Prospectus

ACEA S.p.A.
(*incorporated with limited liability under the laws of the Republic of Italy*)

€500,000,000
4.50 per cent. Notes due 16 March 2020

The issue price of the €500,000,000 4.50 per cent. Notes due 16 March 2020 (the "**Notes**") of Acea S.p.A. (the "**Issuer**") is 99.779 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 March 2020. The Issuer may, at its option, redeem all, but not some only, of the Notes on 17 September 2011 or any date thereafter at an amount equal to their principal amount plus (if applicable) a premium, together with any accrued interest, as described under "Terms and Conditions of the Notes – Redemption at the option of the Issuer". Also, the Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Italy as described under "Terms and Conditions of the Notes —Redemption for taxation reasons".

The Notes will bear interest from 16 March 2010 at the rate of 4.50 per cent. per annum payable annually in arrear on 16 March each year commencing on 16 March 2011. Payments on the Notes will be made in Euros without deduction for or on account of taxes imposed or levied by the Republic of Italy to the extent described under "Terms and Conditions of the Notes — Taxation".

An investment in the Notes involves certain risks. For a discussion of these risks, see "Risk Factors" beginning on page 4.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), in its capacity as competent authority in Luxembourg, for the approval of this Prospectus as a prospectus issued in compliance with the Prospectus Directive 2003/71/EC. Application has been made for the Notes to be listed on the Official List and admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

This Prospectus (together with the documents incorporated by reference herein) is available on the Luxembourg Stock Exchange's website (*www.bourse.lu*).

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Lead Managers (as defined herein) in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes are expected on issue to be assigned a rating of A- by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc and A+ by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will be in bearer form and in the denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), which will be deposited on or around 16 March 2010 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**") not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000. See "Summary of Provisions Relating to the Notes in Global Form".

Joint Lead Managers and Bookrunners

BANCA IMI **BNP PARIBAS** **MEDIOBANCA – Banca di Credito Finanziario S.p.A.**

MPS Capital Services **UniCredit Bank**

12 March 2010

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IMPORTANT NOTICES

The Issuer accepts full responsibility for the information contained in this Prospectus and declares that, to the best of its knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to Banca IMI S.p.A., BNP Paribas, Mediobanca – Banca di Credito Finanziario S.p.A., MPS Capital Services Banca per le Imprese S.p.A. and UniCredit Bank AG (together, the "**Joint Lead Managers**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any fact necessary to make such information contained herein (in such context) not misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the foregoing.

This Prospectus should be read in conjunction with all information which is incorporated by reference in and forms part of this Prospectus (see "Information Incorporated by Reference").

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that the information contained herein concerning the Issuer or the Issuer together with its consolidated subsidiaries (the "**Group**" or the "**ACEA Group**") is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same, or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Group since the date of this Prospectus.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer or the Group. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Neither the Issuer nor the Joint Lead Managers represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor do they assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "Subscription and Sale". In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

In this Prospectus, unless otherwise specified: references to a "**Member State** are references to a Member State of the European Economic Area; references to "**€**", "**EUR**" or "**Euro**" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; and references to "**billions**" are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables, including percentages, may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, BNP Paribas (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Prospectus:

(1) the Issuer's 2008 and 2007 Annual Reports; and

(2) the Issuer's unaudited Quarterly Reports as at 30 September 2009 and 2008,

in each case together with the accompanying notes and, where applicable, report of the Issuer's external auditors.

Any information not listed in the cross-reference list but included in the documents incorporated by reference is given for information purposes only.

The Issuer will provide, without charge to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all the documents deemed to be incorporated by reference herein. Requests for such documents should be directed to the Issuer at its offices set out at the end of this Prospectus. In addition such documents will be available, without charge, at the specified office of the Listing Agent in Luxembourg and on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Cross-reference list

The following table shows where the information incorporated by reference in this Prospectus can be found in the above-mentioned documents.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including, without limitation, any documents incorporated by reference herein) and reach their own views prior to making any investment decision, based upon their own judgement and upon advice from such financial, legal and tax advisers as they have deemed necessary.

