during the period.

Grants related to income (disbursed in order to provide an enterprise with immediate financial aid or as compensation for expenses and losses incurred in a previous period) are recognised in the income statement in full once the conditions for recognition have been complied with.

### **Construction contracts**

Construction contracts are accounted for on the basis of the contractual payments accrued with reasonable certainty, according to the percentage of completion method (cost to cost), attributing revenue and profits on the contract to the individual reporting periods in proportion to the stage of contract completion. Any positive or negative difference between contract revenue and any prepayments received is recognised in assets or liabilities.

In addition to contract fees, contract revenue includes variations, price changes and the payment of incentives to the extent that it is probable that they will form part of actual revenue and that they can be reliably determined. Expected losses are recognised regardless of the stage of contract completion.

### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of the asset until it is ready for use or sale. Income on the temporary investment of the borrowings is deducted from the capitalised borrowing costs.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **Employee benefits**

Post-employment employee benefits in the form of defined benefit and defined contribution plans (such as staff termination benefits, bonuses, tariff subsidies, as described in the notes) or other long-term benefits are recognised in the period the related right accrues. The valuation of the liabilities is performed by independent actuaries. Such funds and benefits are not financed.

The cost of the benefits involved in the various plans is determined separately for each plan based on the actuarial valuation method, using the projected unit credit method to carry out actuarial valuations at the end of the reporting period.

Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses for each plan at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets at that date (the so-called corridor method). Such gains and losses are recognised on the basis of the expected average remaining working lives of the employees participating in the plan.

### **Share-based payment transactions (stock options)**

The Group is required to recognise the goods or services received in a share-based payment transaction at the date the goods or services are consumed. The Group is required to recognise a corresponding increase in shareholders' equity if the goods or services are received on the basis of a share-based payment transaction settled by the issuance of equity, or as a liability if the goods or services are acquired on the basis of a share-based payment transaction settled by the issuance of cash.

### **Leases**

Leases are classified as finance leases when the terms of the contract substantially transfer all the risks and benefits of ownership of an asset to the lessee. All other leases are operating leases.

Assets held under a finance lease are recognised as assets belonging to the Group and accounted for at amounts equal to fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The underlying liability to the lessor is included in the balance sheet as an obligation to pay future lease payments. Lease payments are apportioned between the capital element and the interest element, in such a way as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance costs, whether certain or estimated, are recognised on an accruals basis unless they are directly attributable to the acquisition, construction or production of an asset, which justifies their capitalisation.

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. The benefits received or to be received as an incentive for entering into operating leases are also recognised on a straight-line basis over the lease term.

## Taxation

Income taxes for the period represent the aggregate amount of current and deferred taxes.

Current taxes are based on the taxable profit (tax loss) for the period. Taxable profit (tax loss) differs from the accounting profit or loss as it excludes positive and negative components that will be taxable or deductible in other periods and also excludes items that will never be taxable or deductible. Current tax liabilities are calculated using the tax rates enacted or substantively enacted at the end of the reporting period, and taking account of tax instruments permitted by tax legislation (the domestic tax consolidation regime and/or tax transparency).

Deferred taxes are the taxes expected to be paid or recovered on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases, accounted for using the liability method. Deferred tax liabilities are generally recognised on all taxable temporary differences, whilst deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences derive from goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, unless the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that, based on the plans approved by the Parent Company's Board of Directors, it is no longer probable that sufficient future taxable profit will be available against which all or part of the assets can be recovered.

Deferred taxes are determined using tax rates that are expected to apply to the period in which the asset is realised or the liability settled. Deferred taxes are taken directly to the income statement, with the exception of those relating to items taken directly to shareholders' equity, in which case the related deferred taxes are also taken to equity.

## Property, plant and equipment

Property, plant and equipment is stated at historical cost, including any directly attributable costs of making the asset ready for its intended use, less accumulated depreciation and any accumulated impairment charges.

The cost includes the costs of dismantling and removing the asset and cleaning up the site at which the asset was located, if covered by the provisions of IAS 37. The matching liability is accounted for in provisions for liabilities and charges. Each component of an asset with a cost that is significant in relation to the total cost of the item, and having a different useful life, is depreciated separately.

Land, whether free of constructions or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Depreciation is calculated on a straight-line basis over the expected useful life of the asset, applying the following rates:

Plant and machinery used in operations	1.25% - 6.67%
Other plant and machinery	4%
Industrial and commercial equipment used in operations	2.5% - 6.67%
Other industrial and commercial equipment	6.67%
Other assets used in operations	12.5%
Other assets	6.67% - 19.00%
Motor vehicles used in operations	8.33%
Other motor vehicles	16.67%

Plant and machinery in the course of construction for use in operations, or for purposes yet to be determined, is stated at cost, less any impairment charges. The cost includes any professional fees and, in the case of certain assets, interest expense capitalised. Depreciation of such assets, in line with all the other assets, begins when they

are ready for use. In the case of certain complex assets subject to performance tests, which may be of a prolonged nature, readiness for use is recognised on completion of the related tests.

An asset held under a finance lease is depreciated over its expected useful life, in line with assets that are owned, or, if lower, over the lease term.

Gains and losses deriving from the disposal or retirement of an asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

### Investment property

Investment property, represented by property held to earn rentals or for capital appreciation or both, is stated at cost, including any negotiating costs less accumulated depreciation and any impairment charges.

Depreciation is calculated on a straight-line basis over the expected useful life of the asset. The rates applied range from a minimum of 1.67% to a maximum of 11.11%.

Investment property is eliminated from the accounts when sold or when the property is unusable over the long-term and its sale is not expected to provide future economic benefits.

Sale and lease-back transactions are accounted for based on the substance of the transaction. Reference should therefore be made to the policy adopted for leases.

Any gain or loss deriving from the elimination of an investment property is recognised as income or expense in the income statement in the period in which the elimination takes place.

## Intangible assets

### Intangible assets acquired separately or deriving from a business combination

Intangible assets acquired separately are capitalised at cost, whilst those deriving from a business combination are capitalised at fair value at the date of acquisition. After initial recognition, an intangible asset is carried at cost. The useful life of an intangible asset may be defined as finite or indefinite.

Intangible assets are tested for impairment annually. The tests are conducted in respect of each intangible asset or, if necessary, in respect of each cash-generating unit. Amortisation is calculated on a straight-line basis over the expected useful life of the asset, which is reviewed annually and any resulting changes, if possible, applied prospectively. Amortisation begins when the intangible asset is ready for use.

Gains and losses deriving from the disposal of an intangible asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

### Brands and patents

These assets are initially recognised at cost and amortised on a straight-line basis over the useful life of the asset.

### Concessions

This item includes the value of the thirty-year right of Concession granted by Roma Capitale, regarding the use of fresh and waste water assets, formerly conferred to ACEA and subsequently transferred, as of 31 December 1999, to the spun-off company, ACEA Ato2, and relating to publicly owned assets belonging to the category of so-called "incidental public property" for fresh and waste water services. This right is amortised over the residual concession term (thirty years from 1998). The residual amortisation period is in line with the average term of contracts awarded by public tender.

This item also includes:

- the net value at 1 January 2004 of the goodwill

deriving from the transfer of sewerage services to ACEA Ato2 by Roma Capitale with effect from 1 September 2002;

- the net value at 1 January 2004 of goodwill deriving from the acquisition of the Acque di Pisa Group by the subsidiary ABAB;
- the net value at 1 January 2005 of goodwill deriving from the acquisition of G.O.R.I. SpA by the subsidiary, Sarnese Vesuviano;
- the goodwill, attributable to this item, deriving from the acquisition of Publiacqua by Acque Blu Fiorentina;
- the goodwill, attributable to this item, deriving from the acquisition of the A.R.I.A. Group, with particular reference to SAO, the company that manages the waste dump in Orvieto;
- the goodwill, attributable to this item, deriving from Acea's acquisition of ACEA Ato5.

Concessions are amortised on a straight-line basis over the residual term of each concession.

### Right on infrastructures

Pursuant to IFRIC 12, this item includes the aggregate amount of tangible infrastructures used for the management of the water service.

This item also includes the amount related to the measurement of the residual right deriving from the concession of public lighting, based on which the operator will be able to receive cash flows according to ways and criteria set out only by subsequent service contracts.

For more information, refer to the section *"Disclosure regarding application of IFRIC 12"*.

As regards the rates used, the costs of intellectual property are amortised over an estimated useful life of three years.

### Impairment of assets

At each end of the reporting period, the Group reviews the value of its property, plant and equipment and intangible assets to assess whether there is any indication that an asset may be impaired (impairment test). If any indication exists, the Group estimates the recoverable

amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The test consists of a comparison between the carrying amount of the asset and its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In calculating value in use, future cash flow estimates are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the business.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment charge is immediately recognised as an expense in the income statement, unless the asset is represented by land or buildings, other than investment property, carried at a revalued amount, in which case the impairment charge is treated as a revaluation decrease.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

## Emission allowances and green certificates

Different accounting policies are applied to allowances or certificates held for own use in the "Industrial Portfolio", and those held for trading purposes in the "Trading Portfolio".

Surplus allowances or certificates held for own use, which are in excess of the company's requirement in relation to the obligations accruing at the end of the year, are accounted for at cost in other intangible assets. Allowances or certificates assigned free of charge are accounted for at a zero value. Given that these are assets for instant use, they are not amortised but are tested for impairment. The recoverable amount is the higher of the asset's value in use and its market value. If, on the other hand, there is a deficit, because the requirement exceeds the allowances or certificates in portfolio at the end of the reporting period, provisions are made in the financial statements for the charge needed to meet the residual obligation; this is estimated on the basis of any spot or forward purchase contracts already signed at the end of the reporting period; otherwise, on the basis of market prices.

Allowances or certificates held for trading in the "Trading Portfolio" are accounted for in inventories and measured at the lower of purchase cost and estimated realisable value, based on market trends.

Allowances or certificates assigned free of charge are accounted for at a zero value. Market value is established on the basis of any spot or forward sales contracts already signed at the end of the reporting period; otherwise, on the basis of market prices.

## Inventories

Inventories are valued at the lower of cost and net realisable value. The cost comprises all materials and, where applicable, direct labour, production overheads and all other costs incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighted average cost formula. The net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary in order to make the sale.

Impairment charges incurred on inventories, given their nature, are either recognised in the form of specific provisions, consisting of a reduction in assets, or, on an item by item basis, as an expense in the income statement in the period the impairment charge occurs.

## Financial instruments

Financial assets and liabilities are recognised at the time the Group becomes party to the contract terms applicable to the instrument.

### Trade receivables and other assets

Trade receivables, which have normal commercial terms, are recognised at face value less estimated provisions for the impairment of receivables.

The estimate of uncollectible amounts is made when collection of the full amount is no longer probable.

Trade receivables refer to the invoiced amount which, at the date of these financial statements, is still to be collected, as well as the receivables for revenues for the period relating to invoices that will be issued later.

### Financial assets

Financial assets are recognised and derecognised at the trade date and initially recognised at cost, including any directly attributable acquisition costs.

At each future balance sheet date, the financial assets that the Group has a positive intention and ability to hold to maturity (**held-to-maturity financial assets**) are recognised at amortised cost using the effective interest method, less any impairment charges applied to reflect impairments.

Financial assets other than those held to maturity are classified as held for trading or as available for sale, and are stated at fair value at the end of each period.

When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognised in the income statement for the period. In the case of financial assets that are **available for sale**, gains and losses deriving from changes in fair value are recognised directly in a separate item of shareholders' equity until they are sold or impaired. At this time, the



total gains and losses previously recognised in equity are recycled through the income statement for the period. The total loss must equal the difference between the acquisition cost and current fair value.

The fair value of financial instruments traded in active markets is based on quoted market prices (bid prices) at the end of the reporting period. The fair value of investments that are not traded in an active market is determined on the basis of quoted market prices for substantially similar instruments, or calculated on the basis of estimated future cash flows generated by the net assets underlying the investment.

Purchases and sales of financial assets, which imply delivery within a timescale generally defined by the regulations and practice of the market in which the exchange takes place, are recognised at the trade date, which is the date the Group commits to either purchase or sell the asset.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are initially stated at fair value.

After initial recognition, they are carried at amortised cost using the effective interest method. The amortised cost of a financial asset means the amount recognised initially, less principal repayments and plus or minus accumulated amortisation using the effective interest method of the difference between the initial amount and the maturity amount, after any reductions. The effective interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life, or contractual term if shorter, of the financial instrument to the net carrying amount of the financial asset.

In the case of financial assets stated at amortised cost, the income statement and balance sheet are adjusted to take account of the difference between the payment or receipt calculated on the basis of the effective interest rate and the coupon interest to be collected/paid, recognised on the basis of the nominal rate of the instrument.

At each end of the reporting period, the Group assesses if there has been an impairment for a financial asset, or a group of financial assets. A financial asset or a group of financial assets is subject to impairment if there is evidence of an impairment, as a consequence of one or more events occurred after initial recognition (when there is a "loss event") and this loss event has an impact - which can be reliably estimated - on future estimated cash flows of the financial asset or group of financial assets. An impairment can be represented by indicators such as financial difficulties, failure to meet obligations, non-payment of significant amounts, the probability that the debtor goes bankrupt or is subject to another form of financial reorganisation, and if data shows that there is a measurable decrease in future estimated cash flows, such as changes in situations or economic conditions linked with obligations.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, demand deposits and highly liquid short-term investments, which are readily convertible into cash and are subject to an insignificant risk of changes in value.

#### **Financial liabilities**

Financial liabilities are stated at amortised cost. Borrowing costs (transaction costs) and any issue premiums or discounts are recognised as direct adjustments to the nominal value of the borrowing. Net finance costs are consequently re-determined using the effective rate method.

#### **Derivative financial instruments**

Derivative financial instruments are initially recognised at cost and then re-measured to fair value at subsequent end of the reporting periods. They are designated as hedging instruments when the hedging relationship is formally documented at its inception and the periodically verified effectiveness of the hedge is expected to be high.

Fair value hedges are recognised at fair value and any gains or losses recognised in the income statement. Any

gains or losses resulting from the fair value measurement of the hedged asset or liability are similarly recognised in the income statement.

In the case of cash flow hedges, the portion of any fair value gains or losses on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, whilst the ineffective portion is recognised directly in the income statement.

If the hedged contract commitment or forecast transaction results in recognition of an asset or a liability, the gains and losses on the instrument previously recognised directly in shareholders' equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability.

In the case of cash flow hedges that do not result in recognition of an asset or a liability, the amounts recognised directly in shareholders' equity are included in the income statement in the same period in which the hedged contract commitment or forecast transaction is ultimately recognised in the income statement.

In the case of fair value hedges, the hedged item is adjusted for changes in fair value attributable to the hedged risk and the resulting gain or loss recognised in the income statement. Gains and losses deriving from measurement of the derivative instrument are also recognised in the income statement.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement for the period in which they occur, with the exception of derivative instruments whose fair value is not reasonably determinable.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or when the instrument no longer meets hedge accounting criteria. At this time, accumulated gains and losses on the hedging instrument recognised directly in shareholders' equity are retained in equity until the forecast transaction effectively occurs. If the forecast transaction is no longer expected to occur, the accumulated gains and losses recognised directly in shareholders' equity are immediately taken to the income statement for the period.

### **Trade payables**

Trade payables, which have normal commercial terms, are stated at face value.

### **Derecognition of financial instruments**

Financial assets are derecognised when the Group has transferred all the related risks and the right to receive cash flows from the investments.

A financial liability (or portion of a financial liability) is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is either fulfilled, cancelled or expires.

If a previously issued debt instrument is repurchased, the debt is extinguished, even if the Group intends to resell it in the near future. The difference between the carrying amount and the amount paid is recognised in the income statement.

### **Provisions for liabilities and charges**

Provisions for liabilities and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the related amount has been reliably estimated.

Provisions are measured on the basis of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and are discounted when the effect is significant. When the liability regards the cost of dismantling and/or repairing an item of property, plant and equipment, the initial provisions are accounted for as a contra entry in respect of the asset to which they refer. The provisions are released to the income statement through depreciation of the item of property, plant and equipment to which the charge refers.

## Accounting standards, revisions, interpretations and improvements applied from 1 January 2010

The following documents, already previously issued by the IASB and approved by the European Union, came into force on 1 January 2010, which contain amendments to the international accounting standards:

### **IAS 27 Separate and Consolidated Financial Statements**

Amendments to IAS 27 mainly regard the accounting of transactions or events that modify equity investments in subsidiaries and the allocation of losses attributable to minority interests.

IAS 27 standard sets out that, once the control of a company has been obtained, transactions, with which the parent company acquires or sales further minority interests without modifying the control exercised on the subsidiary, are to be considered as transactions with shareholders and therefore shall be recognised at equity. The accounting value of the controlling investment and of minority investments must be therefore adjusted to reflect the change in the equity investment of the subsidiary and any difference between the amount of the adjustment made to minority interests and fair value of the price paid, or received, for such transaction is recorded directly at equity and is attributed to the shareholders of the parent company. Goodwill and gains or losses recognised in the income statement will not be adjusted. Accessory costs of these transactions must be recorded at equity, pursuant to provisions envisaged by IAS 32, paragraph 35.

### **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

The improvements issued in May 2008 include those relating to IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations", which clarifies that the additional information required in relation to non-current assets and disposal groups classified as held for sale or relating to discontinued operations are only those required by IFRS 5. The information requested by other IFRSs only applies if specifically requested with reference to these types of non-current asset or discontinued operation.

### **IFRS 3 Revised**

As already mentioned in the section dedicated to Business Combinations' accounting standards, the "Revised" version introduces, among other things, amendments to the valuation of goodwill deriving from a business combination carried out in several phases. In particular, provision is made for recording goodwill at the date control is acquired and entering any residual gain or loss in the income statement at the end of the process of measurement of the assets, liabilities and potential liabilities identified at fair value.

### **IAS 39 Financial instruments: recognition and measurement**

The amendment states that an entity is permitted to designate a portion of the changes in fair value or cash flows of a financial instrument as the hedged item. The amendment also includes the designation of inflation as a hedged risk or portion of risk in particular situations.

### **IFRIC 9 IAS 39 – Reassessment of the Value of Embedded Derivatives and Financial Instruments**

This amendment to IFRIC 9 requires an entity to assess whether any embedded derivatives are required to be separated from the host contract when an entity reclassifies a hybrid instrument out of the fair value through profit or loss category with changes taken to the income statement.

This assessment must be carried out on the basis of conditions existing at the moment the entity becomes a party to the contract for the first time; subsequent reassessment is only permitted where there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

IAS 39 establishes that if an embedded derivative cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value with changes taken to the income statement.

The adoption of the standard did not have any effect on the Group's consolidated financial statements.

### **IFRIC 12 Service Concession Arrangements**

This was published in the Official Journal of the European Union on 26 March 2009. Companies are required to apply the new interpretation from the beginning of the first annual period starting after the date the regulation comes into effect.

This interpretation applies to operators that provide concession services in accordance with the following conditions:

- the grantor controls or regulates what services the operator must provide with the infrastructure asset, to whom it must provide them and at what price;
- the grantor controls, through ownership, beneficial entitlement or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

If these conditions exist, the infrastructure assets involved in the provision of public services are recorded as intangible assets and/or as financial assets in accordance with whether the operator has the unconditional right to receive cash or another financial asset for the service rendered. Reference is therefore made to whether the operator is subject to demand risk for the related concession agreement.

### **Water Concessions**

Based on the analysis of the characteristics of the concession agreements for the water business, the ACEA Group deemed that these agreements fell under the above-mentioned application interpretation. In particular, in view of their accounting disclosure, in compliance with IFRIC 12, the Group adopted the model of intangible asset as it was deemed that concessions could not ensure the existence of an unconditional right to receive cash or another financial asset while exposing the operator to market demand risk.

The interpretation was applied retrospectively, from the dates the individual business combination, through which the Group acquired the related concession agreements, became effective. By reason of the application of this model, infrastructures under concession, that were previously recorded under property, plant and

equipment, are now stated under intangible assets, and more specifically under item Rights on infrastructure. The intangible model of IFRIC12 requires, in fact, that individual intangible assets be recorded insofar as to show the right of the operator to make the end users pay for the public service; this instead of disclosing the aggregate amount of tangible infrastructures used for the management of the service. As a consequence of the above, in the balance sheet at 1 January 2009, restated for comparative purposes, the amount of 800.4 million euros was restated from item "Property, plant and equipment" to item "Rights on infrastructure". The useful life of infrastructures, which were previously classified under property, plant and equipment, is substantially in line with the duration of the concession, as the latter is duly consistent with the period of time in which future economic benefits, deriving from the use of the assets under evaluation, are expected to be obtained. The possible recover of the value recorded under "Rights on infrastructure" is also guaranteed by the provision in the concession agreements that, upon expiration of the agreements, the operator will be granted a price, duly indexed, equal to the construction cost of investments, less technical depreciation related to the duration of the concession.

Always pursuant to IFRIC12, a margin in line with what is possible to assume from the reference market for similar activities was applied to the construction activities carried out entirely by the Group.

### **Concession for the electricity distribution service**

In accordance with the analyses carried out, backed by an authoritative external opinion, the conditions provided by IFRIC 12 with reference to the electrical energy distribution service were found to be non-existent, as the operator has full control over the infrastructure assets used for the aforesaid electrical energy distribution service. This clearly entails the unfulfillment of one of the pre-conditions required to comply with the application of the interpretation as the conceding body is not in a position to control any significant residual interest in the infrastructure at the expiry of the agreement.

### **Concession for the public lighting service**

With Resolution no. 897 of 20 April 1999, Roma Capitale assigned the concession for the public lighting service to ACEA, granting free of charge and exclusive use by ACEA of the entire infrastructure for a period of thirty years, starting from 1 January 1998 (and until 31 December 2027), while regulating the general right/duty to provide for any ordinary and extraordinary maintenance operations, as well as renewal, construction, refurbishment and upgrading that will be deemed necessary for the performance of the service.

In the concession and accounting framework in force before the effective date of IFRIC12, the extraordinary maintenance activities carried out on public owned lighting, with free of charge use, were capitalised under property, plant and equipment as they are deemed increasing the value in use and the useful life of the assets and can be recovered based on fees paid annually. Ordinary maintenance, management and restoration activities, as well as electricity supplies were directly included in the Income Statement.

It should also be noted that, within the thirty-year duration of the concession, ACEA and Roma Capitale entered concession contracts, yet of shorter duration aimed at regulating, for each single period, the criteria and ways to implement the public lighting service, as well as the related economic terms. The term of the current agreement is from 1 June 2005 to 30 May 2015.

Based on the analysis carried out on the reference legislative and concession framework to evaluate the possible application of the aforementioned interpretation, the ACEA Group chose the adoption of a mixed method. In particular, extraordinary maintenance activities, equal to 67.1 million euros which, as at 1 January 2009, were recorded among improvements on third-party assets under item "Property, plant and equipment" were partially restated; 25.9 million euros were recorded under loans and receivables and 39.7 million euros under intangible assets.

The restatement of 25.9 million euros under loans and receivables, pursuant to the financial assets model envisaged by IFRIC12, permits to disclose the measurement of the Group's current unconditional right to receive cash flows up to 30 May 2015, expiration term of the current service contract, against investments, car-

ried out on the infrastructure, and improvements made. Conversely, pursuant to the intangible assets model envisaged by IFRIC12, restatement of 39.7 million euros in intangible assets, under item "Rights on infrastructure", allows to highlight the measurement of the residual right deriving from the concession, based on which the operator will be able to receive cash flows according to ways and criteria set out only by subsequent service contracts. The possible recover of this value recorded under "Rights on infrastructure" is however guaranteed by the provision in the concession deed that, upon expiration of the agreement, the operator will be granted a price, duly indexed, equal to the construction cost of investments, less technical depreciation related to the duration of the concession.

As described in detail in the section "Relations with related parties", it is noted that the Board of Directors of ACEA S.p.A. – during the meeting held on 1 February 2011 - approved a draft of the supplementary service contract that governs the economic terms of the concession: the supplementary agreement was signed on 15 March 2011.

Once it enters into force, this draft can set out the adoption of the financial assets model, also with regard to the residual right resulting from the concession.

### **IFRIC 17 Distributions of Non-Cash Assets to Owners**

IFRIC 17 was issued in January 2009 in order to clarify how an entity should measure the distributions of non-cash assets when paying dividends to shareholders. The interpretation must be applied prospectively from 1 January 2010.

### **IFRIC 18 Transfers of Assets from Customers**

IFRIC 18 was issued in January 2009. It provides additional guidance on accounting for transfers of assets from customers and clarifies the IFRS requirements for agreements in which an entity receives from a customer an item of property, plant or equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. The interpretation must be applied prospectively from 1 January 2010.

### **IFRIC 15 Agreements for the Construction of Real Estate**

IFRIC 15, published in July 2008, aims to clarify the method of accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through sub-contractors. The interpretation must be applied prospectively from 1 January 2010.

### **Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments**

The amendments to IAS 32 and IAS 1 were endorsed in February and will come into effect in the first annual period after 1 January 2009. The amendment to IAS 32 requires that certain puttable financial instruments and obligations arising on liquidation are classified as equity instruments if certain conditions are met. Said amendment had no impact on the Group's financial statements.

## Improvements to IFRS

IASB issued a series of improvements to the standards, the main goal of which was to eliminate inconsistencies and clarify terminology. Each standard presents ad hoc transition clauses. The adoption of the following amendments translated to changes in the accounting standards but did not affect the Group's financial position or operating results.

- IFRS 8 "Operating segments" establishes that assets and liabilities relating to the operating segment must be presented only if part of the reporting used by the entity's chief operating decision maker.
- IAS 1 "Presentation of financial statements": assets and liabilities classified as held for trading in line with IAS 39 "Financial instruments: recognition and measurement" are not automatically classified as current items on the statement of financial position. This did not involve new classifications of financial instruments from current to non-current items in the financial position.
- IAS 7 "Cash flow statement" explicitly states that only spending that results in asset recognition can be classified as a cash flow from investing activity.
- IAS 16 "Property, plant and equipment" replaced the term "net selling price" with "fair value less costs to sell". This change did not involve any variation in the financial position.
- IAS 18 "Revenues": the Board supplemented the standard with an application guide (which accompanies the standard) which determines whether an entity is operating as a principal or an agent. The aspects to be considered are whether the entity: (i) has the primary responsibility for providing the goods or services; (ii) bears the inventory risk; (iii) has discretion in establishing prices; (iv) bears the credit risk.
- IAS 36 "Impairment of assets": when discounted cash flows are used to estimate the "fair value less costs to sell" additional information is required on the discount rate, consistent with the information required when discounted cash flows are used to estimate the "value in use". This amendment does not have a direct impact on the Group's consolidated financial statements since the recoverable

amount of its cash-generating units is currently estimated on the basis of its "value in use". The amendment states that the cash-generating unit (or group of units) to which it is possible to allocate goodwill acquired in a business segment is the operating segment as defined under IFRS 8 before the combination for reporting purposes.

It should be noted that the ACEA Group has applied the amendments introduced to the international accounting standards shown above as well as the additional improvements to these Consolidated Financial Statements. IFRIC 12 had the most significant impact, while the adoption of other standards, or improvements, did not have a significant impact on the Group's financial position and operating result.

## Accounting standards, amendments and interpretations applicable after the end of year and not adopted in advance by the Group

Here follows a brief description of the supplementary IAS/IFRS documents that have already been issued by IASB, as well as the SIC/IFRIC interpretations issued by the Interpretation Committee and approved by the European Union at the date of approval of these financial statements, but whose adoption is required for the financial statements beginning after 1 January 2010.

Although each of the following standard and interpretation can be applied earlier, the Group decided not to make use of this option in drafting the financial statements as at 31 December 2010.

### **Amendment to IAS 32 – Classification of Rights Issues**

The document was issued in October 2009 and approved on 23 December 2009. It came into force on 1 February 2010. This standard includes an amendment to the definition of financial liability for the classification of rights issues in foreign currency (and of some options and warrants) as equity instruments when those instruments are issued pro rata to all shareholders in the same class of a (non-derivative) equity instrument of an entity, or for the purchase of a fixed amount of the entity's equity instruments for a fixed amount of currency.

### **Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement**

The document, that was issued in November 2009 and approved on 19 July 2010, came into force on 1 January 2011. This amendment provides guidelines in order to define the recoverable value of the net assets of a pension fund. This amendment allows an entity to recognise prepayments for a minimum funding contribution as an asset.

### **IFRIC 19 – Extinguishing financial liabilities with equity instruments**

The document, that was issued in November 2009 and approved on 23 July 2010, came into force on 1 July 2010. According to this interpretation, if a debtor issues equity instruments to a creditor to extinguish a financial liability, those equity instruments are "consideration

paid". The equity instruments issued are measured at the fair value. If the fair value is not reliably determinable, the instruments are measured at the fair value of the liability extinguished. Any profit or loss is immediately recognised in the income statement.

### **Amendments to IFRS 1 and IFRS 7 – Limited exemption from comparative IFRS 7 Disclosure for first-time adopters**

This document was issued in January 2010 and approved on 19 July 2010. It came into force on 1 January 2011.

### **IAS 24 (Revised in 2009) – Related party disclosures**

The document, that was issued in November 2009 and approved on 19 July 2010, came into force on 1 January 2011. This standard includes an amendment to the definition of related party in order to simplify it and, in particular, to ensure symmetry in the identification of related parties.

### **Improvements to IFRS (May 2010) – Related party disclosures**

In May 2010, IASB issued improvements to IFRS, with a set of amendments to the standards. These amendments have not been implemented, since they will become effective for financial years beginning on 1 July 2010 or 1 January 2011. It is expected that the following amendments may have an effect on the Group:

- IFRS 3 Business Combinations;
- IFRS 7 Financial Instruments; additional disclosures;
- IAS 1 Presentation of Financial Statements;
- IAS 27 Consolidated and Separate Financial Statements;
- IFRIC 13 Customer Loyalty Programmes.

At present, the Group is analysing the standards and interpretations given, as well as assessing whether their adoption will have a significant effect on the financial statements.



## Consolidation policies and procedures

### Consolidation policies

#### Subsidiaries

The basis of consolidation includes the Parent Company, ACEA S.p.A., and the companies over which it directly or indirectly exercises control via a majority of the voting rights.

Subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are deconsolidated from the date on which control is transferred out of the Group. Where there is loss of control of a consolidated company, the consolidated financial statements include the results for the part of the reporting period during which the ACEA Group has control.

#### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. This is the contractually agreed sharing of control over an economic activity and only exists when strategic, financial and operating policy decisions regarding the activity require the unanimous agreement of the parties who share control. The consolidated financial statements include the Group's share of the income and expenses of jointly controlled entities, accounted for under proportionate consolidation. The application of proportionate consolidation thus means that the consolidated financial statements include the Group's share of all the jointly controlled entities' assets, liabilities, income and expenses, classified according to their nature. When a Group company operates directly via joint venture agreements, the liabilities and costs incurred directly in respect of the jointly controlled activities are recognised on an accrual basis. The share of profits deriving from the sale or use of resources produced by the joint venture, net of the related share of the expenses, is recognised when it is likely that the economic benefits deriving from the transaction will be received by the Group and their value can be reliably measured.

Where joint venture agreements involve the establishment of a separate entity, the Group's share of the jointly controlled entities' assets, liabilities, income and expenses is combined with the similar items in its consolidated financial statements on a line-by-line basis. Unrealised

profits and losses on transactions between the Group and a jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity, unless the unrealised losses provide evidence of an impairment of the asset transferred.

#### Associates

An associate is a company over which the Group exercises significant influence, via its power to participate in the financial and operating policy decisions of the associate which is, however, neither a subsidiary nor a joint venture. The consolidated financial statements include the Group's share of the income and expenses of associates, accounted for using the equity method, unless they are classified as held for sale, from the date it begins to exert significant influence until the date it ceases to exert such influence.

When the Group's share of an associate's losses exceeds the carrying amount of its investment, the interest is reduced to zero and any additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of the acquisition over the Group's interest in the fair value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and subject to impairment reviews. Any excess of the Group's interest in the fair value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition over the cost of the acquisition is recognised as negative goodwill and recognised in the income statement in the period of acquisition.

Unrealised profits and losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate, unless the unrealised losses provide evidence of an impairment of the asset transferred.

## Consolidation procedures

### General procedure

The financial statements of the Group's subsidiaries, associates and joint ventures are prepared for the same accounting period and using the same accounting standards as those adopted by the Parent Company. Consolidation adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including any unrealised profits on intra-group transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be subsequently recovered.

The carrying amount of investments in subsidiaries is eliminated against the corresponding share of the shareholders' equity of each subsidiary, including any adjustments to reflect fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill, for the purposes of IFRS 3.

The minority interest in the net assets of consolidated subsidiaries is shown separately with respect to shareholders' equity attributable to the Group. The minority interest is determined on the basis of the minority's proportion of the fair value of assets and liabilities at the date of acquisition and of any changes in shareholders' equity after this date. Losses attributable to the minority interest in excess of the related share of shareholders' equity are subsequently attributed to shareholders' equity attributable to the Group, unless the minority has a binding obligation and is able to invest further in the company to cover the losses.

### Consolidation procedure for assets and liabilities held for sale (IFRS5)

Non-current assets and liabilities are classified as held for sale, in accordance with the provisions of IFRS 5.

### Consolidation of foreign operations

All the assets and liabilities of foreign operations denominated in a currency other than the euro are translated using the exchange rates at the end of the reporting period.

Income and expenses are translated using average exchange rates for the period. Any translation differences are recognised in a separate component of shareholders' equity until the investment is sold.

On initial application of IFRS, accumulated translation differences deriving from the consolidation of foreign operations were reduced to zero. The reserve accounted for in the consolidated financial statements only includes gains or losses generated from 1 January 2004.

Foreign currency transactions are initially recognised at the spot rate on the date of the transaction. Foreign currency assets and liabilities are translated at the exchange rate at the end of the reporting period. Translation differences and those arising on disposal of the operation are recognised as finance income or costs in the income statement.

## Basis of Consolidation

The ACEA Group's consolidated financial statements for the year ended 31 December 2010 include the financial statements of the Parent Company, ACEA SpA, and the financial statements of its Italian and foreign subsidiaries, over which it directly or indirectly exercises control via a majority of the voting rights at ordinary general meetings, giving it the power to govern the financial and operating policies and obtain the related benefits. Entities that the Parent Company jointly controls with other parties are accounted for under proportionate consolidation.

The Group's basis of consolidation is divided into areas:

### A) Changes in basis of consolidation

During the period, the basis of consolidation was modified due to the following events:

- the incorporation in January 2010 of Acea Illuminazione Pubblica S.p.A., with a share capital of 120 thousand euros, wholly owned by ACEA;
- the incorporation in February 2010 of Eur Power S.r.l., with a share capital of 50 thousand euros, 49% of which owned by Ecogena;
- Conazul, a Colombian consortium, 60% owned by Aguazul Bogotá.

Moreover, at the end of December 2010, the Companies Acque Ingegneria and Publiacqua Ingegneria, that are already accounted for under proportionate consolidation, were merged into Ingegnerie Toscane.

Finally, it is noted that, due to the signing of a Framework Agreement between ACEA and GdF-Suez, the assets and liabilities related to the Companies Eblacea and Tirreno Power, AceaElectrabel Trading as well as those of the Companies of the AceaElectrabel Produzione Group, were classified under non-current assets and liabilities held for sale. Moreover, the amounts of the business division subject to unproportional demerger of AceaElectrabel Produzione have still been recorded under continuing operations. Therefore, the reclassifications concerning this latter company have been carried out net of the figures concerning the said business division.

### B) Unconsolidated investments

During application of the above methods of consolidation and of the equity method, the following subsidiaries and associates, which are accounted for at cost, were excluded. It was possible to resort to this applied simplification by taking account of the fact that the subsidiaries listed below are not trading (most of them are in liquidation) and/or are not significant, considered either individually and on an aggregated basis taking account of qualitative and quantitative factors.

1. **Energy Molise** 50% held by AceaElectrabel Elettricità. It is pointed out that the company is in liquidation;
2. **Luce Napoli**, 70% owned by ACEA. It is pointed out that the company was put in liquidation during November 2008;
3. **Tirana Acque S.c.a.r.l.** in liquidation 40% owned by ACEA.

## Financial Highlights of Companies accounted for under Proportionate Consolidation

	Acea Electrabel SpA	Acea Electrabel Produzione Group	Acea Electrabel Trading	Acea Electrabel Elettricità	Acque	Acque Industriali	Acque Servizi	Publiutenti	Publiacqua	Gori	Voghera Vendite
<b>Income statement</b>											
Total net revenues	9,347	25,186	1,602,426	1,386,072	53,944	2,666	11,856	60	71,721	52,871	34,095
Total operating costs	8,287	15,339	1,574,873	1,364,060	29,794	2,229	10,671	91	43,974	37,388	33,794
Gross Operating Profit	1,059	9,847	27,553	22,012	24,150	437	1,186	(31)	27,747	15,483	301
% of Revenues	11%	39%	2%	2%	45%	16%	10%	-53%	39%	29%	1%
Amortisation, depreciation and impairment charges	(1,188)	(54,955)	(150)	(33,224)	(13,780)	(102)	(523)	0	(16,344)	(10,519)	(329)
<b>Operating profit/ (loss)</b>	<b>(129)</b>	<b>(45,108)</b>	<b>27,403</b>	<b>(11,213)</b>	<b>10,370</b>	<b>335</b>	<b>662</b>	<b>(31)</b>	<b>11,403</b>	<b>4,965</b>	<b>(29)</b>
<b>Net profit/(loss) for the period</b>	<b>(18,977)</b>	<b>(53,443)</b>	<b>17,358</b>	<b>(11,837)</b>	<b>5,883</b>	<b>185</b>	<b>330</b>	<b>(23)</b>	<b>5,816</b>	<b>2,075</b>	<b>13</b>
<b>Balance sheet</b>											
<b>Net invested capital</b>	<b>156,099</b>	<b>228,340</b>	<b>37,601</b>	<b>115,440</b>	<b>101,021</b>	<b>1,574</b>	<b>2,819</b>	<b>(315)</b>	<b>106,904</b>	<b>44,867</b>	<b>2,621</b>
Current assets	4,362	37,969	254,089	354,489	34,984	1,688	8,963	62	47,331	109,553	9,547
Current liabilities	(4,858)	(21,204)	(216,680)	(268,285)	(43,628)	(1,512)	(6,872)	(371)	(39,628)	(96,381)	(7,005)
<b>Net current assets/(liabilities)</b>	<b>(496)</b>	<b>16,765</b>	<b>37,410</b>	<b>86,204</b>	<b>(8,644)</b>	<b>176</b>	<b>2,091</b>	<b>(310)</b>	<b>7,703</b>	<b>13,172</b>	<b>2,542</b>
Non-current assets	157,019	220,941	2,673	57,705	145,904	1,567	1,288	0	146,487	81,317	107
Non-current liabilities	(424)	(9,366)	(2,482)	(28,469)	(36,239)	(169)	(559)	(6)	(47,286)	(49,622)	(28)
<b>Net non-current assets/(liabilities)</b>	<b>156,595</b>	<b>211,575</b>	<b>191</b>	<b>29,236</b>	<b>109,665</b>	<b>1,398</b>	<b>728</b>	<b>(6)</b>	<b>99,201</b>	<b>31,695</b>	<b>79</b>
<b>Shareholders' equity</b>	<b>(157,932)</b>	<b>43,496</b>	<b>(18,997)</b>	<b>(40,227)</b>	<b>(24,865)</b>	<b>(439)</b>	<b>(1,573)</b>	<b>(17)</b>	<b>(68,613)</b>	<b>(26,816)</b>	<b>(115)</b>
<b>Net funds/(debt)</b>	<b>1,833</b>	<b>(133,362)</b>	<b>(18,604)</b>	<b>(75,214)</b>	<b>(76,156)</b>	<b>(1,135)</b>	<b>(1,246)</b>	<b>332</b>	<b>(38,291)</b>	<b>(18,051)</b>	<b>(2,506)</b>
Current financial assets	3,864	15,641	(1,245)	5,126	1,939	86	225	332	5,979	4,239	0
Current financial liabilities	(2,031)	(103,181)	(15,359)	(80,351)	(1,205)	(195)	(1,290)	0	(30,165)	(22,290)	(2,506)
<b>Net current financial assets/ (liabilities)</b>	<b>1,833</b>	<b>(87,540)</b>	<b>(16,604)</b>	<b>(75,226)</b>	<b>734</b>	<b>(109)</b>	<b>(1,065)</b>	<b>332</b>	<b>(24,186)</b>	<b>(18,051)</b>	<b>(2,506)</b>
Non-current financial assets	0	299	0	12	0	0	0	0	23	0	0
Non-current financial liabilities	0	(46,121)	(2,000)	0	(76,891)	(1,025)	(181)	0	(14,128)	0	0
<b>Net non-current financial assets/ (liabilities)</b>	<b>0</b>	<b>(45,822)</b>	<b>(2,000)</b>	<b>12</b>	<b>(76,891)</b>	<b>(1,025)</b>	<b>(181)</b>	<b>0</b>	<b>(14,105)</b>	<b>0</b>	<b>0</b>

Amounts in thousands of euros

Umbria Energy	Elettria	Elga Sud	Ecogena	Estere	Tirreno Power	Eblacea	Umbra Acque	Apice	Ecomed	Intesa Aretina	Nuove Acque	Acque Blu Srl
36,823	32,336	15,014	976	2,500	200,266	6	24,020	0	0	0	7,033	0
36,420	32,206	14,946	1,024	695	163,547	43	17,440	26	20	0	4,723	439
402	130	69	(48)	1,805	36,719	(36)	6,580	(26)	(20)	0	2,310	(439)
1%	0%	0%	-5%	72%	18%	-589%	27%	-121179%	-628492%	0%	33%	0%
(339)	(387)	(90)	(89)	(530)	(14,504)	0	(3,912)	0	0	0	(1,217)	0
<b>63</b>	<b>(257)</b>	<b>(21)</b>	<b>(137)</b>	<b>1,275</b>	<b>22,215</b>	<b>(36)</b>	<b>2,668</b>	<b>(26)</b>	<b>(20)</b>	<b>0</b>	<b>1,092</b>	<b>(439)</b>
<b>47</b>	<b>(120)</b>	<b>5</b>	<b>(161)</b>	<b>605</b>	<b>9,853</b>	<b>50</b>	<b>890</b>	<b>(25)</b>	<b>(20)</b>	<b>0</b>	<b>304</b>	<b>(433)</b>
<b>346</b>	<b>3,143</b>	<b>717</b>	<b>3,152</b>	<b>8,570</b>	<b>206,050</b>	<b>36,265</b>	<b>23,769</b>	<b>7</b>	<b>(28)</b>	<b>6,167</b>	<b>15,481</b>	<b>(94)</b>
7,725	14,605	3,963	1,397	546	41,873	1,120	13,559	11	47	227	6,468	13
(7,708)	(11,572)	(3,241)	(2,019)	(515)	(43,700)	(1,392)	(13,920)	(4)	(79)	(444)	(5,095)	(106)
<b>17</b>	<b>3,034</b>	<b>722</b>	<b>(622)</b>	<b>31</b>	<b>(1,827)</b>	<b>(272)</b>	<b>(361)</b>	<b>7</b>	<b>(31)</b>	<b>(217)</b>	<b>1,373</b>	<b>(94)</b>
703	199	5	5,380	8,540	241,260	36,537	35,367	0	3	6,384	15,594	0
(373)	(89)	(10)	(1,606)	(2)	(33,383)	0	(11,237)	0	0	0	(1,486)	0
<b>329</b>	<b>110</b>	<b>(5)</b>	<b>3,774</b>	<b>8,538</b>	<b>207,877</b>	<b>36,537</b>	<b>24,130</b>	<b>0</b>	<b>3</b>	<b>6,384</b>	<b>14,108</b>	<b>0</b>
<b>(735)</b>	<b>37</b>	<b>(79)</b>	<b>(346)</b>	<b>(5,737)</b>	<b>(73,904)</b>	<b>(35,202)</b>	<b>(8,117)</b>	<b>(43)</b>	<b>31</b>	<b>(6,468)</b>	<b>(6,296)</b>	<b>13</b>
<b>388</b>	<b>(3,181)</b>	<b>(638)</b>	<b>(2,806)</b>	<b>(2,732)</b>	<b>(132,146)</b>	<b>(1,062)</b>	<b>(15,651)</b>	<b>36</b>	<b>(3)</b>	<b>301</b>	<b>(9,185)</b>	<b>81</b>
388	0	1	12	824	3,298	752	462	36	40	360	744	82
0	(3,181)	(639)	(3,244)	(477)	(9,617)	(1,814)	(5,067)	(0)	(43)	(59)	0	(1)
<b>388</b>	<b>(3,181)</b>	<b>(638)</b>	<b>(3,232)</b>	<b>347</b>	<b>(6,319)</b>	<b>(1,062)</b>	<b>(4,605)</b>	<b>36</b>	<b>(3)</b>	<b>301</b>	<b>744</b>	<b>81</b>
0	0	0	427	0	18,285	0	255	0	0	0	9	0
0	0	0	0	(3,079)	(144,112)	0	(11,301)	0	0	0	(9,938)	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>427</b>	<b>(3,079)</b>	<b>(125,827)</b>	<b>0</b>	<b>(11,046)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(9,930)</b>	<b>0</b>

## Segment Information

Please note the following for a greater understanding of this section:

- the “Energy generation, trading and sales” segment includes, from an organisational perspective, the companies in the AceaElectrabel Produzione Group, Eblacea and Tirreno Power;
- distribution, public lighting and PV power are included in the “Energy networks” segment which, from an organisational perspective, includes ACEA Distribuzione, ARSE and Ecogena;
- analysis and research services refers to the Development and Special Projects Segment, responsible, under the organisation structure, for Laboratori, AceaGori Servizi and the consortiums: Acea Ato5 Servizi, AceaGori Servizi and Acea Ricerca Perdite;
- overseas refers to the ‘Development and Special Projects’ Department responsible, from an organisational perspective, for water companies operating abroad;
- Italian water services refers to the “Water segment” responsible, from an organisational perspective, for water companies operating in Lazio, Campania, Tuscany and Umbria;
- waste-to-energy is included in the “Environment and energy” segment responsible, from an organisational perspective, for A.R.I.A. Group companies, Aquaser, Kyklos and Solemme.

