



**ACEA S.p.A.**

*(incorporated in the Republic of Italy as a joint stock company)*

**€300,000,000**

**4.875% Notes due 2014**

**Issue Price: 99.636%**

The €300,000,000 4.875% Notes due 2014 (the "Notes") are issued by ACEA S.p.A. (the "Issuer" or "ACEA").

Interest on the Notes is payable annually in arrear on 23rd July in each year. Payments on the Notes will be made without deduction for or on account of taxes of the Republic of Italy to the extent described under "Taxation – The Republic of Italy". The Notes constitute "*obbligazioni*" pursuant to Article 2410 et seq. of the Italian Civil Code.

The Notes mature on 23rd July 2014 and may not be redeemed prior thereto, except as mentioned below. The Notes are subject to redemption in whole but not in part at any time at their principal amount, together with accrued interest, at the option of the Issuer in the event of certain changes affecting taxes of the Republic of Italy.

As more fully set out in "Terms and Conditions of the Notes – Taxation" and as described under "Taxation – The Republic of Italy", the Issuer will not be liable to pay any additional amounts to holders of the Notes or the Coupons with respect to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of 1st April 1996 and any related implementing regulations (as the same may be amended or supplemented from time to time). In addition, certain other customary exceptions to the Issuer's obligation to pay additional amounts to holders of the Notes or the Coupons with respect to the imposition of withholding or deduction in respect of payments relating to the Notes or the Coupons apply, also as more fully set out in "Terms and Conditions of the Notes – Taxation".

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will initially be represented by a temporary global note (the "Temporary Global Note"), without interest coupons ("Coupons"), which will be deposited with a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 23rd July 2004. Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the "Permanent Global Note", together with the Temporary Global Note, the "Global Notes" and each a "Global Note"), without Coupons, on or after a date which is expected to be 2nd September 2004 upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form only in the limited circumstances set out in the Permanent Global Note. See "Summary of Provisions relating to the Notes while in Global Form".

The denomination of the Notes shall be €50,000, provided that, for so long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of €5,000 thereafter.

*Joint Lead Managers*

**Goldman Sachs International HSBC**

**UBS Investment Bank**

*The Issuer, having made all reasonable enquiries, confirms that this document contains or incorporates all information with respect to the Issuer, the Issuer and its subsidiaries taken as a whole (the "Group") and the Notes which is material in the context of the issue and offering of the Notes, the statements contained in it relating to the Issuer and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this document with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Issuer, the Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this document misleading in any material respect and all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.*

*This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.*

*This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Joint Lead Managers (as defined in "Subscription and Sale" below) to subscribe or purchase, any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular see "Subscription and Sale" below.*

*No person is authorised to give any information or to make any representation not contained in this Offering Circular and any such information or representation if given or made must not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.*

*The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.*

*This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.*

*In this Offering Circular references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.*

**In connection with this issue, HSBC Bank plc or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on HSBC Bank plc or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.**

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### Documents Incorporated by Reference

The audited consolidated and non-consolidated financial statements of the Issuer for each of the two years ended 31st December 2002 and 31st December 2003 and the audit reports on such financial statements are incorporated by reference in this Offering Circular. Copies of these financial statements and audit reports are available, free of charge, at the specified office of the Paying Agent in Luxembourg as described in "General Information" below.

## Terms and Conditions of the Notes

*The following, subject to minor alteration and amendment, are the terms and conditions of the Notes substantially in the form in which they will be endorsed on each Note in definitive form (if issued). The wording set out in italics in Condition 1(a) shall not be included in the terms and conditions endorsed on each Note in definitive form (if issued):*

The issue of the Notes was authorised by resolutions of the board of directors of ACEA S.p.A. (the "Issuer") passed at a meeting held on 11th June 2004. A fiscal agency agreement dated 23rd July 2004 (the "Fiscal Agency Agreement") has been entered into in relation to the Notes between the Issuer, HSBC Bank plc as fiscal agent and the paying agents named in it. The fiscal agent and the paying agents for the time being are referred to below respectively as the "Fiscal Agent" and the "Paying Agents" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the "Coupons"). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of each of the Paying Agents. The holders of the Notes (the "Noteholders") and the holders of the Coupons (whether or not attached to them) (the "Couponholders") are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them, including, but not limited to, the provisions of Schedule 3 of the Fiscal Agency Agreement relating to the provisions for meetings of Noteholders.

### 1 Form, Denomination and Title

#### (a) Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of €50,000 with Coupons attached on issue.

*So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of €5,000 thereafter.*

#### (b) Title

Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

### 2 Status

The Notes and Coupons constitute direct, unconditional and (subject to Condition 3) unsecured obligations of the Issuer ("*obbligazioni*" pursuant to Article 2410 et seq. of the Italian Civil Code) and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank equally with all its other present and future unsecured and unsubordinated obligations.

### 3 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer will not, and will ensure that none of its Material Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (other than a security interest arising solely by operation of law) (each a "Security Interest"), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or payment under any guarantee or indemnity granted by the Issuer or any Material Subsidiary in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by a Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

For the purpose of these Terms and Conditions:

- (i) "Indebtedness" shall be construed so as to include any obligation for the payment or repayment of money, whether present or future, actual or contingent;

- (ii) "Material Subsidiary" at any time shall include a Subsidiary of the Issuer (*inter alia*): (a) whose revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10% of the consolidated revenues or, as the case may be, consolidated total assets of the Issuer and its consolidated Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its consolidated Subsidiaries; or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Material Subsidiary;
- (iii) "Relevant Indebtedness" means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures or other securities which for the time being are, are intended to be (with the consent of the Issuer), or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and
- (iv) "Subsidiary" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be consolidated with those of the Issuer.

#### **4 Interest**

The Notes bear interest from, and including, 23rd July 2004 at the rate of 4.875% per annum, payable annually in arrear on 23rd July in each year (each an "Interest Payment Date"). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day five days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that fifth day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Terms and Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). The period beginning on 23rd July 2004 and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an "Interest Period".

#### **5 Redemption and Purchase**

##### **(a) Final redemption**

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 23rd July 2014. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

##### **(b) Redemption for taxation reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16th July 2004, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the

conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

**(c) Purchase**

The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). Any purchase by tender shall be made available to all Noteholders alike.

**(d) Cancellation**

All Notes redeemed or repaid pursuant to Condition 5(a), Condition 5(b) or Condition 8 and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold. All Notes purchased in accordance with Condition 5(c) and any unmatured Coupons attached to or surrendered with them may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation. Pursuant to Article 2415 of the Italian Civil Code, none of the Issuer or any of its Subsidiaries, as the case may be, shall be entitled to vote at any meetings of Noteholders in relation to the Notes redeemed, repaid or purchased and held by it.

**6 Payments**

**(a) Method of Payment**

Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in city where banks have access to the TARGET System. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

**(b) Payments subject to laws**

All payments are subject in all cases to any applicable laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

**(c) Surrender of unmatured Coupons**

Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of each missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

**(d) Payments on business days**

A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 6(d) falling after the due date. In this Condition 6(d), "business day" means a day on which commercial banks and foreign exchange markets are open in the relevant place of presentation and, in the case of a payment by transfer to a euro account, on which the TARGET System is in operation.

**(e) Paying Agents**

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Fiscal Agent, (ii) Paying Agents having specified offices in at least two major European cities (including Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) and (iii) to the extent not already covered by sub-paragraph (ii), a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant

to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders.

For the purposes of these Terms and Conditions, "TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) system or any successor thereto.

## **7 Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or within the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

- (i) in the case of any Note and/or Coupon presented for payment by or on behalf of a holder who is liable to such Taxes in respect of such Note or Coupon by reason of his having some connection with the Republic of Italy other than the mere holding of the Note or Coupon; or
- (ii) if such Note or Coupon is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) in the case of any Note and/or Coupon presented for payment by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (v) in relation to any payment or deduction of any interest, principal or other proceeds of any Note or Coupon on account of *imposta sostitutiva* pursuant to Italian Legislative Decree No. 239 of 1st April 1996 and any related implementing regulations (as the same may be amended or supplemented from time to time).

"Relevant Date" means in respect of any Note or Coupon, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders in accordance with Condition 13.

Any reference in these Terms and Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

## **8 Events of Default**

If any of the following events occurs:

- (i) the Issuer fails to pay interest on any of the Notes when due and such failure continues for a period of 14 days; or
- (ii) the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

- (iii) (a) any other Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness for Borrowed Money, provided that the aggregate amount of the Indebtedness for Borrowed Money, guarantees and/or indemnities in respect of which one or more of the events mentioned in this paragraph (iii) have occurred (in the case of (c) taking into account only the amount which the relevant person has failed to pay) equals or exceeds €15,000,000 or its equivalent in any other currency (on the basis of the middle spot rate for the relevant currency against euro as quoted by any leading bank on the day on which this paragraph operates); or
- (iv) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or a substantial part of the property, assets or revenues of the Issuer or any of its Material Subsidiaries and is not discharged or stayed within 45 days; or
- (v) any mortgage, charge, pledge, lien or other encumbrance, created or assumed by the Issuer or any of its Material Subsidiaries in respect of all or a substantial part of the property, assets or revenues of the Issuer becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person); or
- (vi) the Issuer or any of its Material Subsidiaries is (or is, our could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or any of its Material Subsidiaries; or
- (vii) an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Material Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by a Resolution of the Noteholders, or (b) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another of its Material Subsidiaries; or
- (viii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in the paragraphs above,

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

For the purposes of these Terms and Conditions:

“Indebtedness for Borrowed Money” means any present or future Indebtedness for money borrowed;

“material part” means 15% or more by value of the whole; and

“substantial part” means 50% or more by value of the whole.

## **9 Prescription**

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## **10 Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is



reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **11 Meetings of Noteholders, Noteholders' Representative, Modification and Waiver and Substitution**

### **(a) Meetings of Noteholders**

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of any of these Terms and Conditions. Any such meeting may be convened by the directors of the Issuer or the Noteholders' Representative (as defined below) when deemed necessary and, in any event, upon the request of Noteholders holding not less than one-twentieth of the aggregate principal amount of the outstanding Notes. Such a meeting will be validly held if (i) in the case of a first meeting, there are one or more persons present, being or representing Noteholders holding at least one half of the aggregate principal amount of the outstanding Notes, (ii) in case of an adjourned meeting, there are one or more persons present being or representing Noteholders holding more than one third of the aggregate principal amount of the outstanding Notes and (iii) in the case of a further adjourned meeting, there are one or more persons present being or representing Noteholders holding at least one fifth of the aggregate principal amount of the outstanding Notes. The majority required to pass a resolution at any meeting (including any adjourned meeting) convened to vote on any resolution will be one or more persons holding or representing at least two thirds of the aggregate principal amount of the Notes represented at the meeting; provided, however, that certain proposals, as set out in Article 2415 of the Italian Civil Code (including any proposal to modify the maturity of the Notes or the dates on which interest is payable on them; to reduce or cancel the principal amount of, or interest on, the Notes; or to change the currency of payment of the Notes) may only be sanctioned by a resolution passed at a meeting of Noteholders (including any adjourned meeting) by one or more persons holding or representing not less than one half of the aggregate principal amount of the outstanding Notes. Any resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

### **(b) Noteholders' Representative**

A representative of Noteholders (*rappresentante comune*) (the "Noteholders' Representative") may be appointed pursuant to Article 2417 of the Italian Civil Code in order to represent the Noteholders' interests under these Terms and Conditions and to give effect to resolutions passed at a meeting of the Noteholders. If the Noteholders' Representative is not appointed by a meeting of such Noteholders, the Noteholders' Representative shall be appointed by a decree of the President of the Court where the Issuer has its registered office at the request of one or more Noteholders or at the request of the directors of the Issuer. The Noteholders' Representative shall remain appointed for a maximum period of three years but may be re-appointed again thereafter.

### **(c) Modification and waiver**

The parties to the Fiscal Agency Agreement may agree, without the consent of the Noteholders or the Couponholders, to (i) any modification of any provision of the Fiscal Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification, and any waiver or authorisation of any breach or proposed breach, of any provision of the Fiscal Agency Agreement which in the opinion of the Issuer is not materially prejudicial to the interests of the Noteholders, in either case excluding, to the extent it affects the interests of the Noteholders, any modification to Schedule 3 of the Fiscal Agency Agreement. These Terms and Conditions may be amended by the parties to the Fiscal Agency Agreement, without the consent of the Noteholders or Couponholders, to correct a manifest error.

### **(d) Substitution**

The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders or the Couponholders, substitute for itself as principal debtor under the Notes and the Coupons such company (the "Substitute") as is specified in the Fiscal Agency Agreement, provided that no payment in respect of the Notes or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the "Deed Poll"), to be substantially in the form exhibited to the Fiscal Agency Agreement, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the

jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note or Coupon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) where the Substitute is not a Successor in Business (as defined in the Fiscal Agency Agreement) of the Issuer, the obligations of the Substitute under the Deed Poll, the Notes and the Coupons shall be unconditionally guaranteed by the Issuer by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes and Coupons represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Noteholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in England as to the fulfilment of the preceding conditions of this paragraph (c) and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution, the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Noteholders, will be available for inspection at the specified office of each of the Paying Agents. References in Condition 8 to obligations under the Notes shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 8 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect and the provisions of Condition 8(i) – 8(viii) inclusive shall be deemed to apply in addition to the guarantor. In the event of any such substitution, and for so long as the Notes are listed on the Luxembourg Stock Exchange, notice of such substitution shall be given to the Luxembourg Stock Exchange and a supplement to the Offering Circular dated 16th July 2004 in respect of the Notes will be prepared and filed with the Luxembourg Stock Exchange.

## **12 Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Terms and Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 12 and forming a single series with the Notes.

## **13 Notices**

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication shall not be practicable, in an English language newspaper of general circulation in Europe, provided however that any notice relating to the calling of a meeting of Noteholders pursuant to Condition 11 shall also be published in the *Gazzetta Ufficiale* of the Republic of Italy or in *Il Sole 24ore* at least 15 days prior to the meeting (exclusive of the day on which the notice is published and of the day on which the meeting is to be held). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 13.

## **14 Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## **15 Governing Law**

### **(a) Governing Law**

The Fiscal Agency Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law, save for the mandatory provisions of Italian law relating to meetings of Noteholders and the Noteholders' Representative.

### **(b) Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Notes or the Coupons ("Proceedings") may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Noteholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

### **(c) Agent for Service of Process**

The Issuer irrevocably appoints Hackwood Secretaries Limited at its registered office for the time being (at the date hereof at One Silk Street, London EC2Y 8HQ) as its agent in England to receive service of process in any Proceedings in England based on any of the Notes or the Coupons. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## Summary of Provisions relating to the Notes while in Global Form

The Global Notes contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

### 1 Exchange

The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 2nd September 2004 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below:

- (i) if the Permanent Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;
- (ii) if principal in respect of any Notes is not paid when due and payable; or
- (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 which would not be suffered were the Notes in definitive form and a certificate to such effect signed by an authorised signatory of the Issuer is delivered to the Fiscal Agent for display to Noteholders (unless a default notice has been given as referred to in "Default" below).

Thereupon (in the case of (i) and (ii) above) the holder may give notice to the Fiscal Agent, and (in the case of (iii) above) the Issuer may give notice to the Fiscal Agent and the Noteholders, of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable, the holder of the Permanent Global Note may by notice to the Fiscal Agent (which may, but need not be, the default notice referred to in "Default" below) require the exchange of a specified principal amount of the Permanent Global Note (which may be equal to or (provided that, if the Permanent Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date (as defined below) the holder of the Permanent Global Note may surrender the Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Note, the Issuer will procure that it is cancelled.

"Exchange Date" means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### 2 Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note, which endorsement will be

*prima facie* evidence that such payment has been made in respect of the Notes. Conditions 6(e)(iii) and 7(iv) will apply to the Definitive Notes only.

### **3 Notices**

So long as the Notes are represented by a Global Note and the relevant Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

### **4 Prescription**

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

### **5 Meetings**

The holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes for which such Global Note may be exchanged.

### **6 Purchase and Cancellation**

Cancellation of any Note required by the Terms and Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

### **7 Default**

The Permanent Global Note provides that the holder may cause the Permanent Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Permanent Global Note may elect that the Permanent Global Note becomes void as to a specified portion and that the persons entitled to such portion as accountholders with a clearing system acquire direct enforcement rights against the Issuer under further provisions of the Permanent Global Note executed by the Issuer as a deed poll.

### **8 Trading Amounts**

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of €5,000 thereafter.

## **Use of Proceeds**

The net proceeds of the issue of the Notes, expected to amount to approximately €298,158,000, will be used by the Issuer to refinance its existing short term debt and for its general corporate purposes.

## Summary Financial Information of the ACEA Group

Set out below is summary financial information relating to the Group and the Issuer, which is derived from the consolidated and non-consolidated financial statements, respectively, of the Issuer as at and for the years ended 31st December 2002 and 31st December 2003.

The consolidated and non-consolidated financial statements of the Issuer as at and for the years ended 31st December 2002 and 2003 have been audited by Deloitte & Touche Italia S.p.A. and Deloitte & Touche S.p.A. respectively (independent auditors in respect of the Issuer).

The annual consolidated and non-consolidated financial statements of the Issuer referred to above, have been prepared in accordance with accounting principles prescribed by Italian law, supplemented by the accounting principles issued by the *Consiglio Nazionale dei Dottori Commercialisti e Ragionieri* integrated by accounting principles issued by the International Accounting Standards Board (IASB).

## Consolidated Financial Statements

The following tables set out summary consolidated financial information relating to the Group as at and for the years ended 31st December 2002 and 31st December 2003.