Words and expressions defined in "Terms and Conditions of the Notes", or elsewhere in this Prospectus have the same meaning in this section. Prospective investors should read the entire Prospectus.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES

Risks relating to the industries in which the ACEA Group operates

The evolution in the legislative and regulatory context for the electricity, waste and water sectors poses a risk to the ACEA Group

Changes in applicable legislation and regulation, whether at a national or European level, and the manner in which they are interpreted, could impact the ACEA Group's earnings and operations positively or negatively, both through the effect on current operations and also through the impact on the cost and revenue-earning capabilities of current and future planned developments in the business. Such changes could include changes in tax rates, changes in environmental or safety or other workplace laws, or changes in regulation of cross border transactions. Public policies related to water, waste, energy, energy efficiency and/or air emissions, may impact the overall market, particularly the governmental sectors. The ACEA Group operates its business in a political, legal, and social environment which is expected to continue to have a material impact on the performance of the ACEA Group. Any new or substantially altered rules and standards may adversely affect the ACEA Group's revenues, profits and general financial condition and therefore have a consequent adverse impact on the market value of the Notes and/or on the Issuer's ability to pay interests on the Notes or to repay the Notes in full at their maturity.

Art. 23 bis of Law Decree No. 112 of 25 June 2008, as amended by Art. 15 of Law Decree No. 135 of 25 September 2009 (converted in Law No. 166 of 20 November 2009) ("**Art. 23 bis**") applies, inter alios, to companies ("**Art. 23 bis Companies**") listed on the Stock Exchange before 1 October 2003 (such as the Issuer) and their subsidiaries pursuant to Art. 2359 of the Italian Civil Code. Art. 23 bis provides that any contract for the award of local public services granted to Art. 23 bis Companies by local authorities before the date of 1 October 2003 without calling a public tendering procedure, shall be terminated on 30 June 2013 or 31 December 2015 if at such dates public entities that are shareholders in Art. 23 bis Companies have not reduced their shareholding (through competitive procedures or placement of their shares to authorised investors and industrial operator) to a percentage lower than 40 per cent. by 30 June 2013 and 30 per cent. by 31 December 2015.

At the date of this Prospectus the Municipality of Rome holds 51 per cent. of the Issuer's share capital. As a result of the above mentioned law, in the event the Municipality of Rome does not reduce its stake in the Issuer to below the relevant thresholds within the relevant time periods indicated above, the concession of the integrated water service directly awarded to Acea Ato 2 S.p.A. on 1 January 2003 (currently set to expire on 31 December 2032) and the public lighting concession awarded to Acea S.p.A. on the basis of a 30 year concession agreement expiring in 2028 (the economic terms of which were settled with Municipal Resolution No. 29/2007, currently set to expire on 31 December 2015) could be terminated with a potential consequent negative impact on the Issuer's market position in the relevant sectors. See below "*The ACEA Group is dependent on concessions from local authorities for its regulated activities*".

The ACEA Group is dependent on concessions from local authorities for its regulated activities

For the financial year ended 31 December 2008, the ACEA Group's regulated activities accounted for approximately 84 per cent. of the ACEA Group's EBITDA. These regulated activities (integrated water cycle, distribution of electricity, waste management services and public lighting) are dependent on concessions from local authorities that vary in duration across the ACEA Group's business areas.

Legislation in Italy could affect the expiry date of certain concessions. See above "*The evolution in the legislative and regulatory context for the electricity, waste and water sectors poses a risk to the Issuer.*"

No assurances can be given that the ACEA Group will enter into new contracts to permit it to engage in the businesses described above after the related contracts expire, or that any new contract entered into or renewals of existing contracts will be on terms similar to those of its current contracts. The ACEA Group's failure to enter into new contracts or renew existing contracts, in each case on similar or otherwise favourable terms, could have an adverse impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The Issuer's ability to achieve its strategic objectives could be impaired if it is unable to maintain or obtain the required licences, permits, approvals and consents

In order to carry out and expand its business, the Issuer needs to maintain or obtain a variety of licences, permits, approvals and consents from regulatory, legal, administrative, tax and other authorities and agencies. The processes for obtaining these licences, permits, approvals and consents are often lengthy, complex, unpredictable and costly. If the Issuer is unable to maintain or obtain the relevant permits and approvals, its ability to achieve its strategic objectives could be impaired, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group is exposed to revisions of tariffs in water and energy sectors

The ACEA Group operates, inter alia, in water and energy sectors and is exposed to a risk of variation of the tariffs applied to the end users.