It should be noted that the economic data for FYs 2009 and 2010 referring to Eblacea, Tirreno Power and AceaElectrabel Trading was reclassified in the dedicated line of the income statement, in the related segments. The 2009 and 2010 economic data of the AceaElectrabel Produzione Group was shown net of that referring to the business division subject to unproportional demerger and booked under discontinued operations. It includes the adjustment to reflect fair value as the difference between the carrying amount and the equity value, which was assessed as adequate by the transaction parties.

2010 and 2009 restated balance sheet and income statement are included in the annexes.

## Notes to the Consolidated Income Statement

It should be noted that, due to the signing of the Framework Agreement between ACEA and GdF-Suez in December, the economic components of discontinued operations (i.e. of the Companies that will be transferred to GdF-Suez) have been shown, in compliance with IFRS 5, in the dedicated line of the income statement, together with (i) the adjustment to reflect fair value of those assets that will be exchanged at a equity value lower than the carrying amount of fixed net assets and (ii) the legal, tax and financial costs of advisors who supported ACEA in the dissolution transaction.

Financial year 2009 was subject to restatement due to both the provisions of IFRS 5 and the retrospective application set out by IFRS 12 as of 1 January 2010.

The economic data of the Group’s activities is shown, net of consolidation rounding resulting from commercial and financial relations, with discontinued operations. Moreover, it contains the economic results of the business division subject to demerger, which includes the electric power generating plants that will be fully owned by ACEA at the Execution date.

### 1. Revenue from sales and services

Revenues in the period amounted to 2,480,469 thousand euros (2,265,244 thousand euros at the end of the previous period) marking an increase of 215,225 thousand euros, up by 9.5% compared to 2009.

The increase is mainly due to the following: (i) electrical energy and gas sale revenues increased by 151,594 thousand euros, due to the increase in volumes and considering average price trends; (ii) revenues for the integrated water service increased by 22,173 thousand euros, of which 4,554 thousand euros due to the different time-related contribution of Nuove Acque and, for the residual part, mainly resulting from ACEA Ato2; (iii) revenue from sales of certificates and rights showed a decrease of 10,422 thousand euros due to the decrease in revenues linked with the sale of EEB (Energy Efficiency Bonds) and to the decrease in the contribution to cover Co2 charges of Terni Ena, following the revamping shutdown of the plant managed by

the company; (iv) revenues from services to customers increased by 42,253 thousand euros, mainly due to the increase in the photovoltaic sector and in the management of the public lighting service.

	<b>31.12.2010</b>	<b>31.12.2009 Restated</b>	<b>Increase/ (Decrease)</b>	<b>Increase/ (Decrease) %</b>
Electricity sales and services revenues	1,536,776	1,388,130	148,646	10.7
Gas sales revenues	22,386	19,438	2,948	15.2
Revenues from the sale of certificates and rights	16,038	26,460	(10,422)	(39.4)
Revenues from integrated water services	667,328	645,155	22,173	3.4
Revenues from biomass transfer and waste management	28,105	26,164	1,940	7.4
Overseas revenues	23,574	14,418	9,156	63.5
Revenues from services to customers	157,317	115,064	42,253	36.7
Connection fees	28,944	30,415	(1,471)	(4.8)
<b>Revenue from sales and services</b>	<b>2,480,469</b>	<b>2,265,244</b>	<b>215,225</b>	<b>9.5</b>

*Amounts in thousands of euros*

**Electricity sales and service revenues** (1,536,776 thousand euros) are broken down as follows:

- 5,724 thousand euros (5,327 thousand euros at 31 December 2009) concerning generation activities of the thermoelectric plants of Tor di Valle and Montemartini, as well as of the hydroelectric plants belonging to AceaElectrabel Produzione and included in the beneficiary's basis of unproportional demerger set out in the above-mentioned Framework Agreement. Plants' production in 2010 totalled 662.1 GWh, up by 6.6 GWh; thermoelectric production amounted to 172.7 GWh (down 4.8 GWh), while hydroelectric production amounted to 489.4 GWh (up 11.4 GWh).
- 304,995 thousand euros (294,417 thousand euros at 31 December 2009) from the transport and metering of electricity for the free and protected categories market and market subject to additional safeguards: this revenue category increased by 10,578 thousand euros, mainly due to the different effect of general equalisation between the two financial years subject to comparison, having taken into account the decrease in quantities put into the network (down 0.69%) and the different allocation among the various classes. In 2010, the

general equalisation decreased this type of revenues by 666 thousand euros (16,557 thousand euros in 2009); this change is mainly due to the update of tariffs for the component relating to the application of D2-D3 tariffs for domestic uses. With reference to the free and protected markets served, 3.9% growth in the volumes distributed was recorded, up from 6,677 GWh at 31 December 2009 to the present 6,937 GWh. In contrast, the volume of electricity distributed to customers in the protected categories market (4,215 GWh) is down 6.5% compared with the previous year, essentially due to contraction of the market following liberalisation.

The period witnessed a 0.46% increase in the average number of end customers in the area served by ACEA Distribuzione.

- 42,661 thousand euros relating to the 2010 company-specific equalisation estimate (42,401 thousand euros) and recoveries for the years 2007-2009 (260 thousand euros). This is additional to tariff revenues for distribution activities, which offsets failure to cover the corresponding actual costs paid due to the effects of external factors, i.e. not under direct control of the company and therefore

not related to inefficiencies in the performance of the service. Higher revenues with respect to the 2010 equalisation estimate (up 974 thousand euros) are due to the increase in permitted revenues subject to equalisation, as well as to the different estimate of the 2010 company-specific correction factor, in compliance with update provisions for the 2009-2011 period set out in resolution no. 30/08. Recoveries for previous years relate to the recovery of general equalisation for 2007-2009, due to the combined effect of the calculation by AEEG of the company-specific correction coefficient for 2007 and disclosures from Cassa Conguaglio (Equalisation Fund) relating to general equalisation amounts. The estimated amount for 2010 is based on calculations performed for the updating of actual costs paid to ACEA Distribuzione for distribution activities in the third regulatory period, on the basis of updated criteria and formulae contained in the resolutions, indications taken from the reference legislation and parameter estimates (contained in the updated formulae) still to be published by the Electricity and Gas Authority.

- 1,157,351 thousand euros deriving from energy sales to the free and protected categories markets (1,007,454 thousand euros at 31 December 2009): the change of 149,898 thousand euros (up 14.9%) is due to the increase in volumes and price trends. It should be noted that the macroeconomic situation in 2009 led to a decrease in domestic electricity demand (down 6.7%) reflected in the consumption of customer portfolio, with particular reference to the energy intensive ones, as well as in the methods of withdrawal of electricity. Volumes sold in 2010 on the free market totalled GWh 15,408 (up 22.8% compared to 2009) at 220,700 delivery points.
- 1,364 thousand euros for heat sales (down 192 thousand euros compared with 31 December 2009) produced by the Torino district heating network included in the beneficiary's basis of unproportional demerger of AceaElectrabel Produzione.

Furthermore, calculation of the amounts for general equalisation is based on technical and economic parameters linked to the national electricity system (k factor), which are defined by the Electricity and Gas Authority, in accordance with the regulations in force, in the years subsequent to the one to which the equalisation refers.

The reported figures for equalisation thus represent the best estimate based on the information available. These estimates may change as a result of decisions taken by the Authority.

Electricity sales and services revenue also includes:

- revenues from energy produced by plants owned by the ARIA Group (Terni ENA and EALL) equal to 22,365 thousand euros. These revenues essentially derive from the sale of electricity to the GSE between January – December 2010 and are down 9,812 thousand euros, with particular reference to the Terni plant, that has been shut down for re-vamping since August. As of 10 November 2010, the San Vittore plant sells the energy produced at market prices. Other revenues from this segment have been allocated to item *Revenues from biomass transfer and waste management*.
- Revenues achieved by Arse and Ecogena for the sale of electricity produced by photovoltaic and cogeneration plants (amounting to 2,311 thousand euros).

With regard to **gas sales** (22,386 thousand euros as compared with 19,438 thousand euros at 31 December 2009), revenues increased by 2,948 thousand euros, due to the disposals of AceaElectrabel Elettricità.

At 31 December 2010, **revenue from sales of certificates and rights** amounted to 16,038 thousand euros, down by 10,422 thousand euros compared with 31 December 2009. This decrease is due, for 7,835 thousand euros, to lower revenues from white certificates (Energy Efficiency Certificates), as well as to the decrease in the reimbursement of the cost of Co2 quotas due to Terni Ena (down 2,777 thousand euros).



**Revenues from integrated water services are generated by water companies operating in Tuscany, Umbria, Lazio and Campania.**

These revenues amounted to 667,328 thousand euros, having risen 22,173 thousand euros (up 3.4%) compared with the previous year (645,155 thousand euros).

Companies operating in Lazio and Campania gener-

ated total revenues of 528,573 thousand euros (up 13,665 thousand euros) and those in Tuscany and Umbria closed the period with revenues of 138,755 thousand euros (up 8,508 thousand euros, of which 4,554 thousand euros is the change resulting from the consolidation of Nuove Acque for the whole financial year).

Details of water segment revenues are given below.

	31.12.2010	31.12.2009	Increase/ (Decrease)	Increase/ (decrease) %
ACEA Ato2	427,663	409,520	18,143	4.4%
Publiacqua	64,561	63,624	937	1.5%
Gori	50,018	50,018	0	0.0%
Acque	43,137	40,982	2,154	5.3%
ACEA Ato5	42,128	46,289	(4,161)	-9.0%
Umbra Acque	23,560	22,302	1,258	5.6%
Nuove Acque	6,036	1,482	4,554	307.3%
Gesesa	5,393	5,121	272	5.3%
Other minor companies	4,833	5,818	(984)	-16.9%
<b>Revenues from integrated water services</b>	<b>667,328</b>	<b>645,155</b>	<b>22,173</b>	<b>3.4%</b>

*Amounts in thousands of euros*

The change of ACEA Ato5 was due to the issues resulting from the tariff validity question: the tariff revenues for the year are valued in accordance with the tariff determined for 2010, as envisaged by the Management Agreement, adjusted to the inflation rate for all the years that have been elapsed from the assignment of the management. Revenues of the previous year were estimated based on the tariff defined for 2009 in the tariff review approved in 2007 and cancelled in December 2009. To this end, please refer to the description given in the section "Update of major disputes and litigation" in the 2010 Consolidated Financial Statements.

Gori's revenues are estimated according to the same methods adopted for the previous year, whilst awaiting the tariff review by the Area Authority. Further information is provided in section "Risks and uncertainties" included in the Operations' Report.

Publiacqua calculated revenues based on the 2010-2021 tariff development approved by the General Meeting of the Area Authority on 17 December 2010, that assigned to the Board of Directors of the Area Authority the task of drawing up the related chapter of the Area Plan for any related comments. The Area Plan was approved by resolution dated 23 February 2011.

**Revenues from biomass transfer and waste management** amounted to 28,105 thousand euros, marking an increase of 1,940 thousand euros over 31 December 2009 (26,164 thousand euros). These revenues were earned by the Aquaser Group (8,660 thousand euros) and companies in the A.R.I.A. Group (totalling 19,445 thousand euros).

The trend over the period is influenced by the phenomena hereunder: (i) the decrease recorded by Enercombustibili (down 1,891 thousand euros) due to the lower

quantities of waste to energy delivered and by Terni Ena (down 3,249 thousand euros) for lower quantities of pulp delivered, also due to the revamping shutdown of the plant; and (ii) the increase in revenues of Kyklos (up 3,377 thousand euros) due to the entry into operation of the Aprilia composting plant in the second half of 2009, of SAO (up 782 thousand euros) due to a price mix/better quantity compared with 31 December 2009 and of Eall (up 1,493 thousand euros) due to higher quantities of waste delivered.

**Revenues from the management of water services overseas** amounted to 23,574 thousand euros, an increase of 9,156 thousand euros over 2009 (14,418 thousand euros).

The change is mainly due to the consolidation of Conazul, a consortium between Aguazul Bogotá and local managers in order to carry out an order in Peru, that has been awarded to the SPV by means of a tender issued by the Peruvian municipality. Aguazul Bogotá's share in this consortium is equal to 60%.

These revenues were earned as follows: (i) 18,525 thousand euros by Aguazul Bogotá, including Conazul's share (up 8,772 thousand euros); (ii) 2,556 thousand euros by Acea Dominicana (up 181 thousand euros); and (iii) 2,492 thousand euros by Consorcio Agua Azul (up 203 thousand euros).

**Revenues from services to customers** amount to 157,317 thousand euros (115,064 thousand euros at 31 December 2009).

A breakdown of this item by segment is provided below.

### Public Lighting

Revenues at 31 December 2010 totalled 71,254 thousand euros, of which 68,564 thousand euros due to the Parent Company's contract for the management of the service contract signed in 2007 with Roma Capitale and 2,905 thousand euros to the contract work assigned by the Municipality of Naples and started in the summer of 2010. ACEA takes part in these works, as Temporary Joint Venture, with other shareholders and its stake amounts approximately to 30%. An increase of 5,992 thousand euros over the previous year is recorded, which is broken down as follows:

- 3,475 thousand euros concerning service management in Rome, with particular reference to the higher amount of work carried out on request of Roma Capitale;
- 2,517 thousand euros concerning service management in Naples, that was launched in 2010. The amount for this work includes revenues from the recharging of electricity (1,710 thousand euros at 31 December 2010).

### Arse

Revenues from the company totalled 35,766 thousand euros (up 33,424 thousand euros compared to 31 December 2009), of which 34,871 thousand euros deriving from the sale of PV panels.

### Distribution

These revenues totalled 10,688 thousand euros (12,677 thousand euros at the end of the previous year), down by 1,989 thousand euros, mainly due to the lower amount of work carried out on behalf of third parties. These revenues are mainly broken down as follows:

- revenues deriving from cemetery lighting management of 7,322 thousand euros, which are substantially unchanged with respect to 2009 (7,331 thousand euros);
- revenues from contract work, (3,366 thousand euros), primarily earned on the basis of specific agreements with the developers of new urban development areas (5,346 thousand euros at 31 December 2009).

### ACEA Ato 2

This company's revenues amounted to 7,849 thousand euros (up 841 thousand euros compared with the previous year, when the figure was 7,008 thousand euros).

It mainly involves revenues from services requested by third parties and those provided to Roma Capitale, based on the existing service contracts.

## ACEA and Services

The Parent Company and Acea8cento contributed revenues of 12,184 thousand euros to the consolidated total (up 1,577 thousand euros compared to 31 December 2009, attributable to ACEA for an amount of 1,415 thousand euros). They were primarily earned on

service contracts with Group companies consolidated on a proportionate basis and on services supplied in response to specific requests.

This item also includes revenues of the Companies listed in the following table.

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (decrease) %
Acque Group	7,703	7,681	22	0.3%
AceaGori Servizi	3,173	3,673	(499)	-13.6%
Gori	398	10	387	3707.2%
ARIA Group	1,691	1,772	(81)	-4.6%
AceaElectrabel Elettricità Group	2,098	651	1,447	222.5%
Gesesa	1,064	1,180	(117)	-9.9%
Publiacqua Group	603	518	85	16.5%
Ingegnerie Toscane	841	0	841	100.0%
Other	1,904	1,416	489	34.5%
<b>Revenues from services to customers</b>	<b>19,475</b>	<b>16,901</b>	<b>2,574</b>	<b>15.2%</b>

Amounts in thousands of euros

**Connection fees** of 28,944 thousand euros are down 1,471 thousand euros (30,415 thousand euros at 31 December 2009). These fees were generated as follows:

- free and protected markets and market subject to additional safeguards: 22,867 thousand euros (down 1,625 thousand euros compared to 31 December 2009),
- water: 6,077 thousand euros (up 155 thousand euros over the previous year).

## 2. Other operating income

Other operating income amounts to 82,992 thousand euros, representing an increase of 18,236 thousand euros compared with 31 December 2009 (64,756 thousand euros).

A breakdown, compared with 2009, is as follows.

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
Property income	2,994	2,837	157
Income from end users	2,019	1,143	876
Gains on asset disposals	9,512	907	8,605
Heating system inspections	1,109	1,093	15
Payment of additional costs pursuant to Electricity and Gas Authority resolution 228/2001	0	2,772	(2,772)
Coverage of costs for tariff subsidies for employees	978	1,076	(98)
Contingent assets and other revenues	34,058	27,226	6,832
Reimbursement for damages, penalties and fines	6,777	7,563	(786)
Service continuity bonuses	7,024	7,192	(168)
Government grant (Decree of the President of the Council of Ministers of 23/04/2004)	4,098	3,914	184
Regional grants	4,709	3,931	777
Energy Account	6,787	1,395	5,392
Seconded staff	2,092	2,316	(225)
Recharged cost of governance bodies	873	716	156
<b>TOTAL</b>	<b>83,028</b>	<b>64,082</b>	<b>18,946</b>
Change in inventories related to work in progress	(35)	674	(709)
<b>Total other operating income</b>	<b>82,992</b>	<b>64,756</b>	<b>18,236</b>

Amounts in thousands of euros

The change mainly reflects:

- the recognition of the gain amounting to 9,466 thousand euros concerning the disposal of a property owned by the Parent Company (for further information on the transaction, please refer to the other sections of this document);
- the increase in energy account revenues (5,392 thousand euros), mainly due to the coming into operation of some PV plants owned by Arse;
- the increase at 31 December 2010 of regional grants for 777 thousand euros, mainly attributable to Publiacqua;
- the increase of 6,832 thousand euros of the item contingent assets and other revenues, mainly due to the recognition of energy items concerning previous years, whose amount cannot be estimated. This item also includes the amount of 2,292 thousand euros (1,985 thousand euros) concerning the margin estimate on construction activities of plants under concession, which are included in the scope of IFRIC 12.

Moreover, the change is also due to the amount of 2,772 thousand euros recorded in the 2009 Consolidated Financial Statements, relating to the payment, by the Electricity and Gas Authority, of extra costs incurred by ACEA on the basis of the provisions of resolution no. 228/2001.

This item also includes:

- the amount of 7,024 thousand euros related to the service continuity bonus that is expected to be paid by the Electricity and Gas Authority to ACEA Distribuzione upon definition of 2009 service continuity; this bonus is in line with the figures posted in 2009 (7,192 thousand euros) with regard to 2008;
- the amount of 978 thousand euros (1,076 thousand euros at 31 December 2009) related to the contribution to cover charges relating to the discount on electricity consumption recognised in favour of employees hired before 1 July 1996 including retired or widowed employees.

With regard to the gain posted in the item under review, it is noted that in December 2010, ACEA carried out the disposal, to a real estate company, of a building complex on three levels, which is located in Piazzale Partigiani (Rome) and used as car park.

This transaction is part of a wider enhancement project for the Piazzale Ostiense area, according to which also the adjacent property belonging to ATAC Patrimonio S.r.l. was sold to the above-mentioned company.

The amount agreed by the parties totals 14,250 thousand euros. As stated above, ACEA posted a gain of 9,466 thousand euros, that was fully recognised in these Consolidated Financial Statements.

As at the same date, ACEA also recognised – in addition to the said gain – the receivable for the residual price balance (10,250 thousand euros) due from the assignee, based on the contract provision that sets out the deferred payment by the other party within one year from the signing of the notarial sale deed (22 December 2011) or within 60 days from the issue of the building licence for the area by the Municipality of Rome, whichever occurs first.

Whilst awaiting these licence and the payment of the price balance, ACEA holds the disposed property against payment.

Moreover, ACEA has the possibility (yet not the obligation) to lease the building complex sold once it has been refurbished, when the demolition and reconstruction works of the complex have been completed. In order to exercise this option, the Company will have to show its willingness within sixty days from the dispatch, by the other party, of the notice concerning the issue of the building licence by the Municipality of Rome.

Finally, it is noted that the agreement between the parties sets out an earn out provision in favour of ACEA, for a total amount of up to 6.7 million euros, that could be fulfilled if the Company decides to lease whole, or part, of the property disposed of by ATAC Patrimonio S.r.l. within a time period similar to the above-mentioned one.

### 3. Staff costs

	31.12.2010	31.12.2009	Increase/ (Decrease)	Increase/ (decrease) %
Staff costs including capitalised costs	319,947	317,431	2,516	0.8
Capitalised costs	(57,027)	(49,905)	(7,123)	14.3
<i>Staff costs on a like-for-like basis</i>	<i>262,920</i>	<i>267,527</i>	<i>(4,607)</i>	<i>(1.7)</i>
Staff costs including capitalised costs	1,144	0	1,144	
Capitalised costs	0	0	0	
<i>Change in basis of consolidation</i>	<i>1,144</i>	<i>0</i>	<i>1,144</i>	<i>100.0</i>
<b>Staff costs before resignations/retirements</b>	<b>264,064</b>	<b>267,527</b>	<b>(3,463)</b>	<b>(1.3)</b>
Resignations/retirements	961	7,082	(6,121)	(86.4)
<b>Staff costs for the period</b>	<b>265,025</b>	<b>274,609</b>	<b>(9,584)</b>	<b>(3.5)</b>

Amounts in thousands of euros

Staff costs amount to 265,025 thousand euros at 31 December 2010, representing a decrease of 9,584 thousand euros (down 3.5%) compared to 31 December 2009 (274,609 thousand euros).

The variation resulting from changes in the basis of consolidation amounts to 1,172 thousand euros and is related to Nuove Acque, that has been consolidated as of 1 October 2009.

The increase in staff costs, before charges for resignation and capitalised costs and on a like-for-like basis, amounts to 2,516 thousand euros and is mainly due to overseas companies (up 2,225 thousand euros), with particular reference to Aguazul Bogotà, that includes the interest in the consortium Conazul that was incorporated in July 2010 in order to carry out the works assigned by the Municipality of Lima (Peru).

The figures for the other Group's companies are mainly in line with 2009, except for ACEA Ato2 and ACEA Ato5, down by 2,582 thousand euros and 361 thousand euros, respectively, following redundancy and resignation initiatives carried out during the year.

Staff costs of the Parent Company include the amount of 1,122 thousand euros corresponding to the assessment of the second cycle of the three-year medium/long-term incentive plan (2010-2012). This Plan envis-

ages a cash payment at the end of the period, to be calculated as a percentage of the Gross Annual Remuneration of beneficiaries, based on the achievement of pre-established operating and financial targets. The assessment of the achievement of performance targets for the first 2007-2009 cycle was negative. Therefore, the liability allocated in FY 2009 (3,003 thousand euros) was recognised in the income statement.

Staff costs include the one-off payment concerning the renewal of CUSGA for the water and gas sector, equal to 780 thousand euros.

Gross staff costs, including changes in the basis of consolidation and net of charges for staff departures, amount to 321,091 thousand euros (up 3,660 thousand euros) and break down as follows by business segment:

- Networks  
91,122 thousand euros (up 95 thousand euros)
- Energy  
10,817 thousand euros (down 16 thousand euros)
- Water  
146,361 thousand euros (up 83 thousand euros)
- Development and Special Projects  
18,427 thousand euros (up 2,672 thousand euros)
- Environment and Energy  
8,641 thousand euros (up 295 thousand euros)

- Parent Company and services<sup>1</sup>  
45,723 thousand euros (up 300 thousand euros)  
Capitalised costs amount to 57,027 thousand euros (up 7,123 thousand euros).  
The change is mainly due to water companies (up

<sup>1</sup> Includes the Company Acea8cento that carries out the call centre service.

6,464 thousand euros), with particular reference to ACEA Ato2 (up 7,357 thousand euros).

The following tables show the average number of staff by Industrial Area, compared to the previous year. The figure for the end of the period is also shown.

	Average number of employees		
	31.12.2010	31.12.2009	Increase/ (Decrease)
Networks	1,578	1,607	(29)
Energy	230	223	7
Water	2,975	3,035	(60)
Development and Special Projects	957	853	104
Environment and Energy	180	175	5
Parent Company and services	706	698	8
<b>TOTAL</b>	<b>6,626</b>	<b>3,914</b>	<b>184</b>

Industrial Area / Function	Average number of employees		
	31.12.2010	31.12.2009	Increase/ (Decrease)
Networks	1,543	1,596	(53)
Energy	229	229	0
Water	2,933	3,081	(148)
Development and Special Projects	1,237	840	397
Environment and Energy	181	179	2
Parent Company and services	700	700	0
<b>TOTAL</b>	<b>6,822</b>	<b>6,624</b>	<b>198</b>

The average number of staff is mainly in line with 2009, due to the voluntary redundancy and retirement initiatives, together with the blockage of turnover. In economic terms, staff changes led to a decrease in staff costs by approximately 3 million euros.

Regulatory and management aspects contributed to the increase in this item, such as contract renewal, holidays, retributive institutions connected with the objectives.

#### 4. Costs of materials and overheads

These amount to 1,172,180 thousand euros, with an increase of 115,786 thousand euros compared with 31 December 2009 (1,056,394 thousand euros).

The change in the costs of materials and overheads is essentially due to the increase in the costs of purchasing electricity, gas and fuel (up 72,295 thousand euros), in relation to volumes and the trend in prices, and to the net increase in other cost components (up 43,491 thousand euros).

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)	Increase/ (decrease) %
Electricity, gas and fuel	677,341	605,045	72,295	11.9
Materials	72,139	44,261	27,878	63.0
Services	301,941	291,510	10,431	3.6
Concession fees	57,418	56,893	525	0.9
Lease expense	33,351	30,915	2,437	7.9
Other operating costs	29,990	27,770	2,220	8.0
<b>Consolidated cost of materials and overheads</b>	<b>1,172,180</b>	<b>1,056,394</b>	<b>115,786</b>	<b>11.0</b>

*Amounts in thousands of euros*

### Electricity, gas and fuel

This item includes:

- the cost of procuring electricity for the regulated, free and protected market and the related transport costs, totalling 666,126 thousand euros, compared with 590,823 thousand euros at 31 December 2009. The costs relating to the Single Buyer, excluding the effect of energy equalisation, amounting to 195,899 thousand euros (235,857 thousand euros at 31 December 2009); the equalisation of electricity destined for the regulated market in the year led to an increase in costs of 11,775 thousand euros (4,924 thousand euros at the end of the previous year);
- the cost of procuring gas for resale (6,426 thousand euros, compared with 3,460 thousand euros at 31 December 2009). This item refers only to AceaElectrabel Elettricità and the change is in line with the increase recorded in the revenue item;
- the cost of fuel used in electricity production amounts to 1,672 thousand euros, in line with FY 2009. These costs were exclusively incurred by the waste-to-energy plants of the A.R.I.A. Group.

This item also includes the purchase and production costs of environment certificates (3,117 thousand euros). This cost item decreased by 5,972 thousand euros compared to the previous year, mainly due to the decrease in the costs incurred by Arse for the production of white certificates (down 5,166 thousand euros).

Charges relating to the purchase and allocation of CO2 quotas were 339 thousand euros and relate exclusively to Terni Ena: the change of 751 thousand euros compared to the previous year (1,090 thousand euros) is due to lower production linked with the revamping shutdown as of August 2010. For the same reason, a decrease was recorded in the reimbursement of the charges due to the Company pursuant to the Electricity and Gas Authority resolution no. 77/2008 (see comment under Note 2).

This item also reflects estimated electricity equalisation, designed to cover the differences between the purchase cost and sale price: this form of equalisation is mandatory for electricity sold on the market subject to additional safeguards. The amount of 11,776 thousand euros (being the Group's share of the amount recognised by AceaElectrabel Elettricità) increases procurement costs for the period and represents the best estimate of the above differences based on the information available.

### Materials

This amount (72,139 thousand euros) represents the cost of materials used during the period less costs allocated to investments. This item breaks down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)	Increase/ (Decrease) %
Purchase of materials	139,912	106,643	33,269	63.0
Changes in inventories	(13,228)	5,925	(19,153)	3.6
<i>Total</i>	<i>126,684</i>	<i>112,568</i>	<i>14,117</i>	<i>0.9</i>
Capitalised costs	(54,545)	(68,307)	13,762	8.0
<b>TOTAL</b>	<b>72,139</b>	<b>44,261</b>	<b>27,878</b>	

*Amounts in thousands of euros*

The performance of this item is mainly determined by Arse, with a growth of 30,291 thousand euros, after capitalised costs: this change is due to the movements of PV panels used to produce own plants or to be sold.

The item **purchases of materials before capitalised costs** increased by 14,117 thousand euros, of which 23,073 thousand euros attributable to Arse.

Reference is also made to (i) the decrease recorded by water companies (1,602 thousand euros); and (ii) the increase recorded by overseas companies (1,431 thousand euros) following the launch of activities of the Con-azul consortium.

**Capitalised costs** decreased by 13,762 thousand euros, due to photovoltaic activities for 7,218 thousand euros and to ACEA Distribuzione for 7,150 thousand euros, which decreased the total volume of investments for the year. Water companies recorded an increase in the costs allocated to investment (1,104 thousand euros).

Material costs incurred by the industrial areas in 2010 are detailed below.

- Networks  
46,448 thousand euros (up 29,337 thousand euros)
- Energy  
773 thousand euros (up 275 thousand euros)
- Water  
18,406 thousand euros (down 2,710 thousand euros)
- Development and Special Projects  
3,862 thousand euros (up 1,467 thousand euros)
- Environment and Energy 2,209 thousand euros (down 240 thousand euros)
- ACEA  
437 thousand euros (down 255 thousand euros)

### Services

Services amounted to 301,941 thousand euros, representing an increase of 10,431 thousand euros compared with the previous year (291,510 thousand euros).

The item essentially includes:

- contract work, totalling 67,558 thousand euros, which is 3,924 thousand euros up on the previous year (63,634 thousand euros). This change is mainly due to ACEA Distribuzione and the Parent Company, for public lighting activities in Rome and Naples (totalling 4,816 thousand euros). There was a decrease in the amount of works incurred by ACEA Ato2 (down 5,577 thousand euros), due to lower volumes of maintenance, as well as to the completion of some important works carried out on behalf of Roma Capitale;
- electricity and water supplies of 52,969 thousand euros (up 3,021 thousand euros). The change is mainly due to water companies, in particular to those operating in Tuscany;
- intercompany services totalling 13,187 thousand euros (down 1,637 thousand euros): these costs include facility management services provided by Marco Polo SpA: the total costs of these services was 11,428 thousand euros (12,719 thousand euros at 31 December 2009). Intercompany services also include services provided by the consortium which manages public lighting contract works in Naples (1,357 thousand euros);
- services for staff, totalling 17,924 thousand euros (up 666 thousand euros compared to 31 December 2009);
- telecommunications, printing, postage and bank charges totalling 16,620 thousand euros (up 847 thousand euros). The change was mainly due to telecommunications and data transmission charges;



- disposal and transport of sludge, waste, ash and refuse, and cleaning and portage, totalling 34,946 thousand euros (down 2,225 thousand euros). The change was due to water companies operating in Tuscany and Umbria;
- insurance, totalling 11,185 thousand euros (up 1,056 thousand euros compared to 31 December 2009);
- technical and administrative services (including consultants' fees and the cost of freelance workers), amounting to 36,497 thousand euros (up 1,600 thousand euros). The change was mainly due to ACEA, with regard to IT consultancy for the entry into operation of some new information systems;
- internal use of electricity, totalling 5,333 thousand euros (down 77 thousand euros);
- advertising and sponsorship, amounting to 8,531 thousand euros (up 685 thousand euros);
- cost of meter readings of 3,168 thousand euros, unchanged with respect to the previous year;
- maintenance fees of 1,317 thousand euros (down 121 thousand euros);
- travel and transfer expenses, amounting to 1,099 thousand euros (up 110 thousand euros);
- stock management costs incurred by ACEA Distribuzione, totalling 1,935 thousand euros (up 87 thousand euros);
- staff seconded to unconsolidated Group companies and/or third-party companies, totalling 660 thousand euros (down 817 thousand euros on the previous year).

Additional service costs were incurred by the Companies (i)

of the Energy industrial area for 4,147 thousand euros; this includes expenses for bills delivery and agents' expenses; (ii) of the Water industrial area for 14,767 thousand euros; (iii) of the Environment and Energy area for 3,499 thousand euros; (iv) of the laboratory analysis and research for 359 thousand euros; and (v) of overseas companies for 1,240 thousand euros.

The item also includes the remuneration paid to the Group's governance bodies, amounting to 3,817 thousand euros.

The table showing the remuneration of directors, statutory auditors and key managers of the Parent Company is provided in an annex to these notes.

As required by article 149 duodecies of the CONSOB Regulations for Issuers, the fees paid to the Independent Auditors, Ernst & Young, are as follows:

- Audit of ACEA's accounts: 127 thousand euros,
- audit of subsidiaries by firms belonging to the network of the Parent Company's Independent Auditors: 536 thousand euros,
- other auditing-related services: totalling 430 thousand euros for the ACEA Group,
- services other than auditing: 120 thousand euros.

#### Concession fees

These fees amount to 57,418 thousand euros (up 525 thousand euros compared to 31 December 2009, when the figure was 56,893 thousand euros) and regard fees paid by companies that manage integrated water services under concession in certain areas of Lazio and Campania, Tuscany and Umbria. The following table shows a breakdown by Company, compared with 2009.

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
Acea Ato2	32,713	32,696	17
Publiacqua	10,119	9,940	179
Acea Ato5	5,489	5,489	0
Acque	4,483	5,046	(562)
Umbra Acque	2,122	1,602	520
Gori	1,268	1,423	(155)
Nuove Acque	733	183	550
Gesesa	368	354	14
Other minor companies	123	161	(38)
<b>Concession fees</b>	<b>57,418</b>	<b>56,893</b>	<b>525</b>

Amounts in thousands of euros

### Lease expense

This item amounts to 33,351 thousand euros, marking an increase of 2,437 thousand euros on the end of the previous year (30,915 thousand euros).

This item includes rental expense of 18,318 thousand euros, mainly in line with the amount recorded in the 2009 financial statements.

Compared with the previous year, the change is mainly due to the Parent Company for higher purchase costs of licenses for use and rental of cars, for unlimited use by the Group's managers.

The item also includes fees and hire charges totalling 15,152 thousand euros, an increase of 2,328 thousand euros, of which 500 thousand euros incurred by electrical energy sales companies, 276 thousand euros by overseas companies and 1,754 thousand euros by ACEA.

### Other operating costs

Other operating costs at 31 December 2010 amounted to 29,990 thousand euros, marking an increase of 2,220 thousand euros on 31 December 2009, when the figure was 27,770 thousand euros.

This item includes (i) the adjustments of estimates carried out in previous years and non-recurring costs totalling 12,099 thousand euros at 31 December 2010 (up 1,345 thousand euros), (ii) taxation for 7,440 thousand euros (up 699 thousand euros) and (iii) other general expenses for 10,098 thousand euros (up 294 thousand euros).

The increase is due, for 1.2 million euros, to the Headquarters Project carried out by the Parent Company.

### 5. Net income/(costs) from commodity risk management

At 31 December 2010, the change in the fair value measurement of financial contracts, that is recognised in the consolidated income statement, is positive for 3,152 thousand euros and represents the reversal of the contracts signed by AceaElectrabel Elettricità at the end of 2009, which were covered through AceaElectrabel Trading.

Further information about these contracts is provided in the section "Additional disclosures on financial instruments and risk management policies".

## 6. Amortisation, depreciation, impairment charges and provisions

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
Amortisation of intangible assets	79,205	63,729	15,476
Depreciation of property, plant and equipment	125,870	129,605	(3,735)
Impairments	6,164	59	6,105
Provisions for impairment of receivables	63,891	38,831	25,060
Provisions for liabilities	45,850	114,575	(68,725)
<b>TOTAL</b>	<b>320,980</b>	<b>346,799</b>	<b>(25,819)</b>

Amounts in thousands of euros

The increase in the amortisation of intangible assets and depreciation of plant, property and equipment amounted to 11,741 thousand euros, determined by the volume of investments in previous years and entry into operation of a number of plants, with particular regard to those of the photovoltaic segment carried out by Arse.

The performance for the year is shown by segment below.

- **Networks:** amounted to 98,271 thousand euros, marking an increase of 3,188 thousand euros, due to ACEA Distribuzione (1,530 thousand euros) and Arse (1,592 thousand euros) following the entry into operation of a number of solar power plants,
- **Energy:** the companies in this segment report depreciation and amortisation of 8,844 thousand euros. The increase of 654 thousand euros is due to AceaElectrabel Elettricità and AceaElectrabel, for 418 thousand euros and 140 thousand euros, respectively. This item also includes amortisation/depreciation (5,761 thousand euros) related to the electric power generating plants that, based on the Framework Agreement signed by ACEA and GdF-Suez, will be transferred to the beneficiary subject to unproportional demerger of AceaElectrabel Produzione,
- **Water:** these amount to 67,672 thousand euros and the rise of 8,454 thousand euros was essentially brought about by management of water services in Lazio and Campania (3,768 thousand euros) and water companies operating in Tuscany and Umbria (4,685 thousand euros); in particular:
  - ACEA Ato2 and ACEA Ato5 totalling 3,795 thousand euros,
  - Acque Group for 1,095 thousand euros (total amortisation/depreciation stood at 10,641 thousand euros),
  - Publiacqua for 1,804 thousand euros (total amortisation/depreciation came to 11,642 thousand euros),
  - Umbra Acque for 267 thousand euros, with amortisation of intangible assets and depreciation of plant, property and equipment of 2,524 thousand euros.

The changes are linked to investments envisaged in the respective Area Plans,

- **Development and special projects:** total amortisation/depreciation came to 1,756 thousand euros (up 315 thousand euros) of which 845 thousand euros deriving from water companies operating overseas and 911 thousand euros to engineering analysis and research companies,
- **Environment and Energy:** amortisation/depreciation stood at 15,053 thousand euros, up by 1,724 thousand euros, with special reference to SAO (983 thousand euros) and Kiklos (762 thousand euros).

Amortisation/depreciation of the Parent Company amounted to 12,986 thousand euros, down by 2,593 thousand euros, mainly due to the end of the useful life of some IT intangible assets.

**Impairments** (6,165 thousand euros) refer to (i) the write-downs carried out by Terni Ena with regard to the portions of plant that will be disposed of with renovation activities (2,793 thousand euros) and (ii) the write-down (3,371 thousand euros) of a portion of goodwill recorded upon acquisition of Crea. This write-down results from the early termination of the Lunigiana and Agza Nord concession, as well as from the probable early termination of Geal.

With regard to provisions for impairment of receivables, the sum reported for the year (64,360 thousand euros) is up 25,529 thousand euros on the amount recorded for the previous year (38,831 thousand euros). The increase is attributable to ACEA Ato2 (11,897 thousand euros), Gori (5,628 thousand euros), ACEA Ato5 (3,342 thousand euros) and AceaElectrabel Elettricità (1,779 thousand euros); by contrast, a reduction of 532 thousand euros was recorded by the company that manages water services in the Province of Florence.

A breakdown of provisions for the impairment of receivables by business segment is as follows:

- **Networks:** provisions of 2,979 thousand euros (1,499 thousand euros at 31 December 2009) essentially regard ACEA Distribuzione,
- **Energy:** closed 2010 with 19,066 thousand euros (16,485 thousand euros at 31 December 2009),

mainly due to AceaElectrabel Elettricità,

- Water: provisions amounted to 38,411 thousand euros (up 21,295 thousand euros),
- Environment and Energy: recorded a provision for impairment of receivables equal to 693 thousand euros (up 347 thousand euros).

Provisions for liabilities (45,850 thousand euros) mainly regarded problems linked to contributions, staff, legal and tax disputes and regulatory risks.

Provisions for liabilities decreased by 68,725 thousand euros, mainly due to:

- the recognition in the financial statements of the previous year of the following provisions:
  - tax risks (36,000 thousand euros) relating to the irregularity communicated by the Tax Authorities to ACEA essentially as a result of the 2004 company restructuring, with which the Parent Company sold 50% of ACEA Distribuzione's shares to Arse. This provision was used during the year following the definition of the assessment deed with approval by the Parent Company,
  - regulatory risks in the water and electricity sectors totalling 28,933 thousand euros relating mainly to the provision for contingent liabilities deriving from ACEA Ato5's tariff legitimacy dispute as a result of the cancellation of the 2007 tariff review resolution by the Conference of Mayors. This category also included the provision for the 2008 company-specific equalisation (3,933 thousand euros) used in 2010, as a result of the definition of specific equalisation by the Electricity and Gas Authority,
  - voluntary mobility and redundancy charges totalling 19,357 thousand euros.