### Consolidated Annual Balance Sheets

	As at 31st December	
	2002	2003
	<i>(millions of euro)</i>	
Receivables from shareholders .....	—	—
<b>Fixed assets</b>		
Intangibles .....	465	439
Property, Plant and Equipment.....	1,816	1,820
Financial fixed assets .....	104	135
<b>Total fixed assets</b> .....	<b>2,385</b>	<b>2,394</b>
<b>Current assets</b>		
Inventories .....	31	37
Account receivables.....	1,095	955
Financial assets (not held as fixed assets) .....	15	17
Liquid assets.....	52	136
<b>Total current assets</b> .....	<b>1,193</b>	<b>1,145</b>
Accrued income and prepaid expenses .....	4	6
<b>Total assets</b> .....	<b>3,582</b>	<b>3,545</b>
<b>Liabilities and shareholders' equity</b>		
<b>Shareholders' equity</b>		
Capital stock.....	1,099	1,099
Legal reserve.....	50	52
Reserve for treasury stock .....	10	10
Other reserves.....	87	162
Retained earnings (loss carryforward).....	—	(181)
Net income (loss) for the period .....	(108)	49
<b>Total Group interest in total shareholders' equity</b> .....	<b>1,138</b>	<b>1,191</b>
Minority interest in shareholders' equity .....	118	127
<b>Total shareholders' equity</b> .....	<b>1,256</b>	<b>1,318</b>
Reserves for risks and charges.....	271	139
Reserves for employee severance indemnities .....	91	85
Liabilities (*).....	1,876	1,981
Accrued expenses and deferred income .....	88	22
<b>Total liabilities and shareholders' equity</b> .....	<b>3,582</b>	<b>3,545</b>
<b>Total memorandum accounts</b> .....	<b>1,914</b>	<b>1,850</b>



**(\*) Consolidated Liabilities Line Items**

	<b>As at 31st December</b>	
	<b>2002</b>	<b>2003</b>
	<i>(millions of euro)</i>	
Bonds .....	14	11
Due to Banks .....	1,128	1,091
Due to other lenders .....	—	—
Advances .....	66	69
Trade account payable .....	320	424
Accounts payable to subsidiaries .....	6	6
Accounts payable to affiliated companies .....	1	4
Accounts payable to controlling companies .....	139	148
Taxes payable .....	65	67
Contribution to pension and social security institutions .....	10	10
Other liabilities .....	127	151
<b>Total liabilities</b> .....	<b>1,876</b>	<b>1,981</b>

## Consolidated Annual Income Statements

	For the year ended 31st December	
	2002	2003
	<i>(millions of euro)</i>	
<b>Production value</b>		
Sales and services revenues.....	1,288	1,464
Increase in company-produced additions to fixed assets.....	28	34
Other revenues and income.....	20	17
<b>Total production value.....</b>	<b>1,336</b>	<b>1,515</b>
<b>Cost of production</b>		
Raw materials, auxiliaries, supplies and merchandise.....	579	691
Outside services.....	181	211
Use of property not owned.....	32	41
Personnel.....	237	229
Depreciation, amortisation and write-downs.....	150	148
Change in inventory of raw materials, auxiliaries, supplies and merchandise.....	(3)	(4)
Risk provisions.....	186	30
Other provisions.....	—	1
Miscellaneous operating cost.....	17	32
<b>Total cost of production.....</b>	<b>1,379</b>	<b>1,379</b>
<b>Net production value.....</b>	<b>(43)</b>	<b>136</b>
<b>Financial income and expense</b>		
Income from equity investment.....	—	2
Other financial income.....	18	20
Interest and other financial expense.....	(72)	(63)
<b>Total financial income expense.....</b>	<b>(54)</b>	<b>(41)</b>
<b>Value adjustments on financial assets</b>		
Upward adjustments.....	—	1
Write-downs.....	(54)	(3)
<b>Total value adjustments.....</b>	<b>(54)</b>	<b>(2)</b>
<b>Extraordinary income and expense</b>		
Extraordinary income.....	73	37
Extraordinary expense.....	(50)	(5)
<b>Total extraordinary items.....</b>	<b>23</b>	<b>32</b>
<b>Income (loss) before taxes.....</b>	<b>(128)</b>	<b>125</b>
Income taxes.....	21	(66)
<b>Net income (loss).....</b>	<b>(107)</b>	<b>59</b>
<b>Minority interest in net income (loss).....</b>	<b>1</b>	<b>10</b>
<b>Group interest in net income (loss).....</b>	<b>(108)</b>	<b>49</b>

## Consolidated Annual Cash Flow Statements

	For the year ended 31st December	
	2002	2003
	<i>(millions of euro)</i>	
Cash and cash equivalents at the beginning of the year .....	<b>81</b>	<b>52</b>
<b>Cash flows from (for) operating activities</b>		
Net income (loss) .....	(108)	49
Minority interest in net income.....	1	10
Depreciation and amortisation .....	144	138
Revaluation/Write-downs .....	60	2
Gains (losses) on disposals.....	(63)	(3)
Net change in reserves for risks and charges.....	203	(132)
Net change in employee severance indemnities .....	—	(5)
<b>Cash flow from operating activities before changes in net working capital</b> .....	<b>237</b>	<b>59</b>
Increase/(Decrease) in current receivables .....	(353)	124
Increase/(Decrease) in current payables.....	79	170
Increase/(Decrease) in inventories .....	1	(6)
Changes in other items of working capital .....	57	(68)
<b>Change in working capital</b> .....	<b>(216)</b>	<b>220</b>
<b>Total cash flow from operating activities</b> .....	<b>21</b>	<b>279</b>
<b>Cash flows from (for) investing activities</b>		
Tangible fixed assets .....	(95)	(105)
Intangible fixed assets .....	(49)	(14)
Equity investments .....	(26)	(43)
Acquisitions/Sales during the period.....	192	2
Other fixed asset investments .....	(21)	2
<b>Total Cash flows from (for) investing activities</b> .....	<b>1</b>	<b>(158)</b>
<b>Cash Flow from (for) financing activities</b>		
Minority interest in capital increases of subsidiaries.....	23	8
Repayments of loans and long-term debt .....	(28)	(61)
Disbursement of medium-to long-term loans/other debt.....	26	—
(Decrease)/Increase in other short-term debt.....	(52)	21
(Decrease)/Increase in financial receivables and securities.....	20	(2)
<b>Total Cash Flow from (for) financing activities</b> .....	<b>(11)</b>	<b>(34)</b>
Payment of dividends .....	(40)	(3)
<b>Changes in shareholders' equity after net income</b> .....	<b>—</b>	<b>—</b>
<b>Cash flow for the period</b> .....	<b>(29)</b>	<b>84</b>
<b>Cash and cash equivalents at the end of the year</b> .....	<b>52</b>	<b>136</b>

## Non-consolidated Financial Statements

The following tables set out summary non-consolidated financial information relating to the Issuer as at and for the years ended 31st December 2002 and 31st December 2003.

### Non-consolidated Annual Balance Sheets

	<b>As at 31st December</b>	
	<b>2002</b>	<b>2003</b>
	<i>(millions of euro)</i>	
Receivables from shareholders .....	—	—
<b>Fixed assets</b>		
Intangibles .....	28	32
Property, Plant and Equipment.....	108	105
Financial fixed assets .....	1,694	1,724
<b>Total fixed assets</b> .....	<b>1,830</b>	<b>1,861</b>
<b>Current assets</b>		
Inventories .....	16	17
Account receivables.....	716	585
Financial assets (not held as fixed assets) .....	2	2
Liquid assets.....	27	100
<b>Total current assets</b> .....	<b>761</b>	<b>704</b>
Accrued income and prepaid expenses .....	4	4
<b>Total assets</b> .....	<b>2,595</b>	<b>2,569</b>
<b>Liabilities and shareholders' equity</b>		
<b>Shareholders' equity</b>		
Capital stock.....	1,099	1,099
Legal reserve.....	46	46
Reserve for treasury stock .....	10	10
Other reserves.....	715	715
Retained earnings (loss carryforward).....	—	(165)
Net income (loss) for the period .....	(165)	16
<b>Total shareholders' equity</b> .....	<b>1,705</b>	<b>1,721</b>
Reserves for risks and charges.....	232	86
Reserves for employee severance indemnities .....	18	14
Liabilities(**).....	637	745
Accrued expenses and deferred income .....	3	3
<b>Total liabilities and shareholders' equity</b> .....	<b>2,595</b>	<b>2,569</b>
<b>Total memorandum accounts</b> .....	<b>1,374</b>	<b>1,267</b>

**(\*\*) Non-consolidated Liabilities Line Items**

	<b>As at 31st December</b>	
	<b>2002</b>	<b>2003</b>
	<i>(millions of euro)</i>	
Bonds .....	—	—
Due to Banks.....	388	395
Due to other lenders.....	—	—
Advances.....	—	—
Trade account payable.....	76	60
Accounts payable to subsidiaries .....	59	185
Accounts payable to affiliated companies .....	1	4
Accounts payable to controlling companies.....	47	51
Taxes payable .....	23	17
Contribution to pension and social security institutions.....	3	3
Other liabilities.....	40	30
<b>Total liabilities</b> .....	<b>637</b>	<b>745</b>

**Non-consolidated Annual Income Statements**

	<b>For the year ended 31st December</b>	
	<b>2002</b>	<b>2003</b>
	<i>(millions of euro)</i>	
<b>Production value</b>		
Sales and services revenues.....	203	145
Increase in company-produced additions to fixed assets.....	3	3
Other revenues and income.....	7	4
<b>Total production value</b> .....	<b>213</b>	<b>152</b>
<b>Cost of production</b>		
Raw materials, auxiliaries, supplies and merchandise.....	62	27
Outside services.....	60	73
Use of property not owned.....	6	6
Personnel.....	56	48
Depreciation, amortisation and write-downs.....	25	12
Change in inventory of raw materials, auxiliaries, supplies and merchandise.....	(1)	(1)
Risk provisions.....	191	10
Other provisions.....	—	—
Miscellaneous operating cost.....	9	6
<b>Total cost of production</b> .....	<b>408</b>	<b>181</b>
<b>Net production value</b> .....	<b>(195)</b>	<b>(29)</b>
<b>Financial income and expense</b>		
Income from equity investment.....	41	37
Other financial income.....	19	19
Interest and other financial expense.....	(25)	(22)
<b>Total financial income expense</b> .....	<b>35</b>	<b>34</b>
<b>Value adjustments on financial assets</b>		
Upward adjustments.....	—	—
Write-downs.....	(100)	(4)
<b>Total value adjustments</b> .....	<b>(100)</b>	<b>(4)</b>
<b>Extraordinary income and expense</b>		
Extraordinary income.....	46	29
Extraordinary expense.....	(10)	(3)
<b>Total extraordinary items</b> .....	<b>36</b>	<b>26</b>
<b>Income (loss) before taxes</b> .....	<b>(224)</b>	<b>27</b>
Income taxes.....	58	(11)
<b>Net income (loss)</b> .....	<b>(166)</b>	<b>16</b>

## Non-consolidated Annual Cash Flow Statements

	For the year ended 31st December	
	2002	2003
	<i>(millions of euro)</i>	
<b>Cash and cash equivalents at the beginning of the year</b> .....	<b>72</b>	<b>27</b>
<b>Cash flows from (for) operating activities</b>		
Net income (loss) .....	(165)	16
Depreciation and amortisation .....	25	91
Revaluation/Write-downs .....	57	—
Gains (losses) on disposals.....	—	—
Net change in reserves for risks and charges.....	188	(146)
Net change in employee severance indemnities .....	(2)	(4)
<b>Cash flow from operating activities before changes in net working capital</b> .....	<b>103</b>	<b>(43)</b>
Increase/(Decrease) in current receivables .....	(270)	19
Increase/(Decrease) in current payables .....	61	101
Increase/(Decrease) in inventories .....	2	(1)
Changes in other items of working capital .....	(2)	—
<b>Change in working capital</b> .....	<b>(209)</b>	<b>119</b>
<b>Total cash flow from operating activities</b> .....	<b>(106)</b>	<b>76</b>
<b>Cash flows from (for) investing activities</b>		
Tangible fixed assets .....	215	(79)
Intangible fixed assets .....	(9)	(14)
Equity investments .....	(13)	(40)
Acquisitions/Sales during the period.....	—	—
Other fixed asset investment.....	(33)	11
<b>Total Cash flows from (for) investing activities</b> .....	<b>160</b>	<b>(122)</b>
<b>Cash Flow from (for) financing activities</b>		
Repayments of loans and long-term debt .....	(8)	(14)
Disbursement of medium-to long-term loans/other debt.....	—	21
Decrease/Increase in other short-term debt .....	(53)	111
Decrease/Increase in financial receivables and securities .....	—	—
<b>Total Cash Flow from (for) financing activities</b> .....	<b>(61)</b>	<b>118</b>
Payment of dividends .....	(38)	—
<b>Changes in shareholders' equity after net income</b> .....	<b>—</b>	<b>—</b>
<b>Cash flow for the period</b> .....	<b>(45)</b>	<b>72</b>
<b>Cash and cash equivalents at the end of the year</b> .....	<b>27</b>	<b>99</b>

## Capitalisation of the Issuer

The following table sets out (i) the audited consolidated capitalisation and indebtedness of the Issuer as at 31st December 2003 and (ii) the unaudited consolidated capitalisation and indebtedness of the Issuer as at 31st March 2004.

	As at 31st December 2003 (audited)	As at 31st March 2004 (unaudited)
	<i>(thousands of euro)</i>	
<b>Short term borrowings</b>		
Due to banks .....	374,625	491,762
Due to controlling companies .....	2,213	2,213
Due to other lenders.....	—	—
<b>Total short term borrowings<sup>(1)</sup></b> .....	<b>376,838</b>	<b>493,975</b>
<b>Medium and long term debt</b>		
Due to banks .....	716,131	724,065
Bonds .....	11,210	11,395
Due to controlling companies .....	—	—
Due to other lenders <sup>(2)</sup> .....	—	—
<b>Total medium and long term debt</b> .....	<b>727,341</b>	<b>735,460</b>
<b>Shareholders' equity</b>		
<b>Group interest in capital stock and reserves</b>		
Share capital (212,964,900 shares, nominal value of euro 5.16 each, all of which are authorised, issued and fully paid) .....	1,098,899	1,098,899
Additional paid in capital.....	—	—
Legal reserve.....	51,801	52,415
Other reserves.....	172,700	232,294
Retained earnings .....	(181,383)	(187,003)
Net income for the period <sup>(3)</sup> .....	49,018	18,675
<b>Group shareholders' equity</b> .....	<b>1,191,035</b>	<b>1,215,280</b>
Minority interest in shareholders' equity .....	126,626	131,395
<b>Total shareholders' equity<sup>(4)</sup></b> .....	<b>1,317,661</b>	<b>1,346,675</b>
<b>Total capitalisation<sup>(5)</sup></b> .....	<b>2,421,840</b>	<b>2,576,110</b>

Notes:

- (1) The net proceeds from the issue of the Notes will be used, *inter alia*, to refinance the Issuer's existing short term borrowings. "Total short term borrowings" above are therefore expected to be reduced accordingly.
- (2) Includes debt due to financial institutions other than banks.
- (3) Income as at 31st March 2004 is before tax.
- (4) Shareholders' equity includes minority interests under Italian GAAP.
- (5) Total capitalisation as at 31st March 2004, as adjusted to reflect the issue of €300,000,000 4.875% Notes due 2014 on 23rd July 2004, amounts to €2,876,110,000.

There has been no material change in the consolidated capitalisation and indebtedness of the Issuer since 31st March 2004.



## ACEA S.p.A.

### Overview

ACEA S.p.A. (“ACEA”) and its subsidiaries (together, the “ACEA Group”) is the leading operator in the Italian water services sector, serving approximately 7 million residents, and the second largest Italian energy distributor, serving approximately 3 million residents. The ACEA Group operates primarily in Rome, Italy’s capital and largest city, throughout other parts of Italy and, to a lesser extent, outside Italy. The ACEA Group’s principal areas of business are the operation of fully integrated water services (collection, abstraction and distribution of fresh water, water treatment and sewerage) and the generation, transmission, distribution and sale of electricity, including the management, operation and supply of electricity to the public lighting systems throughout the *Comune di Roma* (the “Comune”).

As a public utility, the ACEA Group has more recently focussed its business on the Italian market and it continues to strengthen its market position in the Italian water and energy sectors following recent regulatory reforms aimed at promoting competition in the domestic market. As at 31st December 2003, the water services business contributed €366.20 million (21.8%) to the overall revenues of the ACEA Group and the energy services business contributed €1,166.05 million (69.6%), including intra-Group sales among the line items within the relevant business area.

### Financial Highlights of the ACEA Group

The following table sets forth the contribution to total revenues and gross operating margin of each of ACEA’s lines of business for the periods indicated.

Business Area – each Business Area sub-total includes intra-Group sales among the relevant line items	Year ended 31st December							
	2002				2003			
	Revenues	%	EBITDA	%	Revenues	%	EBITDA	%
	<i>(thousands of euro)</i>							
<b>ENERGY SERVICES</b>								
Generation <sup>(1)</sup> .....	81,464.28	5.4	20,750.83	7.1	40,106.89	2.4	11,281.40	3.6
Distribution, Transmission and Sales <sup>(2)</sup> .....	924,839.98	61.2	141,792.05	48.2	1,066,290.53	63.6	154,599.77	49.1
Public lighting .....	58,282.29	3.9	10,858.91	3.7	59,656.87	3.6	9,463.27	3.0
<b>Total energy services</b> .....	<b>1,064,586.55<sup>(3)</sup></b>	<b>70.5</b>	<b>173,401.79</b>	<b>59.0</b>	<b>1,166,054.29<sup>(3)</sup></b>	<b>69.6</b>	<b>175,344.44</b>	<b>55.7</b>
<b>WATER SERVICES</b>								
Acea ATO 2 .....	271,990.72	18.0	111,991.94	38.1	313,696.42	18.7	134,905.18	42.9
De Ferrari Galliera Group .....	31,847.68	2.1	13,414.37	4.6	32,323.30	1.9	13,100.66	4.2
Other Italian .....	350.84	0.0	(46.40)	0.0	1,637.13	0.1	(1,074.31)	(0.3)
Outside Italy .....	9,335.83	0.6	3,304.54	1.1	11,018.53	0.7	4,162.08	1.3
Research and development .....	5,555.43	0.4	1,201.49	0.4	7,521.27	0.4	1,636.14	0.5
<b>Total water services</b> .....	<b>319,080.50</b>	<b>21.1</b>	<b>129,865.94</b>	<b>44.2</b>	<b>366,196.65</b>	<b>21.8</b>	<b>152,729.76</b>	<b>48.5</b>
<b>CORPORATE</b> .....	<b>82,076.64</b>	<b>5.4</b>	<b>(8,891.72)</b>	<b>(3.0)</b>	<b>94,166.48</b>	<b>5.6</b>	<b>(15,782.50)</b>	<b>(5.0)</b>
<b>NON-CORE ACTIVITIES<sup>(4)</sup></b> .....	<b>45,576.60</b>	<b>3.0</b>	<b>(363.28)</b>	<b>(0.1)</b>	<b>50,737.42</b>	<b>3.0</b>	<b>2,431.40</b>	<b>0.8</b>
<b>TOTAL</b> .....	<b>1,511,320.30</b>	<b>100</b>	<b>294,012.73</b>	<b>100</b>	<b>1,677,154.85</b>	<b>100</b>	<b>314,723.09</b>	<b>100</b>
Consolidation adjustment .....	202,941.34		346.41		196,076.34		308.25	
<b>CONSOLIDATED TOTAL</b> .....	<b>1,308,378.95</b>		<b>293,666.32</b>		<b>1,481,078.51</b>		<b>314,414.84</b>	

#### Notes:

- (1) The material difference is due to the generation activity spin-off following the implementation of the joint venture.
- (2) In 2003, distribution activities contributed €301.24 million to the consolidated revenues of the ACEA Group and €123.32 million of EBITDA (see the table of significant consolidated subsidiaries under “Structure of the ACEA Group” below).
- (3) Total energy services revenues, net of the effect of intra-Group sales among the relevant line items, were €992.02 million in the financial year ended 31st December 2002 and €1,116.68 million in the financial year ended 31st December 2003.
- (4) Non-Core Activities are predominantly made up by Voinoi S.p.A. which performs Customer Care services for customers in the energy and water sectors. As of 2004, such activities have been transferred to Acea ATO 2 and AceaElettrabel Elettricità.

The discrepancy between the percentage contributions of “Distribution, Transmission and Sales” to revenues and to EBITDA in the consolidated figures set out above is due to the current energy tariff structure (see “Regulation” below). The tariff collected from customers is composed of several components, the largest of which relates to the energy cost. This component is paid by customers to the distributor/seller and then passed through by the distributor/seller to the energy suppliers. In terms of tariff collected, this component constitutes approximately 72% of the tariff, substantially without any margin for the distributor/seller. The second largest component of the tariff is related to distribution and constitutes approximately 18%. This is not passed through and is determined by the Regulatory Authority for Electricity and Gas (*Autorità per l’Energia Elettrica e il Gas*) to allow for a certain return on investments by the distributor. The final margin of the distributor is linked to the profitability (see “Regulation” below) permitted by the Regulatory Authority and to the cost structure of the relevant company.

## History

ACEA was founded by the *Comune* as a municipal company in 1909 under the original name Azienda Elettrica Municipale (“AEM”) for the purpose of providing energy services for public and private usage throughout the *Comune*. In 1937, the Governor of Rome entrusted AEM with the construction and administration of the municipal water system and water distribution network for the city of Rome. The company was subsequently renamed Azienda Governatoriale Elettricità e Acque (“AGEA”) and in 1945 became Azienda Comunale Elettricità e Acque (“A.C.E.A.”).

In 1964, following the expiry of a water concession previously held by another operator, the *Comune* transferred to ACEA the assets used to conduct that operator’s water distribution business, notably the aqueduct of Marcio, bringing municipal water distribution under its sole control. In 1985, ACEA began water purification activities, servicing a customer base of approximately 3 million residents and establishing the foundations for the development towards providing integrated management services for the entire water cycle. In 1989, the company adopted the name of Azienda Comunale Energia e Ambiente (“A.C.E.A.”). Three years later the company was transformed from a municipal company (*azienda municipalizzata*) into a special company (*azienda speciale*) and, with effect from 1st January 1998, ACEA was incorporated as a joint stock company (*società per azioni*) under Italian law No. 142 of 8th June 1990 with a duration until 31st December 2050, adopting its present name. ACEA is now the parent of a vertically integrated group of companies pursuant to a corporate reorganisation which was completed at the end of 1999.

ACEA is registered with the Companies’ Register of Rome under number 05394801004 and its principal office is at Piazzale Ostiense, 2, 00154 Rome, Italy.

## Share Capital

The authorised share capital of ACEA is €1,098,898,884. The issued and outstanding share capital of ACEA is €1,098,898,884, fully paid up, divided into 212,964,900 ordinary shares of €5.16 each. The *Comune* is ACEA’s controlling shareholder with a 51% stake. Since 1999, the other 49% of the ordinary shares in ACEA have been listed on the Milan Stock Exchange (*Borsa Italiana S.p.A.*) and other shareholders now include Suez S.A. with 2.268%, Schroder Investment Management Ltd. with 10.039%, J.P. Morgan Securities Ltd. with 2.193% and Caltagirone F. Gaetano (held through the *Unione Generale Immobiliare S.p.A.*) with 2.001% (*source: CONSOB* as at 14th July 2004). As at the date hereof, ACEA holds 1,067,927 of its own shares, corresponding to 0.501% of its share capital.