In the water sector the tariffs payable by customers, as determined and adjusted by the competent district authorities within each district, may be subject to variations as a consequence of periodic revisions resulting from investigations by the water district authorities, concerning, inter alia, efficiency improvements and the actual realisation of planned investments by the companies managing the integrated water service. Such variations are submitted to a ministerial body in charge of the supervision of tariffs determined and adjusted by each district authority (CO.VI.RI).

In addition, the tariff payable by the customers in the energy sector (distribution, transmission and metering) may be subject to certain variations since the components of the tariff are adjusted by Authority for Electric Energy and Gas with reference to four-year regulatory periods.

Should any such changes result in decreases of the tariffs, it could have an impact on the business of ACEA, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The Issuer may incur costs in re-tendering for large hydroelectric concessions

The 2006 Italian Budget Law provided for a 10-year extension of all large water concessions, including those granted to the ACEA Group in relation to certain of its hydro-electric installations, in exchange for adequate investments in the modernisation of the installations. On 14 January 2008, by decision No. 1/2008, the Italian Constitutional Court ruled that the extension of concessions was unconstitutional. As a consequence, paragraphs 6, 7 and 8 of Art. 12 of Legislative Decree No. 79 of 16 March 1999, which previously governed the renewal of concessions should be considered once again in force. As a result, the large water concessions granted to ACEA Group expiring on or before 31 December 2010 are extended to such date. After 31 December 2010 such concessions should in principle be re-awarded by competitive tendering procedures, unless they are renewed until the same expiry date of the drinking water concessions due to expire after 31 December 2010, with which the large water concessions are linked to.

Should the ACEA Group be required to re-tender for large water concessions, this could result in the ACEA Group losing the water concessions, or incurring significant costs in the tender process, either of which could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

Events, service interruptions, systems failures, water shortages or contamination of water supplies could adversely affect profitability

The ACEA Group controls and operates utility networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, electricity, gas or water shortages, or the failure of an asset, an element of a network or supporting plant and equipment, could result in the interruption of service provision or catastrophic damage resulting in significant loss of life and/or environmental damage and/or economic and social disruption. Water shortages may be caused by below average rainfall, increases in demand or by environmental factors, such as climate change, which may exacerbate seasonal fluctuations in supply availability. In the event of a shortage, the ACEA Group may incur additional costs in order to provide emergency reinforcement to supplies.

Water supplies may be subject to interruption or contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made sources or third parties' actions. The ACEA Group could be held liable for human exposure to hazardous substances in its water supplies or other environmental damages. The ACEA Group could be fined for breaches of statutory obligations, including the obligation to supply drinking water that is wholesome at the point of supply, or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs.

Such events may have an adverse effect on the ACEA Group's reputation, operating results and financial position and could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group is vulnerable to natural disasters and other disruptive events

Significant damage or other impediments to the waterworks facilities, including multipurpose dams and the water supply systems, managed by the Issuer's water subsidiaries as a result of:

- natural disasters, floods and prolonged droughts;
- human-errors in operating the waterworks facilities, including multi-purpose dams and water supply systems; and
- industrial strike,

could materially harm the ACEA Group's business, financial condition and results of operations and could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group maintains insurance against some, but not all, of these events but no assurance can be given that its insurance will be adequate to cover any direct or indirect losses or liabilities it may suffer.

The Issuer is exposed to operational risks through its ownership and management of power stations, waste management and distribution networks and plants

The main operational risk to which the Issuer is exposed is linked to the ownership and management of power stations, waste management assets and distribution networks and plants. These plants and networks are exposed to risks that can cause significant damage to the assets themselves and, in more serious cases, production capacity may be compromised. These risks include extreme weather phenomena, natural disasters, fire, terrorist attacks, mechanical breakdown of or damage to equipment or processes, accidents and labour disputes. In particular, ACEA Group's distribution networks are exposed to malfunctioning and service interruption risks which are beyond its control and may result in increased costs. The Issuer's insurance coverage may prove insufficient to fully compensate for such losses.