With reference to this item, it should be pointed out that the difference between the two years amounts to 11,670 thousand euros; in particular:

- in 2010, ACEA Ato2 set aside a further amount of 3,500 thousand euros: the decrease amounts to 6,963 thousand euros compared with 2009,
- in 2010, ACEA Distribuzione set aside a further amount of 1,901 thousand euros: the decrease amounts to 6,993 thousand euros compared with 2009,
- ACEA set aside 2,100 thousand euros.

The difference is also due to:

- higher provisions for: (i) tender and supply risks (7,287 thousand euros), (ii) risks of disputes with public and private parties (4,237 thousand euros),
- lower provisions for staff, including social security issues (4,138 thousand euros).

Therefore, during 2010 the Group essentially made provisions for liabilities relating to: (i) personnel for 10,423 thousand euros (including potential liabilities connected with contributions and redundancy and resignation/retirement), (ii) legal and tax disputes amounting to 8,223 thousand euros, (iii) potential disputes with public and private parties for 5,640 thousand euros, (iv) tender and supply for 8,199 thousand euros.

Finally, this item includes the amount of 9,923 thousand euros concerning the costs necessary to keep the infrastructure used for water service management in good repair. As compared to 2009 (subject to restatement), these costs amount to 8,767 thousand euros.

Further information is provided in the section *"Update on major disputes and litigation"*.

## 7. Finance (costs)/ income

	31.12.2010	31.12.2009	Increase/ (Decrease)
<b>Finance (costs)/income related to borrowings (A)</b>	<b>67,911</b>	<b>57,205</b>	<b>10,706</b>
Costs/(income) on interest rate swaps	6,701	2,644	4,057
Interests on bonds in issue	36,771	15,196	21,575
Interest on medium/long-term borrowings	35,657	45,199	(9,543)
Interest on short-term borrowings	6,273	9,432	(3,158)
Finance costs on forward transactions	0	0	0
Interest on amounts due from customers	(7,036)	(8,795)	1,759
Interest on loans and receivables	(7,387)	(5,325)	(2,062)
Bank interest	(3,067)	(1,146)	(1,921)
<b>Other finance (costs)/income (B)</b>	<b>20,931</b>	<b>16,406</b>	<b>4,525</b>
Interest payable to end users	1,650	2,162	(511)
Default and deferred interest	966	7,075	(6,109)
Interest costs less actuarial gains	4,537	5,517	(980)
Factoring fees	10,263	2,238	8,025
Interest on delayed payment for tax disputes	3,788	0	3,788
Interest on other receivables	(1,376)	(854)	(522)
Other costs/(income)	1,101	268	834
<b>Net finance costs (A) + (B)</b>	<b>88,842</b>	<b>73,611</b>	<b>15,231</b>

Amounts in thousands of euros

Net finance costs of 88,842 thousand euros are up by 15,231 thousand euros. The change is mainly due to the increase in bond loan charges and those necessary to contain working capital.

With regard to finance costs related to borrowings, the following is noted:

- net swap costs (6,701 thousand euros) are generated by the flows exchanged during the year for cash flow hedge instruments hedging interest and exchange rate risk. Hedged instruments also include – in addition to those at 31 December 2009 – the private placement hedged by a cross currency, in order to transform the currency of the hedged instrument from yens to euros and the applied yen rate to a fixed euro rate. Further information about interest rate risk management is provided in the section “Additional disclosures on financial instruments and risk man-

agement policies”;

- interests on bonds in issue are broken down as follows:
  - bond loan amounting to 300 million euros at fixed rate, placed by ACEA in 2004 (10-year bullet repayment): 14,625 thousand euros,
  - bond loan amounting to 500 million euros at fixed rate, placed by ACEA in March 2010 (10-year bullet repayment): 18,111 thousand euros,
  - private placement of 20 billion yens carried out by ACEA in March 2010 (15-year bullet repayment): 3,811 thousand euros, without taking into account hedges allocated to the item net swap costs,
- interests on medium/long-term borrowings amount to 35,657 thousand euros, down by 9,543 thousand euros; the change is almost entirely due to the Parent Company (down 8,743 thousand euros) on floating rate loans,

- interests on short-term borrowings totalled 6,273 thousand euros, of which 4,169 thousand euros attributable to ACEA (down 1,850 thousand euros). The decrease is due to both the trend in interest rates and, in particular, the lower liquidity requirements as a result of the implementation of the above-mentioned debt instruments. There was an increase in bank income (up 1,921 thousand euros) resulting from the use of liquidity that has been mainly carried out by means of fixed term deposit contracts.

With regard to other costs, the following is noted:

- the financial component of the fees due to factors for without-recourse factoring carried out in 2010 (totaling 10,263 thousand euros) increased by 8,025 million euros. This item includes:
  - disposal costs of specific equalisation due to ACEA Distribuzione (2,123 thousand euros), up by 1,334 thousand euros compared to the previous year,
  - the costs related to securitisation and spot sales of receivables of public administration carried out by AceaElectrabel Elettricità and ACEA Ato2: this component totals 8,139 thousand euros, up by 6,690 thousand euros compared to the previous year, given that these are new transactions that have been carried out towards the end of 2009 and implemented in 2010,
- interest on delayed payment amounts to 3,788 thousand euros, upon definition by ACEA and the Tax Authority of the assessment deed with approval concerning the objections made with regard to the 2004 corporate reorganisation,
- default and deferred interest applied by suppliers and, in particular, by the Equalisation Fund decreased by 6,109 thousand euros compared to 2009.

Details of net finance costs per business segment are provided below:

- Networks: equal to 24,678 thousand euros, marking a decrease of 3,998 thousand euros compared to 31 December 2009, predominantly relating to default interest on late payments,
- Energy: the companies in this segment report net finance costs of 2,030 thousand euros, mainly referred to AceaElectrabel Elettricità,

- Water: equal to 8,500 thousand euros, marking a slight increase of 466 thousand euros,
- Parent Company: net costs at the end of the year amount to 51,985 thousand euros; the increase of 15,755 thousand euros is mainly explained in the comment above.

At 31 December 2010, the average rate of interest paid by the Group on its medium/long-term borrowings and on short-term borrowings (including discontinued operations) is equal to 3.52%.

## 8. Profit/(loss) on investments

Net profit on investments amounted to 2,572 thousand euros at 31 December 2010, and are broken down as follows:

- profit of 3,234 thousand euros (2,607 thousand euros at 31 December 2009) mainly relating to the measurement of Agua de San Pedro (1,088 thousand euros), Acquedotto del Fiora (699 thousand euros), Sienergia (465 thousand euros), Sogea (345 thousand euros), Geal (289 thousand euros), Umbriadue (195 thousand euros) using the equity method,
- loss of 662 thousand euros (1,787 thousand euros in the previous year), of which 336 thousand euros relating to the effects of the Arbitration Award with Erg Renew.

## 9. Taxation

Tax expenses for the period with regard to continuing operations amount to 69,779 thousand euros (138,129 thousand euros in the previous year).

In order to make the comparison more useful, the comment on provisions for current and deferred taxes (including discontinued operations) is provided below.

Income taxes were estimated at 85,398 thousand euros (147,766 thousand euros as at 31 December 2009) and are essentially made up of:

- Current taxes: 105,001 thousand euros (99,517 thousand euros at 31 December 2009),

- Net deferred (prepaid) taxes: down 19,603 thousand euros (down 30,622 thousand euros in 2009).

The increase in current taxes is mainly due to the increased income for the period, which is offset by the positive effect of the tax relief on interest expense which is deducted only when the 2009 balance is paid, as well as by the implementation of the so-called Tremonti ter, with particular regard to Tirreno Power and water companies.

Moreover, it is noted that 2009 current taxes were af-

ected by the final non-deductibility of some provisions for both tax risks and, as regards IRAP, provisions for liabilities and charges relating to employees.

In addition, taxes for the previous year included the effect resulting from the recovery of State assistance, pursuant to Article 24 of Law Decree 185/2008 for 78,871 thousand euros.

The table below shows the breakdown of taxes for the period and the correlated percentage weight calculated on consolidated income before taxes.

	2010	%	2009	%
Profit before tax from continuing and discontinued operations	221,590		100,746	
Expected tax charge at 27.5% on profit before tax	60,937	27.5%	27,705	27.5%
Net deferred taxation	(19,603)	-8.8%	(30,622)	-30.4%
Permanent and additional differences	4,583	2.1%	35,532	35.3%
<i>Tax Assets and charges pursuant to Law Decree 185/2008</i>	6,710	3.0%	85,581	84.9%
IRES (corporate income tax) for the year	45,918	20.7%	32,615	32.4%
IRAP (regional income tax)	32,771	14.8%	29,570	29.4%
Tax on continuing and discontinued operations	85,399	38.5%	147,766	146.7%

*Amounts in thousands of euros*

The tax rate for the period stands at 38.5%, down 4.4% if compared with the 2009 normalised tax rate (42.9%).

## 10. Non-current assets held for sale and discontinuing or discontinued operations

The tables below show the economic components at 31 December 2010 of the Companies subject to disposal, based on the Framework Agreement signed by ACEA and GdF-Suez in December.

It is specified that the economic components of AceaElectrabel Produzione do not include those related to electric power generating plants, that will converge in the beneficiary company of the unproportional demerger of AceaElectrabel Produzione.

	31.12.2010	31.12.2009	Increase/ (Decrease)
Operating revenues	1,977,523	1,403,063	574,461
Staff costs	9,862	11,807	(1,945)
Operating costs*	1,887,225	1,335,384	551,841
<b>Gross Operating Profit</b>	<b>80,437</b>	<b>55,871</b>	<b>24,565</b>
Amortisation, depreciation and impairment charges	27,744	28,842	(1,098)
<b>Operating profit/(loss)</b>	<b>52,692</b>	<b>27,030</b>	<b>25,663</b>
Finance costs/(income)	(10,772)	(12,400)	1,629
Profit before tax	41,921	14,629	27,292
Taxation	(19,533)	(9,814)	(9,719)
<b>Net profit/(loss)</b>	<b>22,388</b>	<b>4,816</b>	<b>17,573</b>
<b>TOTAL CONSOLIDATION ADJUSTMENTS</b>	<b>(538,577)</b>	<b>(489,925)</b>	<b>(48,652)</b>
<b>Fair value measurement of assets held for sale</b>	<b>(36,171)</b>	<b>0</b>	<b>(36,171)</b>
<b>TOTAL ASSETS HELD FOR SALE</b>	<b>(552,359)</b>	<b>(485,110)</b>	<b>(67,250)</b>

\* includes selling costs

Amounts in thousands of euros

## 11. Earnings per share

Earnings per share determined in accordance with IAS 33 is shown below:

	al 31.12.2010	al 31.12.2009 Restated	Increase/ (Decrease)
Net profit attributable to the Group from continuing operations (/000)	644,508	432,556	211,952
Net profit attributable to ordinary equity holders of the Group (/000) (A)	644,508	432,556	211,952
Weighted average number of ordinary shares in issue for the purposes of determining earnings per share			
- basic (B)	212,964,900	212,964,900	0
- diluted (C)	212,964,900	212,964,900	0
<b>Earnings per share (I)</b>			
- basic (A/B)	<b>3.0264</b>	<b>2.0311</b>	<b>0.9952</b>
- diluted (A/C)	<b>3.0264</b>	<b>2.0311</b>	<b>0.9952</b>

	al 31.12.2010	al 31.12.2009 Restated	Increase/ (Decrease)
Net profit attributable to the Group (/000)	92,148	(52,554)	144,702
Net profit attributable to ordinary equity holders of the Group (/000) (A)	92,148	(52,554)	144,702
Weighted average number of ordinary shares in issue for the purposes of determining earnings per share			
- basic (B)	212,964,900	212,964,900	0
- diluted (C)	212,964,900	212,964,900	0
<b>Earnings per share (I)</b>			
- basic (A/B)	<b>0.4327</b>	<b>(0.2468)</b>	<b>0.6795</b>
- diluted (A/C)	<b>0.4327</b>	<b>(0.2468)</b>	<b>0.6795</b>

Amounts in thousands of euros



## Notes to the Consolidated Balance Sheet

### Assets

#### 12. Property, plant and equipment

The item amounted to 1,904,563 thousand euros (2,209,912 thousand euros at 31 December 2009) and is composed of assets used in operations. The following table shows a breakdown and movements during the period:

	31.12.2009 Restated	Assets held for sale	Investment / Acquisitions	Change in basis of consolidation	Amortisation/ depreciation	Disposals and other movements	31.12.2010
Land and buildings	249,676	(42,164)	8,118	0	(8,878)	(6,838)	199,914
Plant and machinery	1,412,575	(339,995)	152,490	0	(94,510)	(27,578)	1,102,982
Industrial equipment	346,906	(1,422)	66,704	0	(15,208)	(19,564)	377,417
Other assets	41,611	(500)	12,409	0	(6,860)	(11,141)	35,520
Fixed assets in progress	143,915	(25,001)	122,068	0	0	(71,917)	169,064
Assets to be relinquished	15,228	(1,785)	12,703	0	(344)	(6,137)	19,665
<b>Total property, plant and equipment</b>	<b>2,209,912</b>	<b>(410,867)</b>	<b>374,493</b>	<b>0</b>	<b>(125,799)</b>	<b>(143,176)</b>	<b>1,904,563</b>

Amounts in thousands of euros

Pursuant to IFRS 5, the section Assets held for sale includes the value of fixed assets at 31 December 2009 for the Companies of the AceaElectrabel Produzione Group, Eblacea and Tirreno Power, AceaElectrabel Trading that is subject to disposal to GdF-Suez, based on the Framework Agreement signed in December 2010. As a consequence, 2010 movements, investments, amortisation/depreciation and disposals were derecognised. Continuing operations include amounts and movements for the year concerning the plants that will be transferred to the beneficiary of the unproportional demerger, based on the fact that they will be part of the Group's assets and will be fully owned by it at the execution date of the transaction.

The ACEA Group carried out investments totalling 374,493 in the period, mainly due to the following business segments:

- Distribution: 88,350 thousand euros,
- ACEA: 6,483 thousand euros,
- Water services in Lazio - Campania: 135,896 thousand euros,
- Water services in Tuscany - Umbria: 36,408 thousand euros,
- Energy: 3,155 thousand euros,
- Environment and Energy: 48,263 thousand euros,
- Development and special projects: 1,228 thousand euros,
- PV power: 54,675 thousand euros.

The main investments were carried out by the following companies:

- ACEA Distribuzione: 88,350 thousand euros spent primarily on extension and renovation of its HV, MV and LV networks, the construction of electricity substations and LV connections; this investment is essentially in line with the priorities set out in the Urban Plan and the operating needs arising during the period.

The above investment breaks down as follows:

- land and buildings: 4,588 thousand euros (4,376 thousand euros at 31 December 2009),
  - plant and machinery: 37,148 thousand euros (47,706 thousand euros at 31 December 2009),
  - industrial and commercial equipment: 44,492 thousand euros (49,099 thousand euros at 31 December 2009),
  - other assets: 523 thousand euros (443 thousand euros at 31 December 2009),
  - fixed assets in progress and prepayments: 1,598 thousand euros (2,783 thousand euros at 31 December 2009).
- ACEA S.p.A. for 6,483 thousand euros: 1,378 thousand euros for extraordinary maintenance on buildings leased, 1,600 thousand euros for the purchase of furniture and electronic office equipment, 3,495 thousand euros for hardware investments needed for the improvement projects of IT services. With regard to the interventions linked to the public lighting contract with Roma Capitale, as a consequence of the implementation of IFRIC 12, with regard to assets under concession, the Company reclassified under Intangible Assets (Concessions) leasehold improvements to publicly owned assets granted free of charge for the exclusive use of ACEA S.p.A..
- AceaElectrabel Produzione (asset not subject to disposal) for 3,155 thousand euros. This amount breaks down as follows:
    - Plant and machinery: 1,558 thousand euros: 774 thousand euros for work carried out to implement the system for steam extraction from the

combined cycle module of the Tor di Valle plant in favour of the cogeneration module of the said plant and for district heating activities; 630 thousand euros for investments to upgrade the MV/LV distribution network on the district heating plant of the Sant'Angelo power station; 114 thousand euros for investments due to the extension of the Torrino district heating network in Rome.

- Fixed assets in progress: these increased by 1,326 thousand euros, mainly due to upgrading works for the hydroelectric and thermoelectric plants (in particular, in Orte and Salisano).

**Depreciation** amounts to 125,799 thousand euros and relates primarily to the following areas of business:

- Distribution and public lighting: 90,699 thousand euros,
- PV power: 3,081 thousand euros,
- Water: 5,993 thousand euros, of which Lazio – Campania equal to 2,655 thousand euros and Tuscany – Umbria 3,336 thousand euros;
- Development and special projects: 857 thousand euros, of which 324 thousand euros overseas;
- Sales: 31 thousand euros,
- Generation: 5,703 thousand euros,
- Environment and Energy: 14,204 thousand euros,
- ACEA - structure: 5,237 thousand euros.

**Other movements** primarily regard reclassifications following the rollout of assets. As a consequence of the implementation of IFRIC 12, the investments belonging to the range of application of the said interpretation, were reclassified under Intangible assets (item *"Rights on infrastructure"*). These reclassifications involved the companies of the water segment and the Parent Company for a portion of the public lighting investments.

### 13. Investment property

Investment property amounts to 3,148 thousand euros (3,347 thousand euros at 31 December 2009) and primarily includes land and buildings not used in operations and held for rental. The decrease compared to the end of the previous year is due to the depreciation and divestiture at Acea for the disposal of a building for civil use.

The following table shows movements during the period:

Investment property	31/12/2009 Restated	Assets held for sale	Investment / acquisitions	Change in basis of consolidation	Amortisation/ depreciation	Disposals and other movements	31.12.2010
Investment property	3,347	0	10	0	(64)	(146)	3,148
<b>TOTAL</b>	<b>3,347</b>	<b>0</b>	<b>10</b>	<b>0</b>	<b>(64)</b>	<b>(146)</b>	<b>3,148</b>

Amounts in thousands of euros

### 14. Goodwill

At 31 December 2010, goodwill amounted to 19,718 thousand euros (84,311 thousand euros at 31 December 2009). The significant change compared to the previous year was mainly due to the reclassification – under assets held for sale, pursuant to IFRS 5 – of the goodwill value recorded in the balance sheet for Tirreno Power (55,603 thousand euros).

IAS 36 provides that said balance sheet item, given that it is an intangible asset with an indefinite useful life, is no longer subject to amortisation, but subject to an analysis of congruity on an annual basis or more frequently where events occur or there is a change of circumstances that may lead to impairments.

Goodwill emerging at the date of acquisition is allocated to each of the cash-generating units expected to benefit from the synergies deriving from the acquisition. Impairment charges are identified via tests that assess the capacity of each unit to generate cash sufficient to recover the portion of goodwill allocated to it. IAS 36 envisages that the estimated recoverable amount of goodwill recorded in the balance sheet is realised by using the higher of the fair value less costs

to sell and value in use of a group of assets that identifies the company or group of companies to which it belongs: Cash-generating Unit (or group of Cash-generating Units).

The fair value is determined, taking into account information available to company management, on the basis of the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use is determined using the Discounted Cash Flow method, by discounting operating cash flows net of interest rates resulting from economic and financial projections based on assumptions in the budget plan drafted by management.

For the discounting of these flows, an explicit time period consistent with said forecasts was considered, i.e. with the average useful life of the assets, or with the duration of the concessions.

Use of the Discounted Cash Flow method provides for the discounting of estimate future cash flows, using the proper discount rate that reflects the current market assessments of the time value of money and risks specific to the asset (WACC).

The cash flow deriving from disposal at the end of the

useful life (Terminal Value), prudentially estimated at zero or the sum of the estimate of the prospective value of fixed assets, net working capital and provisions. The table below shows some of the CGUs to which is allocated a significant goodwill value compared with

the overall value of goodwill recorded in the balance sheet, specifying the discount rates used and time period of cash flows for each type of recoverable value considered.

Operating segment	Cash-generating units	Amount millions	Recoverable value	Weighted average cost of capital *	Terminal value	Cash flow period
<i>Water Services in Tuscany and Umbria</i>	Umbra Acque	5	Value in use	6%	Sum of estimated prospective value of fixed assets, net working capital and provisions	Concession duration
<i>Environment and Energy</i>	A.R.I.A. Group	7	Value in use	6.1%	Sum of estimated prospective value of fixed assets, net working capital and provisions	End of useful life of assets

\* Post-tax discount rate

Amounts in million of euros

#### **A.R.I.A. Cash-generating Unit**

On 4 July 2006, effective from 1 July, ACEA purchased 100% of A.R.I.A. S.p.A..

The Group is composed of subsidiaries and associates listed in the section "List of consolidated companies". The value of goodwill has been allocated to the A.R.I.A. Group Cash-generating Unit of the Environment and Energy business area.

The recoverable value has been determined by taking into account the operating cash flows of companies in the A.R.I.A. Group.

For the purpose of complete information, it should be noted that, in calculating the value in use, the time period corresponding to expiry of the concession and/or plant useful life has been taken into consideration.

No impairment was identified during the impairment test.

#### **AceaElectrabel Elettricità goodwill**

Goodwill arising from the proportionate consolidation of the investment in AceaElectrabel amounted to 1 million euros, and was not subject to an impairment test, since the fair value to prove the absence of impairment is known. The fair value is equal to the equity value given by ACEA and GdF-Suez to this Cash Generating Unit.

#### **Umbra Acque Cash-generating Unit**

Goodwill of 5 million euros is attributable to Umbra Acque as a fraction of the goodwill generated by the acquisition of the Sigesa Group.

The activity was concentrated mainly in the province of Perugia and refers to activities under concession relating to the collection and distribution of water.

The recoverable value has been determined by taking into account the value in use of the same.

For the purpose of complete information, it should be underlined that, in calculating the value in use, a time period that takes account of the expiry of the existing concession has been taken into consideration.

## 15. Concessions and Rights on Infrastructure

At 31 December 2010, this item amounted to 1,418,071 thousand euros (1,286,810 thousand euros at 31 December 2009) and includes the values of concessions acknowledged by Municipalities and, pursuant to IFRIC 12, the aggregate amount of tangible infrastructures used for the management of the water and public lighting services.

More specifically, concessions (amounting to 265,170 thousand euros) refer to:

- the value of the thirty-year concession from Roma Capitale relating to water, treatment and sewerage plants of the ATO2 (including goodwill) of 225,624 thousand euros. This fresh water and water treatment concession was transferred from ACEA to ACEA Ato2 at the end of 1999, whilst the sewerage service concession was transferred between the same companies from 1 September 2002. The concessions are amortised over their residual terms. The value includes the sum of 629 thousand euros relating to the right deriving from the 2009 take-over of the integrated water service management in the Municipality of Formello, previously entrusted to Crea Gestioni;
- 17,678 thousand euros relating to Gori for the concession and recording of the costs of SII (integrated water service) loan repayment plants relating to new mortgages assessed by the Area Authority in 2010;
- 14,904 thousand euros relating to companies operating in Tuscany.

This item also includes goodwill arising from consolidation representing goodwill attributable to integrated water service contracts and the A.R.I.A. Group, above all with regard to SAO (5,823 thousand euros).

Rights on infrastructure posted in the accounts amount to 1,152,936 thousand euros and include tangible infrastructures used for the management of the integrated water and public lighting services. Values are broken down below, according to each single Company:

- ATO2 for 737,740 thousand euros (633,673 thousand euros at 31 December 2009 and 538,529 thousand euros at 1 January 2009);

- ATO 5 for 42,929 thousand euros (39,975 thousand euros at 31 December 2009 and 35,089 thousand euros at 1 January 2009);
- GORI for 57,322 thousand euros (54,777 thousand euros at 31 December 2009 and 142,352 thousand euros at 1 January 2009);
- Acque for 112,237 thousand euros (102,098 thousand euros at 31 December 2009 and 88,990 thousand euros at 1 January 2009);
- Publiacqua for 124,050 thousand euros (116,371 thousand euros at 31 December 2009 and 276,244 thousand euros at 1 January 2009);
- Umbra Acque for 28,950 thousand euros (21,955 thousand euros at 31 December 2009 and 19,198 thousand euros at 1 January 2009);
- ACEA for 49,707 thousand euros (44,547 thousand euros at 31 December 2009 and 39,656 thousand euros at 1 January 2009).

The change compared to the previous year (up 131,261 thousand euros) is due, on the one hand, to amortisation for the exercise of concessions (60,507 thousand euros) and, on the other, to both the investments on Concessions for the period, amounting to 17,341 thousand euros and the reclassification of Property, plant and equipment, net of any related depreciation, belonging to the range of application of IFRIC 12, amounting to 174,493 million euros.

Investments on concessions mainly refer to repairs to the piping that are still being carried out, as well as the investments made on water pipes, the construction of buildings at water centres and treatment plants, the clean-up and enlargement of water and sewer pipes, industrial and commercial equipment for new connections, the investments on distribution and transportation plants that have not yet been completed, and amount to: 5,160 thousand euros for the Parent Company, 4,330 thousand euros for Umbra Acque, 1,537 thousand euros for Gori, 979 thousand euros for Publiacqua, 776 thousand euros for ACEA Ato2.

Detailed below are the investments made in the period, which have contributed to the value increase of Rights on Infrastructure.

- ACEA Ato2: 126,722 thousand euros referring primarily to:
  - Land and Buildings for 1,643 thousand euros and mainly refer to extraordinary maintenance and construction of buildings at water centres (1,131 thousand euros), works belonging to sources (424 thousand euros) and compensation for the land needed to build aqueducts (34 thousand euros).
  - Plant and Machinery for 72,560 thousand euros, for the clean-up and enlargement of water and sewer pipes in the various municipalities (49,459 thousand euros) and work on treatment plants (22,951 thousand euros). Plants are in operation for a total amount of 29,130 thousand euros, mainly relating to the construction of abstraction pipes and feeder mains (11,788 thousand euros), new wells for the supply and purification of drinking water (5,559 thousand euros) and dehydration and drying plants for the treatment plants of Rome East and Rome North.
  - Industrial and commercial equipment for 17,961 thousand euros, regarding new connections, following the completion of work carried out in the Municipality of Rome (8,255 thousand euros) and the various municipalities acquired (9,107 thousand euros), and the purchase of equipment for water and operating centres (599 thousand euros).
  - Fixed assets in progress: investments are equal to

33,227 thousand euros and mainly refer to transportation plants (abstraction pipes and feeder mains totalling 22,926 thousand euros), water treatment plants (4,888 thousand euros), water and operating centres (4,121 thousand euros) and new connections (976 thousand euros) under construction.

- ACEA Ato5: 3,738 thousand euros, of which 127 thousand euros relating to extraordinary maintenance on buildings at the various water centres, 2,878 thousand euros to investments carried out on fresh water and sewer pipes in the various Municipalities, 399 thousand euros relating to industrial equipment purchased and 333 thousand euros for the purchase of motor vehicles used in operation, furniture and fittings.
- Acque: 26,063 thousand euros, referring to work on the distribution, sewer and water treatment network.
- Gori: 4,693 thousand euros for work on extension and modernisation of fresh water and sewer networks, and on water treatment plants in the area served.

The following table shows changes in this item by geographical area.

<b>Concessions and Rights on Infrastructure</b>	<b>31.12.2009 Restated</b>	<b>Assets held for sale</b>	<b>Investment / Acquisitions</b>	<b>Change in basis of consolidation</b>	<b>Amortisation/ depreciation</b>	<b>Reclassifications</b>	<b>31.12.2010</b>
LAZIO	958,916	(65)	10,452	0	(35,513)	123,663	1,057,453
TUSCANY/UMBRIA	255,310	0	5,352	0	(21,833)	41,398	280,228
CAMPANIA	72,583	0	1,537	0	(3,161)	9,432	80,390
OVERSEAS	0	0	0	0	0	0	0
<b>Total</b>	<b>1,286,810</b>	<b>0</b>	<b>17,341</b>	<b>0</b>	<b>(60,507)</b>	<b>174,493</b>	<b>1,418,071</b>

Amounts in thousands of euros

## 16. Other intangible assets

These amounted to 67,350 thousand euros, marking an increase of 9,739 thousand euros and are broken down as follows.

	31.12.2009 Restated	Assets held for sale	Investment / Acquisitions	Change in basis of consolidation	Amortisation/ depreciation	Disposals and other movements	31.12.2010
Patent rights	24,685	(3,004)	8,208	0	(14,531)	14,470	29,829
Other intangible assets	20,530	(6,704)	17,542	0	(4,000)	(9,597)	17,771
Fixed assets in progress	12,396	(1,117)	18,636	0	0	(10,165)	19,750
<b>TOTAL</b>	<b>57,611</b>	<b>(10,826)</b>	<b>44,387</b>	<b>0</b>	<b>(18,530)</b>	<b>(5,292)</b>	<b>67,350</b>

Amounts in thousands of euros

Investments carried out in the period amounted to 44,387 thousand euros and refer to (i) Publiacqua (12,560 thousand euros), (ii) the Parent Company (9,200 thousand euros), (iii) ACEA Ato2 (6,014 thousand euros), (iv) AceaElectrabel Elettricità for 5,030 thousand euros, (v) ACEA Distribuzione for 4,747 thousand euros, and (vi) ACEA Ato5 for 810 thousand euros.

Intangible assets of ACEA Distribuzione include the costs incurred for the implementation of the digital network information system (209 thousand euros), the costs incurred for the re-engineering project for information and commercial systems in the distribution segment, also known as the "Volta" project (6,578 thousand euros), the standardisation of systems used in meter reading (3,348 thousand euros) and research and development costs for the technological innovation projects (96 thousand euros).

The Parent Company's investments mainly concern improvements made to the utilities system, the launch of additional IT projects (Volta and Piteco), as well as the server virtualisation project.

The remainder of the item is made up of the investments of the Acque Group totalling 3,673 thousand euros and Nuove Acque investments amounting to 727 thousand euros.

## 17. Investments in unconsolidated subsidiaries and associates

The ACEA Group's investment portfolio amounts to 32,066 thousand euros, compared to 28,250 thousand euros at the end of 2009. It is broken down as follows.

The table below shows the movements of the item in question.

	Historical cost	Revaluations	Impairments	Movements/ Reclassifications	Net value
Values at 31 December 2009	161,829	39,765	(96,968)	(76,376)	28,250
<b>Values at 1 January 2010</b>	<b>161,829</b>	<b>39,765</b>	<b>(96,968)</b>	<b>(76,376)</b>	<b>28,250</b>

### Movements in 2010:

acquisitions	788				788
revaluations		3,498			3,498
impairments			(471)		(471)
<b>Total movements in 2010</b>	<b>788</b>	<b>3,498</b>	<b>(471)</b>	<b>0</b>	<b>3,816</b>
<b>Values at 31 December 2010</b>	<b>162,617</b>	<b>43,263</b>	<b>(97,439)</b>	<b>(76,376)</b>	<b>32,066</b>

Amounts in thousands of euros

The composition of movements during the period is as follows:

- **Impairments:** 471 thousand euros refer to the measurement, using the equity method, of equity investments in Azga Nord and Arkesia;
- **Revaluations:** refer essentially to the valuation according to the equity method of the investments in Acquedotto del Fiora (738 thousand euros), Sienergia (465 thousand euros), Umbria2 (195 thousand euros) and Agua de San Pedro (1,755 thousand euros).
- **Acquisitions:** refer to the acquisition (i) of 32.18%, equal to 306 thousand euros, of the share capital

of the Consortium Citelum Napoli Pubblica Illuminazione S.c.a.r.l. for the management, as Temporary Joint Venture, of the public lighting service in the Municipality of Naples; (ii) of 49% of the share capital (equal to 250 thousand euros) of Eur Power S.r.l., that was incorporated in 2010; and (iii) the investments of Acque in Billing Solution and ICT Solutions for 232 thousand euros.

The following table shows key performance indicators for the largest investments in associates, calculated on a proportionate basis.

	Total assets	Total liabilities (less shareholders' equity)	Operating revenues	Net profit/(loss)
Acquedotto del Fiora S.p.A.	205,234	183,598	70,408	3,305
SI(E)NERGIA (former Cesap) S.p.A.	6,508	4,321	3,680	340
Sogea S.p.A.	13,899	11,494	8,254	704
Geal S.p.A.	21,511	15,505	12,907	1,004

*Amounts in thousands of euros*

## 18. Other investments

This item, totalling 3,650 thousand euros (6,149 thousand euros at the end of the previous year), consists of equity interests that do not qualify as subsidiaries, associates or joint ventures. These investments are accounted for at fair value. The decrease of 2,499 thousand euros is mainly due to the disposal, at nominal value, of the investment in Consorzio Agroalimentare (1,040 thousand euros) and the impairment for adjustments to year-end exchange rate (1,356 thousand euros) of the investments in foreign companies.

## 19. Deferred tax assets

These amounted to 267,520 thousand euros at 31 December 2010 (239,935 thousand euros at 31 December 2009) and relate essentially to (i) the temporary differences between the carrying amounts accounted for in the financial statements of subsidiaries, following transfers of business units, and the corresponding amounts accounted for in the consolidated financial statements, amounting to 67,607 thousand euros (73,777 thousand euros at 31 December 2009), (ii) lower tax repayments of 80,962 thousand euros (65,202 thousand euros at

31 December 2009), (iii) provisions for tax liabilities of 32,320 thousand euros (34,743 thousand euros at 31 December 2009), (iv) provision for write-downs of receivables amounting to 40,976 thousand euros (27,031 thousand euros at 31 December 2009).

It is pointed out that the item amortisation/depreciation includes prepaid or deferred taxes resulting from the application of IFRIC 12; the same item also includes the amount of 6,025 thousand euros that, in the 2009 financial statements, was recognised as "tax assets on tax risks": these are higher prepaid taxes resulting from the assessment deed with approval of AceaElectrabel Elettricità, according to which the period of tax deductibility of the goodwill transferred through demerger by ACEA Distribuzione, was extended.

The item "Other" includes deferred taxation concerning connection fees.

The Group recognises deferred tax assets based on earnings forecasts in the Group's business plans, which confirm the probability that sufficient future taxable profit will be available against which all of the assets can be recovered.

Movements in this item are as follows.



	2009 Restated			2010 movements			Balance
	Balance	Discontinued operations	Adjustments/ Reclassifications	Movements in shareholders' equity	Uses	Provisions for IRES/IRAP	
<b>Prepaid taxes</b>							
Tax losses	932	(724)	0	0	(4)	46	251
Fees to members of the Board of Directors	107	0	(21)	0	(227)	177	36
Provisions for liabilities and charges	34,743	(2,427)	(263)	0	(9,736)	10,003	32,320
Impairments of receivables and investments	27,031	(1)	194	0	(2,336)	16,088	40,976
Amortisation/depreciation	65,202	(1,338)	2,125	0	(847)	15,820	80,962
Defined benefit and defined contribution plans	13,842	(479)	(1)	0	(1,403)	390	12,350
Tax assets on consolidation adjustments	73,777	0	0	0	(6,710)	0	67,067
Fair value of commodity contracts and other financial instruments	2,426	(438)	10	7,052	0	77	9,128
Other	21,875	(415)	426	0	(843)	3,387	24,430
<b>Total</b>	<b>239,935</b>	<b>(5,821)</b>	<b>2,470</b>	<b>7,052</b>	<b>(22,105)</b>	<b>45,989</b>	<b>267,520</b>
<b>Deferred taxes</b>							
Amortisation/depreciation	82,801	(21,745)	1,907	0	(2,234)	5,327	66,057
Defined benefit and defined contribution plans	3,759	(147)	710	0	(45)	229	4,506
Fair value of commodity contracts and other financial instruments	748	(3,609)	(833)	7,952	(2)	409	4,665
Other	4,852	(1,649)	1,141	0	(2,739)	578	2,182
<b>Total</b>	<b>92,160</b>	<b>(27,151)</b>	<b>2,926</b>	<b>7,952</b>	<b>(5,019)</b>	<b>6,543</b>	<b>77,410</b>
<b>Net total</b>	<b>147,775</b>	<b>21,330</b>	<b>(456)</b>	<b>(899)</b>	<b>(17,085)</b>	<b>39,446</b>	<b>190,110</b>

Amounts in thousands of euros

## 20. Non-current financial assets

At 31 December 2010, this item amounted to 7,553 thousand euros (17,206 thousand euros at 31 December 2009), marking a decrease of 9,653 thousand euros. These assets include 5,028 thousand euros in receivables due from subsidiaries accounted for under proportionate consolidation and 2,525 thousand euros in amounts due from others.

As regards receivables due from subsidiaries accounted for under proportionate consolidation, 2,483 thou-

sand euros is due from AceaElectrabel Produzione and refers to the EIB loans taken out by Parent Company Acea, 1,531 thousand euros in receivables generated by interest-bearing loans granted to Voghera Energia and 1000 thousand euros in receivables generated by loans granted to AceaElectrabel Trading.

The above loans due from subsidiaries are subject to the same conditions as applied by the EIB to the Parent Company, ACEA.

It should be noted that the Framework Agreement signed between ACEA and GdF-Suez in December 2010

sets out settlement terms and conditions for the above-mentioned receivables.

Amounts due from others amounted to 2,525 thousand euros (12,431 thousand euros at 31 December 2009) and mainly include the amount of VAT rebates.

It should be noted that the balance for the previous year includes the amount of 10,216 thousand euros concerning VAT credits of AceaElectrabel Produzione and Tirreno Power.

The amount of 1,256 thousand euros related to SAO's VAT credit was collected through disposal to Erg Renew,

pursuant to the clauses of the purchase/sale agreement according to which those receivables that have not been collected within two years from the date of the transaction shall be repurchased. This principle has been confirmed by the arbitration award at the beginning of 2010.

## 21. Other non-current assets

At 31 December 2010, these totalled 26,212 thousand euros (32,093 thousand euros at 31 December 2009) and are broken down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Amounts due from the State	138	223	(85)
Advances and deposits	702	906	(204)
Other	25,371	30,964	(5,593)
<b>OTHER NON-CURRENT ASSETS</b>	<b>26,212</b>	<b>32,093</b>	<b>(5,882)</b>

*Amounts in thousands of euros*

### Amounts due from the State

These amounts due totalled 138 thousand euros and regard withholding taxes paid at a rate of 3.89% on staff termination benefits.

These receivables were used to offset withholding taxes due on staff termination benefits and advances disbursed at 1 January 2000, as allowed by the relevant legislation. Moreover, such amounts were utilised to pay capital gains tax on revaluations of staff termination benefits introduced by the 2000 Finance Act.

The receivables in question are subject to revaluations at the end of each year, with any revaluations recognised in the income statement as finance income.

### Advances and deposits

This item totals 702 thousand euros and regards guarantee deposits and advances to staff.

### Other

This item totals 25,371 thousand euros (30,964 thousand euros at 31 December 2009). The item consists of 6,451 thousand euros in prepayments of costs incurred by Group companies (3,084 thousand euros by Arse, 2,967 thousand euros by the Acque Group) deriving from the management of White Certificates and the Metro and Cemetery Lighting contracts, and relating to revenues that will be collected in future years.

Long-term receivables deriving from the Public Lighting service contract in the city of Rome, amounting to 17,925 thousand euros (20,100 thousand euros at 31 December 2009) are included in this item. This receivable is the unconditional right to receive cash, consistently with ways and terms provided for in the service contract in force.

## 22. Current assets

At 31 December 2010, these totalled 1,925,750 thousand euros (1,983,779 thousand euros at 31 December 2009) and are broken down as follows:

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
<b>Inventories</b>	<b>58,039</b>	<b>66,437</b>	<b>(8,398)</b>
<b>Trade receivables:</b>			
Amounts due from customers	991,265	1,055,351	(64,086)
Amounts due from the parent	113,572	92,021	21,551
Amounts due from subsidiaries and associates	39,973	44,236	(4,263)
<b>TOTAL TRADE RECEIVABLES</b>	<b>1,144,811</b>	<b>1,191,608</b>	<b>(46,798)</b>
Other receivables and current assets	77,337	128,231	(50,893)
Current financial assets	321,384	393,248	(71,865)
Current tax assets	42,437	101,996	(59,558)
Cash and cash equivalents	281,742	102,258	179,484
<b>CURRENT ASSETS</b>	<b>1,925,750</b>	<b>1,983,779</b>	<b>(58,028)</b>

*Amounts in thousands of euros*

### Inventories

These totalled 58,039 thousand euros (down 8,398 thousand euros compared with 31 December 2009) and are broken down into the following business segments:

- Networks: 41,665 thousand euros (up 14,346 thousand euros compared to 31 December 2009),
- Energy: 695 thousand euros. The decrease of 24,853 thousand euros compared to 31 December 2009 is due to the recognition, among the balance for the previous year, of the amounts related to energy generation companies and AceaElectrabel Trading;
- Water: 11,724 thousand euros (up 1,772 thousand euros compared to 31 December 2009),
- Development and special projects: 1,040 thousand euros (up 463 thousand euros),
- Environment and Energy: 2,914 thousand euros (essentially unchanged compared to 31 December 2009).

This decrease reflects opposing factors: on the one hand, (i) greater stocks of materials related to installation and marketing of PV panels (up 12,015 thousand euros); (ii) higher purchases, net of consumption, of ACEA Distribuzione (up 2,331 thousand euros) and ACEA Ato2 (up 1,655 thousand euros); and (iii) on the other, the decrease due to the reclassification under item "Non-current assets held for sale" of storage gas of AceaElectrabel Trading for 18,455 thousand euros and the inventories of energy generation companies for 9,515 thousand euros.

### Trade receivables due from customers

Trade receivables amounted to 991,265 thousand euros (1,055,351 thousand euros at 31 December 2009) and are broken down as follows:

Trade receivables	31.12.2010	31.12.2009	Increase/ (Decrease)
End users for bills issued	409,706	428,194	(18,488)
End users for bills to be issued	399,386	344,792	54,594
<b>Total receivables due from end users</b>	<b>809,092</b>	<b>772,986</b>	<b>36,106</b>
Receivables from other customers	153,211	144,663	8,549
Disputed receivables	28,962	28,392	570
<b>Total trade receivables due from customers</b>	<b>991,265</b>	<b>946,040</b>	<b>45,225</b>
Receivables due from customers of companies held for sale		109,311	(109,311)
<b>Total receivables</b>	<b>991,265</b>	<b>1,055,351</b>	<b>(64,086)</b>

*Amounts in thousands of euros*

The increase of 45,225 thousand euros, on a like-for-like basis, i.e. deducting from the balance at 31 December 2009 the receivables due from customers claimed by companies that are currently held for sale, includes:

- the increase in receivables of the Energy area (83,011 thousand euros), of the Networks area (25,706 thousand euros), of the Environment and Energy area (1,125 thousand euros) and of the Development and special projects area (3,195 thousand euros),
- the decrease in receivables in the Water area (56,772 thousand euros) and of the Parent Company (10,860 thousand euros).