## Corporate Purposes

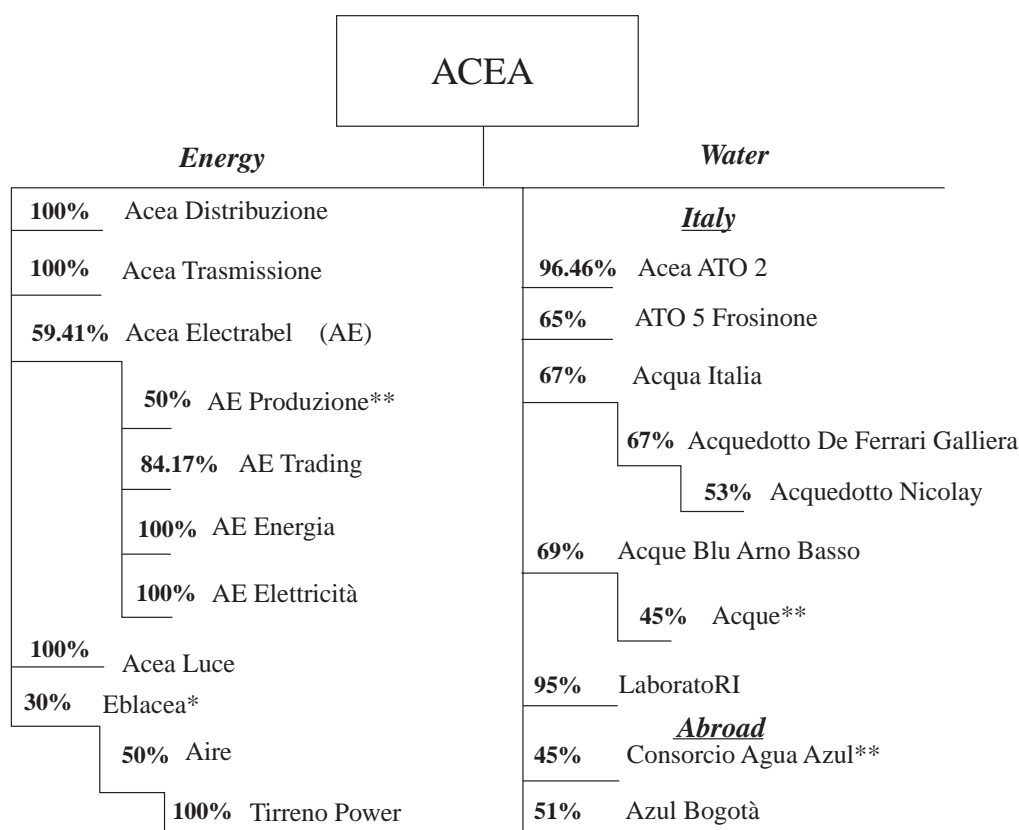
Pursuant to Article 4 of ACEA’s by-laws, the principal objects of the company are (i) the procurement, generation, transmission, distribution and selling of electric power and heat deriving from any energy source, in accordance with the relevant existing provisions of law; (ii) the integrated management of the water resources including the collection, conduction, distribution, sewerage, purification and treatment as well as protection, monitoring and expansion of water basins; (iii) the management of public fountains and ornamental fountains; (iv) the planning, implementation and management of systems for public lighting as well as traffic lights and circulation-linked systems; and (v) the promotion, diffusion and implementation of actions and plants supplied with renewable and similar energy sources.

## Concessions and Licences

Acea's principal businesses are subject to long-term concessions (*concessioni*) and licences from and agreements with the *Comune* and other public entities. These include a concession for the distribution of electricity in Rome and Formello granted by the Ministry of Industry (*Ministero delle Attività Produttive*), concessions from the *Comune* and other municipalities for the use of assets belonging to the public domain in connection with ACEA's water services businesses and public lighting businesses and licences from public entities that prescribe ACEA's rights to use water abstracted from the public domain in connection with its water services operations and its generation of hydroelectric power. In addition, ACEA operates its integrated water services and public lighting businesses pursuant to a series of service agreements with the *Comune* (see "Water Services: Principal Concessions and Licences" and "Energy Services: Principal Concessions and Licences" below).

## STRUCTURE OF THE ACEA GROUP

The following diagram illustrates the structure of the ACEA Group.



Notes:

\* excluded from the consolidation of the ACEA Group

\*\* consolidated proportionately

The following table provides certain information relating to the significant consolidated subsidiaries of the ACEA Group in terms of contribution to consolidated revenues and EBITDA of the ACEA Group (consolidated on a line-by-line basis). Both subsidiaries referred to below have their principal offices in Rome.

Name	% holding	Share capital (€)	Reserves	2003 Profit/ Loss (€ thousands)	Dividends (€ thousands)	2003 Revenues (€ thousands)	% of total	2003 EBITDA (€ thousands)	% of total
Acea ATO 2 S.p.A.....	96.46*	362,834,320	249,361,044	39,136.84	32,655.09	313,696	18.7	134,905	42.9
Acea Distribuzione S.p.A....	100	345,000,000	330,315,109	(18,223.19)	0	301,239	18.0	123,321	39.2

Notes:

\* The remaining shares in Acea ATO 2 S.p.A. are owned by the municipalities of ATO 2 Central Lazio

The ACEA Group's business model is based on a strategy of focussing on its core businesses (integrated water cycle management and energy services) with an emphasis on strengthening its position within the Italian market. The implementation of this strategy, together with certain regulatory reforms which have impacted on the organisation of the business model, have led to a series of corporate reorganisations in recent years.

On 1st April 1999, Legislative Decree 79/1999 (the "Bersani Decree") came into effect. The Bersani Decree implemented into Italian law the regulatory framework of EU Directive 96/1992 (the "Electricity Directive") aimed at creating a single European market for electricity. Within the regulatory framework established by the Bersani Decree, important corporate steps and transactions have been undertaken by the ACEA Group in order to organise the business and provide the necessary means to take advantage of the opportunities afforded by the development of the energy market.

In order to comply with the requirements of the Bersani Decree and to optimise the management of its businesses, ACEA's former structure of operation through divisions was reorganised into a vertically integrated group with ACEA as parent. In 1999, ACEA transferred its electricity distribution and transmission businesses to newly incorporated wholly owned subsidiaries, Acea Distribuzione S.p.A. ("Acea Distribuzione") and Acea Trasmissione S.p.A. ("Acea Trasmissione"), respectively.

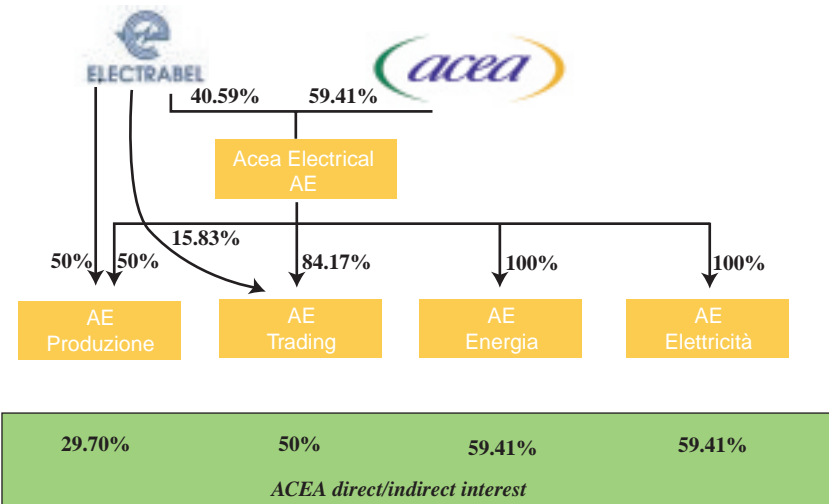
In addition, to pre-empt the implementation of Law 36/1994 (the "Galli Law") in the water sector and to increase efficiency in the Group, ACEA transferred its integrated water services businesses to Acea ATO 2 S.p.A. ("Acea ATO 2"), a newly incorporated wholly owned subsidiary. ACEA has also incorporated a number of other subsidiaries to segregate specific areas of business. ACEA serves as parent company and offers centralised services to the ACEA Group although it also continues to operate directly the provision of public lighting within the city of Rome.

Further information on the regulatory framework applicable to the ACEA Group's business activities and its impact on the organisation of the ACEA Group is provided in the "Regulation" section below.

During 2001, the ACEA Group, acting through its subsidiary Acea Distribuzione, acquired from ENEL Distribuzione S.p.A. the remaining portion of the electricity and supply network in Rome and Formello (representing approximately 50%) which ACEA did not already own (the most significant example of power supply services integration in Europe and the first in Italy). The transaction was permitted following the Bersani Decree's provision that the municipally-owned utilities supplying more than 20% of the total customer base in a single city (such as Acea Distribuzione in Rome) were entitled to acquire the local distribution network owned by ENEL S.p.A. ("ENEL") at market price. Following the acquisition of ENEL's local distribution network in 2001, ACEA became the only company entitled to distribute electricity in the city of Rome and the surrounding area of Formello pursuant to a thirty year concession. The transaction also allowed Acea Distribuzione to double its customer base to approximately 1,500,000 connections (see "Electricity Distribution: Acea Distribuzione S.p.A." below).

In order to exploit the opportunities offered by the Bersani Decree and in response to the changing energy market, during 2002, ACEA and the Belgian utility Electrabel S.A. ("Electrabel"), a member of the Suez Group, entered into a strategic joint venture (named AceaElectrabel) in the energy sector in the Italian market. 2003 was the first entire year of operation for the joint venture. Electrabel is one of the major energy companies in Europe and is the market leader in energy services in the Benelux countries. As one of the largest operators of combined cycle gas turbine (CCGT) plants in the world, it also has vast experience in the construction, operation and maintenance of such plants. The joint venture was set up mainly to provide the AceaElectrabel Group with electricity to be sold to its captive customer base, both generated by the joint venture's power plants and purchased by the National Transmission Network Operator (*Gestore della Rete di Trasmissione Nazionale* or GRTN). Since April 2004, with the start-up of the new Italian electricity system, energy for the captive customer base has been purchased by the "Single Buyer" (*Acquirente Unico*) and re-sold to electricity distributors. The joint venture's trading activity will be used primarily to manage the joint venture's internal portfolio (IPM), to optimise the AceaElectrabel power production and to supply AceaElectrabel's Eligible customers. It is not intended to operate as a "purely financial" trader. As net consideration for both the customer base and the generation capacity contributed to the partnership, ACEA received approximately €200 million cash from Electrabel at the end of 2002.

The division of share capital among the component members of the new corporate structure is shown in the following chart.



At the end of 2002, ACEA and Electrabel, operating through a newly-incorporated company EblAcea S.p.A. (“EblAcea”), participated in the consortium that purchased Interpower S.p.A. (“Interpower”), the third and final generation company (or “GenCo”) sold by ENEL as part of the generation downsizing programme imposed on ENEL pursuant to the Bersani Decree. Interpower, now renamed Tirreno Power S.p.A. (“Tirreno Power”), is the fourth largest electricity generator in Italy (see “Acquisition of Interpower S.p.A.” below).

**BUSINESS AREAS**

**WATER SERVICES**

The ACEA Group is the leading provider of integrated water services to the Italian water market. Having begun operations in Rome in 1937, the ACEA Group has recently extended its operations to other parts of Italy (essentially Tuscany, Liguria and Lazio) and, to a lesser extent, outside Italy. With a current customer base of approximately 7,000,000 Italian residents (approximately 12% of the entire Italian market), it now represents the largest operator in Italy.

A series of regulatory reforms, principally the Galli Law, have aimed at achieving effective competition in the water sector. Their most important initiative has been the establishment of a network of integrated water systems under which a sole operator, through public tender, is awarded a concession to provide integrated water services within a specified area, an Integrated Water District (“*Ambiti Territoriali Ottimali*” or ATO). An integrated water system encompasses the fresh water processes of supply and distribution as well as the waste water services of water treatment and sewerage. Each ATO is overseen by a water district authority, a supervising body established by the local public entities of the relevant ATO, which is responsible for regulating the integrated management of water services, overseeing the operator and setting an integrated tariff for both freshwater and waste water services that will apply to all customers within the ATO.

**Management of Water Services in ATO 2 Central Lazio**

Following such regulatory reforms, in 2002, ACEA was awarded a thirty year concession (effective as of 1st January 2003) to serve as the sole operator of the integrated water services of ATO 2 Central Lazio (“ATO 2”), covering Rome and its province, the largest Italian integrated water district in terms of geographic area with a population of approximately 3.6 million inhabitants and an aggregate annual demand for fresh water of approximately 450 million cubic metres. The company which manages the water services for the ATO 2 district, Acea ATO 2, provides the full range of services related to the integrated water cycle: collection, abstraction, distribution, sewerage and treatment. The ATO 2 project involves bringing the management and operation of integrated water services for all 111 municipalities within the ATO under the single management of Acea ATO 2. All municipalities will be brought under the single management of Acea ATO 2 by 2006. Within this timeframe, in addition to the municipalities of Rome and Fiumicino, where Acea ATO 2 already managed all aspects of the integrated water services cycle, during 2003, to broaden the scope of

control of the single management, Acea ATO 2 took over services management in the local municipalities of Guidonia-Montecelio, Tivoli, Monterotondo, Grottaferrata and Ciampino, adding approximately 200,000 residents to those already served. Acea ATO 2 also serves the Simbrivio Consortium, an aqueduct system that supplies water on a wholesale basis to 54 municipalities and 3 consortia.

### ***Concession Agreement (Convenzione) for the Management of Integrated Water Services in ATO 2 Central Lazio***

Due to the complexity involved in the start-up of the management of integrated water services within ATO 2, a transitory period has been agreed for the gradual inclusion of the various water management entities currently operating in the relevant territory under the single management of Acea ATO 2. The parties to the *Convenzione*, the ATO Authority and Acea ATO 2, have agreed that the transitory period will last a maximum of three years starting from the *Convenzione's* effective date, 1st January 2003.

The *Convenzione* was signed on 6th August 2002 and provides for a tariff trend which allows for the progressive increase of the tariff, over a six year period, from initial levels to the projected tariffs set out in the water district master plan (the so-called "*Piano d'Ambito*"). The tariff will be increased in line with the actual inflation rate rather than with reference to the official estimated inflation rate (*inflazione programmata*).

As provided by the Galli Law, an average tariff has been evaluated in relation to the entire ATO 2. In the area of the municipality of Rome, this tariff is higher than the weighted average tariff in force before the *Convenzione* took effect. In the other municipalities within ATO 2, the previous weighted average tariff was marginally higher than the new average tariff. This has led to the evolution of different tariff levels throughout the territory so that, within the set six year period, the tariffs will become aligned with the single tariff set out in the *Piano d'Ambito*.

The *Convenzione* also allows for an annual mechanism to update the tariffs such that, during the first six years, Acea ATO 2 will benefit from any improvement in efficiency above the targets imposed by the Regulator through the price cap tariff mechanism provided by the so-called *Metodo Normalizzato*.

After the first six years and at the beginning of every successive three year period, in the event that the efficiency improvement exceeds the due target, one-third of the efficiency improvement will be used to reduce the tariff and the remaining two-thirds will be attributed to Acea ATO 2.

Following negotiations with the ATO Authority, acting within its powers under the Galli Law, certain of the above-mentioned features of the *Convenzione* (for example, tariffs linked to the actual inflation rate, efficiency improvement sharing and the provision of the transitory period) have allowed Acea ATO 2 to obtain more favourable conditions than the standard conditions set by the law (see "Regulation" section below).

### ***Fresh Water Services***

ACEA's fresh water services business consists of abstracting fresh water primarily from mountain springs located in central Italy, conducting it to Rome through a complex network of aqueducts and pipelines, and distributing and selling water to retail and wholesale customers.

#### ***Water Supply***

ACEA draws its supply of fresh water on the basis of long-term concessions, principally from the mountain springs located in the regions of Lazio, Abruzzo and Umbria. In addition, ACEA abstracts groundwater from aquifers through the use of artesian wells and surface water directly from Lake Bracciano and the Tiber River. The following table provides certain information about ACEA's sources of fresh water for 2003.

	Drinking Water		Non-Potable Water	
	Maximum Capacity	Maximum Utilisation	Maximum Capacity	Maximum Utilisation
		(m3/second)		
Springs.....	19.335	18.523	0.300	0.080
Artesian Well Fields.....	0.925	0.705		
Surface Water.....	3.200	0.057	0.400	0.279
<b>Total</b> .....	<b>23.460</b>	<b>19.285</b>	<b>0.700</b>	<b>0.359</b>

In general, in order to satisfy the demand for drinking water in its service area, ACEA looks to its springs, which have an aggregate capacity of 19.335 cubic metres per second. ACEA's aggregate intake from these springs in 2003 was approximately 584 million cubic metres, equivalent to approximately 96% of its total demand for drinking water.

ACEA also draws water from underground aquifers through four fields of artesian wells, which have an aggregate capacity of 0.925 cubic metres per second. In 2003, ACEA's aggregate intake from these sources was approximately 22.2 million cubic metres, equivalent to approximately 3.6% of its total demand for drinking water. In addition, since 1998, ACEA has been entitled to rely on water drawn from Lake Bracciano to satisfy peaks in demand during the summer months and to serve as a reserve.

ACEA draws its fresh water pursuant to long-term water abstraction licences (see "Water Services: Principal Concessions and Licences" below).

ACEA currently utilises an average of 19.3 cubic metres per second of drinking water, compared with maximum capacity of 23.5 cubic metres per second, and an average of 0.31 cubic metres per second of non-potable water, compared with maximum capacity of 0.70 cubic metres per second.

#### *Water Distribution*

ACEA is the leading Italian distributor of fresh water in terms of population served and volume of water distributed. In 2003, Acea ATO 2 distributed 480 million cubic metres of water to 269,322 customers (equivalent to approximately 2.8 million residents), comprising 300.9 million cubic metres distributed to 202,117 customers in Rome, 12.9 million cubic metres distributed to 67,205 customers in Fiumicino and nearby municipalities and 72.7 million cubic metres distributed to 66 re-sellers (primarily municipalities located near Rome or along ACEA's aqueducts who purchase water at wholesale for re-distribution to their residents), including 31.9 million cubic metres distributed to re-sellers of the Simbrivio Consortium. Acea ATO 2 is the exclusive distributor of drinking water to the entire province of Rome and also to the Vatican City. It is also responsible for over 400 artistic and monumental fountains in the city of Rome, and ancillary water services such as watering equipment, fire hydrants and more than 2,500 public drinking fountains.

*Aqueducts:* ACEA's drinking water distribution system comprises 6 aqueduct systems: Acquedotto Marcio, Acquedotto Vergine, Acquedotto Appio Alessandrino, Nuovo Acquedotto di Bracciano, Acquedotto Peschiera – Capore and Acquedotto del Simbrivio.

*Water distribution network:* ACEA's fresh water distribution network consists of 866.5 kilometres of large-diameter pipelines, 208 kilometres of small-diameter pipelines, 5,659.2 kilometres of branch pipes and risers, 252,365 water meters and 20,160 *bocche tarate*, or unmetered spigots. Large-diameter pipelines, which are generally constructed of steel or cast iron, are used to transport water from aqueducts to water transfer stations. Small-diameter pipelines, which are generally constructed of cast iron or ductile iron, are used to deliver water from water transfer stations to neighbourhoods. Branch pipes and risers connect distribution pipelines to water meters or unmetered spigots, the points at which drinking water reaches individual customers.

*Storage tanks:* ACEA operates 36 storage tanks located throughout its service area. These tanks have an aggregate capacity of approximately 481,314 cubic metres of water and are used to modulate the release of water into the distribution system, which helps to stabilise water pressure throughout the network in response to peaks in demand.

*Non-potable water distribution system:* In addition, ACEA operates a non-potable water distribution network in connection with its provision of certain ancillary water services to the *Comune*, such as the management and operation of public fountains, fire hydrants and sprinkler systems. At 31st December 2003 this network comprised 102 kilometres of aqueducts, 2 kilometres of large-diameter pipelines, 296.6 kilometres of small-diameter pipelines, 31 pumping stations and 8 storage tanks with an aggregate capacity of 5,962 cubic metres.