The Issuer believes that its systems of prevention and protection within each operating area, which act according to the frequency and gravity of the particular events, its ongoing maintenance plans, the availability of strategic spare parts and its use of tools for transferring risk to the insurance market enable the ACEA Group to mitigate the economic consequences of potentially adverse events that might be suffered by any of its owned or managed plants or networks. However, there can be no guarantee that maintenance and spare part costs will not rise, that insurance products will continue to be available on reasonable terms or that any one event or series of events affecting any one or more plants or networks will not have an adverse impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group has exposure to credit risk arising from its commercial activity

A central ACEA Group credit policy regulates the assessment of customers' and other financial counterparties' credit standing, the monitoring of expected collection flows, the issue of suitable reminders, the granting of extended credit terms if necessary, the taking of prime bank or insurance guarantees and the implementation of suitable recovery measures. Standard default interest is charged on late payments. Notwithstanding the foregoing, a single default by a major financial counterparty, or a significant increase in current default rates by counterparties generally, could have an adverse effect on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group's operations are subject to extensive environmental laws, rules and regulations which regulate, among other things, air emissions, water discharges and the management of hazardous and solid waste

Compliance with environmental laws, rules and regulations requires the ACEA Group to incur significant costs relating to environmental monitoring, installation of pollution control equipment, emission fees, maintenance and upgrading of facilities, remediation and permitting. The costs of compliance with existing environmental legal requirements or those not yet adopted may increase in the future. Any increase in such costs could have an adverse impact on the ACEA Group's business and results of operations, financial position and cash flows, with a consequent adverse impact on the market value of the Notes and/or on the Issuer's ability to environmental laws, rules and regulations repay the Notes in full at their maturity.

The ACEA Group may incur significant environmental expenses and liabilities

Risks of environmental and health and safety accidents and liabilities are inherent in many of the ACEA Group's operations. Notwithstanding the Issuer's belief that the operational policies and standards adopted and implemented throughout the ACEA Group to ensure the safety of its operations are of a high standard, it is always possible that incidents such as blow-outs, spillover, contaminations and similar events could occur that would result in damage to the environment, workers and/or local communities.

The ACEA Group has accrued risk provisions aimed at coping with existing environmental expenses and liabilities. Notwithstanding this, it is possible that in the future the ACEA Group may incur significant environmental expenses and liabilities in addition to the amounts already accrued owing to: (i) unknown contamination; (ii) the results of on-going surveys or surveys that will be carried out in future on the environmental status of certain of the ACEA Group's industrial sites as required by the applicable regulations on contaminated sites and (iii) the possibility that disputes might be brought against the ACEA Group in relation to such matters.

Any such increase in costs could have an adverse effect on the ACEA Group's business and results of operations, financial position and cash flows, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group faces increasing competition in the energy market

The energy markets in which the Issuer operates are subject to increasing competition in Italy. In particular, the Issuer encounters competition in its electricity business, in which it competes with other producers and traders from both Italy and outside of Italy who sell electricity in the Italian market to industrial, commercial and residential clients.

An increase in the competition could have an impact on the prices paid / achieved in the Issuer's electricity production and trading activities, which in turn could have an adverse effect on the ACEA Group's business and results of operations, financial position and cash flows, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

There can be no assurances of the success of any of the ACEA Group's future attempts to acquire additional businesses or of the ACEA Group's ability to integrate any businesses acquired in the future

The Issuer's business strategy involves acquisitions and investments in its core businesses. The success of this strategy depends in part on its ability to successfully identify and acquire, on acceptable terms, suitable companies and other assets and, once acquired, on the successful integration of them into the ACEA Group's operations, as well as its ability to identify suitable strategic partners and conclude suitable terms with them. An

inability to implement such strategy or a failure in any particular implementation of the same could have an adverse impact on the ACEA Group's business, financial position and results of operations and consequently on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or repay the Notes in full at their maturity.

Further risks relating to the Issuer and/or the ACEA Group

The ACEA Group's business may be adversely affected by the current disruption in the global credit markets and associated impacts

Since the second half of 2007, disruption in the global credit markets, coupled with the repricing of credit risk, has created increasingly difficult conditions in the financial markets. Financial markets are subject to periods of historic volatility which may impact the Issuer's ability to fund its business in a similar manner, and at a similar cost, to the funding raised in the past. Challenging market conditions have resulted in greater volatility and also in reduced liquidity, widening of credit spreads and lack of price transparency in credit markets. Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, may affect the financial performance of the ACEA Group. In addition, the financial performance of the ACEA Group could be adversely affected by a worsening of general economic conditions in the markets in which it operates.