The trend in amounts due from end users showed an increase of 36,106 thousand euros. This reflected opposing factors, i.e. the growth in receivables of the Companies in the Energy and Network area (up 92,986 thousand euros), contrasted with the reduction recorded in the Water area (down 56,880 thousand euros).

Receivables from other customers (including the balance of disputed receivables) increased by 9,119 thousand euros compared to the reference period.

This was the result of the fall in receivables of the Energy segment (down 8,053 thousand euros) and of the Parent Company (down 10,859 thousand euros), as well as of higher receivables of the Networks area (up

23,783 thousand euros), of the Environment and Energy segment (up 1,125 thousand euros) and of the engineering and laboratory analysis companies (up 2,286 thousand euros).

The trend in trade receivables for each industrial area is provided below; with regard to the Energy area, the comment is made on a like-for-like basis, i.e. excluding from FY 2009 the receivables of companies held for sale.

### Networks area receivables

These receivables totalled 93,456 thousand euros (up 25,706 thousand euros on the previous year). These include:

- 30,592 thousand euros due from end users (up 1,922 thousand euros on the previous year). This item represents receivables generated by the transport of electricity to free market customers by ACEA Distribuzione and uncollected amounts billed by the company before the spin-off of retail activities. The change in amounts due from end users is essentially due to the increase in the amount of invoices to be issued;
- 62,864 thousand euros due from other customers (up 23,783 thousand euros on the previous year).

This item includes receivables due to ARSE (35,371 thousand euros at 31 December 2010) deriving from activities linked to air quality, photovoltaic, as well as to the disposal of white certificates (Energy Efficiency Bonds - EEB). The increase is mainly due to the marketing of PV modules.

The provision for impairment of receivables for this area totals 21,565 thousand euros, up by 1,272 thousand euros. During the year, four extraordinary, without-recourse factoring of amounts due from wholesalers were concluded, for a total amount of 24,272 thousand euros.

### **Energy generation and sales industrial area receivables**

These receivables are generated by sales of energy to customers in the free market and the protected categories market, as well as to gas customers and amount to 299,219 thousand euros, up by 83,011 thousand euros compared to the previous year. This change is mainly determined by AceaElectrabel Elettricità (up 79,552 thousand euros) and Estra (up 3,989 thousand euros). This growth is linked with an increase in turnover of approximately 10%.

The provision for impairment of receivables at 31 December 2010 amounts to 55,078 thousand euros, up by 12,655 thousand euros compared to 31 December 2009, net of uses.

It is noted that during 2010, AceaElectrabel Elettricità carried out revolving and spot factoring transactions for a total amount of 516,591 thousand euros, of which 495,700 thousand euros with private customers and 20,891 thousand euros with public entities.

### **Water services industrial area receivables**

These receivables amounted to 526,377 thousand euros (down 56,772 thousand euros on the previous year).

The change was generated by the following companies:

- ACEA Ato2 (down 57,970 thousand euros). The company recorded total receivables of 221,481 thousand euros, of which 206,285 thousand euros (down 57,603 thousand euros) due from end users and 15,195 thousand euros (down 368 thousand euros) due from other customers. The decrease represents

the combined effect of the following phenomena:

- reduction of receivables for invoices issued to users (62,866 thousand euros), partly due to recovery actions carried out in the period, and partly due to the various factoring of receivables described hereunder;
- increase in receivables for invoices to be issued to users (6,298 thousand euros) due to the estimate of receivables still not invoiced and pertaining to the year (83,816 thousand euros), only partly offset by the reduction in the issue of invoices before 2010 (77,386 thousand euros);
- increase of the provision for impairment of receivables (7,707 thousand euros). Provisions for the impairment of receivables amount to 26,964 thousand euros and are based on analytical assessments, supplemented by assessments based on historical analyses according to the default period, the type of action undertaken to recover the amount due and the status of the receivable concerned (ordinary, disputed, etc.);
- other receivables – before the provision for the impairment of receivables – amount to 22,157 thousand euros, up by 5,805 thousand euros. These are mainly receivables due from public entities.

During the year, ACEA Ato2 carried out revolving and spot factoring transactions for a total amount of 245,276 thousand euros, of which 218,710 thousand euros with private customers and 26,566 thousand euros with public entities.

- ACEA Ato5 (up 42 thousand euros). Receivables amount to 112,429 thousand euros, with 107,996 thousand euros due from end users (109,128 thousand euros at the end of the previous year). Invoices to be issued to users at the end of the year amount to 77,812 thousand euros, up by 3,663 thousand euros. This unchanged figure is mainly due to the fact that, during 2010, invoices have been issued again to customers (even if based on a temporary tariff) and credit collection activities have been launched, especially with regard to business customers. As is well known, the credit level is strongly influenced by tariff-related problems, for which reference is made to the section "Update on major disputes and litigation",
- Acque Group (down 3,662 thousand euros). At 31 De-

December 2010, these receivables amounted to 22,053 thousand euros (including 19,372 thousand euros due from end users), compared to 25,714 thousand euros in 2009,

- Publiacqua Group (down 7,902 thousand euros). At 31 December 2010, these receivables amounted to 38,477 thousand euros (including 31,495 thousand euros due from end users), compared to 46,379 thousand euros in 2009,
- At year end, GORI's receivables amount to 100,324 thousand euros, of which 52,268 thousand euros to be issued, with an increase of 12,554 thousand euros, of which 10,594 thousand euros for invoices to be issued. This change is mainly due to the problems linked with tariffs, which create tariff adjustments for the differences between the Plan actual tariff and the average tariff, or the temporary one, that has been assigned whilst awaiting the review of the Area Plan,
- Umbra Acque (down 718 thousand euros). At the end of the period, receivables amounted to 10,698 thousand euros, compared to 11,415 thousand euros at 31 December 2009.

This item also included the receivables of the Crea Group which amounted to 17,109 thousand euros at the end of the period (mainly in line with 31 December 2009).

The balance for this segment at 31 December 2010 includes 486,832 thousand euros in amounts due from end users and 39,545 thousand euros due from other customers. The provision for the impairment of receivables for this area amounts to 71,155 thousand euros.

#### **Development and special projects receivables**

These amounted to 11,956 thousand euros (up 3,195 thousand euros on 31 December 2009), which regard:

- Aguazul Bogotà: 3,643 thousand euros (up 2000 thousand euros);
- AceaGori Servizi: 6,145 thousand euros (up 2,002 thousand euros);
- Laboratori: 1,423 thousand euros (up 242 thousand euros),
- Acea Dominicana: 446 thousand euros (down 1,112 thousand euros).

#### **Environment and energy receivables**

These amounted to 32,874 thousand euros, up by 1,125 thousand euros compared to 31 December 2009, mainly due to the increase in receivables of SAO (up 4,302 thousand euros) and Eall (up 1,071 thousand euros), that are partially offset by the decrease in receivables of Terni Ena (down 4,654 thousand euros), following the decrease in revenues, since the plant has been shut down for revamping since August.

#### **ACEA receivables**

These receivables amounted to 26,826 thousand euros (down 10,859 thousand euros on the previous year). The decrease is due to the collection of receivables due from the Municipality of Naples and the impairments carried out in the year.

Disputed receivables amounted to 26,996 thousand euros at 31 December 2010, before the provision for the impairment of receivables and remained unchanged compared with the previous year.

Said receivables included 20,555 thousand euros due from the Vatican City which, being a sovereign state, deems the fees charged for fresh and waste water services to be inapplicable. Following publication of the implementation decree provided for by article 3, paragraph 13 of the Finance Act for 2004, the receivables posted in the accounts relate to the period prior to 1998 and are matched by a corresponding debt payable to the Municipality of Rome as the provider of waste water and sewerage services through to 31 December 1997. It should be noted that ACEA is not obliged to settle the debt payable to the Municipality of Rome before collection of the receivables due from the Vatican City.

The Company has begun legal proceedings in order to collect other disputed receivables of 6,440 thousand euros, which include amounts due from consortia set up by government bodies and municipalities and municipalities in financial difficulty. These receivables have been fully written down.

The provision for impairment of receivables amounted to 173,192 thousand euros (compared to 132,179 thousand euros).

sand euros at 31 December 2009) and the amount allocated stood at 63,891 thousand euros.

Provisions were made for risks on receivables due from end users and other customers.

Provisions for the impairment of receivables are based on analytical assessments, supplemented by assessments based on historical analyses of amounts due from end users and customers broken down according to the default period, the type of action undertaken to recover the amount due and the status of the receivable concerned (ordinary, disputed, etc.).

### Receivables due from the parent company Roma Capitale

Trade receivables due from Roma Capitale totalled 113,572 thousand euros at 31 December 2010 (92,021 thousand euros at 31 December 2009).

The total amount of receivables (including financial receivables resulting from the public lighting contract) is equal to 212,084 thousand euros (134,585 thousand euros in the previous year).

The following table presents an analysis of the ACEA Group's relations with Roma Capitale regarding both receivables and payables, including those of a financial nature.

	31.12.2010	31.12.2009	Increase/ (Decrease)
RECEIVABLES	212,084	134,585	77,499
PAYABLES	98,416	141,844	(43,427)
<b>BALANCE</b>	<b>113,668</b>	<b>(7,258)</b>	<b>120,926</b>

Amounts in thousands of euros

Group companies report the following net balances:

- Parent Company: up 103,225 thousand euros (up 65,245 thousand euros compared to 2009),
- ACEA Distribuzione: up 3,528 thousand euros (up 1,615 thousand euros compared to 2009),
- ACEA Ato2: up 15,237 thousand euros (up 56,905

thousand euros compared to 2009),

- AceaElectrabel Elettricità: down 8,322 thousand euros (down 2,795 thousand euros compared to 2009).

The following tables also provide a breakdown of Group receivables/payables due to/from Roma Capitale.

Amounts due from the Municipality of Rome	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
Utility receivables	35,742	24,410	11,332
Contract work	36,995	30,356	6,639
Services	5,635	2,013	3,622
Other	1,546	1,514	33
<b>Total services billed</b>	<b>79,917</b>	<b>58,292</b>	<b>21,626</b>
Grants due	14,086	14,494	(409)
Surcharges	0	0	0
<b>Total services requested</b>	<b>94,003</b>	<b>72,786</b>	<b>21,217</b>
<b>Total services to be billed</b>	<b>17,335</b>	<b>17,490</b>	<b>(155)</b>
New regulations for street cables	2,235	1,745	489
<b>Total trade receivables</b>	<b>113,572</b>	<b>92,021</b>	<b>21,551</b>
Loans	98,512	42,564	55,948
<b>Total</b>	<b>212,084</b>	<b>134,585</b>	<b>77,499</b>

Amounts in thousands of euros

Amounts due to the Municipality of Rome	31.12.2010	31.12.2009	Increase/ (Decrease)
Sewerage and water treatment	32,696	71,834	(39,138)
Vatican City disputed amounts	20,516	20,516	0
Electricity surtax	24,181	19,969	4,212
Other	1,494	1,469	25
New regulations for street cables	1,177	2,305	(1,128)
Charges for the occupation of public space	411	411	0
Charges for rental of company offices	0	0	0
Concession fees	15,728	23,127	(7,399)
<b>Total trade payables</b>	<b>96,204</b>	<b>139,631</b>	<b>(43,427)</b>
Financial liabilities (including dividends)	2,213	2,213	0
<b>Total</b>	<b>98,416</b>	<b>141,844</b>	<b>(43,427)</b>
<b>NET TOTAL</b>	<b>113,668</b>	<b>(7,258)</b>	<b>120,926</b>

Amounts in thousands of euros

Receivables recorded a significant increase of 77,499 thousand euros over the end of the previous year, while payables were down 43,427 thousand euros.

The change in receivables for bills issued, compared to the previous year (up 21,626 thousand euros) was due to receivables for utilities (up 9,883 thousand euros for water utilities and up 1,417 thousand euros for electricity utilities) and contract work and services, with particular regard to new public lighting plants (up 10,261 thousand euros).

With regard to bills to be issued, receivables at the end of the year amount to 17,335 thousand euros and are mainly unchanged.

It should be underlined that financial receivables amount to 98,512 thousand euros (up by 55,948 thousand euros): these result from the management of the public lighting service and represent the unconditional right to receive cash, consistently with ways and terms provided for by the contract in force.

Receivables related to public lighting amount to 124,330 thousand euros, of which:

- 73,238 thousand euros concerning bills issued for works and services,
- 51,092 thousand euros concerning bills to be issued for works and services.

With regard to the maturity of these receivables, it is noted that receivables concerning service management (equal to 95,325 thousand euros) refer, for 83,916 thousand euros, to 2010 and, for the residual part (11,409 thousand euros)

to 2009 and previous years, of which 10,505 thousand euros to 2004 and 2005.

During the year, receivables were collected for a total amount of 68,154 thousand euros, of which 59,997 thousand euros through administrative offsets.

Collected receivables refer to (i) ACEA for 20,014 thousand euros; (ii) AceaElectrabel Elettricità for 18,058 thousand euros and ACEA Ato2 for 30,082 thousand euros.

With regard to the type of receivable, please note that collections refer to utilities for 46,741 thousand euros (of which 18,058 thousand euros for electricity and 28,683 thousand euros for water), as well as to works and services for 21,413 thousand euros.

With regard to the type of payables that have been set off, the following is noted:

- 34,028 thousand euros refer to sanitation and sewerage fees of ACEA and ACEA Ato2,
- 18,058 thousand euros refer to electricity surtaxes due by AceaElectrabel Elettricità,
- 6,511 thousand euros for the concession fees due by ACEA Ato2, and
- 1,399 thousand euros relating to 2009 dividends of ACEA Ato2.

For further information on the contracts signed, and to be signed, between the companies of the ACEA Group and Roma Capitale, as well as on invoicing methods and col-



lection/payment terms – including relationships with the Companies of the Gruppo Roma Capitale – reference is made to the section “Related party transactions”.

### Trade receivables due from subsidiaries and associates

These receivables amounted to 39,973 thousand euros (down 4,263 thousand euros compared with 31 December 2009) and break down as follows.

#### Receivables due from subsidiaries

These receivables amounted to 32,481 thousand euros (30,764 thousand euros at 31 December 2009) and regard amounts due from companies accounted for under proportionate consolidation; in particular, these are receivables recorded (i) in ACEA, for 4,805 thousand euros, (ii) in AceaElectrabel Elettricità to its subsidiaries accounted for under proportionate consolidation (23,930 thousand euros at the end of the year compared to 21,219 thousand euros at 31 December 2009), (iii) in Sarnese Vesuviano (3,320 thousand euros).

The change compared to 31 December 2009 substantially reflects the increase in receivables recorded by AceaElectrabel Elettricità.

#### Receivables due from associates

These receivables totalled 7,492 thousand euros (13,472 thousand euros at 31 December 2009) and primarily refer to amounts due from Tirana Acque, which is in liquidation (255 thousand euros), Agua de San Pedro (1,591 thousand euros) and Marco Polo (2,055 thousand euros). The remaining balance is made up of receivables due from the associates of the company formerly known as Sigesa (688 thousand euros) and receivables due from AceaRieti’s associate, Umbriadue (1,661 thousand euros).

The decrease is mainly due to lower receivables due from Marco Polo.

#### Other current receivables and assets

These amounted to 77,337 thousand euros (128,231 thousand euros at 31 December 2009) – 50,894 thousand euros on a like-for-like basis – and mainly include:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Non-current assets	66,594	99,069	(32,475)
Accrued income and prepayments	10,743	11,491	(748)
Receivables deriving from commodity contracts		17,671	(17,671)
including:			
Derivatives at fair value through the income statement		1,278	(1,278)
<b>TOTAL</b>	<b>77,337</b>	<b>128,231</b>	<b>(50,894)</b>

Amounts in thousands of euros

#### Amounts due from others

The main items that make up this balance are as follows:

- 10,857 thousand euros due from AceaElectrabel Elettricità as reimbursement of the sum that ACEA Distribuzione – on its own account and on behalf of AceaElectrabel Elettricità – will pay to the Equalisation Fund and the Electricity Services Operator for the fifth and sixth bimonthly periods of 2010;
- 4,250 thousand euros are the share of ACEA Distribuzione’s amounts due from the Electricity sec-

- tor equalisation fund and relating to the specific equalisation of 2009 and 2010. During the year, accrued receivables were transferred for 76,415 thousand euros, of which 58,250 thousand euros without-recourse and the remaining part with-recourse, with compensation not being settled;
- 17,045 thousand euros are the share of receivables relating to the specific equalisation for 2009 and 2010 that were transferred under recourse factoring;
- 10,250 thousand euros resulting from the disposal

of the property that housed the Company's car fleet. For more information on the content of the purchase/sale contract, please refer to the details included in Note 2 "Other operating income";

- 3,297 thousand euros for receivables due from Mediofactoring, representing collections received by the latter for invoices not included in the scope of disposal and that were recognised under provisions for liabilities, since reconciliation of receivables and payables due from/to the factor is still in progress;
- 3,940 thousand euros for receivables due from Equitalia Gerit, which refer to the collections deriving from the seizure of the assets of public bodies pursuant to art. 48 bis of Presidential Decree 602 of 29 September 1973. These collections have been used to pay a tax notice concerning lower alleged VAT payments charged to ACEA's VAT consolidation: to this end, an appeal was lodged with the Provincial Tax Commission of Rome and the hearing will be held on 9 April. ACEA believes there are good chances to get the reimbursement of the assets seized;
- 8,421 thousand euros relating to amounts due to the subsidiary Gori, partially from municipalities of the ATO for funds allocated by article 14 of Law 36/1994;
- 3,378 thousand euros regarding guarantee deposits paid to suppliers and amounts due from various social security agencies following the advance payment of contributions.

The decrease of amounts due from others, compared to 2009, equal to 32,474 thousand euros, is mainly due to lower receivables (40,861 thousand euros) for specific equalisation, following factorings made over the year and partially offset, for the amount of 8,280 thousand euros, by receivables under recourse factoring and related to the specific equalisation of years 2008, 2009 and 2010.

In May 2010, the service continuity bonus awarded by the Authority to ACEA Distribuzione for the year 2008 was collected and allocated to other receivables in 2009 (7,192 thousand euros). In December 2010, the service continuity bonus awarded by the Authority for the year

2009 was collected (7,024 thousand euros).

The reclassification of amounts due from others in the item "Non-current assets held for sale" amounts to 3,119 thousand euros.

#### **Accrued income and prepayments**

This item includes current accruals and prepayments, amounting to 10,743 thousand euros.

They mainly refer to rent on public land, rentals and insurance.

The change compared to the previous year (down 784 thousand euros) is due to the reclassification of prepayments according to IFRS5, under item "Non-current assets held for sale" and refer to the company AceaElettrabel Produzione for 3,535 thousand euros.

#### **Receivables deriving from commodity contracts**

The fair value of commodity contracts at 31 December 2010 amounts to 9,541 thousand euros and was fully reclassified to item "Non-current assets held for sale". In 2009, this item totalled 17,671 thousand euros.

#### **Current financial assets**

Current financial assets amount to 321,384 thousand euros (393,248 thousand euros at 31 December 2009) and include 45,725 thousand euros relating to third parties, 175,880 thousand euros regarding subsidiaries accounted for under proportionate consolidation and associates, and 98,512 thousand euros relating to Roma Capitale.

#### **Loans and receivables due from third parties**

These receivables totalled 45,725 thousand euros (213,660 at 31 December 2009) and are mainly broken down as follows:

- 9,567 thousand euros due from ENEL representing Inps contributions paid by ACEA Distribuzione for the years 2001 and 2002 pursuant to article 41, paragraph 2.A of Law 488 of 23 December 1999. The company believes that such amounts regard obligations dating back to before the purchase of ENEL's distribution network (1 July 2001) and has therefore requested payment from ENEL Distribuzione;

- 10,700 thousand euros attributable to ACEA Ato5. This receivable derives from the Area Authority's recognition, on an exceptional basis, of the higher costs incurred by the operator in the first three-year period 2003-2005. This reflects the extraordinary circumstances that have forced significant changes to operations, due to both the delay in starting up management of services in most of the municipalities in the ATO, and to the fact that the state of infrastructure and plant was substantially different from that envisaged in the Area Plan. For information on the ACEA Ato5 tariff legitimacy matter refer to the section "Update on major disputes and litigation";
- 1,761 thousand euros (7,686 thousand euros at 31 December 2009) regarding the term deposit paid in since December 2002, in compliance with the cash collateral issued to cover the commitments of Atlant and its minority shareholders in respect of IPSE 2000. The term deposit is subject to a lien issued to MCC (formerly Mediocredito Centrale) and accrues interest at the 3-month Euribor less 3 basis points per annum. The decrease compared with the previous year was due to uses of dormant sums for payments made to the Ministry of Economy and Finance for instalments falling due in November (5,974 thousand euros). It should be noted that the instalment paid in November 2010 was the last due; therefore, the residual amount at 31 December 2010 (1,761 thousand euros) will be reimbursed during 2011, following the release of the guarantee given by MCC;
- 6,000 thousand euros due from the assignee of the Laurentina area;
- 5,544 thousand euros concerning the receivables resulting from the management of the public lighting service (4,867 thousand euros at 31 December 2009), representing the unconditional right to receive cash, consistently with ways and terms provided for in the same service contract;
- 5,114 thousand euros concerning receivables of AceaElectrabel Elettricità for guarantee deposits;
- 1,584 thousand euros regarding the loan, recorded in Crea Partecipazioni, to Sogear sold to Sorgesa S.r.l..

The decrease of 167,935 thousand euros compared to 2009 was mainly due to the closure of fixed term deposit contracts entered last year for a total amount of 152,526 thousand euros, to the decrease in the term deposit in favour of MCC for 5,924 thousand euros, as well as to the collection of receivables of the ARIA Group in July 2010 for which, in the sale contract, Enertad S.p.A. (now Erg Renew) has undertaken to repurchase the receivables within two years of the date of execution of the agreement for the sale of the investment (May 2008). This guarantee was further acknowledged by the Board of Arbitrators to which the parties referred a decision regarding a number of clauses of the purchase/sale agreement signed in May 2006. These receivables were recorded in the 2009 financial statements for 6,799 thousand euros.

Moreover, this change was also influenced by the reclassification in the item "Assets held for sale" of the amount recorded in the financial statements of Voghera Energia (2,289 thousand euros) which, in accordance with the medium/long-term loan signed, is unavailable since it has been allocated to service repayment of the loan granted, and by the VAT rebate claimed by Tirreno Power (current portion of 10,544 thousand euros; 3,039 thousand euros in 2009).

#### ***Loans and Receivables due from the parent company***

They amount to 98,512 thousand euros (42,564 thousand euros at 31 December 2009) and represent the unconditional right to receive cash, consistently with ways and terms provided for in the service contract for public lighting management. Further details are provided in note 23 under item "Receivables due from the parent company".

#### ***Loans and receivables due from subsidiaries and associates***

These amounted to 175,880 thousand euros (136,940 thousand euros at 31 December 2009). More specifically, they are broken down as follows:

- amounts due from AceaElectrabel Produzione (901 thousand euros) as the short-term portion of EIB loans transferred to the company. The conditions applied are the same as those applied to the

Parent Company by the lenders,

- the share of loans granted by ACEA to AceaElectrabel Produzione, totalling 70,229 thousand euros. The details of these loans are shown below:
  1. loan for the Piano del Cornale wind farm project of 5,872 thousand euros;
  2. loan for the Monte della Difesa wind farm of 9,692 thousand euros;
  3. loan for the Leinì plant of 46,356 thousand euros;
  4. financing of the Roselectra recapitalisation operation amounting to 5,194 thousand euros;
  5. new loans disbursed during the year, amounting to 3,086 thousand euros, of which 1,043 thousand euros for the plants of Salisano and Marconi.

As regards these loans, ACEA and GDF Energia Italia have made a line of credit available for each development project. To this end, specific agreements were executed authorising drawdowns up to the maximum amount of the line of credit granted, to be requested in the form of Drawdown Notices to be sent to the Sponsors as required.

At 31 December 2010, the interest rate applied to these loans was the Euribor for the period plus a spread of 1.60%;

- amounts generated on the interest-bearing loans granted to Roselectra (32,405 thousand euros). As regards conditions, the interest rate applied is equal to Euribor, plus a 2% spread; Receivables totalling 59,161 thousand euros deriving from centralised treasury relations with companies accounted for under proportionate consolidation; in particular amounts due from Ecogena (2,973 thousand euros), AceaElectrabel Produzione (4,257 thousand euros), AceaElectrabel Trading (13,980 thousand euros) and AceaElectrabel Elettricità (38,811 thousand euros). ACEA applied an interest rate to said receivable from 1 January 2009 of the arithmetic mean of the daily 3-month Euribor rates plus (or minus) a spread ranging between +0.8% and +1.50% on assets and -0.05% and -0.20% on liabilities;
- 3,053 thousand euros relating to amounts owed in dividends from companies accounted for under

proportionate consolidation;

- 2,500 thousand euros recorded in ACEA and related to the loan granted to Sienergia in November 2010 in order to face financial needs linked to some investment projects, among which the construction of PV plants. This loan accrues interest equal to the 3-month Euribor plus a spread of 1.5% p.a.;
- 2,530 thousand euros due from Umbriadue and recorded by AceaRieti;
- 388 thousand euros concerning loans and receivables due from Sogea.

The difference compared to 2009 (up 38,941 thousand euros) reflects, on one hand, ACEA's positive exposure to companies accounted for under proportionate consolidation in centralised treasury relations and, on the other, further loans on loans granted.

#### Current tax assets

These amounted to 42,437 thousand euros (101,996 thousand euros at 31 December 2009).

The item essentially includes VAT credits amounting to 21,627 thousand euros for which rebates have not been claimed, IRES (corporate income tax) credits totalling 11,643 thousand euros and IRAP (regional income tax) credits of 5,362 thousand euros.

The amount of 29,371 thousand euros, related to companies held for sale, was allocated under "non-current assets held for sale".

Moreover, the change compared to the previous year is due to the change in the tax consolidation area, that changed compared to the previous year, since ACEA Distribuzione has been included for the first time since 2010. In 2009, tax payables concerning direct taxes of ACEA's tax consolidation did not allow to absorb advance payments, also based on the income situation of that year.

### Cash and cash equivalents

This item amounted to 281,742 thousand euros (102,258 thousand euros at 31 December 2009), marking an increase of 179,484 thousand euros. They represent the closing balance for the period of bank current accounts and postal accounts, accessed at the various financial institutions and Post Offices, of consolidated companies, except for those held for sale.

A breakdown and movements in this item by segment are shown below:

- Energy segment: 535 thousand euros (down 709 thousand euros compared to 31 December 2009),
- Water services in Lazio - Campania: 11,728 thousand euros (up 4,373 thousand euros compared to 31 December 2009). The change is mainly due to the increase in ACEA Ato5's liquidity,
- Water services in Tuscany - Umbria: 11,271 thousand euros (down 976 thousand euros compared to 31 December 2009),
- Development and special projects: 3,528 thousand euros (up 287 thousand euros compared to 31 December 2009),
- Environment and Energy: 3,250 thousand euros (down 16,604 thousand euros compared to 31 December 2009). The change is due to the closure of bank and postal current accounts of the companies of the ARIA Group, as a consequence of the extension of the centralised treasury service to the same companies;
- ACEA: 251,408 thousand euros (up 207,514 thousand euros compared to the end of the previous year). It should be noted that the balance includes the amount of 164,500 thousand euros relating to cash deposits opened during 2010.

The change is influenced by the reclassification under item "Assets held for sale" of cash of the AceaElectrabel Produzione Group and Tirreno Power (14,780 thousand euros).

### 23. Non-current assets held for sale / Liabilities directly linked with assets held for sale

This item includes balances (assets amounting to 704,013 thousand euros and liabilities to 581,371 thousand euros) of current and non-current assets, financial and non-financial assets, net of the rounding of inter-company relations, referred to companies held for sale, based on the Framework Agreement for the dissolution of the joint venture between ACEA and GdF-Suez. More specifically:

- AceaElectrabel Produzione, net of the amounts that will be split into the beneficiary that will include the assets agreed by the parties,
- Roselectra, Voghera and Longano Eolica,
- Eblacea and Tirreno Power, and
- AceaElectrabel Trading.

The table below shows the breakdown of assets and liabilities reclassified in this item.

**ASSETS****Non-current assets**

Property, plant and equipment	336,995
Intangible assets	71,402
Financial assets in equity shares	87
Non-current financial assets	7,657
Prepaid taxes	6,048
Other non-current assets	156
<b>Total non-current assets</b>	<b>422,346</b>

Amounts in thousands of euros

**ASSETS****Current assets**

Inventories	27,970
Trading assets	179,688
Current financial assets	12,833
Current tax assets	29,371
Other current assets	17,025
Cash and cash equivalents	14,780
<b>Total current assets</b>	<b>281,667</b>
<b>TOTAL ASSETS</b>	<b>704,013</b>

Amounts in thousands of euros

**LIABILITIES****Non-current liabilities**

Non-current provisions	12,957
Provision for deferred taxes	28,320
Non-current financial liabilities	191,233
Other non-current liabilities	141

**Total non-current liabilities** **232,651**

Amounts in thousands of euros

**LIABILITIES****Current liabilities**

Trading liabilities	219,640
Current financial liabilities	108,929
Current tax liabilities	7,842
Other current liabilities	12,309

**Total current liabilities** **348,720**

**TOTAL LIABILITIES** **581,371**

Amounts in thousands of euros

## Notes to the Consolidated Balance Sheet

### Liabilities

#### 24. Shareholders' equity

Consolidated equity amounts to 1,381,326 thousand euros at 31 December 2010 (1,286,725 thousand euros at 31 December 2009).

Changes in shareholders' equity during the period are shown in the appropriate statement.

#### Share capital

The share capital totals 1,098,899 thousand euros, represented by 212,964,900 ordinary shares with a par value of 5.16 euros each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- **Roma Capitale: 108,611,150** ordinary shares with a total par value of 560,433 thousand euros;
- **Free float: 103,936,757** ordinary shares with a total par value of 536,314 thousand euros;
- **Treasury shares: 416,993** ordinary shares with a total par value of 2,152 thousand euros.

#### Legal reserve

This reserve reflects the allocation of 5% of net profit for previous years, in accordance with article 2430 of the Italian civil code.

This reserve has risen from 107,096 thousand euros at 31 December 2009 to 111,785 thousand euros at 31 December 2010, an increase of 4,689 thousand euros due to the increase in the legal reserve of companies that reported a profit for 2009. The legal reserve of the Parent Company amounts to 67,228 thousand euros.

#### Other reserves and retained earnings

This item reported a positive figure of 3,871 thousand euros at the end of the year (61,578 thousand euros at 31 December 2009). The decrease of 57,707 thousand euros is due, on the one hand, to 2009 losses carried

forward (52,553 thousand euros) and, on the other, to the allocation to the legal reserve of companies that reported a profit for the previous year. This item is also influenced by the difference resulting from the net measurement of cash flow hedges, that was negative for 1,343 thousand euros at 31 December 2010 (it was positive at the end of the previous year and amounted to 29,158 thousand euros).

The Cash Flow Hedge reserve includes the effect of both power commodities derivatives (down 4,406 thousand euros) for the effective portion of the hedge, and financial instruments (up 3,063 thousand euros). Financial instruments refer to (i) the swaps hedging the loan obtained by Acque (the movement is represented by a reduction of 1,601 thousand euros); (ii) the swap hedging the loan granted to ACEA by Cassa Depositi e Prestiti (the movement is represented by a reduction of 594 thousand euros); (iii) the swap hedging the loan obtained by Tirreno Power (the movement is represented by an increase of 662 thousand euros), (iv) the swap hedging the loan granted to Voghera Energia (the movement is represented by a reduction of 229 thousand euros).

In addition, the fair value of cross currency on the bond loan in yens at 31 December 2010, is positive for 4,826 thousand euros.

At 31 December 2010 ACEA holds 416,993 treasury shares to be used for future medium/long-term incentive schemes. At this time there are no medium/long-term share incentive schemes planned.

#### Minority interests

Minority interests total 74,623 thousand euros, having risen 2,917 thousand euros. The difference between the two periods compared mainly reflects the combined effect of the portion of net profit attributable to minority interests and the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2009.

## 25. Staff termination benefits and other defined benefit plans

At 31 December 2010 said item totalled 106,934 thousand euros and represents termination and other benefits payable to employees on retirement or termination of employment.

This item includes the defined-benefit obligation 'tariff subsidies for pensioners'; therefore, the calculation method is based on the projected unit credit method, which measures the company's liability at the end of

the reporting period on the basis of the average present value of future services repropportioned on the basis of the service performed by the worker at the time of calculation, with respect to that at the time of payment for the service. By contrast, staff termination benefits and tariff subsidies for employees are considered defined-contribution obligations and so calculated according to actuarial criteria.

The following table shows the change in actuarial liabilities during the year.

	31.12.2010	31.12.2009	Increase/ (Decrease)
<b>Termination benefits</b>			
- Staff termination benefits	72,229	80,861	(8,632)
- Monthly bonuses	6,108	6,256	(148)
- Long-term incentive plans (LTIPs)	1,136	3,107	(1,971)
<b>Post-employment benefits</b>			
- Tariff subsidies	27,461	33,073	(5,612)
<b>TOTAL</b>	<b>106,934</b>	<b>123,297</b>	<b>(16,363)</b>

*Amounts in thousands of euros*

The decrease between the two periods compared was 16,363 thousand euros, essentially due to: (i) the decrease in tariff subsidies; (ii) the decrease in staff termination benefits, as a result of the implementation of the voluntary redundancy incentive programme; (iii) the release of the provision set aside in previous financial years for the Long-Term Incentive Plan, due to the failure to comply with objectives.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation is based on returns, at the end of the reporting period, on the securities of major companies listed on the same financial market as ACEA, and on the return on government bonds in circulation at the same date that have terms to maturity approximating to the residual term

of the related liability. In order to ensure consistency of valuation and comply with the provisions of IAS 19, the same basis has been used for the various types of plan. In particular, as regards the economic and financial scenario, the parameters used for the calculation are as follows:

	December 2010
Discount rate	4.50%
Rate of return growth (average)	1.6%
Long-term inflation	2.0%



## 26. Provision for liabilities and charges

At 31 December 2010, these provisions total 191,683 thousand euros (242,874 thousand euros at 31 December 2009) and are intended to cover potential liabilities that may derive from litigation currently underway, estimated on the basis of information provided by the Company's internal and external legal advisors. The provisions do not take account of the effects of litigation that is expected to be concluded in the Company's favour or of litigation where the potential liability arising from a

negative outcome is solely held to be possible.

In calculating the size of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.

The following table shows a breakdown of provisions and movements in the period:

	31.12 2009	Non-current liabilities held for sale	Uses	Reclassifications	Provisions	31.12.2010
		(-)	(-)	(-)/(+)	(+)	
Provisions for liabilities	132,797	(10,929)	24,299	0	34,026	131,595
Sundry provisions	78,435	0	20,589	(41,224)	1,901	18,523
Provisions for restoration charges	31,642	0	0	0	9,923	41,565
<b>Total provisions</b>	<b>242,874</b>	<b>(10,929)</b>	<b>44,888</b>	<b>(41,224)</b>	<b>45,850</b>	<b>191,683</b>

Amounts in thousands of euros

The major movements are as follows:

- **uses**, amounting to 44,888 thousand euros, primarily include:
  - 20,589 thousand euros used by a number of Group companies relating to the provision to cover redundancy and retirement costs, essentially due to ACEA Distribuzione (7,766 thousand euros) and ACEA Ato2 (12,774 thousand euros);
  - 3,933 thousand euros for the use of the provision set aside in 2009, based on the fact that in November 2010 the Equalisation Fund paid balance amounts as company-specific equalisation for 2008, pursuant to the resolution of the Electricity and Gas Authority no. ARG/elt 163/10;
  - 5,064 thousand euros of provisions used by the Parent Company and certain subsidiaries in relation to litigation;
  - 2,573 thousand euros, related to the use for the occurrence of risks connected with staff;
  - 5,978 thousand euros in uses relating to the provision set aside for cash collateral;
  - 1,824 thousand euros relating to instalments paid

in 2010 relating to the assessment with approval carried out with respect to the dispute raised on AceaElectrabel Elettricità by the Tax Authorities.

- **reclassifications**, amounting to 41,224 thousand euros, primarily include:
  - 5,624 thousand euros, relating to the restatement from provision for liabilities to tax liabilities following the finalisation of the assessment deed with approval carried out with respect to the dispute raised on AceaElectrabel Elettricità by the Tax Authorities on the occasion of the tax inspection concluded in 2009. Tax payables have been divided in eight quarterly instalments;
  - 36,000 thousand euros related to the restatement from provision to item tax payables following the finalisation of the assessment deed with approval on the tax inspection on ACEA concluded in February 2009.
- **allocations**, amounting to 45,850 thousand euros, primarily include:

- 10,381 thousand euros for staff, of which 7,686 thousand euros relating to a further allocation within the resignation and voluntary redundancy proceeding already resolved by ACEA Distribuzione and ACEA Ato2,
- 8,223 thousand euros in provisions to cover potential liabilities deriving from ongoing disputes and litigation, and based on indications from the Company's internal and external legal advisors,
- 7,730 thousand euros relating to liabilities set aside with reference to the management of contracts,
- 1,511 thousand euros regarding charges connected with works carried out for the Vatican City,
- 1,486 thousand euros, related to risks connected with equity investments, as well as charges regarding liabilities allocated with reference to interest accrued on cash collaterals,
- 9,923 thousand euros, related to provisions for restoration charges set aside in order to face any (total or partial) asset replacement included in the water service concession contract,
- 3,297 thousand euros, related to the allocation on receivables due from Mediofactoring, representing collections received by the latter for invoices, of the same amount, not included in the scope of disposal.

The reclassification of "Liabilities of companies held for sale" amounts to 10,929 thousand euros. These break down as follows: Tirreno Power (7,947 thousand euros), AceaElectrabel Produzione Group (1,162 thousand euros).

Therefore, at 31 December 2010, the provision for liabilities and charges essentially included: (i) 52,793 thousand euros for the evaluation of legal risks (disputes, litigation, etc.), (ii) 2,584 thousand euros deriving from an estimate of risks related to the management of associates and/or ex associates (including risks relative to IPSE), (iii) 40,129 thousand euros deriving from potential liabilities and charges relating to staff, including therein disputes over contributions; (iv) 10,871 thousand euros for any disputes with suppliers or losses on contracts; (v) 15,428 thousand euros essentially relating to the evaluation of post mortem charges connected with the management of the SAO waste dump (Orvieto), (vi) 10,613 thousand euros for total borrowings that Gori is bound to pay to the municipalities in accordance with the Area Plan; (vii) 3,436 thousand euros deriving from charges relating to redundancy and resignation schemes; (viii) 1,360 million euros for the risks connected with plant efficiency recovery; (ix) 41,565 for the allocation of the provisions for restoration charges pursuant to IFRIC 12.

ACEA maintains that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside. These provisions reflect the best possible estimate based on the information available.

For further information refer to the section '*Update on major disputes and litigation*'.

## 27. Non-current borrowings and financial liabilities

This item amounts to a total of 2,299,463 thousand euros (1,853,672 thousand euros at 31 December 2009). More specifically, this item is composed as follows:

	31.12.2010	31.12.2009 Restated	Increase/ (Decrease)
Bonds	978,725	308,641	670,084
Medium/long-term loans	1,320,738	1,543,112	(222,374)
Medium/long-term loans from third parties	0	1,919	(1,919)
<b>TOTAL</b>	<b>2,299,463</b>	<b>1,853,672</b>	<b>445,791</b>

*Amounts in thousands of euros*

### Bonds

These amounted to 978,725 thousand euros (308,641 thousand euros at 31 December 2009) and refer to the following:

- 305,653 thousand euros to the bond loan issued by ACEA on 23 July 2004 and placed on the international Eurobond market. The bond has a term to maturity of ten years and yields a nominal fixed rate of 4.875%. Redemption will take the form of a lump-sum payment at par value, unless the bonds are called prior to maturity. It should be noted that the terms and conditions include standard international Eurobond market conditions regarding Negative Pledge and Events of Default, including a Cross Default clause should the other financial debt of the Company or its principal subsidiaries, totalling more than 15 million euros, become immediately repayable. Interest accrued during the period amounts to 14,250 thousand euros.
- 514,415 thousand euros resulting from the bond loan issued by ACEA in March, with a 10 year duration, with expiry on 16 March 2020. The bonds have a minimum denomination of 50 thousand euros, and pay one gross coupon annually of 4.5% and were placed at an issue price of 99.779. The actual gross rate of return upon expiry is therefore equal to 4.528% corresponding to a return of 120 base points on top of the reference rate (mid-swap at 10 years). The bonds are subject to British law. The settlement date is 16 March 2010. The bond loan was given a rating by

Standard & Poor's and Fitch of A- and A+, respectively;

- 155,578 thousand euros due to the issue, in March, of a private bond loan (Private Placement) for 20 billion Japanese Yen and 15-year maturity term (2025). The Private Placement was entirely subscribed by a single investor. The coupons are paid on a deferred half-yearly basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a cross currency transaction was carried out to transform from yens to euros and the yen rate applied to a fixed euro rate. The cross currency transaction provides that the bank pays ACEA, on a deferred half-yearly basis, 2.5% on 20 billion Japanese yen, while ACEA has to pay the bank the coupons on a deferred quarterly basis, starting from 3 June 2010, at a fixed rate of 5.025%. At 31 December 2010, the fair value of this hedging instrument is positive for 28,915 thousand euros and was recognised in a special reserve of shareholders' equity, together with the negative differential of 3,334 thousand euros resulting from the delta of conversion rates between the rate provided for in the hedging contract and the rate recorded at the payment date of the bond. The exchange rate difference, negative by 18,924 thousand euros, of the hedged instruments was therefore allocated in a special provision of shareholders' equity, as calculated at the end of the year. The loan agreement and the hedging agreement contain an option in favour

of the investor and the agent bank, respectively, that is linked with the rating trigger: the payable and its derivative instrument can be fully recalled if ACEA's rating goes below the investment grade level or if the debt instrument loses its rating. At the end of the year, no conditions occurred for the exercise of the option.

- 3,079 thousand euros of the Consortium Agua Azul. This bond loan was issued in three tranches, totalling 34 million dollars. They pay an average interest rate of 8.6% and have a term to maturity of 12 years. The shareholders have not issued guarantees securing the bonds.

The increase, equal to 670,085 thousand euros, is related to the transactions previously described and concluded in the reference period.

#### Medium/long-term loans (including short-term portions)

They totalled 1,377,797 thousand euros (1,615,283 thousand euros in 2009) and represent (i) principal outstanding at 31 December 2010 and falling due after 12 months, amounting to 1,320,738 thousand euros (1,543,112 thousand euros at 31 December 2009) (ii) the portions of the same borrowings falling due in the subsequent 12 months, totalling 57,058 thousand euros (72,171 thousand euros at 31 December 2009) and (iii) 14,876 thousand euros (equal to 14,086 thousand euros at 31 December 2009) of payables resulting from the fair value measurements of the derivative instruments taken out to hedge the interest rate and exchange rate risk on long-term loans.