*Management and Maintenance of the Distribution Network:* Under its agreement with the *Comune*, ACEA is responsible for the ordinary and extraordinary maintenance of Rome's water distribution system up to the point of delivery (all post-meter equipment is the customer's responsibility) and for planning and building extensions of the system in accordance with the stipulations of the agreement. ACEA continually monitors its distribution network, both electronically and through a programme of inspections. ACEA's electronic monitoring system permits real-time measurement of water pressure, water quality and capacity utilisation, supports security systems including leakage and flooding alarms and permits the remote control of pumps and valves. Problems that cannot be resolved by remote control are addressed through the intervention of emergency maintenance teams based throughout ACEA's service area that are on call 24 hours a day. These maintenance teams are also responsible for periodic inspections and scheduled maintenance of ACEA's water distribution system, while certain specialised maintenance tasks are outsourced.

### **Waste Water Services**

ACEA is the leading Italian provider, and one of the leaders in Europe, in the field of waste water services in terms of population served and volume of water treated. In 2003, ACEA managed and operated the waste water treatment of Rome and Fiumicino, treating 455 million cubic metres of waste water and serving approximately 2.5 million residents, and managed approximately 3,481 kilometres of the Rome sewer system. ACEA also manages the billing of waste water services on behalf of 6 other municipalities in Lazio.

Pursuant to the Galli Law, as mentioned above, ACEA has taken on the management of waste water services for the entire Central Lazio integrated water district, all of which will be brought under the single management of Acea ATO 2 by 2006.

In addition, ACEA constructed, and now manages and operates, the waste water collection and treatment system of the *Consorzio del Bacino Idrico Sabatino* ("COBIS"), a consortium of five municipalities located adjacent to Lake Bracciano. Additional municipalities are expected to be brought within the scope of the system in the future.

### *Waste Water Treatment System*

The waste water treatment system is organised into five treatment basins located within the *Comune* and on land outside the city. It consists of four large plants with capacity to serve between 350,000 and 1,100,000 residents and numerous minor treatment plants, with capacities between 1,000 and 50,000 residents. The following table summarises the waste water treatment system managed by ACEA at 31st December 2003.

#### **Waste water treatment plants:**

Plants operated by ACEA.....	90
Plants to be transferred to ACEA by the <i>Comune</i> .....	14
Plants under construction by ACEA.....	4
Plants under construction by the <i>Comune</i> , to be transferred to ACEA .....	0

#### **Sewer network:**

Sewer lines managed by ACEA (km) .....	3,481*
Pumping stations managed by ACEA.....	176

\* Rome only

ACEA's service area for waste water services is organised into four principal districts within the territory of the *Comune* (Roma Nord, Roma Sud, Roma Est and Ostia) and the COBIS district adjacent to Lake Bracciano. Each of these districts is comprised of one principal waste water treatment plant and its associated secondary treatment plants, sewer lines and pumping stations. In order to achieve operational efficiencies, ACEA plans to concentrate waste water treatment in its five principal plants and shut down many of the smaller plants, except for plants that serve areas of Rome not integrated with the sewer network. During the last ten years, ACEA has shut down



several treatment plants and their associated pumping stations in connection with this rationalisation project.

During 2002, three new plants were acquired from the *Comune* and another two in the municipalities of Fiumicino and Frasso Sabino. Acea ATO 2 currently manages a total of 90 waste water treatment plants, with an aggregate maximum capacity of more than 15.2 cubic metres per second. ACEA estimates that, in 2003, it treated 455 million cubic metres of waste water. After processing at its treatment plants, water is released into the Tiber River.

#### *Sewer Network*

In addition to the treatment system, Acea ATO 2 manages the flow of waste water from branch sewers to treatment plants, with the related water pumping systems and the main adjunct sewers that feed the treatment plants. The sewerage system managed by Acea ATO 2 includes networks built for the *Comune* in the 1980s in order to serve previously unplanned residential areas without any water and sewerage systems. In 2002, the entire sewerage network previously run on a time and materials basis by the *Comune* was added.

At 31st December 2003, ACEA managed and operated 321 kilometres of main sewer lines (*collettori fognari*) in Rome, approximately 3,160 kilometres of small-diameter sewer lines (of which approximately 609 kilometres are located in the suburbs of Rome (*borgate*) and approximately 55 kilometres are located in the COBIS district), 513 kilometres of sewer lines in other municipalities and 176 pumping stations, some of which are also used for flood control.

#### *Maintenance of the Waste Water Network*

ACEA is responsible for the ordinary and extraordinary maintenance of the waste water collection and treatment system of Rome, Fiumicino and, subject to the agreed transition period necessary to take over all the other existing activities, the entire ATO 2 district. ACEA is also responsible for planning and building extensions of the system. ACEA continually monitors this system, both electronically and through a programme of inspections. An electronic monitoring system permits remote supervision of the North Rome waste water district; ACEA is currently installing this system in the East Rome district and plans to extend it to the South Rome district as well. Problems that cannot be resolved by remote control are addressed through the intervention of emergency maintenance teams based in each waste water district that are on call 24 hours a day. These maintenance teams are also responsible for periodic inspections and scheduled maintenance, while certain specialised maintenance tasks and the construction of new plants and sewer lines are outsourced.

#### **Compliance**

ACEA continually monitors and tests its waste water treatment process to ensure compliance with applicable laws and regulations. These activities include water sampling and analysis to assess the composition of incoming waste water as well as testing of water released into the environment after treatment. ACEA believes that it is in compliance with all currently applicable Italian laws and regulations relating to waste water treatment services.

#### **Research and Development**

LaboratoRI S.p.A. ("LaboratoRI") is the company within the ACEA Group principally responsible for undertaking research and development projects. LaboratoRI provides technical and scientific support to ACEA primarily in the field of water service management, an area of the business which has expanded significantly in recent years leading to a growth in the role of LaboratoRI within the ACEA Group. In particular, the research programme during 2003 was comprised of eighteen projects in the following areas: water resources, fresh water networks, sewerage networks and waste water treatment.

During 2002, LaboratoRI, acting as the leader of a consortium of companies, was awarded a contract relating to the classification of sediment in the Marano and Grado lagoon, put out to international tender by the Ministry of the Interior, the Official Government Commissioner for the Marano Lagunare and Grado lagoon.

## Management of Water Services in other parts of Italy

### Genoa

The ACEA Group controls two important water companies in Liguria, Acquedotto De Ferrari Galliera S.p.A. ("ADFG") (67%), which in turn controls Acquedotto Nicolay S.p.A. ("Nicolay") (53%), distributing fresh water to an aggregate population of approximately half a million in the municipality of Genoa and certain other neighbouring municipalities.

The acquisition was made in 2000 through the vehicle Acqua Italia S.p.A. (of which ACEA owns 67%). Both ADFG and Nicolay are listed on the Italian Stock Exchange.

#### *Acquedotto de Ferrari Galliera S.p.A.*

Over the course of its growth, ADFG has established a substantial complex of plants, including 4 man-made reservoirs, 3 hydro-electric power stations, 2 water purifying plants, 22 lifting stations, 22 storage and surge tanks and approximately 460 kilometres of pipelines. Such aqueduct system, which is supplied by water diverted from three different types of resources, i.e. man-made lakes, streams and aquifers, supplies approximately 50 million cubic metres of drinking water each year. In 2003, the total volume of water supplied amounted to 34.8 million cubic metres, while 18,627,280 KWh was generated.

Supply sources and plants:

- *The man-made lakes of the Gorzente stream and the Isoverde water purifying plant.* This complex comprises three man-made lakes called Badana, Lungo and Lavezze. Further down the Gorzente stream after lake Lavezze, there is a fourth dam, which forms the Lavagnina lake. This has a capacity of 2,700,000 cubic metres and serves as a surge tank.
- *The flowing waters of Voltri.* The Voltri treatment, filtration and purifying plant (with a supply capacity of 700 l/sec) is fed by water diverted from the Leira and Cerusa streams.
- *The Polcevera wells.* A series of wells that draw water from the aquifer beneath the bed of the Polcevera stream, in the localities of Campi, Torbella and Pietra, provides the third source of supply.

The distribution network:

The water arriving from the various supply sources is delivered to 19,089 connections through a complex distribution network which covers a surface area of approximately 11,000 hectares. The network consists of approximately 460 kilometres of pipelines varying in diameter from 60 to 750 mm.

There are three main conduction lines, one for each source of supply, that can be connected whenever necessary and whose flows can be exchanged and integrated. In this way it is possible to cope with different operating conditions and it is therefore also possible to optimise the utilisation of sources and/or handle situations brought about by emergencies or sudden requirements.

Ownership, operation and maintenance of the distribution network:

ADFG owns the distribution network described above. This is a rarity in Italy where the networks are usually owned by the granting local authorities. ADFG is responsible for the ordinary and extraordinary maintenance of the water distribution system right up to the point of delivery to the customer (the customer is responsible for any equipment installed after the water-meter). Under an agreement with the Municipality of Genoa, ADFG is also responsible for plans to extend the network to newly developed areas.

#### *Acquedotto Nicolay S.p.A.*

The Nicolay Aqueduct network comprises approximately 280 kilometres of pipelines and distributes water to 110,800 residents. In 2003, the total volume of water supplied amounted to 11.3 million cubic metres. The Nicolay Aqueduct also produces electricity in the two hydroelectric power stations of Teglia and Mignanego, with a total power production of 7.5 million KWh. Also in this case, all the assets that the company operates are directly owned by the company.

Supply sources and plants:

The main sources of supply of the Nicolay Aqueduct are the flowing waters of the Scrivia stream deviated in Busalla and the waters of the Busalietta man-made lake. Also in Busalla (at Sarissola) water can be drained from beneath the bed of the Scrivia stream through two wells. Furthermore, in order to serve the western districts of Genoa (Voltri, Palmaro, Pra, Pegli and Multedo) the

Nicolay Aqueduct has three wells which drain about 50 l/sec from beneath the bed of the Cerusa stream in Voltri.

The distribution network:

The water arriving from the various supply sources is supplied to users through a complex distribution network formed by pipelines of varying diameters and different materials. The network covers a total length of 200 kilometres in the case of the main aqueduct, and approximately 80 kilometres in the case of certain minor municipal aqueducts in Serra Riccò and Casella.

### ***Other Majority Franchises***

In order to promote the consolidation of the water industry, the national Law 448/2001 (the Budget Law for 2002) and the more recent national Law 350/2003 (the Budget Law for 2004) have modified the structure of relations between local authorities and operators. The result has been that local authorities may no longer directly grant concessions for the management of local public services (including those relating to the water cycle), but should instead offer them via public tender, except in cases where the service operator is entirely public or effectively controlled by the local authorities. A direct concession can also be made in cases where the public water operator has been created as a wholly-owned subsidiary of the local public entities concerned in the service and in which a private partner has been added by means of a public tender.

Following the award of the contract (with a thirty year concession for the service), during 2002, the ACEA Group (together with other minority shareholders) set up ATO 5 Frosinone S.p.A. ("ATO 5 Frosinone") to manage the integrated water services of ATO 5 Southern Lazio – Frosinone. The zone comprises 86 municipalities with a total population of approximately 480,000 and more than 182,000 connections and the volume of water distributed amounts to approximately 26 million cubic metres per annum. Since the end of 2003, ATO 5 Frosinone has started to take over the management of integrated water services in ATO 5. ATO 5 Frosinone is the sole 100% privately-owned ATO operator in Italy and therefore does not have any public entity as shareholder. ACEA owns 65% of ATO 5 Frosinone.

### ***Other Strategic Operations***

ACEA identified the opportunities available to it following the liberalisation of the water market and has developed a selective portfolio of interests in other operators in the Italian water sector. Due to the sale of shareholdings in water service operators to those private partners demonstrating the industry-specific requisite management qualities, ACEA has made various strategic investments in water management companies in various ATOs throughout Italy. Whilst the stakes acquired in such water companies are minority in nature, they do, however, give the private partner significant control of management which includes power to appoint the various Chief Executive Officers. ACEA, together with other partners, has been selected as private partner for the management of integrated water services in each of the following ATOs:

*ATO 2 Tuscany – Basso Valdarno – Pisa:* in January 2003, ACEA, as the leader of a consortium including among others Ondeo (Suez Group), the Caltagirone Group and Monte dei Paschi di Siena, successfully bid for a 45% stake in Acque S.p.A. in Pisa, the company that has managed integrated water services in ATO 2 (Basso Valdarno) since 2002 under a 20 year concession. The consortium (via the company Acque Blu Arno Basso Pisa S.p.A.) thus became the private partner in Acque S.p.A. and appointed the Chief Executive Officer. It is accordingly entitled to exercise strategic management powers. ATO 2 (Basso Valdarno) comprises 57 municipalities with a population of approximately 736,000 and a volume of water sold equal to 57 million cubic metres a year. It has a water distribution network of 5,000 kilometres.

*ATO 3 Tuscany – Medio Valdarno – Florence:* Publiacqua S.p.A. ("Publiacqua") was granted a twenty year concession (expiring in December 2021) to manage integrated water services, comprising aqueducts, sewerage and waste water treatment, in the municipalities of ATO 3 Tuscany – Medio Valdarno. The territory served has an area of 2,858 square kilometres and includes the provinces of Florence, Pistoia, Prato and a portion of the province of Arezzo. The company manages services for 49 municipalities, with a population totalling over 1,200,000, and distributes 90 million cubic metres of water to end users. Together with its co-partners (Suez Group and Monte dei Paschi di Siena among others), ACEA successfully bid for a 40% shareholding in Publiacqua and is presently awaiting official confirmation of the award. Also in this case, ACEA and its co-partners will be entitled to appoint the company's Chief Executive Officer.

*ATO 6 Tuscany – Ombrone (Siena/Grosseto)*: Acquedotto del Fiora S.p.A. (“ADF”) was granted management for a twenty-five year period (expiring in December 2026) of integrated water services, comprising aqueducts, sewerage and waste water treatment, by the municipalities of ATO 6 Tuscany – Ombrone. Representing approximately one third of Tuscany, the territory served has an area of 7,700 square kilometres and corresponds to the provinces of Siena and Grosseto. ADF manages services for 56 municipalities, with a population totalling approximately 350,000 and 28 million cubic metres distributed to end users. As at the date hereof, ACEA, together with other partners (Suez and Monte dei Paschi di Siena among others) is in the process of acquiring a 40% shareholding in ADF. The acquisition is expected to be completed at the beginning of August 2004.

These strategic operations have enabled, and will enable, the ACEA Group to strengthen its leading position in the field of integrated water services with a market share of 12% and the ACEA Group may further strengthen this position through acquisitions of additional strategic interests when future auction processes, fitting with ACEA’s strategy, are held.

## **Water Services: Principal Concessions and Licences**

### *Water Abstraction*

ACEA’s fresh water distribution business is subject to a series of water abstraction licences which prescribe its rights to obtain water from the public domain for distribution to customers. The following table sets forth certain information relating to ACEA’s water abstraction licences. Each of the licences referred to below relates to a drinkable water source.

<b>Source</b>	<b>Amount</b>	<b>Licensing Authority</b>	<b>Expiry</b>
	<i>Litres/second</i>		
Acqua Marcia .....	7,276	Region of Lazio	7th November 2034
Peschiera 3 .....	5,000	Region of Lazio	In the process of renewal
Capore .....	4,700	Region of Lazio	In the process of renewal
Peschiera 1 .....	4,000	Region of Lazio	In the process of renewal
Lake Bracciano .....	1,100	Region of Lazio	14th November 2056
Peschiera 2 .....	1,000	Region of Lazio	In the process of renewal
Acqua Vergine (Salone).....	900	Region of Lazio	In the process of renewal
Acqua Vergine (Mentuccia)	500	Region of Lazio	30th August 2025

The Peschiera and Capore licences expired in 1995. ACEA filed the necessary application for renewal and the review process was completed by the licensing authority (at that time, the Ministry of Industry), with favourable opinions for renewal from both the Superior Council of Public Works and the *Consiglio di Stato*. Shortly before the granting of the new licence the law changed and the competence for renewal was conferred upon the Region of Lazio, which started a new review process. All the ancillary work has been completed although the relevant licences have not formally been granted by the Region. ACEA abstracts water from the relevant sources and springs under a provisional regime which is expressly provided for by the applicable law, and there is currently no indication of revocation.

### *Water Services Management Concessions*

The following table sets out certain information in relation to the various concessions held by the ACEA Group for the management of integrated water services in Italy.

	<b>Effective Date</b>	<b>Expiry</b>
ATO 2 Central Lazio .....	January 2003	January 2033
ATO 5 Southern Lazio – Frosinone .....	June 2003	June 2033
ATO 2 Tuscany – Basso Valdarno – Pisa .....	January 2002	December 2021
ATO 3 Tuscany – Medio Valdarno – Florence .....	January 2002	December 2021
ATO 6 Tuscany – Ombrone (Siena/Grosseto) .....	January 2002	December 2026

### *Use of Public Assets*

In order to facilitate ACEA’s provision of integrated water services to the city of Rome, the *Comune* has granted to ACEA a concession (*concessione d’uso*) to use assets that are part of the public domain. The concession to use the integrated water services assets expires on 1st January 2028 and is renewable so long as ACEA continues to manage the integrated water service.

## International Operations

ACEA's international water business (no energy business has been developed outside Italy) includes two long-term concessions for water projects awarded on a BOT scheme (*Build Operate and Transfer*) in Peru, through ACEA's participation in the Rio Chillon project, and Honduras, through the water services concession in the city of San Pedro Sula. In addition, ACEA has interests in two smaller ventures in Eastern Europe: in Armenia it co-owns the company responsible for the management of the Yerevan water company while in Albania ACEA provides technical assistance to the Tirana water company. During 2002, ACEA was awarded two new water service contracts in Latin America: the first concerning the management of water services in two of five districts in the city of Bogota in Colombia and the other for the commercial management of water services in parts of Santo Domingo.

In 2003, international operations contributed €11.019 million to the revenues of the ACEA Group, representing less than 0.7% of the ACEA Group's total revenues. The ACEA Group's strategy is based on focussing on its position in the Italian market and international operations have, therefore, been marginalised.

## ENERGY SERVICES

### Electricity Distribution: Acea Distribuzione S.p.A.

The ACEA Group is the leading electricity distributor in Italy after ENEL. It is the exclusive distributor of electricity to the municipality of Rome and the nearby municipality of Formello and, together with ENEL, also distributes electricity to the local municipality of Fiumicino, totalling approximately 3 million residents or 1.5 million connections (one connection on average serves two residents). The ACEA Group's distribution activities are operated through Acea Distribuzione, a wholly owned subsidiary of ACEA and constituting, together with Acea ATO 2 (operating in the water sector), the largest corporate entities in the ACEA Group. The acquisition from ENEL of the remaining half of the power distribution grid in Rome and Formello not already owned by Acea in 2001, has resulted in Acea Distribuzione being licensed exclusively to distribute electricity in Rome and Formello. During 2003, Acea Distribuzione transmitted 10,824.5 GWh of electricity to 1,525,710 connections, having almost doubled the volume of distribution since 2001.

Acea Distribuzione's exclusive entitlement to distribute electricity in the municipalities of Rome and Formello was granted pursuant to a concession granted by the Ministry of Industry for a period from 2001 until 31st December 2030. During this period no other company will be authorised to distribute electricity in the specified area, namely the municipalities of Rome and Formello.

Acea Distribuzione owns and operates a power distribution network comprised of approximately 630 kilometres of high voltage (HV) lines, 9,055 kilometres of medium voltage (MV) lines and 17,700 kilometres of low voltage (LV) lines. The distribution network includes 67 primary substations (high voltage to medium voltage), and more than 12,000 secondary substations (medium voltage to low voltage). The rated voltage of primary substations is 150 kV; five stations are supplied at 220 kV level by the national transmission network. Several substations have 60 kV rated voltage. The following table provides certain information relating to Acea Distribuzione's electrical distribution network.

Item	Quantity at end of 2003
Primary substations .....	67
Power transformers (HV/MV or HV/HV) .....	174
Total rated power (MVA) .....	7,175
<i>High voltage lines: overhead (km)</i> .....	411
<i>High voltage lines: underground (km)</i> .....	216
Total high voltage lines (km) .....	627
<i>Medium voltage lines: overhead (km)</i> .....	725
<i>Medium voltage lines: underground (km)</i> .....	8,330
Total medium voltage lines (km) .....	9,055
<i>Low voltage lines: overhead (km)</i> .....	1,730
<i>Low voltage lines: underground (km)</i> .....	15,971

<b>Item</b>	<b>Quantity at end of 2003</b>
Total low voltage lines (km) .....	17,701
Secondary substations .....	12,101
Power transformers (MV/LV or MV/MV) .....	11,831
Total rated power (MVA) .....	4,200

Certain primary distribution substations are supplied by the high voltage distribution grid owned by Acea Distribuzione (150 kV and, a small amount, 60 kV rated voltage), while the remainder are supplied by the national transmission network. The national transmission network is managed by the GRTN and owned by ENEL Terna S.p.A., a company within the ENEL group, and Acea Trasmissione.

The energy carried by high voltage distribution lines and the national transmission network is transformed into medium voltage and low voltage electricity and distributed to customers through the ACEA Group's medium voltage and low voltage retail distribution network.

The following table shows the number of Eligible and Non-Eligible customers against voltage level, for the year 2003.

<b>Voltage level</b>	<b>Eligible customers</b>	<b>Non-Eligible customers</b>	<b>Total customers</b>
Low voltage .....	1,637	1,521,610	1,523,247
Medium voltage .....	555	1,904	2,459
High voltage .....	2	2	4
<b>Total</b> .....	<b>2,194</b>	<b>1,523,516</b>	<b>1,525,710</b>

The following table shows the energy distributed to Eligible and Non-Eligible customers against voltage level, for the year 2003.

<b>Voltage level</b>	<b>Eligible customers</b>	<b>Non-Eligible customers</b>	<b>Total customers</b>
		<i>(kWh)</i>	
Low voltage .....	257,795,308	6,140,170,539	6,397,965,847
Medium voltage .....	1,693,488,555	1,842,280,233	3,535,768,788
High voltage .....	106,095,426	22,988,589	129,084,015
<b>Total</b> .....	<b>2,057,379,289</b>	<b>8,005,439,361</b>	<b>10,062,818,650</b>

Acea Distribuzione is responsible for the planning, the operation and the maintenance of the electricity distribution network and for the continuous monitoring of the network, both electronically and through a programme of inspections. Acea Distribuzione's electronic monitoring system allows remote control of the ACEA Group's high voltage distribution and transmission networks, its high voltage to medium voltage transformers and its medium voltage distribution network. Problems that cannot be resolved by remote control are addressed through the on-site intervention of emergency maintenance teams which are based throughout ACEA's service area and are on duty 24 hours a day. These maintenance teams are also responsible for periodic inspections and scheduled maintenance of ACEA's medium and low voltage distribution networks.

The management and maintenance of ACEA's high voltage distribution network and the electronic monitoring system are the responsibility of a specialised network management unit. In general, ACEA handles directly the planning and realisation of projects located at customers' premises. Otherwise projects that require digging and laying cables and construction or renovation of primary and secondary substations are outsourced to specialised companies that work under the supervision of ACEA's technicians.

The city of Rome and its suburbs are still expanding with the construction of new districts and the regeneration of existing ones, so that energy consumption is increasing at a considerable rate (2003 saw a 6.0% increase compared to the previous year). The peak load is approximately 2,000 MW and could rise to approximately 3,000 MW over the next 12 years if consumption trends remain at levels seen in recent years.

At the same time, Acea Distribuzione aims to improve the quality of electric service and especially the continuity of supply to customers, in order to comply with the requirements stated by the regulatory authority.

Moreover, Acea Distribuzione currently handles replacement and re-powering of electrical components, in order to adapt electrical performances to the trend of the energy demand of customers. To support the design and planning of works, Acea Distribuzione has devised a general development plan in respect of the development of high voltage and medium voltage grids. The plan establishes general rules and standards and aims to establish the optimum grid structure. It constitutes the main reference for investment programmes.

ACEA's distribution network conforms to applicable legal standards relating to the environment protection and safety, including dispersion of electromagnetic radiation.

#### **Public Lighting Services: ACEA S.p.A. and Acea Luce S.p.A.**

ACEA manages directly the public lighting services in the entire territory of the *Comune*. In recent years, the ACEA Group has expanded its activities in this field and now operates the public lighting systems throughout the municipality of Fiumicino and in certain small municipalities surrounding Rome (Bracciano, Grottaferrata, Rocca di Papa, Trevignano, Valmontone and Velletri). ACEA's responsibilities in these areas include the supply of electric power, routine and extraordinary maintenance, the renovation of existing systems and the planning and construction of new systems. At 31st December 2003, the public lighting system in the territory of the *Comune* managed by ACEA consisted of 5,280 kilometres of medium and low-voltage lines and approximately 164,000 lighting points (of which approximately 10,500 are dedicated to artistic illumination).

ACEA manages the Rome municipal lighting system on the basis of a licence granted to ACEA by the *Comune* which lasts until 2027 and pursuant to a service agreement with the *Comune* which was entered into in 1998 and which is due to be renewed in 2005 (see "Energy Services: Principal Concessions and Licences" below).

During 2003, the ACEA Group initiated the *Roma si Illumina* ("Rome Lights Up") project. The aim of the project was to upgrade public lighting service quality, in response to demands from residents and the municipal authorities. Improved service quality during 2003 resulted in a reduction in the average period between a breakdown being reported and its repair from 30 to 16 days.

ACEA has acquired world-class experience in the artistic illumination of public monuments as a result of its design and installation of systems for the artistic illumination of the Imperial Forum, the Colosseum, the Pantheon, the Circus Maximus, the Baths of Caracalla, the Capitoline and Palatine ruins and other monuments in the city of Rome. ACEA intends to leverage its experience in this field to develop, install and manage artistic illumination systems for other cities of artistic or historical interest in Italy. In addition, ACEA manages the devotional illumination systems of the public cemeteries of Rome and Fiumicino.

Acea Luce S.p.A. ("Acea Luce") is the company within the ACEA Group responsible for public lighting services in municipalities outside Rome. It oversees the planning, construction, operation and maintenance of the public lighting systems in such municipalities and supervises remote control systems for technological networks. In January 2004, Acea Luce was awarded the contract to manage the public lighting services in the city of Naples (58,000 lighting points). In addition, Acea Luce currently manages public lighting services in municipalities in the provinces of Rome, Viterbo, Catania, Avellino and Campobasso.

#### **Electricity Generation: AceaElectrabel Produzione S.p.A.**

Since the end of 2002 ACEA's generation business has been operated under the joint venture with Electrabel, through the company AceaElectrabel Produzione S.p.A. ("AE Produzione"). In 2003, AE Produzione produced 1,159 GWh of electricity, equivalent to 10.5% of the electric power supplied to the ACEA distribution network, which adds to the energy supplied by Tirreno Power (approximately 30%) (see "Acquisition of Interpower S.p.A."). At 31st December 2003, the electricity generation system had an aggregate installed capacity of 370 MW and consisted of three thermoelectric power plants and seven hydroelectric power plants. The table below summarises certain information about AE Produzione's power generation system.

Name	Type of Plant*	Entry into Service	Installed Capacity	Production in 2003		Average Production
				(GWh)	(% of total)	2000-2003
Tor di Valle CCGT.....	Thermoelectric	1997	133.5	615.4	53.1	786.8
S. Angelo.....	Hydroelectric	1958	58.4	179.7	15.5	134.1
Salisano.....	Hydroelectric	1940	42.2	179.2	15.5	175.9
Tor di Valle CHP.....	Thermoelectric	1983	19.0	66.5	5.7	56.3
Montemartini.....	Thermoelectric	1998/1999	78.3	43.8	3.8	47.9
Orte.....	Hydroelectric	1958	20.0	43.3	3.7	49.5
Castel Madama.....	Hydroelectric	1916	9.4	18.2	1.6	14.8
Mandela.....	Hydroelectric	1923	8.5	9.9	0.9	10.4
Cecchina.....	Hydroelectric	1990	0.4	1.6	0.1	1.5
M. del Rosario.....	Hydroelectric	1990	0.4	1.6	0.1	1.5
Total: .....			370.1	1,159.2	100%	1,278.7

Note:

\* The above plant configuration shows an appropriate mix of thermal and hydro plants that fits very closely with the demand profile of the area of Rome

The thermal plant efficiency, considerably above the average efficiency of the actual Italian generation capacity, in conjunction with the use of the most stringent environmental practices, makes AE Produzione one of the most competitive generation companies.

The electricity generated by AE Produzione was mainly supplied through Acea Distribuzione to Non-Eligible customers and to meet other requirements of the ACEA Group.

AE Produzione operates its hydroelectric power plants under concessions granted by the Ministry of Industry or by regional authorities (see "Energy Services: Principal Concessions and Licences" below).

### **Thermoelectric Power Generation**

AE Produzione's thermally generated electricity is produced at the Tor di Valle and Montemartini sites, each located within the municipality of Rome. The aggregate installed capacity of these plants at 31st December 2003 was 230.8 MW, or 62.4% of AE Produzione's total installed capacity, and their aggregate production in 2003 was 725.7 Gwh, or 62.6% of AE Produzione's total production.

The Tor di Valle site consists of both a combined-cycle unit and a co-generation unit. The combined-cycle unit, which entered service in March 1997, is AE Produzione's primary power generation plant. It is made up of two gas turbines and a conventional steam turbine with an aggregate installed capacity at 31st December 2003 of 44.5 MWt and 3 auxiliary boilers (15 MWt each). The co-generation unit, powered by a gas turbine with an installed electrical capacity of 19 MW, is used for AE Produzione's district heating services and ACEA's sludge dehydration businesses. The electricity produced by the co-generation unit covers intra-day peak demand for electricity.

The Montemartini plant consists of three open cycle gas turbine generating units with an aggregate installed capacity at 31st December 2003 of 78.3 MW and is used primarily for the intra-day peak demand.

### **Hydroelectric Power Generation**

The aggregate installed capacity of AE Produzione's hydroelectric power plants at 31st December 2003 was 139.5 MW, or 37.6% of AE Produzione's total installed capacity. In 2003, the aggregate production of these plants was 433.5 GWh, or 37.4% of AE Produzione's total production. During the last five years, the aggregate annual hydroelectric production has averaged approximately 387 GWh.

AE Produzione's hydroelectric power generation system also includes four dams. The two principal dams are Bomba and Casoli, which form the reservoirs of the same names with a nominal capacity of 64 million and 20 million cubic metres of water, respectively. The two remaining dams, S. Liberato, located above the Orte plant, and S. Cosimato, located above the Castel Madama plant, form reservoirs of 6 million and 0.5 million cubic metres of nominal capacity, respectively.



The ACEA Group complies with environmental laws and enjoys a good relationship with the municipalities surrounding its power stations. It has insurance for technical breakdowns and environmental damages. In addition, the ACEA Group monitors its dams continuously through a programme of scheduled and random inspections. In addition, the competent government authority overseeing the maintenance and operation of dams in Italy, the *Servizio Nazionale Dighe*, evaluates the status of each dam every six months and certifies each dam for operation annually. As an example of the high quality of Hydro power management, the Salisano plant has achieved the ISO 14001 qualification during May 2004, as part of a wider ISO qualification programme.

#### **Power Generation Projects under Development**

ACEA and Electrabel agreed to transfer, during 2004, their respective entire shareholdings in Italian projects currently under development, comprising both combined cycle gas turbine (“CCGT”) projects and wind projects, to AE Produzione, for a total of more than 2,000 MW of new highly efficient generation capacity. Three of such projects are already authorised, among which is the Voghera Energia power plant, located in the province of Pavia, a 375 MW CCGT already under construction. Voghera will be the first development undertaken by the joint venture and is expected to enter into service at the beginning of 2005. The other two projects are named Roselectra (located near Livorno) and Piemonte Energia (located near Turin). Other projects are awaiting authorisation.

The medium-term strategy of the ACEA Group aims at self-sufficiency in the field of power generation and the above development programme will contribute significantly to the achievement of this objective.

A balanced position between the sale portfolio and the electricity generation will, in fact, substantially reduce the joint venture’s exposure to market risk.

#### **Acquisition of Interpower S.p.A.**

In November 2002, EblAcea S.p.A. (a company owned jointly by ACEA (30%) and Electrabel (70%)), participated in the consortium that purchased Interpower. Interpower, now renamed Tirreno Power, was the final generation company required to be sold by ENEL in accordance with the Bersani Decree, which required ENEL to sell a total of 15,000 MW of its capacity in order to promote competition in the Italian generation market. The total consideration paid by the consortium for the purchase of Interpower amounted to (€853 million which was financed by a mix of equity and debt. Tirreno Power is now the fourth largest electricity generator in Italy with a combined net installed capacity of 2,611 MW.

Tirreno Power’s generation assets comprise three thermoelectric power stations (fired by coal, gas and oil) and a group of hydroelectric stations. The thermoelectric plants comprise 11 units totalling 2,548 MW of net installed capacity while the hydroelectric bundle comprises 17 plants with 63 MW of net installed capacity. In the year 2003, Tirreno Power produced 6.3 TWh of electricity.

Tirreno Power is currently undergoing a significant re-powering programme of its existing thermal units under which 80% of thermal capacity will be new or re-powered to efficient ‘combined cycles’ using gas turbines (CCGT). The implementation of the re-powering programme (which is being financed by means of a non-recourse long-term financing already in place, structured on a merchant basis) will allow Tirreno Power to increase plant efficiency, improve operating performance and reduce emission levels. The Torrevaldaliga Sud and Vado Ligure plants have obtained the Ministry of Industry authorisation, while the plant in Naples is awaiting the environmental impact assessment exemption and subsequent Ministry of Industry authorisation. A Memorandum of Understanding has been entered into between Tirreno Power, the Municipality of Naples, the Province of Naples and the Region of Campania, setting out the parties’ agreement in relation to the development of the project. The total thermal generation capacity will be increased to 2,900 MW and production volumes will increase by about 200% to more than 19 TWh. The re-powering programme is expected to be completed during 2007 following which 98% of the portfolio is expected to operate as base load.

#### **Electricity Transmission: Acea Trasmissione S.p.A.**

The ACEA Group’s transmission network is operated by Acea Trasmissione, a company set up in December 1999 in order to comply with the requirements of the Bersani Decree. Under the Bersani Decree, the activities of electricity transmission and dispatch were brought under the authority of a new entity, the National Transmission Network Operator or GRTN. Acea Trasmissione develops and

maintains the portion of the high-voltage electricity transmission grid which is under its control and is part of the National Grid. It also handles the maintenance of the high-voltage overhead connection grid owned by Acea Distribuzione.

At 31st December 2003, Acea Trasmissione's own transmission lines, which make part of the national grid, totalled about 700 kilometres of which 8.5 kilometres are 220 kV capacity lines and 691.2 kilometres are 150 kV capacity lines. The GRTN has in place suitable agreements with the various owners of the transmission lines comprising the national grid, including Acea Trasmissione, in order to regulate maintenance operations and development of the network. The companies retain ownership of the transmission lines and receive an annual payment from the GRTN for maintenance of such lines.

ACEA's transmission and high-voltage transmission network complies with the applicable legal standards relating to the dispersion of electromagnetic radiation.

#### **Electricity Trading: AceaElectrabel Trading S.p.A.**

AceaElectrabel Trading S.p.A. ("AE Trading") was set up in 2002 in order to control buying, selling and the brokerage of electricity, gas and other fuels and energy sources. AE Trading acts mainly on behalf of the other companies of the AceaElectrabel Group and its principal current activities are the sale of the energy produced by AE Produzione, the management of bilateral contracts with the Tirreno Power units, the sourcing and supply of natural gas and other fuels for the generation plants of AE Produzione, procurement of electricity and natural gas for the sales companies within the AceaElectrabel Group, obtaining 'green certificates' for the joint venture companies and liaising with both the Electrical Market Operator (*Gestore del Mercato Elettrico* or GME) and the GRTN. AE Trading does not operate on a speculative basis: its principal purpose is to procure electricity and gas needed by AceaElectrabel's core operations and sells certain of AceaElectrabel's energy commodities on the market.

AE Trading has also finalised a dedicated process stream to successfully participate in the recently implemented Electricity Bidding System (*Sistema Italia*) and dispatching AE Produzione's plants, subsequently defining a shift organisation and an appropriate information technology infrastructure suitable to operate in the market on a 24-hour basis. During the first month of operation (April 2004), more than 10,000 transactions were concluded.

#### **Electricity Supply: AceaElectrabel Elettricità S.p.A. and AceaElectrabel Energia S.p.A.**

The ACEA Group is among the largest electricity retail companies in Italy. Under the Bersani Decree, electricity consumers are divided into two categories on the basis of their annual average consumption: high volume consumers who may negotiate supply agreements directly with any domestic or foreign supplier ("Eligible customers") and low volume consumers who must purchase electricity from the distributor serving the area in which they are located ("Non-Eligible customers"). Since April 2003, the eligible market has been open to all customers with an annual consumption of more than 100,000 kilowatt-hours (kWh) indicating that approximately 60% of the market is now open to competition. Furthermore, the liberalised market has been recently extended to include all non-household customers (representing 78% of demand) with complete liberalisation coming into force as of 1st July 2007. The ACEA Group sells electricity to Eligible customers through AceaElectrabel Energia S.p.A. ("AE Energia") and to Non-Eligible customers through AceaElectrabel Elettricità S.p.A. ("AE Elettricità"). Sales operations of electricity to Non-Eligible customers by Acea Distribuzione were transferred to AE Elettricità following the implementation of the joint venture.

Sales to Non-Eligible customers are governed by tariff regulations established by the Regulatory Authority for Electricity and Gas (*Autorità per l'Energia Elettrica e il Gas*), providing for a maximum permitted revenue and a price cap. The tariff paid by the customer is comprised of a number of components (transmission, distribution, supply etc. (see "Regulation" below), the latter being a mark-up of the pool price). The most profitable component is distribution which, for the energy distributed by the ACEA Group, has to be paid to Acea Distribuzione (ACEA's wholly-owned subsidiary which owns and operates the electricity distribution network) even in the event of a third party supplying AceaElectrabel's retail customers once they become Eligible and therefore decide to acquire energy from another supplier. Prices and terms of electricity supply to Eligible customers are subject to the contracts agreed between the parties (see "Regulation – Energy" below for a more detailed description of the tariff regime). The following table shows the ACEA Group's revenues from sales of electricity to Eligible and Non-Eligible customers for the periods indicated:

<b>Sales of Electricity</b>	<b>2002</b>	<b>2003</b>
	<i>(euro millions)</i>	
Eligible customers .....	27.3	115.1
Non-Eligible customers .....	803.1	842.5
Total:.....	<u>830.4</u>	<u>957.6</u>

In 2003, approximately 8,000 GWh of electricity sales were made to Non-Eligible customers, the majority of which is represented by small business and household users. The balance is comprised of approximately 1,500 GWh for Eligible customers, represented by manufacturing, and large commercial and service companies. The following table sets out the amount of electricity sold by class of customer for the periods indicated:

<b>Sales of Electricity</b>	<b>2002</b>	<b>2003</b>
	<i>(GWh)</i>	
Sales to Eligible customers .....	400.0	1,488.1
Sales to Non-Eligible customers and all sales .....	8,087.4	8,005.5
Total:.....	<u>8,487.4</u>	<u>9,493.6</u>

The Bersani Decree envisaged that electricity consumed by Eligible customers, including electricity produced by them, would account for at least 37% of the total Italian electricity consumption in 2001 and 40% of total Italian electricity consumption in 2002. However, in 2001, due primarily to limitations on the volume of electricity available on the free market, only a portion of those customers who qualified as Eligible customers actually chose to participate in the open market.

### **District Heating Services**

AE Produzione is the company within the AceaElectrabel Group responsible for providing district heating services, currently servicing approximately 22,000 residents in the Torrino Sud and Mostacciano districts of southern Rome. It utilises heat recovered from the exhaust of the co-generation unit of the Tor di Valle power plant to provide heat energy to nearby buildings (primarily residential buildings but also including office buildings and schools) through a network of approximately 26 kilometres of underground pipes. The service is provided on the basis of a number of agreements with the relevant district councils.

### **Energy Services: Principal Concessions and Licences**

#### *Distribution*

Following the acquisition from ENEL of that portion of the power distribution grid not already owned by ACEA, the sole electricity distribution concession for the Rome electricity market (including Formello) was granted to ACEA. The concession was granted by the Ministry of Industry and is due to expire in 2030.