The following table shows medium/long-term borrowings by term to maturity and type of interest rate.

Bank Loans	Total remaining debt	Due by 31.12.2011	Between 31.12.2011 and 31.12.2015	Due after 31.12.2015
fixed rate	414,114	21,792	90,728	301,594
floating rate	724,537	34,192	264,494	425,851
floating rate to fixed rate	239,146	1,075	39,026	199,046
<b>Total</b>	<b>1,377,797</b>	<b>57,058</b>	<b>394,247</b>	<b>926,491</b>

*Amounts in thousands of euros*

The change compared with 2009 was mainly due to the repayment of portions becoming due and the reclassification to the item "Non-current liabilities held for sale" of long-term loans granted to production companies for a total of 188,448 thousand euros.

In particular, it should be noted that the Group currently uses derivative instruments to hedge interest rate risk exposure for the following companies:

- Acque has swapped the interest rate on 80% of the

loan obtained at the end of 2006 for a fixed rate. The company has thus executed two different swap contracts with the same notional value. The negative fair value is 4,927 thousand euros (2,360 thousand euros at 31 December 2009), which has been recognised in a separate component of consolidated shareholders' equity;

- ACEA has swapped the interest rate on the loan (100 million euros) agreed on 27 December 2007 for a

fixed rate. The swap was executed on 24 April 2008 and was effective 31 March 2008 (the drawdown date for the underlying loan) and expires on 21 December 2021. The negative fair value of this instrument is 8,606 thousand euros (7,786 thousand euros at 31 December 2009), which has been recognised in a separate component of shareholders' equity;

- Umbra Acque which executed an interest rate swap. The negative fair value of this instrument is 506 thousand euros, which has been recognised in financial management in the income statement.

The Group's principal medium/long-term borrowings are subject to covenants to be complied with by the borrowing companies, in accordance with normal international practice.

In particular, the loan to ACEA Distribuzione is subject to a financial covenant based on a debt ratio of 0.65, which must not be exceeded at each end of the reporting period; this ratio must be complied with by both the borrowing company and the ACEA Group.

With regard to the loans reclassified to liabilities held for sale, the following is noted:

- the loans to Tirreno Power are subject to an Interest Cover ratio and a Leverage Cover Ratio;
- the loans to Voghera Energia are subject to (i) a pledge on shares and bank current accounts as collateral, (ii) the transfer of all rights (for example, insurance, hedges and security, etc.), (iii) a special lien on the plants, (iv) a mortgage on the site and a pledge on VAT credits for claims regarding credits accepted by the VAT office;
- the loans to Longano Eolica are subject to a pledge on shares and bank current accounts as collateral.

The loan agreements entered into by the Parent Company envisage:

- standard Negative Pledge and Acceleration Events clauses;
- clauses requiring compulsory credit rating monitoring by at least two major agencies;
- clauses requiring the Company to maintain a credit rating above certain levels;
- the obligation to arrange insurance cover and main-

tain ownership, possession and usage of the works, plant and machinery financed by the loan through to the maturity date;

- periodic reporting requirements;
- clauses giving lenders the right to call in the loans on the occurrence of a certain event (serious errors in the documentation provided when negotiating the agreement, default on repayments, the suspension of payments), giving the bank the right to call in all or a part of the loan.

During the year there was no evidence that any of the covenants had not been complied with.

Information on the fair value of the above borrowings is provided in the section "*Additional disclosures on financial instruments and risk management policies*".

#### **Other medium/long-term borrowings**

At 31 December 2010, the value of this item was zero, since it has been reclassified to "Non-current liabilities held for sale" for 2,785 thousand euros, concerning the loan granted by Electrabel Invest Luxembourg and Electrabel Invest Luxembourg TCSU to Voghera Energia, based on interest rates of 8% and the Euribor plus a spread of 1.50%, respectively and the loan granted to AceaElectrabel Trading.

## 28. Other non-current liabilities

At 31 December 2010, these totalled 227,478 thousand euros (203,051 thousand euros at 31 December 2009) and are broken down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Advances from end users and customers	95,831	69,665	26,166
Water connection fees	50,570	43,444	7,126
Grants related to assets	81,077	89,942	(8,865)
<b>TOTAL</b>	<b>227,478</b>	<b>203,051</b>	<b>24,427</b>

*Amounts in thousands of euros*

### Advances

Advances regarding the supply of fresh water are not interest-bearing, whilst those regarding the distribution and sale of electricity and urban heating distribution accrue interest according to the conditions established by Electricity and Gas Authority Resolution 204/99 and the Supply Regulations, respectively.

Advances break down as follows according to the various areas of business:

- networks: 3,279 thousand euros,
- energy: 18,543 thousand euros,
- water: 73,790 thousand euros.

The increase compared with the previous year is essentially attributable to ACEA Ato2.

### Water connection fees

These amounted to 50,570 thousand euros, marking an increase of 7,126 thousand euros.

The composition by business segment is as follows: (i) 27,340 thousand euros relating to the companies operating in the Lazio and Campania areas (up 5,439 thousand euros at 31 December 2009); (ii) 23,230 thousand euros regarding Tuscany and Umbria (up 1,686 thousand euros compared to 31 December 2009).

### Grants related to assets

At the end of the year these grants amounted to 81,077 thousand euros (down 8,865 thousand euros on 31 December 2009) and referred to grants received. The grants

are accounted for in liabilities and progressively recognised in the income statement each year over the duration of the investment to which the grant is connected. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

A breakdown per business segment is provided below:

- Networks: 17,061 thousand euros (16,544 thousand euros at 31 December 2009),
- Water services in Lazio and Campania: 39,214 thousand euros (45,737 thousand euros at 31 December 2009),
- water services in Tuscany and Umbria: 24,431 thousand euros (27,479 at 31 December 2009).

## 29. Provision for deferred taxes

At 31 December 2010 provisions for deferred taxes totalled 77,410 thousand euros (92,160 thousand euros at 31 December 2009). These provisions above all regard the difference between economic and technical rates of depreciation and tax-related rates. Uses in the period totalling 5,019 thousand euros and provisions of 6,543 thousand euros contributed to said item; other changes recognised in equity came in the form of hedging instruments (7,952 thousand euros).

A breakdown of this item is provided in the table in Note 19.

### 30. Current liabilities

At 31 December 2010, these totalled 1,513,948 thousand euros (2,147,623 thousand euros at 31 December 2009) and are broken down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Borrowings	250,045	788,610	(538,565)
Debt to suppliers	883,498	1,028,661	(145,163)
Tax payables	120,786	69,556	51,230
Other current liabilities	259,620	260,796	(1,176)
<b>TOTAL</b>	<b>1,513,948</b>	<b>2,147,623</b>	<b>(633,675)</b>

*Amounts in thousands of euros*

#### Borrowings

Current borrowings totalled 250,045 thousand euros (788,610 thousand euros at 31 December 2009) and break down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Short-term bank lines of credit	142,141	579,031	(436,890)
Bank borrowings	57,058	72,171	(15,113)
Due to the Municipality of Rome	2,213	2,213	(0)
Due to subsidiaries and associates	1,568	7,183	(5,615)
Payables due to third parties	47,066	128,011	(80,945)
<b>TOTAL</b>	<b>250,045</b>	<b>788,610</b>	<b>(538,564)</b>

*Amounts in thousands of euros*

#### Short-term bank lines of credit

They amounted to 142,141 thousand euros (579,031 thousand at 31 December 2009) and show a decrease of 436,890 thousand euros, mainly due to the repayment of these lines of credit made during the year. At the end of 2010, the Parent Company owned cash equal to 251,407 thousand euros (48,818 thousand euros at 31 December 2009): therefore, the net balance at 31 December 2010 was positive for 109,266 thousand euros; it was negative for 380,715 thousand euros at the end of the previous period.

Interest payable by the Parent Company at 31 December 2010 amounted to 4,169 thousand euros, reflecting a weighted average interest rate of 1.055%.

This item also includes the amount of 14,820 thousand euros related to the loan of Gori coming due in June 2011. As for this loan, the company launched the activities aimed at restructuring the debt.

#### Bank borrowings

These totalled 57,058 thousand euros and regard the short-term portion of bank borrowings falling due within 12 months. Further details are provided in note 26 of this report.

**Due to the Municipality of Rome**

These total 2,213 thousand euros and relate to interest on repayment of the Parent Company's debt deriving from the conferral.

**Due to subsidiaries and associates**

These totalled 1,568 thousand euros (7,183 thousand euros at 31 December 2009). This item includes the amount deriving from centralised treasury management relations managed by the Parent Company, ACEA: ACEA pays interest to companies in the AceaElectrabel Group on the above payables at a rate based on the average daily 3-month Euribor rate less a spread of 0.05%. Interest is calculated on the stock of payables for each quarter of the year.

At 31 December 2010, this item was mainly influenced by the debts to AceaElectrabel (1,199 thousand euros at 31 December 2010 compared to 1,053 thousand euros at 31 December 2009).

**Payables due to third parties**

These amounted to 47,066 thousand euros (128,011 thousand euros at 31 December 2009). The breakdown of this item mainly reflects:

- 32,828 thousand euros relating to amounts that must be repaid to factors for receivables transferred and collected after said transfer by: (i) AceaElectrabel Elettricità (22,790 thousand euros), (ii)

ACEA Ato2 (8,488 thousand euros) and (iii) ACEA Distribuzione (1,550 thousand euros);

- 5,279 thousand euros relating to amounts owed in dividends to third party shareholders;
- 5,145 thousand euros for the portion of payables due to GdF-Suez, that will be transferred to the beneficiary of the unproportional demerger of AceaElectrabel Produzione, being carried out as part of the Framework Agreement.

The decrease compared with 2009 (down 80,946 thousand euros) reflects the following elements: on the one hand (i) the reduction in the debt owed by AceaElectrabel Produzione (65,099 thousand euros) and Roselectra (32,937 thousand euros) to GdF-Suez Energia Italia, as a result of the reclassification to the item "Liabilities held for sale", and on the other (ii) the increase in the amounts owed to factors, with particular reference to ACEA Distribuzione (up 1,550 thousand euros), AceaElectrabel Elettricità (up 6,131 thousand euros) and ACEA Ato2 (up 5,511 thousand euros).

The carrying amount of all short-term borrowings approximates to fair value at the end of the reporting period.

**Debt to suppliers**

These totalled 883,498 thousand euros and break down as follows:

	<b>31.12.2010</b>	<b>31.12.2009</b>	<b>Increase/ (Decrease)</b>
Amounts due to third-party suppliers	766,854	862,476	(95,621)
Due to the Municipality of Rome	96,204	139,631	(43,427)
Due to subsidiaries and associates	20,439	26,555	(6,115)
<b>TOTAL</b>	<b>883,498</b>	<b>1,028,662</b>	<b>(145,164)</b>

*Amounts in thousands of euros*



### **Amounts due to third-party suppliers**

Item Amounts due to suppliers amounted to 766,854 thousand euros and therefore showed a decrease of 95,621 thousand euros. This is the result of contrasting factors:

- Networks industrial area: amounts due to suppliers amounted to 229,728 thousand euros, marking an increase of 35,070 thousand euros, due to higher payables of Arse (up 27,193 thousand euros), which also increased due to the progress of various solar power projects carried out and those currently being implemented, and of ACEA Distribuzione (up 7,895 thousand euros);
- Energy industrial area - Sales: the companies that carry out these activities closed the period with payables of 111,511 thousand euros, marking lower closing payables compared to the previous period (142,760 thousand euros). This item mainly includes payables linked to the procurement of electricity and the associated transportation costs. The change is due to the reclassification to the item "Non-current liabilities held for sale" of debt to suppliers of AceaElectrabel Trading (the reclassified amount totals 171,284 thousand euros) and to the decrease in payables of AceaElectrabel Elettricità for 30,028 thousand euros;
- Water services in Lazio - Campania: debt to suppliers totalled 270,094 thousand euros, an increase of 55,075 thousand euros compared to 31 December 2009. This increase was essentially due to ACEA Ato2, as a result of the volume of investments and payment times;
- Water services in Tuscany - Umbria: amounts due to suppliers are equal to 55,576 thousand euros; the balance therefore shows an increase of 7,402 thousand euros;
- Environment and energy industrial area: this area of business recorded trade payables of 37,880 thousand euros, marking a decrease of 26,088 thousand euros. This is due mainly to decreased exposure as a result of construction of the second and third lines of EALL's waste-to-energy plant (down 22,619 thousand euros);
- Development and special projects: figures are

mainly in line with the previous year: payables at 31 December 2010 amounted to 5,259 thousand euros.

The Parent Company, ACEA, reports amounts due to suppliers of 55,832 thousand euros, marking an increase of 10,472 thousand euros.

### **Trade payables due to the parent company Roma Capitale**

These payables total 96,204 thousand euros. Details are provided in Note 23 on trade receivables.

### **Trade payables due to subsidiaries and associates**

These payables total 20,439 thousand euros, including 2,891 thousand euros due to subsidiaries and 17,548 thousand euros due to associates. The balance shows a general decrease of 6,115 thousand euros compared to 31 December 2009.

Amounts payable to subsidiaries essentially regard the amount due from the Parent Company to AceaElectrabel Elettricità.

Amounts payable to associates mainly include amounts owed to the associate Marco Polo.

### **Tax payables**

These amounted to 120,786 (69,556 at 31 December 2009) and include IRES and IRAP tax expenses of 44,266 and 6,384 thousand euros, respectively, as well as the provision relating to VAT payables of 21,089 thousand euros, as well as payables following the conclusion of the assessment deeds with approval, concluded during the year and regarding the tax audits carried out on ACEA (33,185 thousand euros) and on AceaElectrabel Elettricità (4,957 thousand euros).

It should be noted that total payables of 7,842 thousand euros have been reclassified to non-current liabilities held for sale.

### Other current liabilities

These totalled 259,620 thousand euros and break down as follows:

	31.12.2010	31.12.2009	Increase/ (Decrease)
Social security contributions	18,129	19,016	(887)
Amounts due to end users for tariff restrictions	4,535	4,535	0
Payables deriving from commodity contracts	36	12,856	(12,820)
Other current liabilities	236,920	224,389	12,531
<b>TOTAL</b>	<b>259,620</b>	<b>260,796</b>	<b>(1,176)</b>

*Amounts in thousands of euros*

#### **Payables due to social security institutions**

This item totals 18,129 thousand euros, marking a decrease of 887 thousand euros.

This item breaks down as follows by area of business:

- Networks: 5,380 thousand euros (5,715 thousand euros at 31 December 2009),
- Energy: 382 thousand euros (1,515 thousand euros at 31 December 2009),
- Water: 8,764 thousand euros (8,479 thousand euros at 31 December 2009),
- Development and special projects: 805 thousand euros (684 thousand euros at 31 December 2009),
- Environment and Energy: 502 thousand euros (542 thousand euros at 31 December 2009),
- Corporate: 2,296 thousand euros (2,081 thousand euros at 31 December 2009).

#### **Amounts due to end users for tariff restrictions**

This item includes amounts due to customers in the protected categories and free markets for the reimbursement of excess revenues. The total amount of 4,535 thousand euros relates to excess revenues for 2001 to be reimbursed to customers in the regulated market. In accordance with Electricity and Gas Authority Resolution 180/2002, this payable is still not certain to be incurred as the Authority has yet to define the average cost of fuel for 2001, on the basis of which distributors can finally calculate their liability to regulated customers. It is likely that, once the basis for calculation has been published, the rebates will be paid by AceaElectrabel Elettricità.

The application of excess revenues ends with the second regulatory period.

### Payables deriving from commodity contracts

Payables deriving from commodity contracts	31.12.2010	31.12.2009	Increase/ (Decrease)
Cash flow hedges	0	639	(639)
Derivatives at fair value through profit and loss	36	12,217	(12,181)
<b>TOTAL</b>	<b>36</b>	<b>12,856</b>	<b>(12,820)</b>

Amounts in thousands of euros

The balance at 31 December 2010 is affected by the reclassification to the item "Liabilities held for sale" of 2,677 thousand euros concerning the fair value measurement of AceaElectrabel Trading's portfolio. The amount of 36 thousand euros refers to AceaElectrabel Elettricità.

### Other current liabilities

These amounted to 236,920 thousand euros and recorded an increase of 12,531 thousand euros with respect to the compared period.

This item essentially consists of:

- amounts due to the Equalisation Fund, totalling 51,952 thousand euros (down 17,111 thousand euros);
- amounts due to staff, totalling 34,746 thousand euros (up 4,997 thousand euros);
- collections from end users totalling 14,683 thousand euros. These are collections which, as per normal, are in the process of being allocated or reimbursed;
- amounts due to the various Municipalities total-

- ling 57,247 thousand euros. The balance includes 48,028 thousand euros related to concession fees of: (i) ACEA Ato2 (15,742 thousand euros), (ii) ACEA Ato5 (17,073 thousand euros) and (iii) Publiacqua (13,665 thousand euros) to Municipalities. The remaining balance (11,651 thousand euros) essentially relates to Gori payables due to the various authorities, management of sewerage and water treatment and amounts payable to land reclamation consortia. The balance also includes 3,008 thousand euros of payables for "environmental premium" which, as regulated by Art. 10 of the ATI4 agreement of 13 August 2007, the company pays to the Municipality of Orvieto and the Municipalities that are part of the same ATI (Temporary Joint Ventures). This amount results from the increase in the "premium" component of the tariff, as provided for by the article of the same Agreement;
- guarantee deposits totalling 2,600 thousand euros;
- current accruals and deferrals of 9,417 thousand euros (up 2,203 thousand euros).

## Acquisition of Nuove Acque

In order to consolidate its presence in Tuscany, at the end of September, and taking effect from 1 October 2009, ACEA purchased 35% of the share capital of Intesa Aretina and its subsidiary Nuove Acque. Intesa Aretina holds a 46.16% interest in Nuove Acque.

As a result of this transaction, the ACEA Group has taken over, from the previous shareholder, the joint control

of the company, which, as of the acquisition date, has been included in the basis of consolidation according to the proportional method, pursuant to IAS 31.

The final effects of the transaction led to the identification of the following fair value adjustments, related to the concession value of 7.3 million euros and the related deferred taxes for 2.3 million euros.

	Carrying value of the acquired entity	Fair value adjustments	Fair value
Property plant and equipment	6,366.36		6,366.36
Intangible assets	8,431.94	7,342.95	15,774.89
Inventories	72.49		72.49
Advances	376.54		376.54
Receivables	5,576.88		5,576.88
Financial assets	8.08		8.08
Cash and cash equivalents	1,137.02		1,137.02
Borrowings	(9,431.54)		(9,431.54)
Pension funds	(993.08)		(993.08)
Payables	(5,076.70)		(5,076.70)
Deferred taxes		(2,305.68)	(2,305.68)
	Net balance	11,505.26	11,505.26
	attributable minority interests	0.00	0,00
	<b>Net balance attributable to the ACEA Group</b>	<b>11,505.26</b>	<b>11,505.26</b>
	<b>Acquisition price</b>	<b>11,505.25</b>	<b>11,505.25</b>
	<b>Total disbursement</b>	<b>11,505.25</b>	<b>11,505.25</b>
<b>Net cash outflow for acquisition:</b>			
Cash paid on purchase price		(11,505.25)	(11,505.25)
Cash and cash equivalents		1,137.02	1,137.02
			<b>(10,368.23)</b>

Amounts in thousands of euros

## Service Concession Arrangements

The Acea Group operates water, environmental and public lighting services under concession. It also manages the selection, treatment and disposal of urban waste produced in municipalities in ATO 4 Ternano-Orvietano via the TAD Group company, SAO.

Before going on to describe the individual service concessions, this section provides information on key issues regarding waste water treatment tariffs and the regulation of local public services.

### Constitutional Court sentence 335/2008

Constitutional Court sentence 335 of 10 October 2008 declared art. 14, paragraph 1 of Law 36/94 to be unconstitutional, following inclusion of the article in the Consolidated Environment Act, under art. 155, paragraph 1 of Legislative Decree 152/2006. This legislation establishes that the tariff component covering waste water treatment is payable by end users "even if there are no treatment plants or such plants are temporarily inactive".

The judgement is based on the opinion that the integrated water services tariff represents payment for services provided under contract and not a form of taxation. On this basis, the Court has, therefore, found fault with the part of the above provisions that establishes that the tariff component regarding waste water treatment is to be paid by end users even if there is no "direct link between the payment of this component and effective provision of the service for which the payment is due". Basically, the Supreme Court ruled that "the congruity of a system for financing integrated water services, created on a unitary basis by lawmakers based on the concept of reciprocity, on the sufficiency of a utility contract to establish a payment obligation and, therefore, on a single tariff is, in conclusion, prejudiced by the application, as a method of financing, of a compulsory charge, the reason for which unjustifiably conflicts with the above unitary nature of the system, in that it introduces a payment obligation not matched by provision of a corresponding service".

In implementation of the Constitutional Court sentence and to make up for the resulting regulatory gap, Law no. 13 of 27 February 2009 was approved. Article 8 sexies

of this legislation, "Measures regarding integrated water services", contains an all-round solution to be included in the tariff criteria ratified by the Consolidated Environment Act and the so-called Standardised Method (Ministerial Decree of 1 August 1996), and, above all, by Articles 149 and 151 of Legislative Decree 152/2006, which confirm the Area Authority's obligation to safeguard the operator's financial position within the ATO.

In this sense, the above Article 8 sexies contains a definition of the tariff component regarding waste water treatment linking it with the entire process involved in providing the services. In particular, it introduces a new binding component, consisting of the sum of the charges incurred, as expressly identified and programmed in the area plans, in carrying out the overall activities involved in water treatment, including the design, construction and completion of plants and the related investments. This new component "is payable to the operator by end users, in cases where there are no treatment plants or such plants are temporarily inactive, from the start-up of the tender procedures for the design or completion of the infrastructure necessary in order to provide the treatment service, provided that such procedures are implemented in accordance with the established schedule".

The second paragraph of Article 8 sexies also governs the method of reimbursing the sums received from end users, as required by the Constitutional Court sentence: (i) the operator must reimburse the tariff component not due, either in a lump sum or in instalments, within five years as from 1 October 2009; (ii) the design, construction and completion costs incurred are to be deducted from the rebate; and (iii) the rebate must be calculated by the operator's Area Authority within 120 days of the date the legislation comes into force (by the end of June 2009).

Moreover, within two months of the law coming into force, at the proposal of the Supervisory Committee for the Use of Water Resources, the Ministry for the Protection of the Environment, Land and Sea is to issue decrees establishing the criteria and parameters for implementing the rebate. The decrees must also establish the minimum information that individual operators must periodically send to end users regarding the plan for the construction, completion, upgrading and rollout

of the treatment plants provided for in the respective Area Plan, and the state of progress in implementing the plan, in addition to the related forms of publication, including indication in water bills.

In September 2009, the Ministry for the Protection of the Environment, Land and Sea issued a decree (published in the Official Journal no. 31 dated 8 February 2010) concerning the "Identification of criteria and parameters for the rebate to end users of the tariff component not due for water treatment services". This decree – that defines the methods for the rebate of the water treatment tariff for the users connected to the sewerage network but not served by treatment plants according to the said Article 8 sexies, paragraph 4 – sets out three relevant points:

- the prescription period for the reimbursement request is five years;
- the rebate is subject to the user's request supported by relevant documents;
- the rebate must not be to the detriment of the full coverage of the investment and operating costs necessary for the realisation of the Area Plan and, as a result, the Area Authorities are authorised to make extraordinary tariff changes and, under specific conditions, as an exception to the price "K" limit.

With regard to procedure, the decree sets out the following:

- the operator makes available to the Area Authority any relevant information in order for the Authority to calculate the rebate amount, i.e. (i) the list of users connected to the sewerage network but not served by treatment plants or plants that are temporarily inactive; (ii) the tariff component covering water treatment charged to each user; and (iii) any information that is useful to calculate deductible charges pursuant to Article 5 of the decree;
- the Area Authority – after having assessed the correctness of the information sent by the Operator – establishes the amount (including interests) to be returned to each single eligible applicant and sets out the timetable for the rebate, that should be carried out within five years from 1 October 2009;

- the Area Authority is authorised to make extraordinary tariff amendments, also in derogation from the price "K" limits, in order to cover the rebate charges and, it should be reiterated, to avoid prejudicing the full coverage of the investment and operating costs necessary for the realisation of the Area Plan.

The procedure included in the decree – which complies with the general principles that regulate the integrated water services with regard to the obligations of the Area Authorities and operators, and to any related right – underlines that the charges resulting from the rebate obligation (that are being identified by the Authorities for some water companies) should be fully covered by the tariff measures that the Area Authorities will adopt in order to find all financial resources needed. Therefore, the regulatory assets resulting from the right to receive an extraordinary tariff will determine the liability linked to the rebate obligation.

## Local public services

### Reform contents

The current regulations for the award and management of local public services of economic importance (art. 23 bis of Law Decree no. 112/08, converted into Law 133/08 and subsequently modified by art. 15 of Law Decree no. 135 of 25 September 2009 - the so-called Ronchi Decree – as amended and converted into Law no. 166 of 20 November 2009) implemented a sector reform in order to make it coherent with EU legislation, pursuant to the principles of competition, freedom of establishment and freedom to provide services for all economic entities interested in managing local public services. The legislation also aims to guarantee all users the right to universal and accessible local public services and an essential level of service quality.

This reform does not include the distribution service of electricity and gas, that has already been subject to transposition of specific EU directives.

Article 23 bis in force sets out that the management of local public services should be “ordinarily” awarded by means of a public procedure and to public-private joint enterprises where the shareholder - with operational tasks and an interest of more than 40% - is always identified according to the above-mentioned procedures. The in-house management (i.e. with direct award to companies with public capital subject to EU “similar control” principles) is only permitted “in case of extraordinary situations” and subject to prior authorisation of the Antitrust Authority.

The transitional regime of the awards that are not compliant with the new regulation sets out the following:

- the termination at 31 December 2011 of in-house management contracts in force as from 22 August 2008 and of the contracts that have been directly awarded to mixed companies, where the tender selection did not take into consideration both the shareholder status and the assignment of operating tasks;
  - upon the expiry date set out in the service contract, the termination of the contracts directly awarded to mixed companies, where the tender selection took into consideration both the shareholder status and the assignment of operating tasks;
- as regards direct contracts as at 1 October 2003 in favour of listed companies and their subsidiaries, there are two different termination options:
    - the termination upon the expiry date set out in the service contract, provided that the public interest is reduced to not more than 40% by 30 June 2013 and to not more than 30% by 31 December 2015;
    - if the conditions described in the previous point do not apply, the termination will take place – without any extension or proper resolutions by the grantor – on 30 June 2013 or 31 December 2015;
  - the termination of the contracts that are not envisaged in the previous points takes place on 31 December 2010.

With regard to the reform described above, it should be noticed that - by Order of 12 January 2011 - the referendum proposed for the whole repeal of the contents of art. 23 bis was considered permissible by the Constitutional Court.

### Implementing regulation

The implementing regulation of the rules described above was adopted by means of Presidential Decree no. 168 of 7 December. This provision – which introduces compulsory pro-competitive contents for calls for tenders for the award of local public services and confirms subjection to the internal stability pact by the in-house trustees – governs the methods to purchase goods and services, as well as to recruit staff of in-house and mixed companies, according to public evidence principles.

Moreover, an incompatibility system between task entitlement by the grantor and task entitlement in the service management company, is also introduced in order to achieve a clear distinction between regulatory/control and service management functions.

Finally, among the most important rules of the provision under review, reference should be made to article 10, which governs the disposal of assets in case of take-over of a new operator. This rule – except for any different agreements signed by the parties before its entry into force – sets out for the future that, upon expiry of local public service management, or in case of early termination, the previous operator transfers

to the incoming operator, free of charge, the assets needed to carry out the service, which were identified by the grantor during the tender, since they cannot be duplicated at socially sustainable costs. If, upon termination of management, these assets have not been entirely depreciated by the outgoing operator, the incoming operator has to pay an amount - which is stated in the call for tenders - equal to the original carrying amount not yet depreciated, net of any public grants that can be directly referred to the assets.

### Elimination of the Area Authorities

Law no. 42 of 26 March 2010 – “Urgent interventions concerning local authorities and regions” – includes art. 186 bis into the 2010 Finance Act (Law no. 191/2009). This sets out that, after one year from the entry into force of this law (i.e. as of 1 January 2011), the Area Authorities for the management of water resources and the urban waste integrated management referred to in articles 148 and 201 of Legislative Decree no. 152/2006, are eliminated. At the same time, Regions can award, by way of law, the functions that were exercised by the Authorities, in compliance with the principles of subsidiarity, diversification and adequacy.

On 26 February 2011, Law no. 10/2011 was published (which converted Law Decree no. 225 of 29 December 2010, the so-called “mille proroghe”), which extends the terms set out in legislation and the urgent interventions concerning tax matters and support to companies and households. Article 1, paragraph 1 sets out the extension, until 31 March 2011, of the term for the elimination of the Area Authority. Paragraph 2 of the same article sets out the possibility to envisage – by means of one or more decrees of the President of the Council of Ministers, in accordance with the Ministry of Economy and Finance - a further extension of the above-mentioned terms until 31 December 2011. In case the Government does not intervene, as of 31 March 2011 any action made by Area Authorities shall be considered invalid.

### Services under concession

The grantor in the case of **public lighting services** is

Roma Capitale under a thirty-year concession arrangement (effective from 1 January 1998), for which no fee is paid. This concession is carried out by signing proper service contracts: the one in force – which is valid for the period from June 2005 to May 2015 – sets out that ACEA is responsible for day-to-day management, routine, emergency and extraordinary maintenance, and implementation of a pre-established investment plan in return for a lump-sum payment of 46.7 million euros per year. The lump-sum payment increases each year based on inflation and growth in the number of lighting points served, and decreases on the basis of agreed efficiency indicators.

Expansion of the plants is carried out on request and is paid for on the basis of an agreed price list.

It is noted that, after the end of the financial year, the Board of Directors of ACEA approved a draft service contract which includes significant changes to the term and compensation awarded. Further information is provided in the section “Related Party Transactions”. With reference to the provisions of article 23 bis, as amended by article 15 of Law Decree 135/2009, ACEA’s concession - expiring on 31 December 2028 - could finish early and, more specifically by 30 June 2013 or 31 December 2015 should, at the aforementioned dates, Roma Capitale not have reduced its share in ACEA to 40% and 30%, respectively.

**Integrated water-environmental services** are provided under concession in the following regions:

- Lazio, where ACEA Ato2 S.p.A and ACEA Ato5 SpA provide services in the provinces of Rome and Frosinone, respectively,
- Campania, where G.O.R.I. S.p.A. provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvio area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river,
- Tuscany, where the ACEA Group operates in the province of Pisa, through Acque S.p.A., in the province of Florence, through Publiacqua S.p.A., and in the provinces of Siena and Grosseto, through Acquedotto del Fiora S.p.A. Moreover, it operates in Lucca and in the province with the Companies Geal, Lunigiana and Azga,



- Umbria, where the Group operates in the province of Perugia, through Umbra Acque S.p.A.

#### **Lazio – ACEA Ato2 S.p.A. (Ato2 – Central Lazio - Rome)**

ACEA Ato2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and Rome Provincial Authority (representing the Authority for the ATO comprising 111 municipalities, including Roma Capitale). In return for award of the concession ACEA Ato2 pays a fee to all the municipalities based on the date the right to manage the related services is effectively acquired. The company will gradually acquire concessions representing a total of 3,700,000 people served. The municipalities acquired so far account for roughly 95% of the total target population.

Throughout the concession term, the operator is responsible for the maintenance and upgrading of all regulatory assets and of any assets subsequently constructed in compliance with the provisions of the Area Plan. New plants constructed in accordance with the Area Plan, which forms an integral part of the agreement, remain the exclusive property of the company (even if within the context of so-called “incidental public property”) and, pursuant to art. 35, paragraph 4 of the agreement, on expiry of the concession or in the event of its early termination, the company shall be paid an indemnity equal to the value of the assets yet to be depreciated. Such assets regard networks or portions thereof, plants and the related equipment constructed in accordance with investment plans.

The most significant acts that currently govern the tariff system of the integrated water service of the Water and Waste Regulatory Authorities 2, Central Lazio-Rome, particularly important are the resolutions taken on this issue by the Mayor’s Conference during the meetings held on 5 December 2008, 7 October 2009 and 14 December 2010.

The Mayors’ Conference for the Water and Waste Regulatory Authorities 2 met on 5 December 2008 to vote on issues regarding the management of integrated water services. Resolutions 5/08, 6/08 and 7/08 were of par-

ticular importance and regard:

- Approval of the new average tariff of the ATO2 and tariff increases for the years 2009-2011 (resolution no. 5/08) and, at the same time, new criteria of convergence with the pre-existing average tariff in the municipalities that will be acquired in the future,
- Approval of the necessary measures following Constitutional Court sentence 335/08 relating to the sewerage and water treatment tariff (resolution no. 6/08)
- Renegotiation of the Agreement covering hydraulic interference caused by the Peschiera-Capore aqueduct system between A.ATO 3 Rieti and A.ATO 2 Roma (Resolution no. 7/08)

With regard to approval of the new average tariff for ATO 2 and tariff increases for the years 2009-2011, the implementing provisions of Law 36/94 (known as the Galli Law) and the subsequent Regional Law, and in particular the Concession Agreement, required preparation of an Area Plan (establishing an investment plan and the average tariff for the Area).

The average tariff established in the plan was designed to cover the costs incurred by the operator each year (operating costs, concession fees, depreciation and the return on invested capital).

The provisions of the Standardised Method made it necessary to review the average tariff for the Area.

To this end, the Technical Secretariat prepared a study entitled “*Comparison of guaranteed revenues and real revenues 2003-2008. The new Average Tariff 2009-2032*”. Briefly, the study analysed the operator’s guaranteed revenues based on the previously calculated average tariff, the new guaranteed revenues taking account of certain new elements (the real inflation rate, investments effectively carried out, changes in project operating costs, the fees effectively paid, etc.) and real revenues generated, thereby establishing how much more or less had been earned by the operator.

Based on the difference in revenues earned by the operator, and taking account of other parameters (the target inflation rate, investments carried out and planned, project operating costs and fees), the Secretariat calculated a new Average Tariff to come into effect from 2009 until 2032. The percentage increases to be applied to tariff

structures, as a result of the new guaranteed revenues, were also established.

Based on the results obtained by the Technical Secretariat, the Mayors' Conference of 5 December 2008 decided to adopt the following average increases in the Average Tariff:

	2009	2010	2011
% Tariff Increase	4.59%	2.99%	1.51%

As regards the annual tariff increases on individual items in the tariff structures, the Mayors' Conference resolved the following increases:

	2009	2010	2011
basic and subsidised tariff on domestic users	0.00%	0.00%	0.00%
other tariff items	5.93%	3.81%	1.91%
wholesale water supply	4.59%	2.99%	1.51%

The Secretariat's study (which forms an integral part of Resolution no. 5/08) also highlighted the need to simplify the tariff reviews provided for in the Agreement and to unify the tariff structure for ATO 2 (the single Area Tariff). In particular, every three years the Mayors' Conference will be responsible for approving any revision of the Average Tariff and, consequently, will approve any changes in tariffs. In the intervening period, the Technical Secretariat will determine percentage increases to be applied to tariff structures to take account of differences between real and guaranteed revenues.

The above study also highlighted the need to devise a method for bringing the tariffs applied in municipalities where concessions have yet to be awarded into line with the average Area tariff.

The Conference decided that on the award of a concession for a municipality, the single Area Tariff for ATO 2 is to be adopted. Alternatively and at the explicit request of the Mayor, or where a single tariff does not exist, the existing tariff structure can be maintained over a period of convergence with the Average Tariff, which may be of up to three years and six months, regardless of whether the initial tariff is higher or lower than the Average Tariff. Convergence should, in any event, be linear.

Finally, the Mayors' Conference resolved the level of investment that the operator must implement over the three-year period 2009-2011:

	2009	2010	2011
Total	113.31 10 <sup>6</sup> Euro	103.20 10 <sup>6</sup> Euro	102.92 10 <sup>6</sup> Euro

These investments are to be carried out alongside those already planned by Lazio Regional Authority over the next three years, amounting to 80 million euros in total.

Subsequently, with reference to the provisions of the Concession Agreement and the related technical regulations regarding investments that the Operator is obliged to carry out during the integrated water service contract period, the President of the Province of Rome, on the proposal of the Operating-Technical Secretariat, updated the Investment Plan drafted in 2002.

The new plan was subject to the binding opinion of the Mayors' Conference on 7 October 2009.

With regard to approval of the necessary measures following Constitutional Court sentence 335/08 the Mayors' Conference established, among other things, that:

- the operator must conclude the process of identifying which end users are not connected to treatment plants, so as to enable it to define the method for repayment of the amounts collected and the resulting changes to tariffs;
- collection of the water treatment tariff for the above end users must be suspended, unless other legislation governing this matter is enacted.

It should be noted that the resolution regarding this point passed by the Mayors' Conference precedes approval of Law 13 of 27 February 2009 and, therefore, the implementation decree of 30 September 2009 of the Ministry of the Environment.

The Mayors' Conference identified and approved, with resolution no. 5/09, the investments to be carried out together with the "Procedure for investment monitoring"; in particular, along with said procedure the method for the "modification during ongoing work of the list of works to be completed that have already been approved... in order to quickly adjust the tasks to be executed in line with requirements that should arise during execution of the works" was defined.

The Mayor's Conference acknowledged that the investments set out in previous resolution no. 5/08 were insufficient and so resolved (with said resolution no. 5/09) to increase investments by 100 million euros for each three-year period (starting from 2010 and for the entire duration of the integrated water service concession), amounts approved as and when needed.

In particular, the investments planned for the 2009-2011 three-year period are:

	2009	2010	2011
Investments already set out in Resolution 5/08	113.31	103.20	102.92
Additional investments envisaged in the current Resolution	0	33.33	33.34
<b>Total</b>	<b>113.31</b>	<b>136.53</b>	<b>136.26</b>

Consequently, guarantee revenues for the years 2010-2011 (and later) were also increased to take account of amortisation and the return on invested capital for higher investments planned for the next three years, amounting to:

	2009	2010	2011
Guaranteed revenues already envisaged in Resolution 5/08	428.95	441.77	448.44
Additional revenues envisaged in the current Resolution	0	1.81	5.38
<b>Total</b>	<b>428.95</b>	<b>443.58</b>	<b>453.82</b>

Therefore, the new average tariff figures for the 2009-2011 three-year period are:

	2009	2010	2011
Guaranteed revenues [millions of euros]	428.95	443.58	453.82
Volume of water [millions of m <sup>3</sup> ]	431.14	431.14	431.14
Average tariff [cent / m <sup>3</sup> ]	99.49	102.89	105.26

The Mayor's Conference approved, in the same resolution, the following average tariff increases, calculated on the basis of the amounts of the previous year:

	2009	2010	2011
Tariff increase forecast in Resolution 5/08	4.59%	2.99%	1.51%
Additional tariff increase envisaged in current Resolution	0.00%	0.42%	0.80%
<b>New tariff increase</b>	<b>4.59%</b>	<b>3.41%</b>	<b>2.31%</b>

The subsequent annual tariff increases adopted by the Conference regarding individual items of the tariff structures compared to the previous year's figures are as follows:

	2009	2010	2011
Basic and subsidised tariff on domestic users	0.00%	0.00%	0.00%
Other tariff items	5.93%	4.35%	2.93%
Wholesale water supply	4.59%	3.41%	2.31%

The Mayors' Conference held on 14 December 2010 adopted the single area tariff.

As is well known, the Technical Regulations attached to the Management Agreement set out that, for the launch of the management, the current tariff structure should have been adopted in each Municipality. Moreover, these structures would have been unified with regard to the one in force in Roma Capitale.

Moreover, the Mayors' Conference with resolution 4/02 of 10 December 2002 envisaged a gradual convergence of pre-existing tariffs for services managed by the municipalities acquired in line with the Area Plan, within six years from 2003 (transitory period).

The tariff convergence plan cited above envisaged that the acquisition of all municipalities of the ATO would be finished by 31 December 2005, guaranteeing the last municipalities to join a tariff adjustment period of at least three years (up to 31 December 2008).

Given the plan to acquire municipal management of the services was not completed within the prescribed time frame, with resolution 02/06 of 23 February 2006 the Mayors' Conference extended conclusion of the acquisition phase to 31 December 2007.

Consequently, and in line with the criteria established by resolution 4/02 of 2002, the last term of the period of adjustment of the average, individual municipal tariffs in line with the average area tariff was extended to 2010.

In addition, the conference resolved to approve the adoption of a single tariff structure for the entire ATO 2, without prejudice to the need to guarantee the operator the revenues recognised in the 2009-2011 period (iso-

revenue).

Given that, afterwards, the need to cancel, by 31 December 2010, the minimum commitment for domestic users was reaffirmed, as set out in CIPE Resolution no. 117/2008 and that this commitment was also reaffirmed by Co.N.VI.RI., according to which this provision was deemed applicable also for the Management that applies the Standardised Method of 01/08/1996, the Mayors' Conference of 14 December 2010 mainly approved, by means of Resolution no. 6, to:

- a) adopt, as of 1 January 2011, in the Municipalities of ATO 2 that, as at this date, have transferred, or will transfer, the services to ACEA Ato2, the single tariff structure, with the increase in the Average Tariff approved by the Mayors' Conference. More specifically, the single tariff adopted sets out a basic tariff, a reduced tariff and three surpluses for domestic users, as well as a basic tariff and three surpluses for non-domestic users. Moreover, the minimum commitment for domestic users will be cancelled, with a consequent increase in the fixed amount and maintenance of the minimum commitment for non-domestic users;
- b) adopt an implementation regulation of the single tariff structure;
- c) define instalments for the payment of bills for the households of those Municipalities which register an increase, between the old and the new tariff, of more than 40% for specific consumption assumptions;
- d) apply (for the first year of adoption) a 10% discount on the bills of domestic users, for those households in which there is an increase of more than 20% in annual expense, for specific consumption assumptions;
- e) apply to the Municipalities in which the integrated water service will be (fully or partly) transferred to ACEA Ato 2, as of 1 January 2011, the single area tariff in force upon the transfer.

During the same meeting, the Mayors' Conference also approved a further increase in investments equal to 45 million euros for the 2011-2013 three-year period.