#### *Public Lighting*

Pursuant to Law 142/1990, the management of public lighting services in Rome is not licensed to ACEA but rather is directly assigned to it by the *Comune*. As with ACEA's water services businesses, however, ACEA's public lighting business in Rome is subject to a concession (*concessione d'uso*) to use assets that are part of the public domain. This concession is scheduled to expire in 2027 and does not provide for the payment by ACEA to the *Comune* of any fees for the use of such assets.

In addition, the *Comune* and ACEA entered into a service agreement (the "Public Lighting Agreement") in 1998 granting ACEA the exclusive right within the boundaries of the *Comune* to install, manage and maintain all facilities necessary for the provision of the public lighting services. The Public Lighting Agreement provides for an annual payment to ACEA in consideration of their services. It is scheduled to expire on 31st December 2004 whereupon a new service agreement is due to be entered into.

## Generation

ACEA's hydroelectric power generation activities are carried out pursuant to a series of hydroelectric licences granted by the Ministry of Industry or by regional authorities. The hydroelectric licences relating to the Castel Madama and Mandela plants and one of the two generation units at the Orte plant are perpetual and without charge, while ACEA's other hydroelectric licences have durations of up to 60 years. Pursuant to the Bersani Decree, all hydroelectric licences scheduled to expire before 31st December 2010 were automatically extended to such date (all hydroelectric licences expiring after 31st December 2010 have kept their original expiration date). These licences are renewable for an additional 30 year period, subject to a competitive bidding process. However, the Bersani Decree gives hydroelectric licensees a right of first refusal to meet the terms offered by competitors at the time of such renewal. During 2002, the European Commission started an infringement procedure against the Italian government claiming that such right of first refusal granted under the Bersani Decree to incumbent hydroelectric licensees is in breach of European Union equal treatment principles. In January 2004, a decision was issued requesting the Italian government to amend the Bersani Decree in order to remove the related provision. As a result, the Bersani Decree may be amended in accordance with the directions of the European Commission.

The following table sets forth certain information relating to Acea's hydroelectric licences.

<b>Plant</b>	<b>Municipality</b>	<b>Nominal Power (kW)</b>	<b>Effective Date</b>	<b>Expiry Date</b>
S. Angelo (Sangro – Aventino)	Chieti	30,981	30th July 1953	30th July 2013
Salisano (Peschiera – Unit 2) ..	Rieti	21,150	27th October 1926	31st December 2010*
Salisano (Peschiera – Unit 3) ..	Rieti	9,000	1st May 1960	31st December 2010*
Salisano (Peschiera – Unit 4) ..	Rieti	9,000	14th September 1971	31st December 2010*
Castel Madama (Aniene) .....	Rome	6,871	3rd March 1912	Perpetual
Orte (Nera – Unit 1) .....	Terni	6,188	10th January 1947	Perpetual
Orte (Nera – Unit 2) .....	Terni	5,599	10th January 1947	31st December 2010*
Mandela (Aniene) .....	Rome	5,324	8th July 1920	Perpetual
Salisano (Capore – Unit 1) .....	Rieti	3,870	24th April 1980	31st December 2010*
Madonna del Rosario (Peschiera) .....	Rieti	348	22nd February 1986	26th October 2026**
Cecchina (Peschiera) .....	Rieti	324	22nd February 1986	26th October 2026**

Notes:

\* extended pursuant to Article 12, paragraph 7 of Legislative Decree No. 79/99.

\*\* extended pursuant to Decision No.12814 dated 30th January 2001.

## OTHER ACTIVITIES

Consistent with (i) the incumbent regulations governing the water and electricity businesses, (ii) the potential benefits offered by the pooling of efforts with third parties and (iii) the need for an orderly segregation of the various business activities, the ACEA Group conducts a number of activities through subsidiaries and associated companies. The ACEA Group's current business strategy focuses on the development and expansion of its core businesses of the management and provision of energy and water services. As a result, the ACEA Group has in recent years revised its strategy in its non-core sectors and has accordingly disposed of its interests in operations such as those in the field of telecommunications.

### Research and Development: LaboratoRI S.p.A.

Research and development projects for the ACEA Group, principally in relation to water services, are carried out by LaboratoRI S.p.A. The company was formed as a joint-venture following a strategic alliance between ACEA and the Water Research Centre plc, the renowned research centre based in the UK. Based in Grottarossa, LaboratoRI provides engineering, technical and scientific support to the ACEA Group in the main fields of development in the water and sewage treatment sector, both in and outside Italy, monitoring and analysing drinking water, waste water and surface water, both for internal purposes and on behalf of third parties.

### Cultural Projects: Zetema Progetto Cultura S.r.l.

Zetema Progetto Cultura S.r.l. ("Zetema") is the ACEA Group company that operates in the cultural sector, providing services in museum management, principally in association with the *Comune*

through management of the Capitoline museums and the design, restoration, cataloguing and educational services supplied to the *Comune's* Department of Cultural Heritage. As of 2002, Zetema acquired a three year contract to manage the city of Rome's Tourist Information Points.

#### **Facility Management: Marco Polo S.p.A.**

Marco Polo S.p.A. ("Marco Polo") carries out all facility management activities for the ACEA Group. Conceived as a joint venture between ACEA (49%) and AMA S.p.A. (51%), Marco Polo is responsible, among other things, for the practical upkeep of all buildings used by the ACEA Group in Rome, providing cleaning services, surveillance and general maintenance of the work premises.

#### **Telecommunications**

In light of this re-focussing of the business strategy, the ACEA Group has resolved to exit the telecommunications sector in which it has participated since 2000 through the co-ownership of Atlant S.p.A. ("Atlant"), a company created to provide wireline services to business customers mainly in Italy. Atlant owned a 12% stake in IPSE 2000 S.p.A. ("IPSE"), a licensee of one of the five UMTS (Universal Mobile Telecommunications System) concessions that were auctioned in Italy in 2000. In October 2003, ACEA, together with the Spanish operator Telefonica, sold its interest in Atlant to the Fiat Group, the third former partner in the initiative, whilst Atlant transferred its interest in IPSE to its former shareholders. Accordingly, ACEA now owns a 3.96% interest in IPSE. Since the end of 2002, ACEA has made provisions in its balance sheet to cover all financial risks related to its participation in the telecommunications sector. Until now all transactions related to Atlant have been covered by such provisions. Currently, the financial risks relating to ACEA's interest in IPSE (substantially the licence payment) are completely covered by the risk provisions in the balance sheet.

#### **EMPLOYEES**

At 31st December 2003, the ACEA Group had 4,326 employees, of whom 1,909 (44%) were dedicated to the energy services and public lighting sectors, 1,435 (33%) worked in the water services sector and 982 (23%) were employed in executive or administrative positions or were otherwise not dedicated to any one sector.

The ACEA Group believes that it has good relations with its employees and trade unions.

#### **DIRECTORS**

The Board of Directors of ACEA is responsible for the administration of its affairs. It oversees the overall performance of the ACEA Group and approves significant transactions carried out by its subsidiaries.

The current Board of Directors of ACEA is comprised of 9 members, 7 of whom are independent directors. Their respective positions, ages and principal offices outside ACEA, are as follows:

<b>Name</b>	<b>Position</b>	<b>Principal offices outside ACEA</b>
Fabiano Fabiani * .....	Chairman of the Board of Directors	None
Andrea Mangoni * .....	Chief Executive Officer	None
Franco Bernabé .....	Director, Member of Remuneration Committee	Deputy Chairman, Rothschild Europa
Massimo Caputi .....	Director, Member of Remuneration Committee	Amministratore Delegato (Chief Executive Officer), Sviluppo Italia S.p.A.
Umberto Colombo * .....	Director, Member of Internal Audit Committee	None
Piero Giarda * .....	Director, Member of Internal Audit Committee	University Professor at Università Cattolica di Milano
Jean-Pierre Hansen ...	Director	Chief Executive Officer, Electrabel S.A.
Raffaele Ranucci .....	Director, Member of Internal Audit Committee	Chief Executive Officer, SIPRA S.p.A.
Luigi Spaventa * .....	Director, Member of Remuneration Committee	None

\* denotes appointed by the *Comune*

The business address of the Directors is Piazzale Ostiense, 2, 00154 Rome, Italy.

Pursuant to the By-laws, the Board of Directors must be composed of between five and nine members. The shareholders' meeting establishes the number of the members of the Board. The

current Board is composed of nine members. In accordance with the By-laws, the Board of Directors has complete power of ordinary and extraordinary administration and, in particular, may perform all actions it deems advisable for the achievement of ACEA's corporate purpose, except for actions reserved by applicable law or the By-laws to the meeting of the shareholders. Pursuant to the By-laws, the Board of Directors is entitled to appoint and define the powers of an Executive Committee. At the date hereof, no such Executive Committee has been established.

The *Comune*, pursuant to the provisions of the Italian Civil Code, is entitled to appoint a number of directors proportional to the *Comune*'s shareholding. Those directors not nominated by the *Comune* are subject to the voting procedure (*voto di lista*) set out in Article 15 of the By-laws. Pursuant to applicable Italian law, directors may be elected for a term of up to three financial years and may be re-elected. The current Board of Directors was elected for a three year term commencing 3rd November 2003 at the shareholders' meeting held on 24th October 2003.

Under currently applicable Italian law, directors may be removed from office at any time by the shareholders in an ordinary meeting although, if removed without cause, such director may bring a claim for damages. Directors may resign at any time by written notice to the Board of Directors and to the president of the Board of Statutory Auditors. In case of a vacancy on the Board of Directors arising from a removal or resignation, the Board must appoint a replacement director to serve until the next ordinary meeting of shareholders, subject to approval of the Board of Statutory Auditors. Italian law permits the number of members of the Board of Directors to be increased or decreased by the shareholders at the election of members of the Board. Directors appointed by the *Comune* can only be removed by the *Comune*.

## Corporate Governance

The corporate governance system adopted by the ACEA Group complies with the principles of the Voluntary Code of Corporate Governance for companies listed on the Italian Stock Exchange. The Board believes that the adoption and the continuous enhancement of such a policy enables the company to benefit from a productive balance between management and control while ensuring an effective communication with all the company's shareholders.

Pursuant to the Voluntary Code of Corporate Governance, the Board has appointed an Audit Committee which has responsibility for monitoring the ACEA Group's internal control procedures and a Remuneration Committee which is responsible for proposing remuneration for the members of the Board. Both the Audit Committee and the Remuneration Committee are made up of non-executive directors. The members of the Audit Committee are Umberto Colombo, Piero Giarda and Raffaele Ranucci. The members of the Remuneration Committee are Franco Bernabè, Massimo Caputi and Luigi Spaventa.

In addition to the separate committees, the ACEA Group has published procedures for use at shareholders' meetings and has created the role of Investor Relations Manager.

## AUDITORS

### Statutory Auditors

Pursuant to Italian law, in addition to electing the Board of Directors, ACEA's shareholders also elect a *Collegio Sindacale* (Board of Statutory Auditors) composed of three independent experts in accounting matters, plus two alternate auditors to replace statutory auditors who resign or are otherwise unable to serve. According to the By-Laws, the *Comune* has the right to appoint up to two auditors (and one alternate), in proportion to its shareholding. A *voto di lista* system, equivalent to that established for the election of directors, is applied to elect the remaining statutory auditor(s).

The current Board of Statutory Auditors was appointed for a three year term commencing on 3rd November 2003 at the shareholders' meeting held on 24th October 2003. The table below sets forth the names of the current members, their positions and their ages.

<u>Name</u>	<u>Position</u>
Roberto Pertile .....	Chairman
Francesco Lopomo.....	Auditor
Maurizio Lauri.....	Auditor
Claudio Valerio .....	Alternate Auditor
Pierumberto Spanò .....	Alternate Auditor

Pursuant to applicable Italian law, statutory auditors may be elected by shareholders for a term of up to three financial years and may be re-elected. Members may only be removed for just cause and with the approval of an Italian court. The current Board of Statutory Auditors was elected for a three year term commencing 24th October 2003 by the shareholders' meeting held on that date.

#### **External Auditors**

The independent auditors of ACEA are Deloitte & Touche S.p.A. of Via della Camilluccia, 589/A, 00135 Rome, Italy.

#### **LEGAL PROCEEDINGS**

Due to the significant number of its clients, the ACEA Group is party to a number of civil and administrative proceedings arising from the conduct of its corporate activities. Management believes that provisions in the balance sheet are adequate, under the circumstances, to cover all potential risks and damages that may arise from any such proceedings and that there are no other material legal or arbitration proceedings pending against ACEA or against any other company in the ACEA Group.

On 5th June 2002, the European Commission announced the results of its inquiry into State aid allegedly granted by the Italian State to private joint stock companies supplying public services controlled by local authorities and incorporated pursuant to the provisions of Law 142/90 which required all municipality enterprises supplying public services to be privatised by the end of 1999. The State aid was allegedly granted by way of income tax exemptions and subsidised loans. The Commission has ruled that the provisions of Law 549/95, which extended the general tax exemption regime previously granted to the municipality enterprises for a three year period in favour of such companies are not consistent with European law on free competition. ACEA benefited from the exemption from corporate tax (*imposta sul reddito delle persone giuridiche* (IRPEG) and *imposta locale sui redditi* (ILOR)) for the three year period from the date of its incorporation on 1st January 1998. ACEA did not, however, benefit from the provision of any subsidised loans. As a result of the ruling, the Italian State has been required by the Commission to recover the aid formerly granted. The decision of the Commission has been challenged by the Italian State before the European Court of Justice and by ACEA, and other affected companies, before the European Court of First Instance. The outcome of such proceedings is pending as at the date hereof.

For further information in respect of the State aid litigation, please refer to page 85 of the ACEA Group's Consolidated Financial Statements 2003 (English Version).

## Regulation

### WATER

The regulatory framework for the Italian water services sector is also undergoing significant change. Law No. 36/94 (the “Galli Law”) aims to overhaul the existing scheme of regulation which applies to the management of water resources, the supply of fresh water and waste water treatment. The Galli Law advocates a transition towards integrated management of all water resources, including both fresh water services and waste water services and delegates the authority for the integrated water services to local authorities. When it is fully implemented by the local authorities, this new system of management will replace the existing laws and regulations applicable to the Italian water services industry.

#### ***The Galli Law***

The Galli Law introduced rules aimed at guaranteeing soil protection, improving fresh water quality and managing assets belonging to the water service business for the purpose of economic consolidation and social development, while complying with environmental rules and regulations.

The Galli Law brings in a comprehensive regulatory scheme for:

- integrated fresh water and waste water management services (integrated water services or *servizio idrico integrato* (“SII”)), including the abstraction, transportation and distribution of water for non-industrial purposes, water drainage and purification of waste water;
- the identification, by the Italian regions and within each of them, of Integrated Water Districts (*Ambiti Territoriali Ottimali* or ATOs), within which all fresh water and waste water services are to be managed. Each Integrated Water District is to have enough users to achieve economies of scale and scope, generating revenues sufficient to cover operating costs and to provide incentives for operators to invest in the upgrading and expansion of the water services infrastructure;
- the institution of a water district authority for each Integrated Water District, responsible for:
  - organising the integrated water services;
  - identifying and overseeing an operator (*gestore*) of the integrated water services; and
  - determining the tariffs for water services;
- the organisation and management of the water sector according to criteria of efficiency, effectiveness and entrepreneurship; and
- the establishment of an integrated tariff system for both fresh water and waste water services that will apply to all customers within each Integrated Water District.

The organisation of integrated water services relies on a clear distinction in the division of tasks among the various governing bodies. The State and regional authorities carry out general planning activities. Local authorities (water district authorities) supervise, organise and control the integrated water services but these activities are managed and operated on a day-to-day basis by (public and/or private) service operators.

#### ***Integrated Water Districts and the Water District Authority***

The Galli Law requires each Italian region to specify the Integrated Water Districts in its area. The boundaries of Integrated Water Districts are to be defined on the basis of:

- consistency with hydrological conditions and logistical considerations;
- the goal of achieving industry consolidation; and
- the potential for economies of scale and operational efficiencies.

Regional governments (and the independent provinces of Trento and Bolzano) are responsible for drawing the boundaries within their territories. The Regions provide regulations as to the co-operation with the local authorities and define procedures for the selection of the sole operator.



Water district authorities are responsible for overseeing the integrated water management and, in particular, for:

- surveying the existing water services infrastructure and managerial bodies of the Integrated Water District;
- establishing target levels for service quality in line with the Galli Law and preparing a *Piano d'Ambito* (water district master plan) to identify the capital investment, extraordinary maintenance projects and organisational support that will be necessary to achieve such targets;
- setting the single integrated tariff within each Integrated Water District, specifying the relevant application criteria and terms; and
- selecting and overseeing the operator of the integrated water services in the Integrated Water District.

### ***The Water District Operator***

The Galli Law provides that integrated water services within each Integrated Water District must be managed by any of the following legal entities, as listed by Article 113 of Legislative Decree No. 267/2000, as amended by Law No. 326/2003 and Law No. 350/2003:

- a joint stock company, selected by means of public tender;
- a joint stock company in which part of the share capital is public and part is private. In this type of company the private shareholder must be selected by means of public tender; and
- a joint stock company, in which the share capital is entirely public. The management of the integrated water services can be directly assigned to this type of company provided that (i) the local public authorities holding the share capital, exercise the same control over the company that they exercise over their own services and (ii) the joint stock company carries out the most important part of its activity with the local public authorities which control it.

The local public authority may “transfer”, either entirely or partially, its shareholding in the joint stock company which supplies the service by means of public tender. A further public tender takes place when the period of the service granted terminates.

Moreover, Article 113, paragraph 15 *bis* of Legislative Decree No. 267/2000 provides that the concessions granted by means of procedures other than from public tender, shall terminate on or before 31st December 2006, without the need for any deliberation by the local public authority which granted the concession.

However, the following types of concession are not subject to termination on or before 31st December 2006:

- concessions granted to semi-public companies (i.e. the share capital is owned by public and private shareholders) in which the private shareholder has been selected by means of public tender;
- concessions granted to joint stock companies in which the share capital is entirely public provided that (i) the local public authorities holding the share capital exercise the same control over the company that they exercise over their own services and (ii) the joint stock company carries out the most important part of its activity with the local public authorities which control it;
- concessions granted before 1st October 2003 to companies listed on the Regulatory Market, provided that such companies are the sole concession holder of the service;
- concessions granted before 1st October 2003 to companies in which a direct interest is held by companies listed on the Regulatory Market provided that such companies are the sole concession holder of the service (as applicable to Acea ATO 2); and
- concessions granted before 1st October 2003 to companies in which the share capital was originally entirely public and which, prior to 1st October 2003 had placed shares on the market by means of a public tender.

In the last three cases, concessions will expire after a period representing the average duration of the concessions issued in the same sector (approximately 26 years), except for the possibility of the extension which will be granted, on a case by case basis, in order to enable the supplier to recover its investments.

Excluding the exceptions listed above, according to paragraph 15 *ter*, the expiry date of 31st December 2006 can be extended by a minimum of one year to a maximum of two years, subject to specific conditions, on the basis of a previous agreement with the European Commission.

Pursuant to a letter dated 26th June 2002, the European Commission started an infringement procedure against Italy in relation to Article 113 of Legislative Decree No. 267/2000. Article 113 of Legislative Decree No. 267/2000 was then amended by entry into force of Law No. 326/2003 and Law No. 350/2003, aimed at addressing and resolving objections raised by the European Commission. This procedure before the European Commission has not yet been concluded.

Moreover, following two recent decisions of the Italian Administrative Judge, a request has been submitted to the European Union Court of Justice to evaluate the compatibility of the current text of Article 113 of Legislative Decree No. 267/2000 with European Community Law. This does not affect the concessions held by the ACEA Group.

### ***Relationships between the Water District Authority and the Operator of the Integrated Water Services***

Each Region must adopt a model operating agreement (*Convenzione per la Gestione*) to regulate the relationship between the water district authority and the operator for each Integrated Water District within its territory. The *Convenzione* defines, among other things:

- the legal basis for the Integrated Water District;
- the specific assets and liabilities to be transferred to the operator;
- the term of the contract, which may not exceed 30 years;
- the obligation of the operator to return the assets entrusted to it in good condition at the end of the contractual term;
- the standards for the quality of service and financial performance that the operator will be required to maintain, as well as the criteria to be used for monitoring such performance;
- the financial penalties applicable and the events of termination if such standards are not met;
- the required economic and financial thresholds for the operator;
- the economic and financial sustainability of the management of the water services; and
- the criteria to be used for setting and adjusting tariffs.