Consequently, total investments are as follows:

	2009	2010	2011
Investments already set out in Resolution 5/08	113.31	103.20	102.92
Additional investments envisaged in Resolution 5/09	0	33.33	33.34
Additional investments envisaged in Resolution 7/10	0	0	15.00
<b>Total</b>	<b>113.31</b>	<b>136.53</b>	<b>151.26</b>

Consequently, guaranteed revenues for the same three-year period were also increased to take account of amortisation and the return on invested capital for higher investments planned and the Average Tariff for 2011 was consequently adjusted. With regard to 2011, these amount to:

	2009	2010	2011
Guaranteed revenues already envisaged in Resolution 5/08	428.95	441.77	448.44
Additional revenues envisaged in Resolution 5/09	0	1.81	5.38
Additional revenues envisaged in Resolution 6/10	0	0	0.81
<b>Total</b>	<b>428.95</b>	<b>443.58</b>	<b>454.63</b>

	2009	2010	2011
Guaranteed revenues [millions of euros]	428.95	443.58	454.63
Volume of water [millions of m <sup>3</sup> ]	431.14	431.14	431.14
Average tariff [cent €/ m <sup>3</sup> ]	99.49	102.89	105.45

The Mayor's Conference approved, in the same resolution, the following new average tariff increase for 2011, calculated on the basis of the amounts of the previous year:

	2009	2010	2011
Tariff increase forecast in Resolution 5/08	4.59%	2.99%	1.51%
Additional tariff increase envisaged in Resolution 5/09	0.00%	0.42%	0.80%
Additional tariff increase envisaged in Resolution 7/10	0.00%	0.00%	0.18%
<b>New tariff increase</b>	<b>4.59%</b>	<b>3.41%</b>	<b>2.49%</b>

As regards the effects of sentence 335/2008, the identification activities were, in effect, concluded: the portion of the water treatment tariff debited in the 2003-2008 period from active end users connected solely to the sewerage network amounted to 12.7 million euros. With regard to the Municipalities of the Area Authority (excluding Roma Capitale, for which the quantification of the said charges is being carried out), the amount of the estimated deductible charges due from end users, according to the provisions of article 8 sexies of Law no. 13 of 28 February 2009 and article 5 of the Decree of the Ministry of the Environment of 30 September 2009, published in the Official Journal on 8 February 2010, totals approximately 3 million euros, based on the calculations made by the Company, that shall be finally defined by the Area Authority. After the final quantification of charges to be reimbursed, the Area Authority must identify the methods and timescales of repayments, as well as the related tariff coverage.

With reference to the provisions of article 23 bis, as amended by article 15 of Law Decree 135/2009, ACEA Ato2's concession - expiring on 31 December 2032 - could finish early and, more specifically by 30 June 2013 or 31 December 2015 should, at the aforementioned dates, Roma Capitale not have reduced its share in ACEA to 40% and 30%, respectively.

### **Lazio – ACEA Ato5 S.p.A. (Ato 5 – Southern Lazio - Frosinone)**

ACEA Ato5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities). In return for award of the concession ACEA Ato 5 pays a fee to all the municipalities based on the date the right to manage the related services is effectively acquired. The acquisition of the municipalities is nearly complete, with the exception of the water service in the municipalities of Cassino, Atina and Paliano.

The Mayor's Conference of 14 January 2009 approved the following leaving the ATO5 – Southern Lazio municipalities of Vicalvi, Settefrati and San Biagio Saracinisco; a formal handover of the integrated water services document was only signed for the municipality of San Biagio Saracinisco on 6 October 2009.

The agreement requires that the price charged to each municipality should converge towards the price applied throughout the ATO within three years of acquisition of the contract, and that, as of that same year, there will be a tariff review every three years that takes account of the operating costs incurred and the capital expenditure carried out. On application of the price for each year the average tariff is adjusted by the total inflation rate, deriving from target annual inflation rates for each year since acquisition of the related contract. Throughout the concession term, the operator is responsible for the maintenance and upgrading of all regulatory assets and of any assets subsequently constructed in compliance with the provisions of the Area Plan. New plants constructed in accordance with the Area Plan, which forms an integral part of the agreement, remain the exclusive property of the company and, pursuant to art. 35, paragraph 4 of the agreement, on expiry of the concession or in the event of its early termination, the company shall be paid an indemnity equal to the value of the assets yet to be depreciated. Such assets regard networks or portions thereof, plants and the related equipment constructed in accordance with investment plans.

As regards the effects of Constitutional Court sentence

335/2008, the identification activities were, in effect, concluded: the portion of the water treatment tariff debited in the 2003-2008 period from active end users connected solely to the sewerage network amounted to 1.7 million euros. This amount does not take into account the estimated deductible charges due from end users according to the provisions of article 8 sexies of Law no. 13 of 28 February 2009 and article 5 of the Decree of the Ministry of the Environment of 30 September 2009, published in the Official Journal on 8 February 2010, which the Area Authority is obliged to calculate. Thus, this amount represents the maximum estimated repayments which ACEA Ato5 must pay following identification, by the Area Authority, of the quantification, the methods and timescales of the repayments and the tariff coverage.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regulation, rules governing the award of local public services (article 23 bis of Law Decree updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of ACEA Ato5 S.p.A.'s Concession Agreement.

For information on the issue of the legitimacy of the tariffs applied, please refer to the appropriate section *"Update on major disputes and litigation"*.

### **Campania – GORI S.p.A (Sarnese Vesuviano)**

GORI provides integrated water services in 76 municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on 30 September 2002 by the company and the Sarnese Vesuviano Area Authority. In return for award of the concession GORI pays a fee to the grantor (the Sarnese Vesuviano Area Authority) based on the date the right to manage the related services is effectively acquired. All 76 municipalities were formally acquired, although operating management is only effective for 72 municipalities, a total population of roughly 93%.

In July 2005 the Area Authority approved a resolution requiring the application of a single tariff for integrated water services, thereby eliminating the separate billing

of each individual service. The gradual convergence of all existing tariffs toward a single tariff for the entire ATO will be completed in 2010. In the same year, pursuant to the applicable Area Plan, the transitory period will end and the first regulatory period will then start from 2011.

Throughout the concession term, the operator is responsible for the maintenance and upgrading of all regulatory assets and of any assets subsequently constructed in compliance with the provisions of the Area Plan. On expiry of the concession or in the event of its early termination, the company shall be paid an indemnity equal to the value of the assets yet to be depreciated, based on the costs effectively incurred for the authorised works, and on the value of trade receivables and any other sums due to the operator under the Agreement.

In November 2009, the company signed a settlement agreement with the Sarnese Vesuviano Area Authority which made provision, among other things, for the immediate review of the Area Plan; whilst awaiting the scheduled review of the Plan, the parties agree that the amount of guaranteed revenues for 2009 is set at 135 million euros, lower than expected for the same period in the Area Plan in force. With the said agreement, the Area Authority undertook to ensure the billing of tariff adjustments accrued and recognised at 31 December 2009 for a maximum term of seven years starting from 2011, plus the associated interest.

The aforesaid deed, approved by GORI's Board of Directors and General Shareholders' Meeting, was rejected by the General Meeting of consortium authorities on 11 June 2010.

FY 2010 was characterised by the launch of the extraordinary review activities of the current Area Plan of ATO 3, which will be carried out according to the provisions set forth in the current regulation on the integrated water service and to the principles and provisions of the Management Agreement between the Sarnese Vesuviano Area Authority and GORI.

On 6 December 2010, the Area Authority formally gave notice to GORI of the launch of the extraordinary review process of the Area Plan. This review must be completed as soon as possible and it will be necessary to deal with and define some important situations.

More specifically, the new Area Plan will be reviewed so as to guarantee its capacity to comply with the requirements of the banking system, which requires the existence of an adequate tariff system capable of ensuring, among other things, the whole coverage of project costs. Based on these assumptions, a medium/long-term loan could be issued by Credit Institutes, that will allow to repay and/or renegotiate the bridge loan of 40 million euros that has already been granted and whose maturity (originally 30 June 2010) was ultimately renegotiated by the Bank at 30 June 2011. In this sense, the issuing Bank, with letter dated 22 March 2011, declared it was willing to consider alternative solutions for the repayment of the said loan, also through its transformation into a medium/long-term loan, according to the conditions that should be agreed upon with the company at the end of the enquiry.

Moreover, thanks to the above-mentioned extraordinary review, the problem concerning the recovery of tariff adjustments until 31 December 2010 (equal to 137 million euros, 50.8 million euros attributable to the Group) should be defined, due to a tariff system adopted by the Area Authority that was inadequate (by default) to guarantee the achievement of the actual average tariff that has been pre-fixed, year by year, by the Area Plan and therefore of the corresponding revenues guaranteed by the same Plan.

In line with the previous financial year and pursuant to law provisions and the Management Agreement of the integrated water service, and whilst awaiting the review of the Area Plan, revenues have been calculated by adopting the same indications received by the Area Authority for FY 2010 pursuant to record no. 0017170/2011. In this record, the Area Authority quantified tariff revenues for 2010, which amounted to 135 million euros, except for any validation and adjustment to be carried out as part of the Plan's review. This amount is lower than the amount of revenues expected in the current Area Plan for FY 2010.

Moreover, it is noted that, as part of the said extraordinary review, the debt situation towards the Campania Region must be settled with regard to drinking water supplies: as is well known, the current Area Plan sets out the wholesale water purchase price that the operator must pay. However, the main two wholesale wa-

ter suppliers of ATO 3's operator claim a higher water price. More specifically, the dispute between the Campania Region and its operator Acqua Campania S.p.A., on the one hand, and the Area Authority and GORI, on the other, is mainly based on the dispute concerning the exact calculation of water price that, according to a water supply agreement signed with the Region, which has never been ratified by the Regional Council, fixed a reduced price whose value was the base of the costs of the previous Area Plan. With regard to this dispute, the Company records credit notes for an amount of 52 million euros (19.3 million euros attributable to the Group), supported by a specific legal opinion.

As regards the effects of Constitutional Court sentence 335/2008, the portion of the water treatment tariff debited in the 2003-2008 period from active end users connected to the sewerage network but not served by water treatment plants amounted to roughly 23.6 million euros (Group's share 8.7 million euros), including 20.4 million euros actually collected. Taking into account the fact that deductible charges pursuant to article 5 of implementation decree relate solely to works regarding construction of water treatment plants and that the latter, in the specific case of A.T.O. no. 3 Sarnese Vesuviano, were carried out and/or are being completed with the expenses charged to public finance, the charges estimated above cannot be reduced. By contrast, based on the actual costs incurred by GORI S.p.A. in managing the existing water treatment plants, the Area Authority may recalculate the annual tariff rate for the integrated water service regarding water treatment (lower with respect to the tariff established beforehand by the applicable Area Plan) with the potential downward adjustment of the maximum estimated rebates GORI S.p.A. is obliged to pay and the related extraordinary tariff coverage, envisaged in the implementation decree, which said Authority must guarantee.

Currently, the Area Authority is completing the activities set out by the Decree, based on the information and data sent by GORI.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regu-

lation, rules governing the award of local public services (article 23 bis of Law Decree 112/2008 updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of Gori S.p.A.'s Concession Agreement.

#### **Tuscany – Acque S.p.A (Ato 2 – Basso Valdarno)**

The management agreement, which came into force on 1 January 2002, with a twenty-year duration, was signed on 28 December 2001. In accordance with that agreement, the Operator took over the exclusive integrated water service of ATO 2, comprising all the public water collection, supply and distribution services for civil use, sewage systems and the treatment of urban waste water. The Area includes 57 municipalities. In return for award of the concession, Acque pays a fee to all the municipalities, including accumulated liabilities incurred prior to award of the related contracts.

Based on the provisions of the concession, on 22 December 2008, the general meeting of the Area Authority approved the tariff review for the years 2005-2007, in which checks were performed on the actual volume of investments carried out, operating costs, revenues generated, the amounts billed and the technical and organisational standards achieved. Based on the results of these checks, the adjustment was calculated (positive for the operator) for lost revenues for 2005-2007, given more than 0.5% lower than those forecast in the Area Plan.

Penalties were also applied during the review, as provided for in the Agreement, for the failure to achieve certain technical and organisational standards.

During the second tariff review, the new Investment Plan was defined, later described in detail in the new three-year operating plan for 2008-2010 approved by the Authority in March 2009. The investments carried out in the 2008-2010 period were slightly higher than those provided for in the operating plan for 2008-2010, but the sum of amortisation/depreciation and remuneration of capital was in line with forecasts.

The third tariff review for the period 2008-2010 will be carried out in 2011.

In October 2006, the Operator signed a contract with a syndicate of banks which provides for a total loan of



255 million euros to cover the financial needs of the investment plan of around 650 million euros. At the end of 2010 the operator has drawn down 162 million euros.

With regard to the impact of Constitutional Court sentence 335/2008, relating to the legitimacy of billing the tariff component covering waste water treatment to end users in areas where there are no treatment plants or where the plants are inactive, from October 2008 the company has stopped including the waste water treatment component in bills for end users identified as falling within this category. The Area Authority has intervened to ensure application, in 2009, of the Average Tariff provided for in the Area Plan.

In 2010, the lists of end users entitled to return have been published on the websites of Acque and of the Area Authority. In the same year, the Authority approved guidelines to carry out repayments, according to which these will be made following the request of the user and the five-year prescription will be calculated as of the date the request was submitted. According to this resolution, the total potential debt not prescribed at December 2010 amounts to approximately 6.5 million euros.

At December 2010, 1,139 requests have been submitted by entitled users, for a total of 351,340 euros, to be reimbursed taking account of deductible charges. The Authority will include this amount in the tariff review and the repayment is expected to be carried out in the three-year period 2011-2013.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regulation, rules governing the award of local public services (article 23 bis of Law Decree 112/2008 updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of Acque S.p.A.'s Concession Agreement.

### **Tuscany – Acquedotto del Fiora S.p.A (Ato 6 – Ombrone)**

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) is to supply integrated water services on an exclusive basis in ATO 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste water treatment.

The concession term is twenty-five years from 1 January 2002.

In August 2004, ACEA – via the vehicle, Ombrone SpA – completed its acquisition of a stake in the company. The tariff review for the three-year period 2005-2007 was completed in November 2008. This established a new and more appropriate tariff profile, bringing the profile closer into line with the operator's estimated volumes and introducing mechanisms providing improved guarantees of future revenues. Revision of the Area Plan was also completed at the same time, resulting in a slight increase in future investments.

In terms of financial position, Acquedotto del Fiora S.p.A proceeded with implementation of a series of initiatives aimed at improving the collection of receivables from customers. The resulting procedures have been fully implemented.

In order to strengthen its balance sheet, the operator is defining a project financing transaction that will support the borrowing requirements of the Company until the end of the concession, in order to carry out the whole Investment Plan. In the meanwhile, a new bridge loan of 80 million euros (expiring on 5 March 2012) was agreed; 45 million euros will be used to refinance the previous bridge loan.

With regard to the impact of Constitutional Court sentence 335/2008, relating to the legitimacy of billing the tariff component covering waste water treatment to end users in areas where there are no treatment plants or where the plants are inactive, from October, the company has stopped including the waste water treatment component in bills for end users identified as falling within this category. The Area Authority has intervened to ensure application, in 2009, of the Average Tariff provided for in the Area Plan.

With regard to the repayment of previous charges, it is noted that the Area Authority has recently approved

Meeting resolution no. 13 of 29 November 2010, according to which it approved the Extraordinary Review in order to return to users not served by water treatment, the water treatment tariff component that is not due. The Plan tariff has been reviewed until 2014, in order to ensure the repayment of sums to those entitled to receive them, except any future review effect of the whole Plan that could arise from the three-year review that is currently being carried out.

The Board of Directors of the Area Authority implemented the said Meeting resolution by means of resolution no. 25 of 20 December 2010, in which the average tariff for 2011 was set out.

It should be noted that the portion of the water treatment tariff debited in the 2003-2008 period from active end users connected solely to the sewerage network amounted to 4.8 million euros (Group's share 1.6 million euros) that – having taken into account the estimated deductible charges due from end users according to the provisions of article 8 sexies of Law no. 13 of 28 February 2009 and article 5 of the Decree of the Ministry of the Environment of 30 September 2009, published in the Official Journal on 8 February 2010 – decreased to 3 million euros (Group's share 1 million euros), as set out by the Area Authority.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regulation, rules governing the award of local public services (article 23 bis of Law Decree 112/2008 updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of Acquedotto del Fiora S.p.A.'s Concession Agreement.

### **Tuscany – Publiacqua S.p.A (Ato 3 – Medio Valdarno)**

The management agreement, which came into force on 1 January 2002, with a twenty-year duration, was signed on 20 December 2001. In accordance with that agreement, the Operator took over the exclusive integrated water service of ATO 3, comprising all the public water collection, supply and distribution services for civil use, sewage systems and the treatment of urban waste water. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for award of the concession the operator pays a fee to all the municipalities, including accumulated liabilities incurred prior to award of the related contracts.

In June 2006, ACEA – via the vehicle, Acque Blu Fiorentina S.p.A – completed its acquisition of a stake in the company.

The first tariff review, due to take place by 30 November 2005 under the agreement, was completed in July 2007, with approval of a series of changes to the Area Plan and to prices, partly in response to inclusion in the area of the municipalities in the Chianti district formerly served by Fiorentina Gas, resulting in a tariff increase. Subsequent reviews are scheduled to take place every three years by 30 November of the first year of each three-year period, starting from 2010.

In October 2010, some amendments were made to the Service Award Agreement – which were identified during long debates between the parties – aimed at endowing higher stability to the regulatory system and finding a solution to some issues that obstructed the restructuring process of a long-term loan stipulated by the Area Plan. Some annexes to the award agreement are still to be defined, such as the accounting annex (detailed auditing criteria), technical standards (objects of the investment plan) and penalties related to the failure to comply with them (methods to calculate such penalties).

In detail, the criteria to carry out the thirty-year review of the Area Plan have been amended. The main amendments are detailed below:

- identification of a method for the allocation of any higher efficiency between the operator and the regulator (reimbursement of 50% according to the tariff);
- definition of the following calculation methods for op-

erating costs:

- starting operating costs, corresponding to the value of 2010 starting operating costs planned in the 2007 review, which have been discounted at 2010 based on actual inflation,
- deduction of 50% of higher efficiency recorded in the 2007-2009 period,
- analysis of operating costs (change in the basis of consolidation) concerning new management activities, new regulatory provisions or the management of new investments. These costs are subject to adjustment during future review;
- tariff recognition of losses on trade receivables, up to a maximum of 2%;
- extension of the list of events that allow to start with the extraordinary tariff review;
- definition of mechanisms for the restoration of the economic-financial balance in case of significant events;
- implementation of a maximum ceiling for penalties applicable to the operator (2%, on an annual basis);
- applicability of financial depreciation on extraordinary maintenance of third-party assets;
- management activities carried out until the payment of the terminal value, in case of both natural and anticipated expiry of the concession;
- introduction of tariff adjustments for the calculation of indemnity at the end of the concession;
- possibility for the operator to increase the annual tariff of the "k" value set out in the area plan in case of inactivity of the Authority;
- higher flexibility for amendments to the investment plan, provided that the pre-defined objectives are met.

On 17 December 2010, the Area Authority's General Meeting approved the 2010-2021 tariff development, set out based on the review of the 2007-2009 Actual Average Tariff. By means of resolution no. 17/2010, the Area Authority set out the 2010 Actual Average Tariff, equal to 1.9329 euros/m<sup>3</sup>.

The Board of Directors was entrusted by the Meeting to draw up the new Chapter 6 of the Area Plan, containing comments and details concerning the approved tariff profile, as well as the tables of the economic-financial plan set out in art. 149, paragraph 4 of Legislative De-

creed no. 152/2006.

By means of resolution no. 4 of 23 February 2011, published on 23 March 2011, the Board of Directors approved Chapter 6 of the Area Plan, containing the comment and description of tables concerning the 2010-2021 tariff profile and the tables necessary to calculate the tariff. Moreover, it decided to postpone the approval of the economic-financial plan, pursuant to art. 149, paragraph 4 of Legislative Decree no. 152/2006.

To sum up:

- the new Area Plan forecasts 86 million cubic metres invoiced every year, as compared to 88.6 million cubic metres in the previous year;
- the penalties charged to the operator amount to 2.7 million euros, due to the failure to comply with the standards in the 2005-2009 period, thus marking a decrease in tariff revenues in the three-year period 2010-2012;
- tariff adjustments for the 2002-2009 period amounting to 26.9 million euros;
- non-recognition of part of the new adjustments for the 2002-2003 period (1.5 million euros), in compliance with the six-year prescription set out in the new agreement;
- the 0.5% allowance on guaranteed revenues was cancelled from the new agreement.

Based on these elements, 2010 revenues totalled 149.1 million euros; moreover, the recovery of adjustments for previous years amounting to 17.1 million euros was set out.

With regard to the effects of Constitutional Court sentence 335/2008, relating to the legitimacy of billing the tariff component covering waste water treatment to end users in areas where there are no treatment plants or where the plants are inactive, from 15 October 2008, the company has stopped including the waste water treatment component in bills for end users identified as falling within this category. The Area Authority has intervened (by means of a 31% increase in the 2009 waste water treatment tariff) to ensure application, in 2009, of the average waste water treatment tariff provided for in the Area Plan.

The documents of the 2010 tariff review show that the

Area Authority provided for some amounts (10.2 million euros) to be allocated in order to cover reimbursement requests of the water treatment tariff by users who are not connected to the sewerage network or are connected to a plant that is temporarily inactive. These amounts cover approximately 50% of the maximum estimated amount to be reimbursed (21.6 million euros, 8.6 million euros attributable to the Group). If this tariff amount is lower than that actually paid by the operator to the users, the difference shall be used to reduce adjustments on past lost revenues.

It should be noted that Co.N.Vi.Ri.'s resolution no. 3 of 16 July 2008 – according to which the settlement agreed by the Area Authority and Publiacqua to resolve numerous disputed items that gave rise to the payment of 6.2 million euros to the operator, which was appealed by the Area Authority and Publiacqua before the Regional Administrative Court of Florence – was set aside by the latter by means of sentence dated 23 December 2010. The time limits for any appeal by Co.N.Vi.Ri. before the Council of State have not yet expired.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regulation, rules governing the award of local public services (article 23 bis of Law Decree 112/2008 updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of Publiacqua S.p.A.'s Management Agreement.

### **Tuscany – GEAL S.p.A, Azga Nord S.p.A and Lunigiana Acque S.p.A (Ato 1 – Northern Tuscany)**

#### **GEAL S.p.A.**

As noted, GEAL S.p.A. is not the Territorial management body in accordance with Law 36/1994 (now Legislative Decree 152/06), and therefore the “standardised method” pursuant to DM LL.PP of 1 August 1996 (Standardised Method) for tariff review does not apply to it, but the entire method applies, based on the decision of the Interministerial Economic Planning Committee (CIPE).

On 28 May 2010, the Board of Directors of the company approved water, sewerage and water treatment service tariffs as of 01/07/2010. The new tariffs have been set out based on CIPE resolution no. 117/2008, the circulars of the Ministry of Economic Development no. 3629 of 25/09/2009 and 3636 of 18/05/2010, and the resolution of the town council no. 413 of 25/08/2009.

The forms for the calculation of water tariffs were filed with the Chamber of Commerce of Lucca, by forecasting a tariff increase of 5.1%.

On 21/06/2010, the Chamber of Commerce of Lucca confirmed, by written notice, that no observations were made with regard to the controls carried out on the forms. Therefore, on 30/06/2010 the company published the tariffs on the Official Journal of the Tuscany Region (BURT).

Moreover, it is noted that on 10 November 2010, the cleaning Consortium Auser-Bientina asked the company to sign an agreement in which, based on the provisions of Regional Law 34/94 and subsequent amendments, the company shall pay, as of 2009, an annual fee set out by the Consortium and equal to 80,262.55 euros, due to the fact that it benefits from the use of cleaning works and the network and hydraulic works managed by the Consortium. To this end, the company requested the Municipality of Lucca to carry out an extraordinary review of the integrated water service tariff, in order to fully cover the charge under review, as set out in art. 16, paragraph 12 of Regional Law 34/94.

February 2010 saw the publication of the first three rulings of the Regional Administrative Court of Tuscany relating to the complex dispute between the Municipality

of Lucca, GEAL and private shareholders on one side and the Area Authority, GAIA (Area Operator no. 1 in Tuscany) and a number of municipalities on the other:

- sentence on the Municipality of Lucca's appeal against the award model and the subsequent award of the integrated water service, set out in 2004 by the Area Authority, to GAIA, according to the original public-private joint enterprise model, which was initially 100% public;
- sentence on GEAL's appeal against the award model and the subsequent award of the integrated water service, set out in 2004 by the Area Authority, to GAIA, according to the original public-private joint enterprise model, which was initially 100% public, as well as against the subsequent letter of the President of the Area Authority, in which it was implicitly affirmed that GEAL's management was no longer valid and, finally, against the approval of the Regulation on sewage in public sewerage network, that was approved by the Area Authority's General Meeting;
- sentence on GEAL's appeal against the approval of the original Area Plan by the Area Authority in 2004.

By means of sentence no 441, the Regional Administrative Court of Tuscany fully upheld the appeal of the Municipality of Lucca and set aside 5 resolutions of the Board of Directors and 4 resolutions of the Area Authority's General Meeting taken in 2004, which set out the award model of the integrated water service management, according to the original public-private joint enterprise model, which was initially 100% public, and the subsequent award of the management to GAIA.

Moreover, the judges fully set aside the Award Agreement between the Area Authority and GAIA of 22/12/2004.

By means of sentence no. 440, the Regional Administrative Court of Tuscany accepted the appeal of GEAL only with regard to the reasons explained in the sentence. More specifically, the administrative judges set out that the valid continuation of the management awarded to GEAL reflects the illegitimacy of the award set out by the Area Authority in favour of GAIA. The acknowledgment of this illegitimacy represents the core assumption

in order for GEAL to be legitimated to operate in compliance with the concession of 1995 (and all related rules).

At the same time, the judges excluded that GEAL could carry out its activities until 2025, since they believe it will cease by 31/12/2011 at the latest. Moreover, the effectiveness of the expiry (that was set out for GEAL by the Area Authority, by means of a President's letter dated December 2004) is prevented due to the absence of a valid award to the single operator.

In the absence of a legitimate award to a single operator, the judges ruled GEAL's management to be completely legitimate (unlike that of GAIA) but with forecast early expiry of the concession on 31/12/2011 at the latest, rather than its natural expiry (31/12/2025).

In accordance and within the limits of the above-mentioned considerations, GEAL's appeal was accepted and the acts and rulings of the Area Authority, which were appealed by the company, have been set aside, including the statement of expiry of GEAL, that was implicitly included in the letter of the President of the Area Authority, dated 10/12/2004, to the subjects holding the management, as well as including the Management Agreement between the Area Authority and GAIA, with regard to the part in which they indicate the award to GEAL of the water service in the Municipality of Lucca, or refer to the said award (we are talking about the same acts that have also been appealed by the Municipality of Lucca and fully set aside - not only with regard to the part concerning the Municipality itself - due to sentence no. 441 on the appeal lodged by the Municipality of Lucca).

By means of sentence no. 439, the Regional Administrative Court of Tuscany considered the appeal lodged by GEAL against the approval of the original 2004 Area Plan by the Area Authority, as inadmissible and partly unacceptable, and it partially rejected the appeal. In any case, this sentence is of no importance in the light of the provisions included in sentence no. 440.

On 17/03/2010, further six sentences of the Regional Administrative Court of Tuscany have been published with regard to the dispute with the Area Authority and GAIA, concerning in particular the award by the Area Authority to GAIA, according to the in-house model as of 01/01/2008.

By means of sentences no. 687 and 686, the appeals

of GEAL and the Municipality of Lucca were considered inapplicable/inadmissible, due to a lack of interest towards the decision, given that the judges deemed that the appealed acts were not to the direct detriment of the interests of the claimants, since they referred to the redefinition of the original award model of the integrated water service from a public/private joint enterprise to an in-house company, but with an explicit exclusion of the municipal territory of Lucca from the redefinition of the service according to this model (however, the appeals have been lodged since this exclusion has been influenced by the settlement of the dispute and could not be considered as a recognition of the maintenance of GEAL until its natural expiry).

It is interesting to notice that the judges, in the reasons of the sentences, state that any extension of the integrated water service management to the municipal territory of Lucca by GAIA (and the related termination of the management of this service by GEAL) – according to the current plan of the so-called in-house award – needs further acts to be adopted by the Area Authority, and that these acts cannot be the result of unilateral initiatives of the Area Authority, but must be anticipated by concerted action with GEAL and all other subjects involved (including, of course, the Municipality of Lucca). Moreover, the judges state that in order for the in-house award of GAIA to be legitimately extended to the municipal territory of Lucca, it is required that also the Municipality of Lucca could exercise a similar control over this company (this is one of the requirements set out by Law in order to legitimate the in-house management) or that it becomes a shareholder of GAIA.

In other words, if the Municipality of Lucca does not buy a stake in the share capital of GAIA and does not become a shareholder (to this end, the judges point out that the Municipality of Lucca cannot certainly be forced to do so), the extension to the municipal territory of Lucca of the management carried out by GAIA according to the current in-house award model, cannot be carried out.

This aspect is of extreme importance even if considered apart from the sentence.

Moreover, it cannot be supposed that the privatisation of GAIA by 31/12/2011 – to be carried out in order to avoid the possibility of early expiry set out in the new version of art. 23 bis of Law Decree no. 112/2008, con-

verted into Law 133/2008 – could change this situation, considering that GAIA's privatisation could only concern this company in the current territorial structure, thus excluding the Municipality of Lucca.

Moreover, the judges – in the reasons of the sentences and although they considered the appeals as inapplicable/inadmissible – are extremely “doubtful” about the fact that the current measures adopted by GAIA and its shareholders (i.e. the inter-municipal coordination body) allow Municipal Authorities to exercise the “similar control” which represents, as stated above, an essential requirement for the legal legitimation of the award model, according to the house providing principle.

This observation of the judges would be valid even if the Municipality of Lucca decided to acquire a stake in the share capital of GAIA.

These latter sentences - contrary to the expectations of the Area Authority - will consolidate a management structure on the Area territory, that will inevitably include the presence of at least two operators: one for the municipal territory of Lucca and the other (where GAIA operates) for the remaining part of the Area.

To sum up, GAIA – based on the published sentences, from the start of its management at 01/01/2005 until 01/01/2008 with the start of the management according to the so-called in-house model – has operated in an illegitimate way. The Administrative Court fully set aside the Award Agreement of 22 December 2004 between the ATO 1 Authority and GAIA with regard to the whole Area.

Therefore, GAIA is currently managing the water service without a legitimate award agreement with the Area Authority.

With regard to GEAL, the management of the integrated water service for Lucca is currently valid and governed by an Agreement with the Municipality of Lucca, that is still valid, but with a forecast early expiry on 31/12/2011 at the latest, rather than on its natural expiry on 31/12/2025.

Having taken into account that sentence no. 440 of the Regional Administrative Court of Tuscany sets out a forecast early expiry of the concession for GEAL on 31/12/2011 at the latest, the company appealed before the Council of State.

A similar initiative was taken by all parties involved in

the litigation (i.e. the Area Authority, GAIA SpA and the Municipality of Lucca), which will request the review of the sentences of the court of first instance, only with regard to those parts that go against their interests.

The appeals were discussed on 10 December 2010 and the related sentences have not been published yet.

It should also be noted that the referendum proposed by the Public Water Committee – which aims at fully repealing the above-mentioned art. 23 bis – was considered permissible by the Constitutional Court.

It is clear that – apart from the result of the current litigation before the Council of State – if the reasons of the referendum Committee prevailed, the legislative provision on which sentence no. 440 of the Regional Administrative Court of Tuscany is based (which provided for the early expiry on 31/12/2011 at the latest for the award concession held by GEAL), would no longer be valid. As a consequence, the only expiry would be the natural one (31/12/2025).

For information purposes, it is also noted that the financial and equity position of the company is fully safeguarded by art. 22 of the Agreement that governs the relations with the grantor in case it is no longer effective for whatever reason.

In this case, the said provision sets out the obligation for the Municipality to acquire all company assets, including expansion, upgrading and replacement works carried out by it, at a value equal or higher (in case of the criterion of the so-called “replacement value”) than that resulting from the last financial statements being approved.

With reference to Constitutional Court sentence no. 335/2008, GEAL has never applied the corresponding tariff to its users not served by the water treatment service; this is the reason the above-mentioned sentence of the Supreme Court (and all the subsequent legislation) will not have any impact on the company.

### ***Lunigiana Acque S.p.A.***

The current concessions for the Integrated Water Service in the municipalities of Aulla, Podenzana and Tresana (MS) were given prior to the entry into effect of Law 36/94 and, therefore, prior to repeal of that law, thereby protecting them up to their natural expiry of 31 December 2020.

With the repeal of Law 36/94 and the entire rewriting of the regulations on the integrated water services by the entry into effect of Legislative Decree 152/2006, the early termination of concessions not in compliance with the new regulations on the procedure for conferring management of the local public services are governed by article 23 bis of Law Decree 112/2008, converted into Law 133/2008, as amended by article 15 of Law Decree 135/2009 converted into Law 166/2009 (known as the Ronchi Decree).

In October 2010, the Area Authority no. 1 Northern Tuscany informed the Company that the administrative procedure – aimed at verifying the management termination terms with regard to the above-mentioned rule – has been closed and that the management of the integrated water service awarded to Lunigiana Acque was ended on 31/12/2010 without any resolution by the grantor. Moreover, the Authority asked the Municipality of Podenzana (holder of the concession) to cooperate with the Company for the management of the integrated water service until the take-over of the new operator, who will be identified by means of public tender procedures.

Upon expiry of the concession, the grantor is obliged to reimburse the costs incurred, i.e. the net carrying amount of the works carried out, plants and equipment, at his own expense.

**AZGA Nord S.p.A.**

As regards AZGA Nord, the current Integrated Water Service concession in the Municipality of Pontremoli (MS) was given prior to the entry into effect of Law 36/94 and, therefore, prior to repeal of that law, thereby protecting it up to its natural expiry of 28 February 2022.

With the repeal of Law 36/94 and the entire rewriting of the regulations on the integrated water services by the entry into effect of Legislative Decree 152/2006, the early termination of concessions not in compliance with the new regulations on the procedure for conferring management of the local public services are governed by article 23 bis of Law Decree 112/2008, converted into Law 133/2008, as amended by article 15 of Law Decree 135/2009 converted into Law 166/2009 (known as the Ronchi Decree).

In October 2010, the Area Authority no. 1 Northern Tuscany informed the Company that the administrative procedure – aimed at verifying the management termination terms with regard to the above-mentioned rule – has been closed and that the management of the integrated water service awarded to Azga Nord was ended on 31/12/2010 without any resolution by the grantor.

The company was put in liquidation in December 2010 and the liquidators have been authorised to carry out temporary activities in order to ensure continuity and proper management of the integrated water service beyond the expiry on 31/12/2010 and until the takeover of the new operator, who will be identified by means of public tender procedures.

Upon expiry of the concession, the grantor is obliged to reimburse the costs incurred, i.e. the net carrying amount of the works carried out, plants and equipment, at his own expense.

**Umbria – Umbra Acque S.p.A. (Ato1 – Umbria 1)**

On 26 November 2007 ACEA S.p.A. was definitively awarded the tender called by the Area Authority for selection of the minority private business partner of Umbra Acque S.p.A. The tender procedure requires the successful bidder to subscribe a 11.335% increase in the share capital of Umbra Acque S.p.A. post-increase and the purchase of 4,457,339 shares owned by outgoing private shareholders (ACEA already holds a stake in Umbra Acque through subsidiary Crea), corresponding to 28.665% of the share capital of Umbra Acque S.p.A. post-increase.

Before the end of 2007, ACEA completed the subscriptions of the share capital increase and the purchase of shares owned by outgoing private shareholders, thus acquiring ownership of 40.00000257% of the share capital of Umbra Acque S.p.A..

The current Area Plan was approved by the Meeting of Representatives in 2004, yet maintaining the structure of the previous Plan that was approved in 2002. During 2008, Umbra Acque underlined the need to carry out a total review of the current Plan, in consideration of both the new national (Legislative Decree no. 152/06) and regional regulations (Regional Plan for water protection in Umbria, sewage Directive, Regional Plan for Umbria aqueducts and Regional Law no. 25/09 “Rules for the protection and safeguard of water resources”) – according to which the programme of works included in the existing Area Plan will be adjusted, in order to achieve the pre-defined objectives concerning water quality and aquifer protection – and in the light of the increase in several cost items (in particular, electricity consumption costs) that prevent from achieving the economic-financial balance, as set out in the Standardised Method. During 2010, these additional costs further increased, due to both new cost items that were not included in the current Plan and the increase in tariffs for the services used by the Company.

Following the end of the control and monitoring activities carried out by the Area Authority of the Integrated Local Authority no. 2 with regard to the first five management years (2003/2007), the administrative/legal, technical and economic controls on the 2008-2009 management period of the Company have been almost



brought to an end. The controls for 2010 will start at the end of this financial year.

By means of resolution no. 10 of 31 March 2010, the Authority approved to launch the operational activities to draw up the Plan review. At the end of the preliminary work, the Preliminary Document of the Strategic Environmental Assessment was approved by means of Authority's decision no. 31 of 14 December 2010, which formally marks the beginning of the updating procedure of the Area Plan. At the end of the Strategic Environmental Assessment, the Authority will have all useful elements to review and update the Area Plan, so that the Operator can have a suitable document in order to face the evolved needs of the territory, thus being able to properly plan investments, management work loads, economic and financial resources needed to correctly carry out its institutional obligations for the whole management period.

By means of Meeting decision dated 03/02/2010, the Area Authority approved 2010 tariffs, by establishing a 0.16% increase, plus the planned inflation rate of 1.5%. The total increase amounts to 1.66%.

With regard to the impact of Constitutional Court sentence 335/2008, relating to the legitimacy of billing the tariff component covering waste water treatment to end users in areas where there are no treatment plants or where the plants are inactive, from October 2008, the company has already stopped including the waste water treatment component in bills for end users identified as falling within this category.

The Area Authority has intervened to ensure application, in 2009, of the Average Tariff provided for in the Area Plan.

With regard to reimbursements of amounts already billed, the company has not completed the assessment activities necessary to define the lists of users who will receive the amounts erroneously billed. The estimated amount of rebates to users not served by water treatment is roughly 5 million euros (Group's share 2 million euros). This amount does not take into account the estimated deductible charges due from end users according to the provisions of article 8 sexies of Law no. 13 of 28 February 2009 and article 5 of the Decree of the Ministry of the Environment of 30 September

2009, published in the Official Journal on 8 February 2010 (1.8 million euros, as estimated by Umbra Acque), which the Area Authority is obliged to calculate. Thus, this amount represents the maximum estimated rebates which Umbra Acque must pay following identification, by the Area Authority, of the quantification, the methods and timescales of the rebates and their tariff coverage.

It should be noted that, based on current legislation and while awaiting the issue of the implementing regulation, rules governing the award of local public services (article 23 bis of Law Decree 112/2008 updated by article 15 of Law Decree 135 of 25 September 2009), cannot involve the early expiry of Umbra Acque S.p.A.'s Concession Agreement.

## Related Party Transactions

### **Acea Group and Roma Capitale**

Trading relations between ACEA Group companies and Roma Capitale include the supply of electricity and water and provision of services to the Municipality.

Among the principal services are the management, maintenance and upgrading of public lighting facilities and, with regard to environmental-water services, the maintenance of fountains and drinking fountains, the additional water service, as well as contract work.

Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted on an arm's length basis.

ACEA and ACEA Ato 2, respectively, provide public lighting and integrated water services under the terms of two thirty-year concessions. Further details are provided in the section "Service concession arrangements".

With regard to public lighting, the Group provides public lighting services on an exclusive basis within the Rome area. As part of the thirty-year free concession granted by the Municipality of Rome in 1998, the economic terms of the concession services are currently governed by a ten-year service contract signed by the parties and effective as of May 2005.

The contract envisages a lump-sum payment for day-to-day management, routine and extraordinary maintenance, the supply of electricity and the implementation of a pre-established investment plan, whilst the installation of new plant and equipment is to be commissioned and paid for separately.

The annual fee is to be billed monthly with payment due at 60 days, whilst specific bills are to be issued for the installation of new plant and equipment.

In the light of the provisions contained in the current service contract – according to which the economic terms had to be renegotiated before expiry of the current agreement – in January 2011 the Board of Directors of ACEA approved a draft contract in addition to the current one. The additions are detailed below:

- the term of the service contract should be aligned with the expiry of the concession (2027), given that the contract is merely additional to the agreement;
- annual update of the compensation concerning consumption of electricity and maintenance;

- annual increase in the lump-sum payment with regard to the new lighting points installed.

Moreover, the investments for the service can be (i) required and financed by the Municipality or (ii) financed by ACEA: in the first case, such interventions will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease of the ordinary fee. In the second case, the Municipality is not bound to pay any extra-fee; however, ACEA will be awarded all, or part of the saving expected in both energy and economic terms, according to pre-established methods.

Moreover, it has been established that qualitative/quantitative parameters shall be renegotiated in 2018. Upon natural or anticipated expiry, ACEA will be awarded an allowance corresponding to the residual carrying amount, that will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator.

The contract sets out a list of events that represent a reason of anticipated revocation of the concession and/or resolution of contract by the will of the parties. Among these events, reference is made to newly arising needs linked with public interests, including the one set out in Article 23 bis of Law Decree 112/2008, according to which ACEA has the right to receive an allowance according to the product, that is discounted based on the percentage of the annual contractual amount and the number of years until expiry of the concession.

The supplementary agreement was signed by the parties on 15 March 2011.

Based on the fact that the supplementary agreement exceeds the reference thresholds set out by the Company with regard to Related party transactions, it was analysed by the Board of Directors and approved during the meeting held on 1 February 2011, having obtained the favourable opinion of the Committee for related party transactions.

As a local authority, Roma Capitale has the power to regulate municipal taxes and duties that the Group companies are required to pay and which fall under its territorial jurisdiction. However, the Group - with re-

spect to other companies operating in the municipality – is in no case the sole payer of any of these taxes and duties.

Single agreements govern the terms and conditions applicable to reciprocal receivables and payables:

- a) for the public lighting service contract, payment shall take place within sixty days of receipt of the invoice and, in case of delayed payment, the legal interest rate will be applied for the first sixty days, after which the default interest rate will be applied, as set out from year to year by a Decree of the Minister of Public Works and the Minister of Economy and Finance;
- b) with reference to all other service contracts, the payment term for Roma Capitale as regards service contracts is sixty days of receipt of an invoice, and in case of late payment the parties have agreed to apply the current bank rate at the time;
- c) for the supply of electricity and water to Roma Capitale (solely with reference to users of the regulated market), it is stipulated that Roma Capitale shall make an advance payment of 90% within 40 days of receiving a summarised list of the invoices issued by Group companies. Moreover, Roma Capitale must settle the remaining balance by June of the following year. In the case of late payment for electricity or water, interest shall be paid under the terms of the provisions issued by the Electricity and Gas Authority at the time;
- d) the prices applied to sales of electricity to free market users are in line with the commercial policies of AceaElettrabel Elettricità. Payment terms are sixty days and, in case of delay, a default interest rate will be applied;
- e) the terms of payment for the ACEA Group relating to fees for the water services concession and the rental on its head office premises are set at thirty days from receipt of the invoice, and in the case of late payment interest shall be paid in accordance with the current bank rate at the time.

For further information regarding relations between the ACEA Group and Roma Capitale, reference should be made to the disclosures regarding receivables and payables in note 23.

The following table shows details of revenues and costs for 2010 of the ACEA Group (compared with those for the same period of the previous year) deriving from the most significant financial relations.

	REVENUES		COSTS	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Supply of fresh water	27,423	24,667		
Sewerage service	0	0		
Supply of electricity	12,608	11,090		
Public lighting service contract	68,349	64,874		
Water maintenance service contract	899	899		
Monumental fountain service contract	899	899		
Upgrading of water services in the suburbs of Rome	0	350		
Concession fee			19,162	19,047
Rental of company offices			54	54
Taxes and duties			2,330	2,452

Amounts in thousands of euros

### Acea Group and Roma Capitale Group

The ACEA Group also maintains trading relations with other companies, special companies (aziende speciali) and bodies owned by Roma Capitale, concerning the supply of electricity and water.

The supply of services to entities owned by the Roma Capitale Group is conducted on an arm's length basis. The prices applied to sales of electricity to free market

users are in line with the commercial policies of Acea-Electrabel Elettricità.

The following table shows amounts (in thousand of euros) for revenues, costs, receivables and payables deriving from relations between the ACEA Group and entities owned by the Roma Capitale Group.

	Revenues		Costs		Receivables		Payables	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Cotral Group	1,005	5,204	0	1,199	1,307	650	0	28
Trambus	17	3,608	0	2	26	1,188	2	8
Ama	3,241	3,005	1,347	1,016	4,536	7,792	773	399
Atac	16,738	780	0	0	15,361	331	0	0
Palaexpò	0	151	0	0	0	43	0	0
Musica per Roma	40	39	0	0	45	43	0	0
Risorse per Roma	88	83	0	0	133	111	0	0
	<b>21,128</b>	<b>12,869</b>	<b>1,347</b>	<b>2,217</b>	<b>21,409</b>	<b>10,160</b>	<b>775</b>	<b>435</b>

Amounts in thousands of euros

The following table summarises receivables and payables due from and to entities owned by the Roma Capitale Group.

	31.12.2010	31.12.2009	Increase/ (Decrease)
TRADE RECEIVABLES	134,981	102,181	32,800
TRADE PAYABLES	96,979	140,066	(43,087)
<b>NET BALANCE OF TRADE ITEMS</b>	<b>38,002</b>	<b>(37,885)</b>	<b>75,887</b>
LOANS AND RECEIVABLES	98,512	42,564	55,948
BORROWINGS	2,213	2,213	0
<i>NET BALANCE OF FINANCIAL ITEMS</i>	<i>96,299</i>	<i>40,351</i>	<i>55,948</i>
<b>NET BALANCE</b>	<b>134,301</b>	<b>2,466</b>	<b>131,835</b>

*Amounts in thousands of euros*

### The Acea Group and its main associates

The company **Marco Polo** operates facility management services following the transfer of the relevant division under a nine-year lease from ACEA, which previously carried out this activity.

The supply of services to ACEA Group companies is conducted on an arm's length basis.

Similarly, Marco Polo is provided with administrative

services from ACEA under an annual service contract. This supply of services is conducted on an arm's length basis.

The following table shows amounts (thousand of euros) for revenues, costs, receivables and payables deriving from relations between the ACEA Group and the company Marco Polo.

	Revenues		Costs		Receivables		Payables	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Marco Polo	2,086	2,249	11,428	12,719	2,185	8,464	22,762	20,930

*Amounts in thousands of euros*

### Acea Group and main GdF-Suez Group companies

Following incorporation of the joint venture between ACEA and Electrabel (now GdF-Suez), the companies established and/or acquired within the context of the partnership engage in regular trading relations, as well as in trading and financial relations with some companies of the Electrabel Group (now GdF-Suez).

As regards the mutual relations between the companies of the AceaElectrabel joint venture, these are reflected in the consolidated financial statements with regard to the part exceeding the derecognition of inter-company bal-

ances, having taken into consideration that these companies are held by the ACEA Group according to different shareholdings and are consolidated on a proportionate basis.

The relations between the companies of the AceaElectrabel joint venture and some companies of the GdF-Suez Group mainly consist in contracts for the sale or procurement of electricity, technical and administrative support provided by Electrabel (now GdF-Suez) to certain companies, above all AceaElectrabel Trading and AceaElectrabel Produzione, and financial contracts. For further information refer to the comments on the items in the Balance Sheet.

The following table shows amounts (thousand of euros) for revenues, costs, receivables and payables deriving from relations between the ACEA Group and principal companies in the Electrabel Group (now GdF-Suez).

	Revenues		Costs		Receivables		Payables	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
GAZ DE FRANCE	69,914	15,009	138,503	98,451	24,752	4,848	15,403	18,930
GDF SUEZ Energia Italia	0	183	15,282	10,182	0	127	108,268	104,022
ROSEN	95	63	297	338	67	18	8	40
LABORELEC	0	0	197	26	0	0	104	17

Amounts in thousands of euros

In December 2010, ACEA and GdF-Suez (through the subsidiary GdF-Suez Energia Italia) signed a Framework Agreement aimed at governing the acts and the activities that the parties intend to carry out in order to terminate the joint venture contract signed in 2002 and any related relations, positions, rights and obligations.

As part of the Framework Agreement, ACEA and GdF-Suez undertake to carry out a complex transaction, after which:

- i. ACEA and GdF Suez will carry out a partial, unproportional demerger transaction of AceaElectrabel Produzione, with the incorporation of a new company ("Newco") whose share capital will be fully held by AceaElectrabel and that will include the assets and activities necessary to manage the hydroelectric plants and the plants in Tor di Valle and Montemartini (including the goods and assets related to district heating) owned by AceaElectrabel Produzione, in addition to financial liabilities and similar liabilities established by the Parties. At the end of the demerger, GdF-Suez will hold 100% of AceaElectrabel Produzione (post-demerger) that, at the end of the transaction, will hold three combined-cycle plants (also through the subsidiaries Voghera Energia and Roselectra) and wind farms (also with regard to the plants of the subsidiary Longano Eolica);
- ii. ACEA will purchase from GdF-Suez 40.59% of AceaElectrabel, of which it will hold 100% and, indirectly, 100% of the share capital of Newco, which

will include the hydroelectric activities and the plants of Tor di Valle and Montemartini, that are currently held by AceaElectrabel Produzione; and 100% of AceaElectrabel Elettricità, as well as the investments held for any related shareholdings;

- iii. GdF-Suez will acquire from ACEA 30% of Eblacea, that in turn holds 50% of Tirreno Power;
- iv. GdF-Suez will hold 100% of AceaElectrabel Trading, following the acquisition of the 84.17% shareholding from AceaElectrabel;
- v. GdF-Suez will grant to ACEA an irrevocable and unconditioned option that can be exercised by 30 September 2011 in order to sign a five-year electricity supply contract for an annual amount of 5TWh.

This transaction is expected to be carried out by the first quarter of 2011.

For further details, reference is made to note 22 of these Consolidated Financial Statements.

This transaction – that exceeds the reference thresholds set out by the Company with regard to Related party transactions, having taken into account its importance in terms of company structure – was approved by the Board of Directors during the meeting held on 25 November 2010, having obtained the favourable opinion of the Committee for related party transactions.

## Update on major disputes and litigation

### Social security issues

#### **INPDAP (National Social Insurance Institute for Civil Servants) contributions**

The Group currently employs staff registered with both Inpdap and Inps (National Institute of Social Insurance) pension funds. Certain contribution rates applied by the two entities differ greatly; these include those for family allowance payments, for which Inpdap applies a rate that is 3.72% higher than that applied by Inps.

In response to the failure to pass legislation bringing the pension and social security contributions into line, the Group decided that from November 2002 it would pay CUAFF (family allowance fund) contributions at the more favourable rate. On the other hand, the underlying legal basis is rather unclear: Inps circular no. 103 of 16 June 2002 reiterated that, whilst awaiting clarification from the Ministry of Economy and Finance and the Ministry of Labour, the rate of 6.20% applied to staff registered with the Inpdap pension fund was to be considered provisional. In terms of legal action, the Parent Company, ACEA Distribuzione, ACEA Ato2, Laboratori and ACEA Luce appealed through the administrative courts. The judgements handed down at first instance during the second half of 2006 found in favour of Laboratori and ACEA Luce (the latter being an ACEA Group company at the time), whilst the appeals submitted by ACEA, ACEA Distribuzione and ACEA Ato2 were turned down. The aforementioned companies each filed an appeal, which all met with unfavourable outcomes.

An additional appeal was submitted against the second instance ruling, which also met with an unfavourable outcome at the hearing on 9 April 2009; at the current state of play, a ruling has yet to be deposited, leaving more time to assess whether to appeal before the Supreme Court.

A similar problem regards contributions for maternity benefits, where the difference in the cost to companies, based on taxable pay, is 0.57 percentage points higher for staff covered by Inpdap compared with those covered by Inps. The ACEA Group applied a reduced rate as of October 2003 for said contribution too. It should be noted that as regards said contribution legislation was introduced with Law Decree no. 112 of 25/6/2008 converted with amendments into law

no. 133 of 6/8/2008, where paragraph 2 of article 20 regulates, effective from 1 January 2009, uniformity of contributions for private employers across the board.

ACEA, ACEA Ato2, ACEA Ato5 S.p.A., ACEA Distribuzione, Arse, AceaElectrabel Produzione and AceaElectrabel Elettricità (also as the merged company of AceaElectrabel Energia) filed appeals which, although turned down, gave rise to the presentation of an appeal request which also ended unfavourably for said parties. Appeals lodged by Laboratori and ACEA Luce met with favourable outcomes.

Following a series of unfavourable outcomes for Group companies, a Court of First Instance (in Brescia) has upheld the position taken by a former municipalised utility, recognising the company's right to pay the above contributions at the reduced rate and declaring the tax demands issued by Inps to have no basis in law. The court's opinion appears to be substantially in line with the arguments adopted in the appeals submitted by Group companies.

The Group made the necessary allocations to cover the risk related to these problems.

#### **Health insurance contributions**

The case concerns certain health insurance contributions levied at a rate of 2.22% on the salaries of blue collar workers. Acea argues that the obligation of Inps to pay certain sickness benefits, which is the reason underlying the employer's obligation to pay the contribution involved in this dispute, is expressly excluded by art. 6, paragraph 2 of Law 138 of 11 January 1943 in cases where the payment of this benefit is assured by law or by collective labour agreements by the employer or other bodies, to an extent either equal to or greater than what is established by collective labour agreements.

However, Inps started to request payment of the contribution from the entry into force of law no. 41 of 28 February 1986 (1986 Finance Act), which reformed the health and social welfare contribution system, reducing the rate for the sickness benefit, abolishing the additional rate of the old sickness contribution, establishing the contribution for the National Health Service and the welfare contribution.

This initiative led to a great deal of legal activity involving the companies which considered the contribution undue, with favourable and unfavourable outcomes to said proceedings.

By means of Supreme Court (joint session) ruling no. 10232 of 27 June 2003, promoted by INPS, the principle diametrically opposed to the one provided for by law was sanctioned, making the contribution due from companies of a solidaristic rather than welfare nature. However, companies are still awaiting legislation which would fully regulate the previous one, realised with the issue of law no. 133 of 6 August 2008, converting Law Decree 112/2008.

The law definitively provided an authentic interpretation of the second paragraph of article 6 of law no. 138 dated 11 January 1943, establishing that employers are not obliged to pay health insurance contributions in cases where they have, by law or under the provisions of a collective labour agreement, paid sick pay, thus amending previous periods and providing for the payment obligation to take effect from 1 January 2009. Therefore, ACEA Group companies started to pay health insurance contributions from January 2009; the provision set aside relates to the period running from the date of the change to collective agreement regulations to the date law 133/2008 was issued.

### **Unemployment and mobility contributions**

This is the contribution companies have to pay due to INPS, to finance the income support fund for workers that have become unemployed; it is decidedly insurance-related in nature, for which only the previously insured provider has the right to performance.

The obligation exists toward all employees in general, with some exceptions, e.g. for those who benefit from the guarantee of job security (art. 40 of Royal Decree 1827/35) given they are employees of public administrations, public companies or exercise public services where the element of stability is based on norms regulating the legal status and remuneration of personnel or ensured, upon request, by a provision from the Ministry of Labour.

As previously mentioned, despite altering the legal and economic nature of the company, the requirement of job stability was however met by the collective labour agreement applied to personnel, which for companies operating in both the electricity and water services segments consisted of the national collective labour agreement of 9/7/1996 for employees working in local electricity companies.

Stipulation of the sole agreement of the electricity sector in July 2001, and the subsequent succession and interpretation agreement of April 2002 and the agreement of contractual migration from electricity to water, in July 2001 too, led to periods without job stability before the companies adopted regulations aimed at restoring the requirement.

Favourable first and second instance rulings were appealed by INPS; the hearing set for 7 February 2011 was put back to 9 January 2012.



## Tax issues

### Tax moratorium

As regards the dispute arising as a result of the final decision reached by the European Commission in June 2002, the situation has remained unchanged during the year: in fact, an appeal submitted against the decision, taken in June 2009, of the Court of First Instance, which was unfavourable for claimants including ACEA, is still pending.

It should be borne in mind that the Commission considered as state aid, incompatible with the common market, both the three-year exemption from corporate income taxes and the loans at below market rates from Cassa Depositi e Prestiti between 1994 and 1998.

Recovery of the alleged state aid was launched essentially by the Italian State on 15 February 2007, when Law Decree no. 10/2007 was published in the Official Journal. Article 1 of this decree – which was converted into law on 6 April 2007 (Law 46) – envisages yet another change (the third since April 2005) to the procedure for recovering the aid.

The aforementioned legislation envisages that recovery of the aid, represented by unpaid taxes and the related interest, should be carried out by the tax authorities, which are required (i) to calculate the taxes based on the information sent to local authorities and the tax declarations submitted by the companies that benefited from the aid pursuant to the legislation in force prior to the changes introduced by paragraph 132 of article 1 of Law 266 of 23 December 2005, and (ii) to issue a specific notice within 90 days of the date of entry into force of the decree (15 May 2007) containing, for each relevant tax year, the payment demand for the sums due, making a definitive entry in the delinquent tax list should payment not be made within thirty days of the notice date.

The decree expressly prohibits any term of payment extensions or administrative suspensions. In contrast, the payment demands may be appealed before the tax commissions and the demands suspended on a cautionary basis only under clearly defined circumstances and subject to verification of the seriousness and irreparability of the prejudice suffered by the appellant. Based on the above legislation, on 13 April 2007 the

tax authorities issued payment demands pursuant to article 1 of the decree, with a view to recovering the aid represented by unpaid taxes for the years 1998 and 1999. These taxes amounted to 6,362 thousand euros, on which interest of 3,022 thousand euros was also due. ACEA paid the amounts due within the related terms.

Law Decree 185/2008 was published in the Official Journal on 29 November 2008. Article 24 of this decree – which was subsequently converted into Law 2/2009 – establishes that, in order to fully implement the European Commission's Decision 2003/193/EC, recovery should be carried out by the tax authorities pursuant to article 1, paragraph 1 of Law Decree 10/2007, according to the standards and ordinary procedures applied in the assessment and collection of income taxes. Recovery is to take place within 120 days of the entry into force of the Law Decree (28 March 2009) via a notice of assessment that should take account of any amounts already paid to the tax authorities pursuant to article 1, paragraph 2 of Law Decree 10/2007. Any term of payment extensions or administrative or legal suspensions are prohibited, and any amounts paid to the tax authorities on the basis of the provisions of Law 289/2002 and subsequent amendments and additions (which introduced a tax amnesty) bear no relevance to the recovery.

On 30 April 2009, ACEA was notified of tax assessments for the years 1998 and 1999 by the tax authorities, issued as a result of the provisions of article 24 of Law decree no. 185/2008. On 6 May 2009, ACEA paid the sum of 23,064 thousand euros (including interest), covered by a provision set aside (31 million euros) in 2008. It should be noted that the sums paid are added to the amount paid in 2007 (totalling 9 million euros including interest) on the basis of injunctions sent by the tax authorities in compliance with article 1 of Law decree no. 10/2007.

On 25 September 2009 Law Decree no. 135 was approved – also known as the Ronchi Decree – converted with amendments into law no. 166 of 20 November 2009 – which, among other things, introduces paragraph 1 bis to article 24 of Law Decree 185/2008. Said

paragraph (i) specifies the calculation of the tax base of aid by essentially excluding the sole gains deriving from extraordinary operations carried out by the companies affected by recovery regulations, (ii) authorises the tax authorities to issue and notify new tax assessments which supplement or adjust upwards those notified on the basis of the old text of article 24 of Law Decree 185/2008, (iii) establishes the payment term as fifteen days from notification of the new assessments. On 2 October 2009, the tax authorities notified ACEA of two tax assessments for 1998 and 1999 for a total amount of 86,806 thousand euros (including interest) which were paid by ACEA on 19 October 2009.

ACEA has appealed the payment demands of 2007 and the 2009 tax assessments before the Rome Tax Commission; a hearing was held on 3 December relating to the appeals submitted against the 2007 payment demands: the outcome of the case is still unknown.

Total aid repaid by ACEA amounted to 119,279 thousand euros (including interest). ACEA deems that the payments made bring the matter to a definitive end.

#### **VAT**

On the basis of Ministry of Finance guidelines, the Aziende Speciali incorporated under the terms of articles 22 and 23 of Law 142 of 8 June 1990, contrary to previous indications from the same ministry, should have applied VAT to transactions with their local Municipality during the period of the tax moratorium. According to such an interpretation, with the acquisition of legal status the above-mentioned Aziende Speciali, even though subject to a tax moratorium, were bound to fulfil their VAT obligations. Furthermore, on the basis of the arguments in the Ministry's guidelines, the Aziende Speciali could have acquired the status of legal entities as they fulfilled the initial acts designed to achieve such status. Recent sentences have not upheld the arguments put forward by the Ministry of Finance with regard to VAT. The Directors of ACEA SpA, backed by an authoritative opinion on tax matters, do not consider that ACEA SpA will be obliged to assume the tax commitments of the former Azienda Speciale which, as recognised by Roma Capitale, remain the responsibility of the conferee (Roma Capitale).

#### **ACEA tax inspection**

In September 2007 the Tax Authorities launched an assessment on ACEA of the tax loss deriving from the sale of Atlanel pursuant to Article 1, paragraph 4 of Law Decree 209/2002.

The scope of the assessment was extended to include the corporate restructuring that took place in 2004 and, in particular, the sale to Arse of 50% of the investment in ACEA Distribuzione. This is based on application of article 36, paragraph 11 of Law Decree 223/2006, which amended the legislation governing the use of accumulated tax losses under the tax transparency regime, and introducing the application of anti-evasion measures to transactions carried out prior to the above amendment. The audit was completed in February 2009, with recognition of the tax losses deriving from the sale of Atlanel and notice of an alleged irregularity pursuant to article 37 bis of Presidential Decree 600/1973 sent to the Tax Office for the Lazio region.

Following the aforementioned notification, and pursuant to provisions set out by Art. 37 bis, paragraph 4 of the Presidential Decree 600/1973, in December 2009, ACEA received, from the Lazio Regional Department, a call for clarification on the transaction being audited.

In February 2010, following the aforementioned request, ACEA submitted to the Tax Authority the reasons why it deemed that the alleged irregularity of elusion was groundless. Aside from the reasons supporting the groundlessness of the irregularity, however, ACEA evaluated the possibility of reaching a settlement with approval for the irregularity, in order to avert the risk deriving from the tax dispute that could arise on this issue. For the above-mentioned reason, on 12 July 2010 ACEA filed in an assessment request with approval and asked the Tax Office that, in issuing the assessment proposal with approval or the assessment notice, no administrative fine be applied as the conduct of the Company is not punishable for the following reasons:

- the objective uncertainty, by reason of the fact that the reference legal framework ascribable to the introduction, in 2004, of a radical reform of the tax regime for companies was changed in 2006, when a clear legislative reference to the application of article 37 bis was expressed (at that time the option had already been exercised). Contrasting interpretations and the ambiguity of the

same official interpretations should be also added, which led to the assumption, also based on an opinion expressed by an authoritative source, that the transactions aimed at modifying the requirements to access the transparency regime were legitimate,

- the mistaken fact, insofar as the company, while carrying out the transaction under evaluation, deemed (and still deems) that it was supported by valid economic reasons.

On 14 July 2010, ACEA and the Tax Authority subscribed an assessment deed with approval, in which the above-mentioned irregularity amounted to 39.8 million euros, including interest and excluding fines.

It should be noted that, in the 2009 Consolidated Financial Statements, the allocation made (36 million euros) was intended for tax purposes only. Interest has therefore been allocated to financial management in these consolidated financial statements. The financial impact will involve three financial years as ACEA asked for the payment of instalments, subject to the issue of a bank guarantee.

This irregularity also includes the objection raised against ACEA on the consolidation adjustments regarding dividends applied in the 2006 tax return (for the 2005 tax year). Further details on the matter are provided in the 2009 Consolidated Financial Statements.

### **SAO tax inspection**

In October 2008 the tax authorities issued two notices of assessment to SAO, amounting to 5.8 million euros in taxes and 5.7 million euros in penalties.

These notices of assessment regard the 2003 and 2004 tax years and derives from criminal proceedings launched by the Orvieto District Attorney's Office. This action, which is still pending before the Court of Perugia, regards transfers of waste from the Campania region in the aforementioned 2003-2004 period, based on a planning agreement executed at that time by the presidents of the Campania and Umbria regional authorities and the subsequent management of the Orvieto landfill.

Although one of the years involved in the tax inspection notices (2004) was already subject to a tax inspection, the Tax Authorities deemed that it was possible to re-

open the inspection, following the ruling under which the Court of Orvieto, in criminal proceedings, declared the Court of Perugia to instead hold competence.

The notices of assessment regards taxation of the costs incurred during the two years in relation to the above transfers of waste, based on the fact that such transfers are now considered illegal on the basis of the mere existence of criminal proceedings and despite the absence of provisions from the Judge regarding the verification of the existence of the offences for which to proceed.

On 12 December 2008 the company submitted separate appeals against the notices of assessment.

In May 2009, the tax commission upheld the requests for the suspension of the notices of assessment submitted by the company and, in November 2009, at the first hearing on the matter, combined the two appeals and, in upholding the objection raised, asked the Constitutional Court to rule on the issue of legitimacy regarding the legislation which generated the costs, non-deductible for tax purposes, incurred in the years 2003 and 2004 (article 14, paragraph 4 bis, Law of 537/93).

The hearing was held at the Constitutional Court on 8 February 2011, and an outcome is still pending.

It has been deemed that the acts of the Tax Authorities are illegitimate and that there is a remote risk of payment of the entire sum for which the previous shareholder is liable (Enertad now Erg Renew) on the basis of the guarantees issued in the purchase/sale contract and the provisions in the arbitration award issued by the Board of Arbitrators set up, upon request of ACEA S.p.A., in accordance with said contract.

### Tax inspection on Marco Polo

On 23 June 2010, the Tax Authority notified the associated company Marco Polo of a Report of Findings relating to the general tax inspection started in March 2010. The irregularities found by the Tax Authority totalled 6.4 million euros, plus interest and fines and essentially concern objections to the equalisation calculation method of fees due to Shareholders of ACEA and Ama, based on the service contracts entered into. As for these objections, the Company deems that its approach is largely defensible.

### AceaElectrabel Trading tax inspection

On 15 September 2010 the Guardia di Finanza – Nucleo Polizia Tributaria di Roma (Italian Financial Police – Rome Tax Squad) opened a tax inspection relating to direct taxes for 2008, subsequently extended to the years 2005, 2006, 2007 and 2009 with reference to the so-called off-balance sheet transactions (article 112 of Income Tax Consolidation Act). In November 2010, tax inspections were concluded for the 2005 tax year and the Guardia di Finanza notified AceaElectrabel Trading and ACEA, as the consolidating entity, of a Report on Findings, ascertaining a higher taxable base, (Ires and Irap – corporate income tax and regional business tax) of 14.2 million euros, relating to the fair value of solely hedging instruments with a positive fair value as at 31 December 2005, producing effects over subsequent years. In substance, the tax inspector confirmed that the disclosures made by no IAS adopters - AceaElectrabel Trading is one – in their financial statements in compliance with OIC 3 assume tax relevance pursuant to and in accordance with article 112 of the Income Tax Consolidation Act. Inspections are currently being performed for other years.

As for these objections, the Company deems that its approach is largely defensible.

On the basis of the Framework Agreement signed in December by ACEA and GDF Suez Energia Italia, ACEA is indemnified and held harmless in relation to any amount it is required to pay, also temporarily, as consolidating entity.

### Other problems

#### ACEA Ato5: Measures regarding the alleged illegitimacy of tariffs

Resolution 4, passed by the Mayors' Conference held on 27 February 2007, recognised the higher costs incurred by the operator since taking over management of integrated water services compared with projections set out in the Area Plan. As a result, the Resolution proceeded "to approve revised tariffs with effect from 2006".

The following Decision 1/2008 issued by the Chairman of AATO 5 proceeded "to modify the tariffs for 2006 to enable the operator to recoup the shortfall via increases in the amounts billed to its customers".

Following introduction of the revised tariffs, Italy's Supervisory Committee for the Use of Water Resources (COVIRI) passed Resolution 7/2008, putting forward two objections to the decision taken by the Authority:

- firstly, it observed that the increase in the average real tariff for integrated water services exceeded the limit established by the Ministerial Decree of 1 August 1996, being over 5% for each year;
- secondly, it cited "the principle of the non-retroactivity of administrative actions designed to guarantee certainty in legal relations, and the legal principle prohibiting unilateral changes with retroactive effect to legal relations between private parties".

In fact, the Company believes COVIRI Resolution 7/2008 to be entirely illegitimate, leading it to file an appeal against the above ruling before the Regional Administrative Court of Lazio.

In fact, in the Company's opinion, the argument put forward by COVIRI in the above ruling – according to which Resolution 4/2007 passed by the Mayors' Conference raised the real average tariff by more than the limit established by art. 5 of the Ministerial Decree of 1 August 1996 – is completely illegitimate as it is in clear contrast with:

- firstly, art. 117 of Legislative Decree 267/2000 and subsequent amendments and additions, which provides that tariffs for local public services must "ensure a fair return on investment and the related operations" and establishes the following criteria for calculating tariffs, which should take account of: "a)

the need for revenues to cover the related costs, in such a way as to ensure that costs are fully covered, including charges for technical and financial depreciation; b) the need for a balanced debt-to-equity ratio; c) the cost of operating the infrastructure, bearing in mind investments and service quality; d) the need to provide an adequate return on invested capital, in line with prevailing market conditions”;

- secondly, art. 154 of Legislative Decree 152/2006, in accordance with which the tariff “constitutes the price for integrated water services and is fixed by taking account of the quality of water resources and of the service provided, the necessary infrastructure and upgrading work, the cost of operating the infrastructure, an adequate return on invested capital and the operating costs for protected areas, in addition to a portion of the operating costs incurred by the Area Authority, in such a way as to guarantee full coverage of investment and operating costs according to the cost recovery principle ...”;
- thirdly, the Ministerial Decree of 1 August 1996, with specific reference to extraordinary changes to the tariff, above all with regard to the provisions of the last paragraph of art. 4, in accordance with which “The average real tariff may be revised as a result of: legislation or regulations that modify requirements regarding the quality of the product and service, subject to prior approval by the Area Authority; periodic checks on the services provided; changes to the normalised method established by the Supervisory Committee for the Use of Water Resources” – and art. 8, paragraph 2, according to which “The Area Authority may, aside from the three-year tariff review, at any time intervene in the event of significant differences between projections in the financial plan and the actual figures regarding: a) the achievement of the levels of service envisaged in the plan, following the related investments, assessing changes to the limits for price “K” or any penalties, and rebates due in accordance with the terms of the concession arrangement, especially with regard to the “depreciation” and “return on capital” components of the tariff; b) the match between revenues deriving from application of the tariff structure and revenues expected on the basis of the average tariff established in the con-

cession arrangement, in order to make the resulting changes; c) the correspondence of operating costs with structural changes in production and distribution and the resulting changes to the reductions provided for by art. 6”.

The above considerations lead us to believe that COVIRI’s resolution is illegitimate and, consequently, that the tariff fixed by Resolution 4/2007, as passed by the Mayors’ Conference for AATO 5, is valid.

Subsequently, the Mayors’ Conference for AATO 5 issued Resolution 3 of 27 January 2009, opting “not to suspend, or cancel, Resolution 4 of 27 February 2007 passed by the Mayors’ Conference; not to appeal to the Regional Administrative Court against COVIRI Resolution 7; and to immediately launch procedures aimed at complying with all the requirements set out by COVIRI in Resolution 7/2008”.

As of today, despite the declared intentions and numerous requests sent by the company, the Area Authority has still not calculated a new tariff that, eventually, will acknowledge the observations formulated by COVIRI.

With resolution no. 5 of 21 December 2009, the Mayors’ Conference for AATO 5 cancelled previous resolution no. 4/2007, thus also cancelling the 2007 tariff referred to above. The content of the resolution, whose objective is to conform with COVIRI observations, is summarised below:

- cancellation of resolution no. 4/2007 and all other deliberative and/or executive, required, connected and consequential acts;
- conferral of the mandate to the President of AATO to cancel presidential resolution no. 1/2008;
- delegation to the competent bodies, with the support of the STO, to draw up an average tariff proposal for the years 2006, 2007, 2008 and 2009 calculated on the basis of laws and the contract, and at the Mayor’s Council, to present said proposal to the Conference of Mayors called before and not after 31 March 2010;
- notice to the operator, in the interim period, to stop issuing invoices with different tariffs from those provisionally authorised or different from those in force in 2005.

In February 2010 the company lodged an appeal to the

Administrative Court of Latina, deeming the aforementioned resolution to be gravely vitiated on a number of grounds; the company then filed further issues to be added to the pending appeal.

In July 2010, the Regional Administrative Court of Latina referred the decision to the Regional Administrative Court of Rome as it did not hold regional competence. The appeal is still pending.

In addition, the appeal before the Regional Administrative Court does not prevent the company from bringing civil proceedings to assert the contractual and/or non-contractual obligations of the Area Authority to ACEA Ato5 and obtain compensation for all damages incurred by the operator. This also applies in the event the administrative court judge essentially confirms the illegitimacy of the 2006 tariff (with reference to the profile of the tariff increase and/or its retroactivity).

Therefore, the company, supported by an authoritative legal opinion, is deemed to have valid grounds for having resolution no. 5/2009 of the Mayors' Conference cancelled by the administrative court judge and, in any case, for launching direct, immediate and independent legal proceedings aimed at recovering its credit. However, management believe that, on the basis of prudential evaluations, it must make a provision in consideration of the maximum estimate of the potential liability deriving from said problems (25 million euros) relating to the 2006-2009 period.

On 8 April 2010, the Mayors' Conference, during which members of the Area Council were appointed, resolved on the determination of the 2010 tariff, establishing the temporary application of tariffs in force in 2005. This appears to be abnormal and illegitimate given that it does not take into account the legislative context regarding determination of the tariffs.

In June 2010, the Mayors' Council resolved on a proposal to ACEA Ato5 to re-open negotiations, with the obligation of resolving the dispute connected to the 2003-2010 period, and drawing up and approving the new Area Plan before 31 December 2010. Negotiations are currently closed and the aforementioned appeal submitted by the company was discussed before the Regional Administrative Court of Lazio on 24 February 2011. Therefore, the company is awaiting the relevant ruling.

In fact, subsequent meetings of the Mayors' Conference did not produce any solutions to the tariff problems.

In light of the above information, for billing purposes, the company applies the tariff published in 2005, in agreement with the taxation of the entity, however assessing its revenues in these Financial Statements on the basis of the minimum volumes guaranteed by the project put out to tender valued at the real average tariff, equal to that of the bid, plus forecast and compound inflation. In fact, based on events after the close of 2009, i.e. following various resolutions of the grantor, despite remaining convinced of the validity of the grounds adopted regarding the non-voidability of the provision resolved at the Mayors' Conference in February 2007, management decided to take a prudent approach to the valuation of revenues.

In support of the arguments put forward, on 8 July 2010, the Area Authority received a copy of a report from Co.N.Vi.Ri. stating that "it is incorrect to apply the average tariff determined for 2005 to 2010, and then calculate the non-retroactive equalisation" and "therefore the Authority shall apply the average tariff to the reference year and the Operator shall see that the related investments are made, provided that the average tariff is determined for that year". By means of said report, Co.N.Vi.Ri. asked the Area Authority to "adopt the relevant measures by applying the real average tariff set out in the Area Plan for the year 2010".

Subsequently, said Co.N.Vi.Ri. - by means of resolution no. 39/2010 - further clarified that the Area Authority is obliged to resolve, on an annual basis, a real average tariff which, "multiplied by the volume than can be provided, determines the total revenues which ensure the Operator has the possibility of carrying out the forecast investments" with the result that "a real average tariff not in line with the Area Plan would not allow the Operator to make the forecast annual investments".

In this context, ACEA Ato5 - in the belief that a solution to the problem can no longer be put off and while awaiting a resolution of the ongoing dispute - notified all bodies and natural persons of the Area Authority of an extra-judicial demand so that they take all necessary and subsequent measures for the determination of the 2010 tariff and conclusion of the review process,

taking into account the damages and inconvenience resulting from the delay in adopting the aforementioned provisions.

## Gori

Regarding FY 2009, as it is well known, on 5 November 2009, after long negotiations, the Area Authority and GORI signed a Settlement Deed (hereunder the "Settlement Deed"), already ratified and approved by GORI's Board of Directors (hereinafter also BoD) and General Shareholders' Meeting. In particular, the Settlement Deed set out, amongst other, the following:

- definitive regulation of the mutual relations established between 2006 and 2009, while acknowledging and confirming:
  - (i) tariff adjustments at 31.12.08, related to receivables for invoices to be issued, as resulting from the financial statements ended on 31.12.08 and totalling 74 million euros (Group portion, 27 million euros). With subsequent adjustment actions, the Area Authority not only will maintain the economic-financial balance of the reference financial year, but will also ensure the recovery of these receivables, including interest, within seven years starting from 1 January 2010;
  - (ii) a real average tariff, lower compared to the tariff applicable according to the Area Plan in force, but suited to ensure tariff revenues for 2009 equal to 135 million euros;
- the Area Authority should review the current Area Plan and the related Tariff, Financial and Economic Plan (hereinafter "FEP"), in compliance with standards and obligations set forth by law and in view of ensuring long-term financing by Credit Institutes, while fulfilling requirements envisaged by the banking system;
- GORI undertakes to adopt specific measures aimed at service efficiency and lower management costs.

The General Meeting of the Municipalities of the Area Authority rejected the Settlement Deed on 11 June 2010. On 30 March 2010, the company sent a letter of default to the Area Authority to urge the same authority to adopt the tariff structure for 2010, through special order issued by the competent body and within thirty days after

the receipt of the deed. Following the letter of default, by reason of the fact that no action was taken, GORI filed in an appeal to the Regional Administrative Court of Campania – Naples, pursuant to Art. 21 bis of Law no. 1034/1971, against the silence/non-performance of the Authority, in order to at least obtain the tariff structure for the achievement of a real average tariff for the year 2010, as envisaged by ATO 3's Area Plan.

In the meanwhile, the Mayors' Conference met to neutralise the effects of the above-mentioned appeal and on 21 June 2010 resolved on an insignificant tariff increase, equal to the forecast rate of inflation (1.5%), certainly not sufficient to allow for the achievement of the real average tariff provided for by the Plan for the year 2010. Following said resolution, it became impossible to proceed with the proposed appeal due to the lack of interest. Therefore, the company presented a second appeal to the Regional Administrative Court, requesting the cancellation (and, on a precautionary basis, a suspension of the effects) of Provision of 21 June 2010 and, at the same time, instructing the Area Authority to adopt measures regarding the tariffs set out in the Area Plan. By means of Order of 22 September 2010, the Regional Administrative Court promptly set a date for the hearing to deal with this matter, rejecting the request for precautionary measures, considering that:

- art. 10.2 of the service assignment agreement envisages that the annual tariff adjustment be carried out by also "taking into account the quality of water resources and the service provided" and that "for the purposes of the annual update, account is also taken of the objectives regarding the improvement in the productivity and quality of the service supplied"; also, based on art. 9.3 of the service regulations, "the Authority, without prejudice to the three-year check on application of the tariff may, at any time, intervene in the case of significant variations in the forecasts of the Economic and Financial Plan regarding:
  - a) achievement of the service levels set out in the plan (...);
  - b) consistency between collections (...) and forecast collections (...);
  - c) conformance of operating costs with structural variations in production or distribution or the resulting reductions pursuant to art. 6";

- in accordance with art. 8, paragraph 2 of Ministerial Decree of 1.08.1996, the Area Authority would also appear to provide, for tariff purposes, for the possibility of checking that what has been planned matches what has been carried out.

### **Antitrust Authority investigation of the acquisition of Publiacqua**

On 8 June 2006 ACEA was informed that Italy's Antitrust Authority was about to start an investigation of an alleged violation of article 81 of the Treaty of Rome (anti-competitive agreements) in relation to the acquisition, in partnership with Suez, of a 40% stake in Publiacqua, which manages water services in the Florence area.

On the same date ACEA submitted the documentation relating to the transaction.

The investigation saw a number of key developments during the first half of 2007, with several Company representatives giving evidence during hearings held at the Authority's offices and deposition of defence briefs (prepared with the assistance of the consultants hired by the Company). The most important event took place during the second half of July, when the report containing the results of the investigation was passed to the Antitrust Authority Board for its final decision.

On 28 November 2007, ACEA was notified of the Antitrust Authority's ruling, in which it:

- deemed that a horizontal agreement existed between ACEA and SUEZ in the integrated water services sector, which is managed by a public-private partnership in which the private partner is selected via a tender process;
- ruled that the parties should take actions to avoid repetition of the sanctioned behaviour, with the Authority to be notified of the nature of such actions within 90 days, and also amend the rules governing the partnership regarding the part deemed to be in violation of competition regulations;
- ordered ACEA and SUEZ to pay fines of 8.3 million euros and 3 million euros, (the difference in the amounts derives from their respective turnovers in the relevant sector in Italy).

ACEA appealed the Authority's decision before Regional Administrative Court of Lazio, with the hearing on the

merits of the case held in April: on 7 May 2008 the court announced the related sentence, finding in ACEA's favour and cancelling all the rulings and the fine imposed. Details of the sentence, upholding all of the appellant's arguments, were published at the end of June.

The favourable ruling passed down by the Regional Administrative Court of Lazio in 2008, which met to hear the appeals filed by ACEA and Suez Environnement, was executed by the Ministry of Economy and Finance that, on 11 June 2009, ordered the return of the penalty of 8.3 million euros paid by ACEA in February 2008.

The Antitrust Authority filed an appeal against the decision of the Regional Administrative Court of Lazio. A hearing is yet to be set.



### **Antitrust Authority Investigation on ACEA Distribuzione**

Towards the end of the year, the Antitrust Authority started an investigation against ACEA Distribuzione and other Italian utility companies on the alleged violation of Article 82 of the Treaty of Rome in relation to switching activities allegedly prevented in the event the customer decides to switch to another wholesaler. ACEA Distribuzione asked for the implementation of the so-called leniency programme to prevent the burden of abuse and remove any relevant consequence related therein.

The company is still waiting for the final decision to be taken by the Antitrust Authority.

By means of the provision adopted at the meeting on 8 September 2010, the Antitrust Authority accepted the commitments presented by ACEA Distribuzione, making them binding; as a result of closing the preliminary investigation of ACEA and ACEA Distribuzione, without verifying the breach, pursuant to art. 14-ter, paragraph 1, Law 287/90; that ACEA Distribuzione must submit reports, the first one after 120 days and subsequent reports on a six-monthly basis, for a period of two years, to actually prove that what was proposed was carried out as a "commitment"; that ACEA, with the same frequency, must present reports on actions taken to ensure the logical and physical unbundling between distribution and sales. The first of these reports was delivered to the Antitrust Authority on 18 January 2011. The deadline for any interested party to present an appeal to the Regional Administrative Court of Lazio regarding the above-mentioned provision has expired, and said decision is final and binding.

The substance of the commitments can be summarised into two approaches: the first, of a temporary nature while awaiting the realisation and entry into operation of the new system, currently in progress as part of the so-called Programma Volta (Volta Programme), to guarantee the strengthening of current procedures for the provisioning of end users/ activations for access to the current NSIU system according to criteria which require more rigorous functional selection/unbundling, while A. Distribuzione initiated and made available new and more complete functionalities in its portal in which wholesalers manage switching requests; the second,

a permanent type, shall occur with the realisation and entry into operation of the system included in the aforementioned Volta Programme.

### **E.ON. Produzione S.p.A. proceedings launched against ACEA, ACEA Ato2 and AceaElectrabel Produzione**

These proceedings were launched by E.ON. Produzione S.p.A., as successor to ENEL regarding a number of concessions for the abstraction of public water from the Peschiera water sources for electricity production, to obtain an order against the jointly and severally liable defendants (ACEA, ACEA Ato2 and AceaElectrabel Produzione) for payment of the subtension indemnity (or compensation for damages incurred due to illegitimate subtension), which remained frozen in respect of that defendant in the 1980s, amounting to 48.8 million euros (plus the sums due for 2008 and later) or alternatively payment of the sum of 36.2 million euros.

The question of the amount and the assumptions appears to be based on dubious grounds and, in any case, the early stage of the proceedings does not allow for forecasts.

The only significant development of note is the decision of the TRAP (Regional Court of Public Waters), before which a ruling is pending regarding the matter in question, to arrange for CTU (court-appointed expert) as regards the values of subtension for branching off, and subsequent reduction in hydroelectric production, and indemnities due. The development phases of the court-appointed expert are at the initial stages.

**Minority shareholder of ACEA Ato5**

In October 2009, one of the minority shareholders of ACEA Ato5, which holds roughly a 5% stake in the company, filed a claim against ACEA for an alleged breach of shareholders' agreements. The minority shareholder claimed that this breach led to a reduction in the value of its shares amounting to roughly 40 million euros and, therefore, is requesting the payment of damages for the aforementioned amount.

In the second half of 2010, and in January 2011, several attempts were made by the plaintiff to reach a successful conclusion of the dispute, given the accumulation of interests that has seen the parties involved on other fronts. ACEA recently officially noted how the counterparty's claim lacks any grounds, and the only amicable solution of the litigation may therefore be the renunciation of the partner, also whereas, in response to the exorbitant demand, the plaintiff sent a conciliatory proposal for a few hundred thousand euros, thus undermining the grounds for said credibility of the request. Acea's defence counsel repeatedly reiterated its absolute conviction in obtaining a rejection of the opposing claims.

**IPSE 2000**

On 29 December 2006, Capitalia (now incorporated into Unicredit) purchased equity investments in IPSE 2000 previously involving other Strategic Shareholders, including ACEA. On said occasion, Capitalia issued the assignors a letter of indemnity on the basis of which it accepted any liabilities toward minority shareholders deriving from its management of acquired equity investments. Eighteen months have passed since that time to the end of June 2008 without Capitalia/Unicredit taking further advantage of said equity investments. As a result, the minority shareholders have repeatedly complained of the occurrence of one of the conditions (as such, sufficient) for their payment of the First Earn-out.

Unsatisfied with the replies – despite always being promptly produced - to said requests, in December 2009 the minority shareholders notified the Strategic Shareholders, including ACEA, of an "arbitrator appointment deed" to have their earn-out claims recognised and asserted.