The Galli Law requires that the infrastructure owned or operated by the local authorities or assigned for use and operation to special agencies (*aziende speciali*) or consortia should be granted under concession to the water district operator. In such an event, the water district operator assumes the liabilities related to utilising the infrastructure unless otherwise provided in the operating agreement. Any fixed assets, other assets and liabilities pertaining to the integrated water services, along with costs inherent in the amortisation of loans and personnel employed by the former operating entities are also transferred to the operator.

In addition, the Galli Law also permits the water district operator to manage other public services ancillary to water services upon authorisation by the relevant province and municipality.

### ***The Water Tariff Structure***

A further important feature of the Galli Law was the introduction of a new tariff structure for water services. The new structure aims to establish a transparent tariff mechanism based on a price-cap methodology. Under Article 13 of the Galli Law, the water tariff should constitute the counter-value (*corrispettivo*) of the integrated water service and so tariffs are calculated so as to enable full recovery of operating costs (excluding bad debts) and depreciation, as well as a percentage return on investments. Each year, tariffs are adjusted to take into account forecast inflation.

Pursuant to Article 13, the Ministry of Industry, in agreement with the Ministry of the Environment, adopted a Decree dated 1st August 1996. This Decree provides for the determination of an average tariff (*tariffa media dell'ambito*), effectively the price paid by the end user to the operator managing the water services in the respective Integrated Water District. The average tariff is calculated on the basis of the "normalised method" (*metodo normalizzato*) for defining the cost

components and determining the “reference tariff” (*tariffa di riferimento*). Each water district authority must refer to the reference tariff when determining the actual average tariff, that is the tariff which takes into account the different quality and quantity of the services supplied in the individual ATO. In addition, the Decree introduces a price-cap mechanism which limits increases in the tariffs when tariff adjustments are made whilst, at the same time, permitting tariff increases due to improvements in the efficiency and in the quality of the service. One tariff is determined for each Integrated Water District.

According to the Decree, the “reference tariff” for each district is determined in accordance with a formula which takes into account operating costs (raw materials, services, wages and salary, changes in inventories, depreciation, etc.), the amortisation of the tangible and intangible fixed assets, the component related to the return on projected net investment and the official estimated inflation rate as determined by the Italian Government’s Long Term Financial Budget as well as the price-cap (the maximum price increase).

### **Water Quality Decree**

The Water Quality Decree (Legislative Decree No. 152/1999) has fundamentally overhauled existing Italian water quality law. The Water Quality Decree:

- established a timetable for the clean-up of polluted bodies of water;
- provided incentives for the sustainable use of water resources; and
- enacted measures for the protection of aquatic ecosystems.

Specifically, the Water Quality Decree required Italian regions to evaluate the quality of all bodies of surface and underground water within their territories and to prepare “water protection plans” by 31st December 2001 to ensure that all such bodies of water attained a “good” quality level. Bodies of water that are sources of fresh water or food for human consumption are subject to more stringent requirements.

The Water Quality Decree also modified the licensing regime applicable to water use licences. In particular, the Water Quality Decree:

- required that all licences then in existence be evaluated with respect to their impact on water flow and water quality;
- established preferences for licence applicants based on (i) the quantity and quality of water returned to the environment and (ii) compliance with the ISO 1400 1 system of environmental auditing;
- prohibited the unlicensed use of water; and
- reduced the maximum duration of water use licences to 30 years (40 years in the case of irrigation use and 15 years in the case of industrial use) from the 60 to 80 years that were previously allowed.

The Water Quality Decree sought to establish incentives for the efficient use of water. It also set forth a binding timetable for the construction of waste water collection and treatment systems in urban areas where such systems did not currently exist. In addition, the Water Quality Decree enacted a comprehensive regulatory scheme governing the discharge of waste water and established the administrative sanctions applicable in the event of violations of any of its provisions.

On 2nd July 2002, the Chamber of Deputies approved a law (Law No. 179/2002) containing environmental measures and introducing changes to the rules regulating waste and water (Environmental Attachment to the 2002 Budget Law). With particular reference to the water sector, the changes concerned the possibility of disposing of organic waste produced by human food refuse in sewage, mixed with fresh water and treated using special food refuse disposal units. Furthermore, according to Article 28 of the Environmental Attachment to the 2002 Budget Law, revenues from the tariff imposed on sewage and purification services must be put towards a fund which will be at the disposal of the entities operating the integrated water service. The fund may be used to implement the framework plan.

### **Quality of Water Fit for Human Consumption**

Legislative Decree No. 31/2001 redefined the quality requirements for fresh water and introduced measures to guarantee the protection of fresh water sources. The law was introduced to safeguard human health from water contamination by ensuring that all water is healthy and clean.

“Water for human consumption” includes all water of any origin, prior to or following treatment, which is provided for consumption or utilised by food industries. Mineral and thermal waters are excluded from this category.

Decree No. 31/2001 established the quality requirements for fresh water on the basis of parameters and values defined in the Decree. To ensure compliance with those parameters, Decree No. 31/2001 also provided for periodical water quality checks. These checks may be carried out by the operator of the integrated water services (internal monitoring) or by a local health unit (external monitoring). Water provided for human consumption had to comply with the parameters set out in Annex 1 to Decree No. 31/2001 by 25th December 2003.

## **ELECTRICITY**

The Ministry of Industry (*Ministero delle Attività Produttive*) and the Authority for Electricity and Gas (*Autorità per l'energia elettrica e il gas*) share responsibility for overall supervision and regulation of the Italian electricity sector.

The Ministry of Industry establishes the strategic guidelines for the electricity sector. The Authority for Electricity and Gas:

- sets electricity and gas tariffs;
- formulates observations and recommendations to the Government and Parliament regarding the market structure and the adoption and implementation of European Directives;
- makes observations and recommendations to the Government and Parliament with regard to licences and authorisations;
- establishes guidelines for the production and distribution of services, as well as specific and overall service standards and automatic refund mechanisms for users and consumers in cases in which standards are not met;
- issues guidelines for the accounting and administrative unbundling of the various activities under which the electricity and gas sectors are organised;
- protects the interests of electricity customers by monitoring the conditions under which the services are provided, having powers to demand documentation and data, to carry out inspections, to obtain access to plants and to apply sanctions, and determines those cases in which operators should be required to provide refunds to users and consumers;
- handles out-of-court settlements and arbitrations of disputes between users or consumers and service providers; and
- reports to the Antitrust Authority (*Autorità garante della concorrenza e del mercato*) any suspected infringements of Law No. 287 of 10th October 1990 by companies operating in the electricity and gas sectors.

On 1st April 1999, the Legislative Decree No. 79 dated 16th March 1999 (the “Bersani Decree”) implementing Directive 96/92/EC became effective in Italy. It began the transformation of the electricity sector from a highly monopolistic industry to one in which energy prices charged by generators will eventually be determined by competitive bidding. It also provided for a gradual liberalisation of the electricity market so that customers whose annual consumption of electricity exceeds specified amounts (so-called “Eligible Customers”) will be able to contract directly with power generation companies, wholesalers or distributors to buy electricity.

The Bersani Decree established a general regulatory framework for the Italian electricity market that gradually introduces competition in power generation and sales to Eligible Customers while maintaining a regulated monopoly structure for transmission, distribution and sales to low volume consumers who may only purchase electricity from the local distribution company (so-called “Non-Eligible Customers”).

In particular, the Bersani Decree and the subsequent implementing regulations:

- liberalised, as of 1st April 1999, the activities of generation, import, export, purchase and sale of electricity;
- provided that, as of 1st January 2003, no party shall be allowed to generate or import, directly or indirectly, more than 50% of the total electricity generated in and imported into Italy in order to increase competition in power generation;

- distinguished between Eligible Customers, who may negotiate supply agreements directly with any domestic or foreign producer, wholesaler or distributor of electricity, and Non-Eligible Customers, who must purchase electricity from the distributor that serves the area in which they are located and pay the tariffs determined by the Authority for Electricity and Gas;
- provided for the establishment of the Single Buyer (*Acquirente Unico*), the company who shall stipulate and operate supply contracts in order to guarantee franchise clients availability of the necessary generating capacity and the supply of electricity in conditions of continuity, security and efficiency of service, as well as parity of treatment, including tariff treatment;
- provided for the creation of the Power Exchange Market in which producers, importers, wholesalers, distributors, the operator of the national transmission grid (*Gestore della Rete di Trasmissione* or GRTN), other Eligible Customers and the Single Buyer will participate, with prices being determined through a competitive bidding process;
- provided for the creation of the Electrical Market Operator (*Gestore del Mercato Elettrico* or GME), responsible for managing the Power Exchange Market;
- required distribution companies supplying the same municipality to consolidate their networks; and
- provided that the activities of transmission and dispatching are reserved exclusively to the State and attributed under concession to the GRTN while the activity of distribution of electricity is performed under a concession regime issued by the Ministry of Industry.

On 19th December 2003, the Ministry of Industry approved the Integrated Text of the Power Exchange Market Discipline (*Testo integrato della Disciplina del mercato elettrico*), which grants to the Market Operator the organisation and the management of the Power Exchange Market.

On 31st March 2004, the Power Exchange Market started to operate. The price of electricity in Italy is established with regard to each hour of the successive day. Moreover, an average daily price is defined. The price is created by the competition among producers, which offer electricity on the Power Exchange Market for the satisfaction of the Italian consumers. On 11th May 2004, a Decree of the President of the Council of Ministers set forth the terms and conditions for the unification of the ownership and the management of the national transmission grid within the same entity and the relevant process is currently ongoing.

The process of market liberalisation enacted by the Bersani Decree is highly complex. Certain of the actions required by the Bersani Decree have not occurred within the contemplated time periods and it is likely that a number of the deadlines set forth by the Bersani Decree may not be met. Also for this reason, a new "Energy Bill" providing for several corrective measures aiming at completing the liberalisation process started by the Bersani Decree is currently being discussed by the Italian Parliament.

### **Generation**

The Bersani Decree liberalised the regime for electricity generation. In order to increase the level of competition in the market, the Bersani Decree provided that, as of 1st January 2003, no electricity generation companies shall be allowed to generate or import, directly or indirectly, more than 50% of the total electricity generated in and imported into Italy. To this end, by the same date, ENEL S.p.A. ("ENEL") ceded not less than 15,000 MW of its own generating capacity in order to reduce its market share. To comply with this requirement, ENEL sold the capacity contributed by the three generation companies (Eurogen S.p.A., Elettrogen S.p.A. and Interpower S.p.A.) created in October 1999.

In 2002, the Italian Parliament approved Law No. 55 of 9th April 2002 aimed at streamlining the authorisation procedures relating to the construction of new power generation plants and the renovation and expansion of existing plants. This Law has been amended and expanded by Law No. 290 of 27th October 2003. This Law provides, amongst other things, that the single authorisation to construct power plants will cease to be valid if the holder does not start works within 12 months of the date on which the single authorisation becomes beyond challenge.

### **Promotion of Renewable Resources**

In order to promote the generation of electricity from renewable resources, the Bersani Decree required that, as of 2001, all companies that introduce in excess of 100 GWh of electricity generated from conventional sources (net of co-generation, self-consumption and exports) into the national transmission network in any given year are required, in the following year, to introduce into

the national transmission network an amount of electricity produced from newly qualified renewable resources that is at least equal to 2% of the amount of such excess over 100 GWh (net of co-generation, self-consumption and exports). This electricity may be produced directly, purchased from other producers or purchased from the operator of the national transmission grid. Legislative Decree No. 387 of 29th December 2003 provides that, from 2004 to 2006, the above-mentioned percentage of 2% shall be increased yearly by 0.35%. Moreover, this Decree simplifies and accelerates the administrative procedures required to obtain the authorisation necessary to build and develop renewable power projects.

### ***Imports***

The volume of electricity that can be imported into Italy is limited by the capacity of transmission lines that connect the Italian network with those of other countries, currently a maximum of approximately 40 TWh per year. The construction of new interconnections in the near future will permit the importation of more energy at a competitive price.

ENEL controls approximately 2,400 MW of this total import capacity pursuant to long-term contracts with foreign producers and wholesalers. This energy is assigned to Non-Eligible Customers. In order to address the allocation of the remaining capacity, the Bersani Decree authorises the Authority for Electricity and Gas to set terms and conditions on import capacity taking into account a fair allocation between Eligible and Non-Eligible Customers, if import demand exceeds total interconnection capacity. The criteria for the allocation of imported electricity for the year 2004 has been the “pro quota” mechanism. This allocation mechanism considers the total interconnection capacity available at the borders with France and Switzerland (the north-west pool) Austria and Slovenia (the north-east pool) and Greece (the south pool) separately. Interconnection capacity is allocated on a pro rata basis; in no case can a single importer hold more than 10% of the interconnection capacity available in any given pool.

The Italian Authority for Electricity and Gas and the French Regulatory Authority for Electricity and Gas have agreed that they will jointly decide how to allocate the interconnection capacity in the north-west pool.

### ***The New Tariff Structure***

The Authority for Electricity and Gas has established a new tariff regime that came into effect on 1st January 2000. This new regime replaced the “cost-plus” system for tariffs with a new “price-cap” tariff methodology. The price-cap mechanism sets a limit on annual tariff increases corresponding to the difference between the target inflation rate and the increased productivity attainable by the service provider, along with other factors allowed for in the tariff, such as quality improvements. Under the price-cap methodology, tariffs will be reduced by a fixed percentage each year encouraging regulated operators to improve efficiency and gradually passing savings onto final customers.

The new tariff structure regulates the price paid by Non-Eligible Customers for electricity, while Eligible Customers pay electricity at market price. Both Eligible and Non-Eligible Customers pay transmission, distribution and system charges as set by the Authority for Electricity and Gas. The first regulatory period finished at the end of 2003. On 30th January 2004, the Authority for Electricity and Gas published the distribution, transmission and sale of electricity tariffs plan for the period 2004-2007 (the “Tariff Plan”).

Over the period 2004-2007, the tariff exercise set forth in the Tariff Plan envisages a reduction of approximately 13% in real terms (assuming fuel costs and other charges to be stable) in the tariff component for transmission, distribution, metering and sales. This reduction is produced through the application of the price-cap mechanism: the fixed annual reduction in operating costs (personnel and external services) and depreciation allowed for in the tariff has been set at 2.5% for transmission and 3.5% for distribution. This takes into account the efficiency gains made by operators in the first regulatory period, fluctuations in the level of costs incurred by operators as a result of personnel costs, and the quality improvement objectives set by the Authority for Electricity and Gas.

The new tariff-setting methodology refers to the historic cost of the infrastructure which is re-valued each year. The value of the useful life of the grids, taken as a reference for the tariff exercise, has been increased to bring it into line with the actual technical condition of the infrastructure. This has resulted in a reduction in the annual allowed costs for depreciation in keeping with the longer timeframe over which they will be paid. The rate of return has been set at 6.8% for the distribution

networks and 6.7% for the transmission network. An additional return of 2% is envisaged for investment in the national transmission grids, subject to an annual review to be carried out by the Authority for Electricity and Gas.

These increases in the rates of return, which are needed to provide operators with sufficient capital to invest in the network after recent malfunctions in the service highlighted the need for such investment, have been balanced by the reduction in the amount considered for depreciation.

The tariff for electricity is composed of the following components:

- (i) a component to cover the costs of purchase and dispatch of the electricity intended for the captive market, updated every three months by the Authority for Electricity and Gas;
- (ii) a component to cover the costs relating to the distribution service of the electricity intended for the captive market, updated annually by the Authority for Electricity and Gas;
- (iii) a component to cover the costs relating to the transmission on the national grid for final customers, as defined by the Authority for Electricity and Gas (decision No. 05/04) for the 2004-2007 period, updated annually by the Authority for Electricity and Gas;
- (iv) a component to cover the costs relating to distribution and transmission on the local grid for final customers, updated annually by the Authority for Electricity and Gas; and
- (v) a component to cover the metering cost for final customers, verified annually by the Authority for Electricity and Gas.

The tariff changes in relation to the different categories of consumers, which are classified according to the level of voltage (high, medium and low) and by usage (domestic or non-domestic, hourly based or non-hourly based).

The Tariff Plan for the period 2004-2007 also introduces equalisation mechanisms designed to acknowledge the differences among the various operators in the Italian market. The first mechanism is mandatory and is based on a parametric cost analysis: it is aimed at equalising the cost of energy and transport, and the distribution cost on a standard base. The second mechanism is not mandatory and is based on specific analyses that the Authority for Electricity and Gas will carry out on a case-by-case basis. They will make it possible to allow for specific costs incurred by companies, for example, those linked to congestion in metropolitan areas.

### ***Recent Developments***

Directive 2003/54/EC, recently approved by the EU Commission and Council, is aimed at further liberalising the electricity market at the EU level. In particular, Article 21 of this Directive provided that the liberalised electricity market must be extended by 1st July 2004 to all non-household customers. In compliance with this provision, the Authority for Electricity and Gas adopted Resolution No. 107/2004 which allows all non-household customers to purchase electricity from a supplier of their own choice. According to the Italian legal system, European directives should be implemented by the legislative authority. However, the Authority for Electricity and Gas (which does not have legislative power) adopted this Resolution on the basis of Article 21 of Directive 2003/54/EC constituting a "self-executing provision" (i.e. it imposes obligations which are so clear and specific that the provision is considered directly applicable without the need for Member States to implement it by means of a legislative authority). It is therefore possible that the legitimacy of this decision of the Authority for Electricity and Gas might be challenged.

In addition, Directive 2003/54/EC provides for complete liberalisation of the electricity market with effect from 1st July 2007.

The Italian parliament is currently examining the draft bill of Law No. 3297 (the so-called "Marzano law"). The Marzano law aims to reorganise the regulatory framework of the energy sector in Italy and, in the event that it is adopted, most laws and regulations applicable to the Italian energy sector will be replaced.

## Taxation

### The Republic of Italy

The statements herein regarding taxation summarise the main Italian tax consequences of the purchase, the ownership and the disposal of the Notes. This summary applies to a holder of Notes only if such holder purchases its Notes in this offering. It is a general summary that does not apply to certain categories of investors and does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. It does not discuss every aspect of Italian taxation that may be relevant to a holder of Notes if such holder is subject to special circumstances or if such holder is subject to special treatment under applicable law. This summary also assumes that the Issuer is organised and that the Issuer's business will be conducted in the manner outlined in this Offering Circular. Changes in the Issuer's tax residence, organisational structure or the manner in which it conducts its business may invalidate this summary.

The statements herein regarding taxation are based on the laws in force in the Republic of Italy as of the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The Issuer will not update this summary to reflect changes in laws and if such a change occurs the information in this summary could become invalid.

Law No. 80 of 7th April 2003 for the reform of the Italian tax system has empowered the Italian Government to introduce, within a two-year period, a general reform of the tax regime of financial income as well as of taxation of individual and corporations, that may impact on the current tax regime of the Notes, as summarised below. Part of this reform has been enacted by Legislative Decree No. 344 of 12th December 2003, effective as of 1st January 2004.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

### Interest on the Notes

Legislative Decree No. 239 of 1st April 1996, as amended ("Decree 239") regulates the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price, hereinafter collectively referred to as "Interest") from notes having a maturity of eighteen months or more and issued, *inter alia*, by companies listed in an Italian regulated market, falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*).

For this purpose, debentures similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than the nominal value thereof and that do not allow direct or indirect participation in the management of the Issuer.

### Italian Resident Noteholders

Where an Italian resident Noteholder is: (i) an individual not engaged in a business activity to which the Notes are effectively connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation, Interest payments relating to the Notes are subject to a tax, referred to as *imposta sostitutiva*, levied at the rate of 12.5% (either when the Interest is paid by the Issuer or when payment thereof is obtained by the Noteholder on a sale of the relevant Notes). The *imposta sostitutiva* may not be recovered as a deduction from the income tax due.

If the Notes are held by an individual engaged in a business activity or by a non-commercial private or public institution and are effectively connected with a business activity, the Interest will be subject to the *imposta sostitutiva* and will be included in the relevant income tax return. As a consequence, the Interest will be subject to the ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the income tax due.

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* ("SIMs"), *società di gestione del risparmio* ("SGRs"), fiduciary companies, stock exchange agents and other entities identified by the relevant Decrees of the Ministry of Finance (the "Intermediaries").

The Intermediaries must: (i) be: (a) resident in Italy; or (b) a permanent establishment in Italy of Intermediaries resident outside Italy; or (c) organisations and companies non-resident in Italy, acting



through a system of centralised administration of securities and directly connected with the Department of Revenue of the Ministry of Finance (which include Euroclear and Clearstream, Luxembourg) having appointed an Italian representative for the purposes of Decree 239; and (ii) intervene, in any way, in the collection of Interest or in the transfer of the Notes. For the purposes of the application of *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes.

In order to apply the *imposta sostitutiva*, an Intermediary opens an account (the “single account”) to which it credits the *imposta sostitutiva* in proportion to Interest accrued. In the event that more than one Intermediary participates in an investment transaction, the *imposta sostitutiva* in respect of the transaction is credited to or debited from the single account of the Intermediary having the deposit or investment management relationship with the investor.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applicable and withheld by any Italian bank or any Italian intermediary paying interest to a Noteholder.

The *imposta sostitutiva* regime described herein does not apply in cases where the Notes are held in a discretionary investment portfolio managed by an authorised intermediary pursuant to the so-called discretionary investment portfolio regime (“Risparmio Gestito” regime as described under “– Capital Gains”, below). In such a case, Interest will not be subject to *imposta sostitutiva* but will contribute to determine the annual net accrued result of the portfolio, which is subject to an ad hoc substitutive tax of 12.5%.

The *imposta sostitutiva* also does not apply to the following, to the extent that the Notes and the relevant Coupons are deposited in a timely manner, directly or indirectly, with an Intermediary:

- (i) *Corporate investors* – Where an Italian resident Noteholder is a corporation or a similar commercial entity (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected), Interest accrued on the Notes must be included in: (i) the relevant Noteholder’s yearly taxable income for corporate income tax purposes (“IRES”, applying at a rate equal to 33%, starting from the fiscal year commencing on or after 1st January 2004); and (ii) in certain circumstances, depending on the “status” of the Noteholder, also in its net value of production for the purposes of regional tax on productive activities (“IRAP”), generally applying at the rate of 4.25%. Such Interest is therefore subject to general Italian corporate taxation according to the ordinary rules;
- (ii) *Investment funds* – Italian investment funds (which includes *Fondo Comune d’Investimento*, or SICAV), as well as Luxembourg investment funds regulated by article 11-bis of Law Decree No. 512 of 30th September 1983 (each a “Fund and, together, the “Funds”) are subject to a 12.5% substitutive tax on their annual net accrued result. Interest will be included in the calculation of the annual net accrued result. Pursuant to Law Decree No. 269 of 30th September 2003, converted, with amendments, by Law No. 326 of 24th November 2003 (“Decree 269”), effective as of 2nd October 2003, the substitutive tax on the annual net accrued result is reduced to 5%, if (i) according to the relevant Fund’s management regulation, at least two-thirds of its portfolio is invested in small or medium capitalised companies listed on EU Stock Exchanges; and (ii) following the first year from the establishment of the relevant Fund or the adaptation of the Fund’s rules to the provisions of Decree 269 described under (i) above, as the case may be, and during the subsequent years (with certain days of tolerance in each year), the value of the investment in small or medium capitalised companies is equal to at least two-thirds of the portfolio of that Fund. For the purpose of Article 12 of Decree 269, a small or medium capitalised company is a company with a market capitalisation not greater than €800,000,000, calculated by reference to the market price of the relevant company’s shares as registered in the last trading day of each quarter;
- (iii) *Pension funds* – Pension funds (subject to the tax regime set forth by articles 14, 14-ter and 14-quarter(1) of Legislative Decree No. 124 of 21st April 1993, the “Pension Funds”) are subject to an 11% substitutive tax on their annual net accrued result. Interest will be included in the calculation of the annual net accrued result; and
- (iv) *Real estate investment funds* – Article 41-bis, paragraph 8, of Decree No. 269, with effect from 1st January 2004, has repealed the 1% annual substitute tax previously applicable on the accounting net value of certain real estate investment funds (“Real Estate Investment Funds”)

and, subject to certain exceptions, Article 41-bis, paragraph 9, of Decree 269 has also introduced a 12.5% withholding tax applicable in certain cases on proceeds from the participation in Italian Real Estate Investment Funds.

#### *Non-Italian Resident Noteholders*

An exemption from *imposta sostitutiva* has been introduced with respect to certain beneficial owners of the Notes resident outside of Italy. In particular, pursuant to Decree 239, the aforesaid exemption will apply to any beneficial owner of an Interest payment relating to the Notes who: (i) is resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy; or (ii) is an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) is the Central Bank or an entity also authorised to manage the official reserves of a state; or (iv) is an institutional investor which is established in a country which allows for a satisfactory exchange of information with Italy, even if it does not have the status of taxpayer in its own country of establishment.

The exemption procedure for Noteholders who are non-resident in Italy and are resident in qualifying countries identifies two categories of intermediaries:

- (a) an Italian or foreign bank or financial institution (there is no requirement for the bank or financial institution to be EU resident) (a “First Level Bank”), acting as intermediary in the deposit of the Notes held, directly or indirectly, by the Noteholder with a Second Level Bank (as defined below); and
- (b) an Italian resident bank or SIM, or a permanent establishment in Italy of a non-resident bank or SIM, acting as depository or sub-depository of the Notes appointed to maintain direct relationships, via telematic link, with the Italian Tax Authorities (a “Second Level Bank”). Organisations and companies non-resident in Italy, acting through a system of centralised administration of securities and directly connected with the Department of Revenue of the Ministry of Finance (which include Euroclear and Clearstream, Luxembourg) are treated as Second Level Banks, provided that they appoint an Italian representative (an Italian resident bank or SIM, or a permanent establishment in Italy of a non-resident bank or SIM, or a central depository of financial instruments pursuant to Article 80 of Legislative Decree no. 58 of 24th February 1998) for the purposes of the application of Decree 239.

In the event that a non-Italian resident Noteholder deposits the Notes directly with a Second Level Bank, the latter shall be treated both as a First Level Bank and a Second Level Bank.

The exemption of Noteholders who are non-resident in Italy from the *imposta sostitutiva* is conditional upon:

- (i) the deposit of the Notes and the Coupons relating thereto, either directly or indirectly, with an institution which qualifies as a Second Level Bank; and
- (ii) the submission to the First Level Bank or the Second Level Bank, as the case may be, of a statement of the relevant Noteholder (*autocertificazione*), to be provided only once, in which it declares that it is eligible to benefit from the exemption from the *imposta sostitutiva*. Such statement must comply with the requirements set forth by a Ministerial Decree dated 12th December 2001, is valid until withdrawn or revoked and need not be submitted where a certificate, declaration or other similar document meant for equivalent uses was previously submitted to the same depository. The above statement is not required for non-Italian resident investors that are international bodies or entities set up in accordance with international agreements entered into force in Italy or Central Banks or entities also authorised to manage the official reserves of a State.

The First Level Bank is obliged to send the above statement to the Second Level Bank within 15 days from receipt, together with any necessary affidavit in the event that other intermediaries intervene between the Noteholder and the First Level Bank.

The Second Level Bank files the data relating to the non-resident Noteholder together with the data relating to the First Level Bank and of the transactions carried out, via telematic link, to the Italian Tax Authorities within the first transmission period after receipt of such data. Transmission periods are two-week periods per month during which the Second Level Bank transmits to the Italian Tax Authorities data relating to bond transactions carried out during the preceding month. The Italian Tax Authorities monitor and control such data and any discrepancies therein.

In the case of a failure to comply with the above exemption procedure *imposta sostitutiva* will apply on proceeds payable to non-resident Noteholders (increased by 1.5% for each month or fraction of a month of delay after the month in which payment of the *imposta sostitutiva* should have been made) pursuant to the ordinary rules applicable for the payment of the *imposta sostitutiva* by Italian resident investors.

For Noteholders who are non-resident in Italy, the Second Level Bank acts as the Intermediary responsible for assessing the applicability of the *imposta sostitutiva* and, consequently, for levying and paying it to the Italian Tax Authorities in accordance with the procedure described above.

#### *Early Redemption*

Without prejudice to the regime described above, if the Notes are subject to an early redemption within 18 months from the issue date, a tax is payable by the Issuer at the rate of 20% in respect of Interest accrued thereon up to the date of early redemption, pursuant to Article 26, 1st paragraph, of Presidential Decree No. 600 of 29th September 1973, as amended. According to one interpretation of Italian tax law, this 20% additional tax may also be due in the event of any purchase of Notes by the Issuer with subsequent cancellation thereof prior to eighteen months from the issue date.

### **Capital Gains**

#### *Italian Resident Noteholders*

In general, the capital gains tax (“CGT”) regime is applicable to capital gains realised on sale or transfer for consideration of the Notes or on redemption thereof by Italian resident individuals (not engaged in a business activity to which the Notes are effectively connected), regardless of whether such Notes are held outside of Italy.

For the purposes of determining the taxable capital gain, any Interest on the Notes accrued and unpaid up to the time of, respectively, the purchase and the sale of the Notes must be deducted both from the purchase price and the sale price.

Taxpayers can opt for one of the three following regimes in order to pay the CGT:

- (a) tax return regime (“*Regime della Dichiarazione*”): the Noteholder will have to assess the overall capital gains realised in a certain fiscal year, net of any incurred capital losses, in his annual income tax return and pay the CGT so assessed together with the income tax due for the same fiscal year. Losses exceeding gains can be carried forward in the following fiscal years up to the fourth. As such regime constitutes the ordinary regime, the taxpayer must apply it whenever he does not opt for any of the two other regimes;
- (b) non-discretionary investment portfolio regime (“*Risparmio Amministrato*”), the Noteholder may elect to pay the CGT separately on capital gains realised on each sale, transfer or redemption of the Notes. Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with banks, SIMs or other authorised intermediaries and (ii) an express election for the *Risparmio Amministrato* regime being made in writing by the relevant Noteholder. The *Risparmio Amministrato* regime lasts for the entire fiscal year and unless revoked prior to the end of such year will be deemed valid also for the subsequent one. The intermediary is responsible for accounting for the CGT in respect of capital gains realised on each sale, transfer or redemption of the Notes, as well as in respect of capital gains realised at the revocation of its mandate. The intermediary is required to pay the relevant amount to the Italian Tax Authorities by the 16th day of the second month following the month in which the CGT is applied, by deducting a corresponding amount from the proceeds to be credited to the Noteholder. Where a particular sale, transfer or redemption of the Notes results in a net loss, the intermediary is entitled to deduct such loss from gains subsequently realised on assets held by the Noteholder with the same intermediary and within the same deposit relationship, in the same fiscal year or in the following fiscal years up to the fourth. The Noteholder is not required to declare the gains in its annual income tax return; and
- (c) discretionary investment portfolio regime (“*Risparmio Gestito*”): if the Notes are part of a portfolio managed by an Italian asset management company, capital gains will not be subject to CGT, but will contribute to determine the annual net accrued result of the portfolio. The annual net accrued result of the portfolio, even if not realised, is subject to an ad hoc 12.5% substitutive tax, required to be applied on behalf of the Noteholder by the asset management company. Any losses of the investment portfolio accrued at year end may be carried forward

against net profits accrued in each of the following fiscal years, up to the fourth following fiscal year. Under this regime the Noteholder is not required to declare the gains in its annual income tax return.

The aforementioned regime does not apply to the following:

- A. Corporate investors (including banks and insurance companies): capital gains realised by Italian resident corporations or similar commercial entities (including a permanent establishment on Italy of a foreign entity to which the Notes are effectively connected) on the disposal or redemption of the Notes will form part of their aggregate income subject to IRES. In certain cases, capital gains may also be included in the taxable net value of production of Italian resident corporate entities (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected) for IRAP purposes. The capital gains are calculated as the difference between the sale price and the relevant tax basis of the Notes. Upon fulfilment of certain conditions, the gains may be taxed in equal instalments over up to five fiscal years both for IRES and for IRAP purposes.
- B. Funds – Capital gains realised by the Funds on the Notes will contribute to determine the annual net accrued result of same Funds, which is subject to a 12.5 or 5% substitutive tax (see paragraph (ii) in “Interest on the Notes – Italian Resident Noteholders” above).
- C. Pension Funds – Capital gains realised by Pension Funds on the Notes will contribute to determine the annual net accrued result of the Pension Funds, which is subject to an 11% substitutive tax (see paragraph (iii) in “Interest on the Notes – Italian Resident Noteholders” above).
- D. Real Estate Investment Funds – Capital gains realised by Italian Real Estate Investment Funds on the Notes are not taxable at the level of the Real Estate Investment Funds (see paragraph (iv) in “Interest on the Notes – Italian Resident Noteholders” above).

#### *Non-Italian Resident Noteholders*

Capital gains realised by non-resident Noteholders on the disposal of the Notes are not subject to tax in Italy, regardless of whether the Notes are held in Italy, subject to the condition that the Notes are listed on a regulated market (e.g. the Luxembourg Stock Exchange).

#### **Transfer Taxes**

##### *General*

Pursuant to Royal Decree No. 3278 of 30th December 1923, Legislative Decree No. 435 of 21st November 1997 and Ministerial Circular No. 106/E of 21st December 2001 the transfer of the Notes (either (a) by or between Italian residents or (b) by non-Italian residents) may be subject to the transfer tax regime described below (*tassa sui contratti di borsa*):

- (a) contracts entered into directly between private parties or with the participation of entities other than banks and persons who are authorised to perform investment services pursuant to Legislative Decree No. 415 of 23rd July 1996, as superseded by Legislative Decree No. 58 of 24th February 1998, or stockbrokers (the “Authorised Intermediaries”): €0.0083 for every €51.65, or part of €51.65, of the price of the Notes;
- (b) contracts between private parties, with the participation of Authorised Intermediaries, or between private parties and Authorised Intermediaries: €0.00465 for every €51.65, or part of €51.65, of the price of the Notes; or
- (c) contracts between Authorised Intermediaries: €0.00465 for every €51.65, or part of €51.65, of the price of the Notes.

Further, in the cases under (b) and (c) above, the amount of transfer tax payable cannot exceed €929.62 for each transaction or repurchase agreement.

##### *Exemptions*

The transfer tax is not levied in the following cases:

- (i) contracts entered into on regulated markets (e.g. the Luxembourg Stock Exchange);
- (ii) contracts relating to securities which are admitted to listing in the regulated markets and finalised outside such markets and entered into:
  - between Authorised Intermediaries;

- between Authorised Intermediaries and non-residents;
  - between Authorised Intermediaries, also non-resident, and undertakings for collective investments in transferable securities;
- (iii) contracts relating to public offers for the admission to listing in regulated markets or relating to securities already admitted to listing on such markets;
- (iv) contracts having a consideration not higher than €206.58;
- (v) securities lending transactions and any contracts having the same economic purpose.

### ***Inheritance and Gift Tax***

Inheritance and gift tax has been repealed. Transfers by reason of gift to persons other than the spouse, siblings or relatives within the 4th degree will be subject to transfer taxes ordinarily applicable for transfers for consideration, provided that the value of the gift received by each person exceeds €180,759.91 and limited to the excess thereof. In this respect, the Italian Tax Authorities have expressed the view that the stamp duty tax mentioned above cannot be considered as a “transfer tax ordinarily applicable” to transfers for consideration.

### ***Tax Monitoring***

Pursuant to Law Decree No. 167 of 28th June 1990, converted by Law No. 227 of 4th August 1990, as amended (“Decree 167”), individuals resident in Italy who, at the end of the fiscal year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transfers to, from and occurred abroad, to the Italian Tax Authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time as prescribed for the income tax return). This obligation does not exist if: (i) each of the overall value of the foreign investments or financial activities held at the end of the fiscal year, and the overall value of the related transfers to, from and occurred abroad carried out during the relevant fiscal year, does not exceed €12,500; or (ii) the financial assets are given in administration or management to Italian banks, SIMs, fiduciary companies or other professional intermediaries, indicated in Article 1 of Decree 167, or if one of such intermediaries intervenes, also as a counterpart, in their transfer, provided that income deriving from such financial assets is collected through the intervention of such an intermediary.

### ***EU Savings Directive***

On 3rd June 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income (Directive 2003/48/EC) under which Member States will be required, if a number of important conditions are met and from a date not earlier than 1st July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the Directive in their particular circumstances.

## Subscription and Sale

Goldman Sachs International, HSBC Bank plc and UBS Limited (the “Joint Lead Managers”) have, pursuant to a Subscription Agreement dated 16th July 2004, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 99.636% of their principal amount. The Issuer has agreed to pay to the Joint Lead Managers a combined management, underwriting and selling commission of 0.25% of such principal amount. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

- (i) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### The Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per la Societa' e la Borsa* (“CONSOB”) (the Italian securities exchange commission) pursuant to the Italian securities legislation and, accordingly, each of the Joint Lead Managers has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell, any Note or distribute copies of this Offering Circular or of any other document relating to the Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall only be negotiated on an individual basis: (i) with professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation no. 11522 of 1st July 1998, as

amended and effected, in compliance with the terms and procedures provided therein; or (ii) in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree no. 58 of 24th February 1998, as amended (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation no. 11971 of 14th May 1999, as amended (the “Regulation no. 11971”); and shall in any event be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Accordingly, each of the Joint Lead Managers has represented and agreed that the Notes may not be offered, sold or delivered and neither this Offering Circular nor any other material relating to the Notes may be distributed or made available in the Republic of Italy unless such offer, sale or delivery of Notes or distribution or availability of copies of this Offering Circular or any other material relating to the Notes in the Republic of Italy is:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree no. 385 of 1st September 1993 (the “Italian Banking Act”), Regulation no. 11971 and any other applicable laws and regulations; and
- (b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, pursuant to which the issue or offer of securities (e.g. Notes) in the Republic of Italy may need to be preceded and/or followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the issue and the characteristics of the securities issued or offered in the Republic of Italy.

### **The Netherlands**

Each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes other than to natural persons and/or legal entities which trade or invest in securities in the course of their profession or business in accordance with article 2 of the Exemption Regulation to the Act on the Supervision of Securities Trade 1995 (*Vrijstellingsregeling Wet toezicht effectenverkeer 1995*) (which includes banks, stockbrokers, insurance companies, investment undertakings, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

### **General**

No action has been or will be taken by the Issuer or any of the Joint Lead Managers that would permit a public offering of the Notes or possession or distribution of this Offering Circular or other offering material relating to the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will observe all applicable laws and regulations in each jurisdiction in or from which it may offer or sell Notes or have in its possession or distribute this Offering Circular or other offering material relating to the Notes and any offer, sale, delivery or distribution of the Notes, this Offering Circular or other offering material relating to the Notes by it will be made on the terms set out above.

## General Information

- 1 The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 019671208. The International Securities Identification Number for the Notes is XS0196712086.
- 2 In connection with the application to list the Notes on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Notes and copies of the constitutional documents of the Issuer will be deposited prior to the listing of the Notes with the Register of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*) where such documents may be examined and copies obtained.
- 3 The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Italy in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors of the Issuer passed on 11th June 2004.
- 4 Except as disclosed in this document, there has been no material adverse change in the financial position or prospects of the Issuer or of the Group since 31st December 2003.
- 5 Except as disclosed in this document, neither the Issuer nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor so far as the Issuer is aware is any such litigation or arbitration pending or threatened.
- 6 The Notes and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- 7 Copies of the latest annual audited consolidated and non-consolidated financial statements of the Issuer and the latest interim unaudited consolidated and non-consolidated financial statements (currently prepared on a semi-annual basis) of the Issuer may be obtained, and copies of the Fiscal Agency Agreement will be available for inspection, free of charge at the specified office of the Paying Agent in Luxembourg during normal business hours, so long as any of the Notes is outstanding.
- 8 The auditors of the Issuer are Deloitte & Touche S.p.A. of Via della Camilluccia, 589/A, 00135 Rome, Italy who have audited the consolidated and non-consolidated financial statements of the Issuer for the year ended 31st December 2003. The auditors of the Issuer for the year ended 31st December 2002 were Deloitte & Touche Italia S.p.A. of Via della Camilluccia, 589/A, 00135 Rome, Italy. The auditors of the Issuer for the year ended 31st December 2001 were Arthur Andersen S.p.A. of Via Campania 47, 00187 Rome, Italy. Arthur Andersen S.p.A. changed its business name to Deloitte & Touche Italia S.p.A. on 31st October 2002 and the audit business of Deloitte & Touche Italia S.p.A. was transferred to Deloitte & Touche S.p.A. on 31st July 2003.



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