In conformance with the letter of indemnity in our possession, also in agreement with the other strategic shareholders benefiting from the same protection, ACEA therefore urged Unicredit, as successor regarding the obligations assumed by Capitalia, to accept liability for any outcomes of prejudice that the arbitrator should reach and, in that sense, also assume any costs and take responsibility for coordinating the appropriate defence during arbitration proceedings. Based on the letter of indemnity, it is held that the legal initiative of the minority shareholders will not have any prejudicial effects on the company's financial statements.

While Unicredit immediately acknowledged, by confirming it, the request for application of indemnity in the unlikely event of being the losing party, and subsequently took on the job of organising the defence, the board of arbitrators appointed in the meantime – by definitively pronouncing with arbitration award issued midway through July 2010 – fully rejected all the plaintiff's claims, including preliminary, although compensating the expenses between the parties given the complexity of the point in question.

### **ACEA Luce**

By means of the act notified on 7 February 2011, the companies Manutencoop Facility Management ("MFM") and SMAIL (formerly ACEA Luce) presented an application for arbitration as regards ACEA and ARSE, pro-quota sellers of 100% of the share capital of ACEA Luce: the applicants are requesting a ruling against ACEA and ARSE due to non-fulfilment or negligence as regards contractual obligations and, therefore, the termination of the purchase contract and subsequent return of the sum paid (3 million euros), plus additional costs, and compensation for damages of roughly 7 million euros.

In support of the requests, MFM essentially believes that the elevated number of claims raised by said party after the transfer, due to an alleged breach of the contractual guarantees, would demonstrate actual divergence between the facts in the summary obtained and the contents of first the due diligence and later the contract.

It can only be pointed out that ACEA and ARSE, in checking the claim notices presented by the acquiring party from the acquisition until the present day, have, in some cases, accepted responsibility for the facts revealed therein, by paying, or undertaking to pay at the time the associated obligation assumes a definitive nature, some amounts, although modest in said context. Otherwise, the purchase contract for the equity interest envisages, on one hand, that the financial compensation constitutes the only solution actionable by the acquiring parties in the event of an incomplete or incorrect declaration and, on the other, that the associated liability of the grantors is restricted to a maximum limit of 1,250,000 euros, to be enforced in accordance with the methods and timeframes better detailed in said act.

The question of the amount and the assumptions appears to be based on dubious grounds and, in any case, the early stage of the proceedings does not allow for forecasts.

## Additional disclosures on financial instruments and risk management policies

### Classes of financial instrument

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

31.12.2010	Financial instruments held for trading at fair value	Loans and receivables	Available-for-sale financial instruments	Carrying amount	Notes
<b>Non-current assets</b>	<b>0</b>	<b>7,553</b>	<b>3,650</b>	<b>11,203</b>	
Other investments			3,650	3,650	18
Financial assets due from the Parent Company, subsidiaries and associates		5,028		5,028	20
Financial assets due from third parties		2,525		2,525	20
<b>Current assets</b>	<b>0</b>	<b>1,798,147</b>	<b>0</b>	<b>1,798,147</b>	
Trade receivables due from customers		991,265		991,265	23
Trade receivables due from related parties		121,065		121,065	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)				0	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)				0	23
Other current assets: electricity and company-specific equalisation		21,295		21,295	23
Other current assets: subsidiaries		32,481		32,481	23
Financial assets due from the Parent Company, subsidiaries and associates		274,392		274,392	23
Financial assets due from third parties: derivatives designated as hedges with changes recognised in equity (**)		28,915		28,915	23
Financial assets due from third parties: derivatives not designated as hedges through the income statement (**)				0	23
Financial assets due from third parties		46,992		46,992	23
Cash and cash equivalents		281,742		281,742	23
					23
<b>TOTAL FINANCIAL ASSETS</b>	<b>0</b>	<b>1,805,700</b>	<b>3,650</b>	<b>1,809,350</b>	

Amounts in thousands of euros

31.12.2009	Financial instruments held for trading at fair value	Loans and receivables	Available-for- sale financial instruments	Carrying amount	Notes
<b>Non-current assets</b>	<b>0</b>	<b>20,244</b>	<b>6,149</b>	<b>26,393</b>	
Other investments			6,149	6,149	18
Financial assets due from the Parent Company, subsidiaries and associates		4,775		4,775	20
Financial assets due from third parties		15,469		15,469	20
<b>Current assets</b>	<b>0</b>	<b>1,589,090</b>	<b>152,523</b>	<b>1,741,613</b>	
Trade receivables due from customers		1,055,351		1,055,351	23
Trade receivables due from related parties		148,058		148,058	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		16,393		16,393	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		1,278		1,278	23
Other current assets: electricity and company-specific equalisation		44,732		44,732	23
Other current assets: subsidiaries		30,764		30,764	23
Financial assets due from the Parent Company, subsidiaries and associates		136,940		136,940	23
Financial assets due from third parties: derivatives designated as hedges with changes recognised in equity (**)				0	23
Financial assets due from third parties: derivatives not designated as hedges through the income statement (**)				0	23
Financial assets due from third parties		53,317	152,523	205,840	23
Cash and cash equivalents		102,258		102,258	23
<b>TOTAL FINANCIAL ASSETS</b>	<b>0</b>	<b>1,609,334</b>	<b>158,672</b>	<b>1,768,006</b>	

Amounts in thousands of euros

(\*) This refers to the fair value measurement of contracts to purchase or sell commodities that qualify for application of IAS 39, with changes recognised through the income statement or in equity as indicated in the table.

(\*\*) This refers to interest rate swaps, with changes in fair value recognised in equity or through the income statement as shown in the table.

<b>31.12.2010</b>	<b>Financial instruments held for trading</b>	<b>Liabilities at amortised cost</b>	<b>Carrying amount</b>	<b>Notes</b>
<b>Non-current liabilities</b>	<b>0</b>	<b>2,299,463</b>	<b>2,299,463</b>	
Bonds		978,725	978,725	27
Bank borrowings (non-current portion)		1,320,738	1,320,738	27
Financial liabilities due to related parties		0	0	27
<b>Current liabilities</b>	<b>0</b>	<b>1,147,407</b>	<b>1,147,407</b>	
Bank borrowings		199,199	199,199	30
Financial liabilities due to third parties		14,238	14,238	30
Financial liabilities due to factoring companies		32,828	32,828	30
Financial liabilities due to third parties: derivatives designated as hedges with changes recognised in equity (**)		13,533	13,533	30
Financial liabilities due to third parties: derivatives not designated as hedges through the income statement (**)		506	506	30
Financial liabilities due to subsidiaries and associates		3,569	3,569	30
Trade payables due to suppliers		766,854	766,854	30
Trade payables due to the Parent Company, subsidiaries and associates		116,643	116,643	30
Other current liabilities: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)			0	30
Other current liabilities: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		36	36	30
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>0</b>	<b>3,446,870</b>	<b>3,446,870</b>	

*Amounts in thousands of euros*

31.12.2009	Financial instruments held for trading	Liabilities at amortised cost	Carrying amount	Notes
<b>Non-current liabilities</b>	<b>0</b>	<b>1,839,586</b>	<b>1,839,586</b>	
Bonds		308,641	308,641	27
Bank borrowings (non-current portion)		1,529,026	1,529,026	27
Financial liabilities due to related parties		1,919	1,919	27
<b>Current liabilities</b>	<b>0</b>	<b>1,858,299</b>	<b>1,858,299</b>	
Bank borrowings		651,202	651,202	30
Financial liabilities due to third parties		120,567	120,567	30
Financial liabilities due to factoring companies		21,530	21,530	30
Financial liabilities due to third parties: derivatives designated as hedges with changes recognised in equity (**)		13,731	13,731	30
Financial liabilities due to third parties: derivatives not designated as hedges through the income statement (**)		355	355	30
Financial liabilities due to subsidiaries and associates		9,396	9,396	30
Trade payables due to suppliers		862,476	862,476	30
Trade payables due to the Parent Company, subsidiaries and associates		166,186	166,186	30
Other current liabilities: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		639	639	30
Other current liabilities: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		12,217	12,217	30
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>0</b>	<b>3,697,885</b>	<b>3,697,885</b>	

Amounts in thousands of euros

## Fair value of financial assets and liabilities

The fair value of financial instruments that are not traded in an active market is determined using valuation models and techniques that make maximum use of market inputs or using the price supplied by a range of independent counterparties.

The fair value of medium/long-term financial assets and liabilities is calculated on the basis of the risk-free and the adjusted risk-free interest rate curves.

The fair value of trade receivables and payables falling due within twelve months is not calculated as their carrying amount approximates to fair value.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

## Type of financial risks and related hedging policies

The ACEA Group's activities expose it to a variety of financial risks, including interest rate and price risk.

The Group uses derivative instruments to hedge certain risk exposures, whilst such derivative or similar instruments are not generally used or held solely for trading purposes.

### Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the translation of the financial statements of its overseas subsidiaries.

As regards the 20 billion yen private placement, the exchange rate risk is hedged through a cross currency swap described in the section on interest rate risk.

### Market risk

As a result of the growth in AceaElectrabel Trading's activities, the Group is exposed to market risk, represented by the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades. In purchasing and selling electricity, the company uses price indices that reflect both regulated tariffs to final customers and a basket of fuels used by Italian electricity generating companies.

In the natural gas sector, the Group uses indices based on baskets of fuels.

For the analysis of financial instruments employed, the Group makes use of:

- values calculated with reference to forward price curves: this method is based on observed market prices. The forecast represents general market expectations for the future value of the commodity and is, therefore, reasonably reliable and results in a value that is calculated independently of the entity using the forecast. This method is the only one that allows contracts to be marked to market,

- values calculated with reference to internal models: this method of forecasting, which is primarily used in markets where there is an insufficient degree of transparency and liquidity, is based on the total or partial use of internal valuation models.

In the last few months of 2009, AceaElectrabel Trading implemented the Central Risk Management unit responsible for managing and optimising the company's overall portfolio (and exposures deriving from the Gas and Power portfolios), also through risk reporting procedures governed by risk policy manuals.

Decisions regarding hedging strategies and the execution of those strategies comply with the above procedures.

However, although on one hand, with the creation of the Central Risk Management Unit responsible for the centralised management of risk factors deriving from the two main portfolios (gas and power), the new organisational structure reduced the overall costs of hedging, also through the subdivision of complex indices; on the other, it made the application of the cash flow hedge rather complex, the logical consequence being that commodities derivatives stipulated by AceaElectrabel Trading were valued at FVTPL.

The only commodities derivatives which, as at 31 December 2010, qualified as hedges, and for which it was possible to demonstrate the hedge relationship required by IAS 39, relate to transactions entered into by jointly controlled company Tirreno Power, included in the perimeter of companies destined to be discontinued shown below.

Type of commodity	Fair value	Amount to shareholders' equity	Amount to income statement
COAL	438	438	0
POWER	363	363	0
<b>Total</b>	<b>801</b>	<b>801</b>	<b>0</b>

*Amounts in thousands of euros*



In particular, at the moment each derivative contract is stipulated, the investee company designates this as a hedge against the commitments to purchase electricity or other energy sources for the powering of thermoelectric plants through physical contracts. Again at the date of executing the transaction, the company prepares specific documentation demonstrating the prospective effectiveness of the hedge. This is done via simulation of what are assumed to be representative movements in the forward price curve for the respective indices, and the related comparison between movements in the fair values of the actual and hypothetical derivative instruments, where the latter represents a derivative financial instrument with contract terms matching those applicable to the physical contract. Power portfolio transactions qualify as effective when the hedging relationship, calculated on the basis of the ratio in absolute terms of movements in the actual derivative instrument and those in the hypothetical derivative instrument, lies within a range of 80%-125%, as defined by IAS 39. The retrospective and prospective effectiveness test applied to these transactions at the end of the year confirmed the hedging relationship. However, should the derivative instrument, at the time

of execution, be designated as a hedge of purchases of electricity in the form of contracts for difference (CFD), the company does not prepare specific documentation demonstrating the effectiveness of the hedge. In fact, the Group treats CFDs as financial instruments, which are activated when the relevant contractual condition is met, i.e. when at a certain hour of a certain day the price on the electricity exchange is higher or lower than the strike price (reference parameter). As a result, these transactions do not qualify as contracts that may be defined as hedging physical underlying transactions pursuant to IAS 39.

Gains and losses resulting from the management of market risk using these contracts are, in the case of both CFDs and derivative instruments, measured at fair value with the differences recorded in the income statement. The fair value of the CfDs at the end of the year was a negative 307 thousand euros.

Details of the hedges by type of commodity are shown below, including the relative fair values through the income statement.

Type of commodity	Fair value	Amount to shareholders' equity	Amount to income statement
COAL	1,625		1,625
COMPLEX INDEX	1,420		1,420
CRUDE OIL	(2,432)		(2,432)
FOREX	(116)		(116)
FUEL OIL	391		391
GAS OIL	3,767		3,767
POWER	(988)		(988)
EMISSION	(526)		(526)
TRADING	2,373		2,373
<b>Total</b>	<b>5,514</b>	<b>0</b>	<b>5,514</b>

*Amounts in thousands of euros*

Furthermore, limited speculative trading activity began 2009, in line with the provisions of the Risk Policy Manual. This activity mainly concerned the power portfolio.

The table below shows the results of the stress sensitivity test at 31.12.10 performed on AceaElectrabel Trading's portfolio falling within the scope of IAS 39.

<b>Sensitivity Analysis: 31/12/2010</b>		<b>Variation (Euro)</b>
Brent Equivalent (Crude Oil)	+ 10 \$/bbl	-2,034,052
Euro/\$	+10%	1,751,079
Brent Equivalent (Crude Oil) + Euro/\$	+ 10 \$/bbl & +10% Euro/\$	-98,059
Power	+5 Euro	8,137,935
Natural Gas	+3 Euro	-746,426
Emission	+2 Euro	16,834

In March 2009, the IASB issued an amendment to IFRS 7, introducing a series of changes aimed at adequately meeting the need for greater transparency resulting from the financial crisis and linked to elevated uncertainty over market prices. These changes included the establishing of the fair value hierarchy. In particular, the amendment defines three levels of fair value (IFRS 7, parag. 27A):

- level 1: if the financial instrument is listed on an active market;
- level 2: if the fair value is measured using evaluation techniques that assess parameters, other than listings of the financial instrument, observable from the market;
- level 3: if the fair value is calculated using evaluation techniques that assess parameters not observable on the market.

It should be noted that, as regards the types of commodity whose fair value is calculated,

- for derivatives on single commodities (Brent, API#4, PUN - unique national price - standard base load products, Peak/Off Peak, Euro/USD, ...) the fair value level is 1 given they are listed on active markets,
- for complex indexes (ITRemix, PUN profiled products, ...) the fair value level is 2 given these derivatives are the result of formulas containing a mix of commodities listed on active markets.

### Liquidity risk

ACEA SpA's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such facilities exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the ACEA Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a treasury management contract.

As at 31 December 2010, the Parent Company held committed and uncommitted lines of credit totalling 1,360.7 million euros and 400 million euros respectively. No guarantees were issued to obtain said credit lines.

The committed lines of credit are revolving with a three-year term. A total of (i) 100 million euros of said credit lines is available until December 2012 and (ii) the remainder is available until the first quarter of 2013; the contracts entered into provide for the payment of a fee for non-use (minimum of 0.28% - maximum of 0.35 per annum) plus an upfront fee paid at the time the credit lines are opened.

On the amounts drawn down, ACEA pays an interest rate equal to the one, two, three or six month Euribor (depending on the period of use chosen beforehand), plus a spread which, in some cases, may vary in line with the rating assigned to the Parent Company.

Furthermore, it should be noted that ACEA has a medium/long-term committed credit line of 100 million euros in place, stipulated in September 2009, which has not been used as at the close of the financial year. The credit line expires in September 2012. On each amount used, the company can elect to apply a fixed rate or a floating rate and each disbursement may be repaid at ACEA's discretion (i) in a lump sum or over a period to be included between the third and ninth years from the date of disbursement or (ii) on the basis of a repayment plan involving six-monthly instalments, of which the first must be paid no later than the fourth year and the last in a period included between the fourth and fifteenth year from the date of disbursement.

During the first quarter of 2010, ACEA:

- subscribed a private bond (private placement), with maturity of 15 years, for 20 billion Japanese Yen (184 million euros). The Private Placement, fully underwritten by a single investor was simultaneously subject to interest and exchange rate risk hedges, for a total of roughly 161.8 million euros, regulated at a fixed rate.
- issued a 10-year bond, for a total amount of 500 million euros, maturing on 16 March 2020, at a fixed rate of 4.5%. The Bond, assigned A- and A+ ratings from Standard & Poor's and Fitch respectively, is listed on the Luxembourg Stock Exchange and was placed exclusively with institutional investors on the Euro-market. Regulation of the bond does not provide for special financial covenants or the change of control clause and early redemption under market conditions is permitted.

The goal of the two transactions is to extend the average life of the debt, ensuring coverage for the investments set out in the plan.

The liquidity derived from the placement of the two bonds in the first quarter of 2010 (totalling roughly 660 million euros) meant the Parent Company required significantly less use of the available credit lines than in previous years.

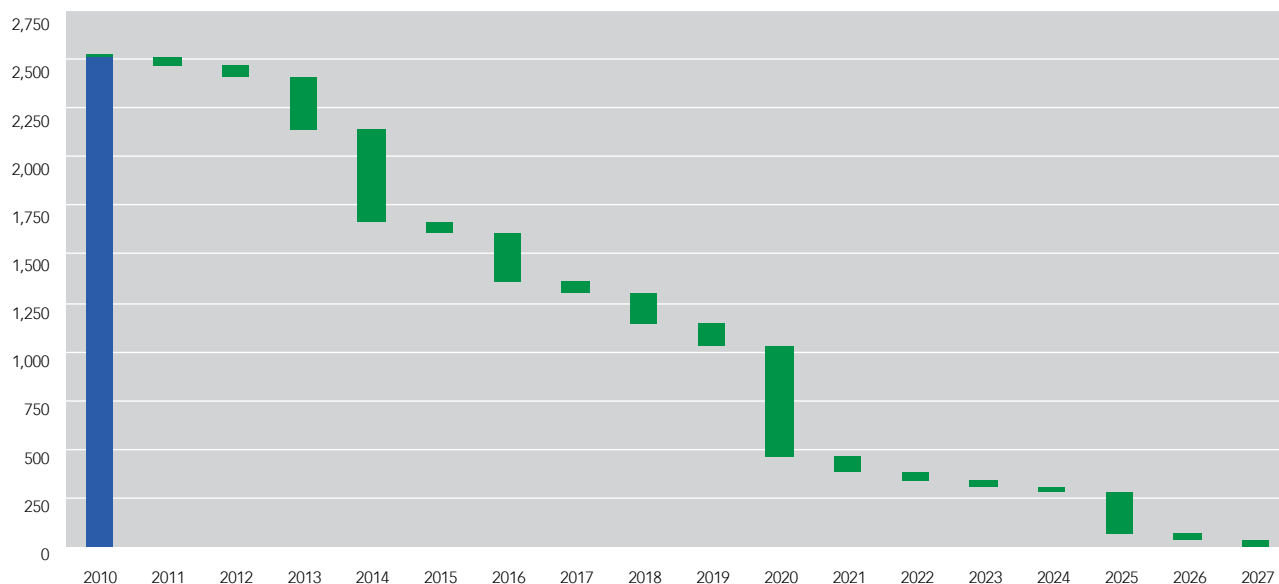
In addition, the liquidity in excess of the company's requirements was used throughout 2010 in fixed term deposit and similar contracts: at the end of the year, ACEA had loans totalling 194.5 million euros in place.

With reference to some water companies operating in Tuscany and Campania it should be pointed out that:

- Publiacqua: renewed the bridge loan (60 million euros) taken out in August 2008 expiring in February 2010. The loan was renewed for twelve months and a further 6-month extension is envisaged, provided it is completed before November 2010: a) the new agreement text was agreed with the Area Authority, (b) the Area Plan was defined, considered bankable by Lenders and (c) Technical and Legal Due Diligence regarding the financing project was accepted by the banks. Only two of the three conditions set out were observed within the prescribed terms: however, the banks were prepared to grant an additional extension and submitted the decision to their respective committees.
- Acquedotto del Fiora: the bridge loan of 45 million euros, stipulated while awaiting the finalisation of project financing for consolidating the current financial exposure and meeting the remaining requirements regarding realisation of the Investment Plan until the end of the concession arrangement, expired in September 2010. A new bridge transaction (expiring on 5 March 2012) of 80 million euros was completed in September, 45 million euros of which was used to re-finance the previous bridge loan.
- Gori: a process is currently underway for the restructuring of the bridge loan of 40 million euros maturing in June 2011.

Tirreno Power not only as significant revocable lines of credit available, but has unused committed lines of credit of 120.7 million euros (Group portion 18.1 million euros), of which 105 million euros maturing on 30 June 2014, 2 million euros in December 2015 and 13.7 million euros in 2028.

The graph below depicts the future development of total cash flows based on the situation at the end of the year.



### Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes account of the structure of assets and the stability of the Group's cash flows, has essentially been targeted, up to now, at hedging borrowing costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

A static (as opposed to a dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure over the medium/long term.

ACEA has, up to now, opted to minimise interest rate risk by choosing a mix of fixed and floating rate debt instruments.

As previously noted, fixed rate debt protects a bor-

rower from cash flow risk in that it stabilises financial outflows, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

In fact, an analysis of the consolidated debt position shows that the risk the ACEA Group is exposed to is mainly in the form of fair value risk, composed as at 31 December 2010 of fixed rate borrowings (64.36%), which is set to increase in the future, reaching 100% in 2023. With reference to the current portfolio make-up, the Group is partly exposed to the risk of fluctuation in future cash flows and, by contrast, to a greater extent than changes in fair value.

Given the current mix of fixed and floating rate instruments, and also taking into account the trend in market rates, the company cannot exclude the use of hedging instruments that allow fair value risk to be contained within a more general approach to mitigating cash flow risk.

ACEA is bringing consistency to its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of stakeholder interests and the nature of the Group's activities, and based on

compliance with the prudence principle and consistency with best market practices. The objectives of these guidelines are as follows:

- to identify the optimum mix of fixed and floating rate debt,
- to pursue a potential optimisation of the Group's borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business,
- to manage derivatives transactions solely for hedging purposes, should the Group decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and balance sheet of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

The Group currently uses derivative instruments to hedge interest rate risk exposure for the following companies:

- Voghera Energia has swapped the interest rate on tranche A of the Senior Term Facility, amounting to 180 million euros, for a fixed rate in accordance with the loan agreement. Therefore, the company executed two different swap contracts with the same notional value,
- Acque has swapped the interest rate on 80% of the loan obtained at the end of 2006 for a fixed rate. The company has thus executed two different swap contracts with the same notional value,

- ACEA has:
  - swapped the 100 million euro loan obtained on 27 December 2007 for a fixed rate. The swap, a plain vanilla IRS, was stipulated on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021,
  - completed a cross currency transaction to transform to euro – through a plain vanilla DCS swap – the currency of the private placement (yen) and the yen rate applied to a fixed euro rate through a plain vanilla IRS swap,
- Tirreno Power has swapped the interest rate on the Term Facility divided into two tranches for a fixed rate.
- Umbra Acque swapped a medium/long term loan for a fixed rate.

All the above derivative instruments are non-speculative and the total fair value of these was a positive 10.8 million euros.

The following table shows the fair value of the above borrowings by type of borrowing and interest rate at 31.12.10.

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

The table does not contain the liabilities relating to companies held for sale.

<b>Bank Loans</b>	<b>Amortised cost</b>	<b>Risk-free FV</b>	<b>Increase/ (Decrease)</b>	<b>RISK ADJUSTED FV</b>	<b>increase/ (decrease)</b>
	<b>(A)</b>	<b>(B)</b>	<b>(A)-(B)</b>	<b>(C)</b>	<b>(A)-(C)</b>
Bonds	975,647	1,034,365	(58,719)	998,216	(22,569)
fixed rate	414,114	473,485	(59,371)	445,365	(31,251)
floating rate	724,537	739,002	(14,466)	735,549	(11,012)
floating rate to fixed rate	239,146	239,990	(844)	239,910	(764)
<b>Total</b>	<b>2,353,443</b>	<b>2,486,843</b>	<b>(133,400)</b>	<b>2,419,040</b>	<b>(65,597)</b>

Amounts in thousands of euros

Sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant spread over the term structure of the risk-free interest rate curve (for the Euro area at 31.12.10). The following table shows overall movements in terms of the fair value of liabilities based on parallel shifts (positive and negative) between -1.5% and +1.5%.

Constant spread applied	Movements in Present Value (m)
-1.50%	151.5
-1.00%	98.7
-0.50%	48.2
-0.25%	23.8
0.00%	0.0
0.25%	(23.3)
0.50%	(46.1)
1.00%	(90.1)
1.50%	(132.3)

As regards the type of hedges for which the fair value is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the fair value hierarchy.

### Credit risk

ACEA has issued credit policy guidelines which identify the different strategies which reflect the Customer-Centric philosophy: through flexibility criteria and on the strength of the activities managed, as well as customer segmentation, credit risk is managed by taking into account both the customer type (public or private) and the non-uniform behaviour of individual customers (behavioural scores).

The key principles on which the risk management strategies are based are as follows:

- definition of the customer cluster categories through the abovementioned segmentation criteria;

- standard cluster management in ACEA Group companies, based on the same risks and commercial characteristics, of defaulting end users;
- collection methods and instruments used;
- uniformity of standard criteria regarding the application of default interest; division into instalments of credit; definition of the necessary responsibilities/authorisations for any exceptions.
- adequate reporting and training of dedicated staff.

With regards to electricity distribution activities the wholesalers represent credit risk. Credit management starts with the "behavioural score" or knowledge of the individual reseller through the constant analysis of payment attitudes/habits and is subsequently implemented through a series of targeted actions ranging from phone collection activities carried out in-house, reminders sent electronically, sending of notice letters via registered post, as provided under resolution ARG/elt 4/08, to termination of the transportation contract.

As regards sales of electricity, credit risk was measured beforehand, especially in relation to the sale of gas and electricity to industrial and business customers.

The activity was performed in accordance with Credit Risk Policy Manual rules, through an in-house process involving the evaluation of credit reliability, assignment of an internal rating and recognition of the maximum limits of financial exposure to the counterparty.

The constant monitoring of exposures through an analysis of the cash flows and the market trend and credit management activities are aimed at preventing criticalities and protecting credit through the necessary hedging provisions such as corporate and/or bank guarantees or contractual solutions which make it possible to reduce the exposure.

## Customer evaluation

For AceaElectrabel Elettricità S.p.A., credit risk management is differentiated based on discriminating factors of customer segment (industrial, business, retail, domestic) and customer category (prospect, contract stipulated).

In the case of offers from the industrial or business segment with contractual values higher than a set amount and/or credit equivalent threshold (maximum potential credit exposure), for all counterparties, AceaElectrabel Elettricità S.p.A. personnel must ask the AceaElectrabel Risk Control Unit to perform an assessment of the customer/counterparty. An in-depth report drawn up by a company with expertise in risk assessment may be attached to said request.

The assessment is carried out through the following types of analysis:

- financial (asset, profitability, cash flow)
- commercial (segment, country, company)
- corporate (strategic, management evaluation, transparency)

A judgment on the level of risk is provided for each level of analysis.

The overall customer rating is also provided; this identifies the unsecured credit limit. In the event said unsecured credit limit is exceeded with respect to the credit equivalent limit, this is provided for in a contract except in the case of obtainment of specific credit hedges (generally bank or corporate guarantees), indicated by the Risk Control Unit at the time of transmission of the evaluation outcome, or authorisation by the Risk Committee.

In the case of offers from the industrial or business segment with contractual values lower than a set amount and/or credit equivalent threshold, a risk evaluation is requested from specialised companies.

For each request, the rating agency indicates the rating, which corresponds to a judgment of reliability which can be very high, high, average or high risk. Based on the rating, a decision is taken on whether or not to request the issue of a guarantee. In extreme cases no contract is stipulated with the customer.

## Credit Recovery

For customers in the industrial segment, in the event of non-payment a few days after expiry of the invoice, a reminder letter is sent out to the customer, followed by telephone contact. If the payment delinquency persists, a letter of default is sent and, if payment or a proposed repayment plan has not been received from the customer a further 5 days after delivery of said letter, a request is made to the distributor for suspension through default. Six months after expiry of the first invoice, the case is passed to an external legal office that proposes a repayment plan to the customer; if an agreement is not reached or in the event of non-compliance with the plan, the legal office proceeds with the coercive recovery of the credit with a subsequent increase in costs and fees for the customer.

In the case of Business and Retail segment customers:

- A reminder letter is sent twenty days after the invoice expiry;
- A registered letter of default and a notice of suspension of supply are sent forty days after the invoice expiry;
- Distributors are asked to suspend supply;
- The Supply Contract is resolved.

As regards credits relating to utility services discontinued for a total amount exceeding 20,000 euros the customer is placed in default by registered letter. If payment delinquency persists, procedures are launched for the recovery of the credit by legal means with, if necessary, an increase in the expenses incurred by the customer.

As regards credits relating to utility services discontinued for a total amount lower than 20,000 euros, two months after the end of services, the job of recovering the credit by extra-judicial means is entrusted to specialised credit recovery agencies. Where cases are closed unfavourably by the recovery agencies, procedures are launched for recovery by legal means where it is deemed to be economically advantageous.

A lodgement of claims is carried out for bankrupt customers.

In support of the above activities, and in line with previous years, spot and revolving without-recourse factoring of receivables due from Public Administration and private customers was carried out in 2009.

With regards to the supply of water, the implementation of credit risk management strategies started with a macro-distinction between public sector end users (municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users
- variable risk of insolvency and late payment risk for private sector end users

As regards credits due from public sector end users, they are converted to cash through the without-recourse factoring to financial partners and a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements.

Credit management for private sector end users starts with behavioural scores or knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits, and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to detachment of the defaulting end users.

The water segment is also characterised by a significant amount of invoices to be issued which are determined by the characteristics of the business.

The following table summarises the different types of receivable described in Note 22 – Trade receivables.



## Due from other customers

Balance at 31.12.10	Total receivables	Due	Past-due for >	0-30 days	30-90 days	90-180 days	over 180 days
<b>Current assets</b>							
<b>Outstanding amounts due from customers (A + B)</b>	<b>220,923</b>						
<b>Total amounts due from customers (A + B + C)</b>	<b>182,173</b>						
<b>Receivables for invoices issued: (A)</b>	<b>153,344</b>	<b>17,734</b>	<b>96,086</b>	<b>6,342</b>	<b>6,087</b>	<b>8,032</b>	<b>75,626</b>
Networks	31,296	12,324	18,972	2,926	2,436	1,581	12,029
Energy	5,407		0				
<i>Energy Generation</i>	0	0	0	0	0	0	0
<i>Sales</i>	5,407	177	5,231	3,672	261	908	389
Development and Special Projects	2,496	32	2,464	1	178	500	1,786
Water	34,116		0				
<i>Lazio/Campania</i>	27,999	1,670	26,330	766	(249)	2,228	23,585
<i>Tuscany/Umbria</i>	6,117	1,813	4,303	1,083	330	224	2,668
Environment and Energy	32,848	4,004	28,843	2,457	2,992	5,476	17,919
Corporate	47,181	1,374	45,807	959	482	475	43,891
<b>Receivables for invoices to be issued: (B)</b>	<b>67,579</b>	<b>67,579</b>					
Networks	32,807	32,807					
Energy	2,727	2,727					
<i>Energy Generation</i>	0						
<i>Sales</i>	2,727	2,727					
Development and Special Projects	10,091	10,091					
Water	16,963	16,963					
<i>Lazio/Campania</i>	10,815	10,815					
<i>Tuscany/Umbria</i>	6,148	6,148					
Environment and Energy	1,436	1,436					
Corporate	3,555	3,555					
<b>Provisions for impairment of receivables: (C)</b>	<b>(38,750)</b>						
Networks	(1,239)						
Energy	(583)						
<i>Energy Generation</i>	0						
<i>Sales</i>	(583)						
Development and Special Projects	(630)						
Water	(11,534)						
<i>Lazio/Campania</i>	(10,806)						
<i>Tuscany/Umbria</i>	(728)						
Environment and Energy	(1,409)						
Corporate	(23,354)						

## End users

Balance at 31.12.10	Total receivables	Due	Past-due for >	0-30 days	30-90 days	90-180 days	over 180 days
<b>Current assets</b>							
<b>Outstanding amounts due from customers (A + B)</b>	<b>943,533</b>						
<b>Total amounts due from customers (A + B + C)</b>	<b>809,091</b>						
<b>Receivables for invoices issued: (A)</b>	<b>544,147</b>	<b>22,214</b>	<b>19,655</b>	<b>3,723</b>	<b>459</b>	<b>434</b>	<b>15,040</b>
Networks	41,869	22,214	19,655	3,723	459	434	15,040
Energy	246,818		0				
<i>Energy Generation</i>	0	0	0	0	0	0	0
<i>Sales</i>	246,818	92,495	154,323	33,214	18,495	12,738	89,876
Development and Special Projects	0		0				
Water	255,460		0				
<i>Lazio/Campania</i>	211,571	33,441	178,130	7,891	16,038	18,669	135,532
<i>Tuscany/Umbria</i>	43,889	13,099	30,790	7,782	3,849	2,508	16,650
Environment and Energy	0		0				
Corporate	0		0				
<b>Receivables for invoices to be issued: (B)</b>	<b>399,386</b>	<b>9,049</b>					
Networks	9,049	9,049					
Energy	99,345						
<i>Energy Generation</i>							
<i>Sales</i>	99,345	99,345					
Development and Special Projects	0	0					
Water	290,992						
<i>Lazio/Campania</i>	251,933	251,933					
<i>Tuscany/Umbria</i>	39,059	39,059					
Environment and Energy	0	0					
Corporate	0	0					
<b>Provisions for impairment of receivables: (C)</b>	<b>(134,442)</b>						
Networks	(20,326)						
Energy	(54,495)						
<i>Energy Generation</i>							
<i>Sales</i>	(54,495)						
Development and Special Projects	0						
Water	(59,621)						
<i>Lazio/Campania</i>	(41,959)						
<i>Tuscany/Umbria</i>	(17,662)						
Environment and Energy	0						
Corporate	0						

## Commitments and contingencies

### Corporate liens, sureties and guarantees

These amounted to 467,604 thousand euros. Worthy of mention are:

- 268,161 thousand euros in the form of corporate guarantees and back-to-back bank guarantees issued in favour of AceaElectrabel Trading (177,324 thousand euros) and AceaElectrabel Elettricità (90,412 thousand euros) within the context of the Master Agreement between ACEA and Electrabel. In addition, the back-to-back guarantee issued in favour of AceaElectrabel (425 thousand euros) for the lease of the new headquarters and the guarantees issued on behalf of AceaElectrabel Produzione for contractual obligations for the supply of wind farm turbines and the Ministry of productive activities for the costs of dismantling the Leini plant;
- 53,666 thousand euros in the form of a bank guarantee issued by ACEA to Cassa Depositi e Prestiti in relation to refinancing of the loan issued to ACEA Distribuzione. This is a sole guarantee giving the lender first claim and covering all obligations linked to the original loan (493 million euros). The sum of 53,666 thousand euros refers to the guaranteed portion exceeding the loan originally disbursed (439 million euros);
- 2,844 thousand euros regarding a surety issued in favour of ACEA Ato5 as required by art. 31 of the Technical Regulations. The surety was issued by Banca di Roma, acting as the treasury bank, in favour of the Authority for ATO 5 – Southern Lazio and Frosinone. The value of the surety is calculated on the basis of 10% of the three-year average of revenues. ACEA has counter-guaranteed Banca di Roma via the issue of a letter of patronage amounting to 2,675 thousand euros;
- a surety of 7,747 thousand euros issued by ACEA Ato2 to the Area Authority, guaranteeing the correct fulfilment of the obligations undertaken as part of the concession agreement. This surety runs out on 6 August 2007 and is renewable;
- a surety of 3,425 thousand euros issued by ACEA with regard to the selection of a partner for Publi-

acqua in the Municipality of Firenze.

- 1,471 thousand euros issued by ACEA and Aquasfer to guarantee the credit line granted by MPS to Solemme.
- 3,783 thousand euros issued in favour of Eall and Terna as a guarantee for the hedging of direct and indirect risks and charges deriving from works that the latter will have to carry out for the connection to the national grid of the waste-to-energy plant being enlarged.

Sureties issued also include those issued by ACEA to Sidra S.p.A., totalling 6,830 thousand euros, in relation to a contract to carry out a "Project to repair water leaks in the Catania distribution network" and sureties amounting to 5,165 thousand euros issued to the Sarnese Vesuviano Area Authority in order to take part in the tender process to select a partner to take an interest in G.O.R.I S.p.A.

### Liens granted to banks

#### IPSE 2000

Such liens amount to 1,763 thousand euros and regard the cash collateral established in order to guarantee the undertakings given by the strategic shareholders of IPSE 2000. As of December 2002, payments have been made into the relevant term deposit. The lien was granted to Unicredit S.p.A. (replacing MCC S.p.A. for the corporate transactions completed within the banking Group in the meantime) and the deposits accrue interest at the 3-month Euribor less 3 basis points per annum.

In December, Unicredit communicated payment at maturity of the tenth and last instalment for the UMTS licence and asked the Ministry of Economy and Finance to issue the release of the guarantee granted in due course by MCC to IPSE 2000. As a result of said communication, the residual provision for risks set aside in previous years was released.

### VOGHERA ENERGIA

In respect of disbursement of the medium/long-term loan, with an original value of 60.8 million euros (the ACEA Group's share), Voghera Energia has pledged to lenders its bank current accounts (2,289 thousand euros) as collateral security for the loan.

Moreover, in respect of the above loan, the shareholders have granted the banks a lien on their shares in the company. In the case of AceaElectrabel Produzione, this lien amounts to 37.4 million euros, corresponding to 37,360,000 shares.

### LONGANO EOLICA

In respect of execution of the medium/long-term loan of 3.9 million euros (the ACEA Group's share) in September 2007, Longano Eolica has pledged its bank current accounts to lenders (673 thousand euros) as collateral security for the loan.

Moreover, in respect of the above loan, the shareholders have granted the banks a lien on their shares in the company. In the case of AceaElectrabel Produzione, this lien amounts to 1.071 million euros, corresponding to 1,071,000 shares.

### TIRRENO POWER

Following the execution, on 21 June 2007, of the Term and Revolving Facilities Agreement between Tirreno Power and the banks, by which all other previous agreements were cancelled, Tirreno Power's shareholders (Eblacea and Energia Italiana) granted the banks a lien on all their shares in the company (45,565,000).

On 10 December 2009, the lien was issued after conditions set out in the contract were met, i.e. a leverage ratio lower than 4.00 and entry into operation of the Naples plant.

## Other Information

### Master Agreement between ACEA and Electrabel (now GdF-Suez)

ACEA and Electrabel (now and hereinafter: GdF-Suez) stipulated a Master Agreement (MA) on 28 November 2007, which is still valid and operational, governing the issue of guarantee commitments in the interest of AceaElectrabel Trading (AET) and AceaElectrabel Elettricità (AEE).

The guarantee commitments that the shareholders may issue consist of:

1. corporate guarantees issued on behalf of operating companies in favour of the related counterparties;
2. back-to-back guarantees in favour of banks securing the use of bank guarantee commitments pertaining to the shareholders, with the aim of issuing bank sureties on behalf of the operating companies.

The shareholders have the right to assess, on a case by case basis, each transaction put forward by the operating companies with a view to the issue of a guarantee commitment.

The MA establishes that GdF-Suez, acting on behalf of ACEA, will act as Agent for the issue of the guarantees described in point 1, to be issued on behalf of AET in favour of the related counterparties. The MA establishes that ACEA, also acting on behalf of GdF-Suez, will act as Agent for the issue of the guarantees described in point 1, to be issued on behalf of AET in favour of the related counterparties. The Agent is to fully guarantee the counterparties of the operating companies, but will benefit from a back-to-back guarantee provided by the other shareholder in proportion to their percentage interest in the operating company.

The MA establishes a ceiling for each company.

With reference to point 2, the MA requires the two shareholders to provide back-to-back guarantees in proportion to their percentage interests in AET and AEE, and in accordance with the ceilings pre-established and announced to the agent bank. The agent bank has extended appropriate guarantee facilities to

the two shareholders.

The shareholders are to be paid the following fees by the operating companies in return for their commitments:

- in the case of corporate guarantees, a fee of 0.20% per year or fraction of the year of validity of the guarantee;
- in the case of back-to-back guarantees in favour of banks, a fee of 0.40% per year or fraction of the year of validity of the guarantee. In any event, it is established that the fee may not be less than the fee charged by the bank granting the surety plus 0.15%.

The MA is valid until 31.12.09 and is automatically renewable for a further 12 months.

On the basis of the Framework Agreement signed by ACEA and GdF-Suez, the MA shall be effective from December 2010 and, therefore, will be operational until the Date of Execution of the transactions set forth in said Agreement. At the Date of Execution, the back-to-back guarantees issued by ACEA to GdF-Suez on behalf of AET and those issued by GdF-Suez to ACEA on behalf of AEE were not effective.

### **ACEA - Electrabel partnership**

The Joint Venture Agreement between ACEA and Electrabel Italia (now and hereinafter GdF-Suez) establishes that, should certain circumstances arise that render the regular conduct of meetings of the boards of directors or the shareholders of AceaElectrabel, AceaElectrabel Produzione and AceaElectrabel Trading impossible:

- ACEA has a call option on all the shares of AceaElectrabel and AceaElectrabel Trading held by GdF-Suez;
- AceaElectrabel has a put option on its shares in AceaElectrabel Produzione, which it has the right to sell to GdF-Suez;
- GdF-Suez has a call option on all the shares of AceaElectrabel Produzione held by AceaElectrabel and, subordinated to the exercise of this option, a further call option on all the shares of AceaElectrabel Trading held by AceaElectrabel, and a put option on all its

shares in AceaElectrabel, which it has the right to sell to ACEA.

Should the options right be exercised, the price of the shares to be purchased and sold is to be determined by an arbitrator, to be appointed by mutual agreement of the parties.

On the basis of the Framework Agreement signed by ACEA and GdF-Suez in December 2010 the Joint Venture Agreement will be operational until the Date of Execution.

### **Property leases**

The ACEA Group operates from premises that it leases from third parties. In this respect it should be noted that: (i) rentals paid during the period amount to 12,855 thousand euros; (ii) commitments for the period from 2011 to 2015 total 54,451 thousand euros; and (iii) commitments beyond 2015 amount to 58,150 thousand euros. The average lease term is nine years.

As regards property leases, it should be noted that the lease signed in May 2006 establishes:

- the lease term is 9 years, automatically renewable at the first expiry date for a further 9 years;
- the annual rental is 3,450 thousand euros until 31.12.09; from 1 July 2009 and until 30 June 2021 the annual rental will be 5,650 thousand euros and from 1 July 2021 until expiry the annual rental will be 6,750 thousand euros;
- ACEA has undertaken to carry out all necessary maintenance work.