Any such effect on the ACEA Group's financial performance could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The changes to the overall economic situation caused by the economic crisis could have a significant adverse effect on the ACEA Group's businesses and their profitability

The economy in Italy, the ACEA Group's principal market, has been affected in recent years by a significant slowdown and also by significant increases in energy prices, resulting in an increased focus on energy saving , as well as increased focus in terms of legislative and regulatory policies. On a countrywide level, for example, the first nine months of 2009 saw the first reduction in demand for electric power and also for waste services in Italy since 1981. If any such slowing or reversal were to continue without corresponding adjustments in the margins charged by the Issuer and its relevant subsidiaries for its sales or without increase in the ACEA Group's market share, then the ACEA Group's revenues would be reduced and future growth prospects would be limited. This could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The Issuer is dependent on its subsidiaries to cover its operating expenses and dividend payments

The Issuer's business is conducted through direct and indirect subsidiaries. As a holding company, one of the Issuer's sources of funds are dividends from subsidiaries.

The Issuer expects that dividends received from subsidiaries and other sources of funding available to the Issuer will continue to cover its operating expenses, including (i) interest payments on its outstanding financing arrangements and (ii) dividend payments with respect to its outstanding shares. Generally, however, creditors of a subsidiary, including trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by the subsidiary will be entitled to the assets of that subsidiary before any of those assets can be distributed to shareholders upon liquidation or winding up. As a result, the Issuer's obligations in respect of the Notes will effectively be subordinated to the prior payment of all the debts and other liabilities of the Issuer's direct and indirect subsidiaries, including the rights of trade creditors and contingent liabilities, all of which could be substantial.

Any reduction or delay of dividends received from its subsidiaries could have an adverse effect on the ACEA Group's business and results of operations, financial position and cash flows, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The ACEA Group is subject to interest rate risk arising on its financial indebtedness

The ACEA Group is subject to interest rate risk arising on its financial indebtedness, which varies depending on whether such indebtedness is fixed or floating rate. There can be no guarantee that the hedging policy adopted by the ACEA Group, which is designed to minimise any losses connected to fluctuations in interest rates in the case of floating rate indebtedness by transforming them into fixed rate indebtedness, will actually have the effect of reducing any such losses. To the extent it does not, this may have an adverse effect on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

A downgrade of the Issuer credit ratings may impact its funding ability

The Issuer's current long-term credit rating is "A" with a "stable outlook" from Standard & Poor's and A with a "negative outlook" from Fitch Ratings Ltd. A downgrade of any the ratings of the Issuer may result in higher funding and refinancing costs for the ACEA Group in the capital markets, which in turn may have an adverse effect on the ACEA Group's competitive position, and may have a negative effect on the ACEA Group's standing in the market. This could have a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

Risks relating to the current discussions between ACEA and GdF Suez Group with respect to the ACEA/Electrabel JV

At a meeting held on 17 February 2010, to consider *inter alia* the status of the discussions between ACEA and the GdF Suez Group relating to certain aspects of the ACEA/Electrabel JV, the board of directors of ACEA authorised the Chairman and the Chief Executive Officer to commence arbitration proceedings pursuant to the ACEA/Electrabel JV arrangements for breach by GdF Suez Group ("**GDFS**") of the exclusivity and non-competition undertakings with respect to the production and sale of electricity and gas in Italy.

It is too early to determine when such proceedings will commence, and it is currently not possible to predict their final outcome. In particular, without limitation, such proceedings could result in the award of damages to ACEA for breach of the JV arrangement by GDFS. However, at the date of this Prospectus, it is impossible to estimate the amount such award.

Moreover, it cannot be excluded that ACEA and GDFS may reach a settlement solution of their dispute (whether prior to or after the commencement of the arbitration proceedings) or decide to terminate the ACEA/Electrabel JV.

Although it is currently not possible to predict the impact of any settlement or early termination on the ACEA/Electrabel JV, in such circumstances the direct and/or indirect participation of ACEA in the companies that are part of the ACEA/Electrabel JV, as well as their corporate governance and the related rights and obligations of ACEA, may vary from the position at the date of this Prospectus.

As a consequence thereof, the operations and profile of the ACEA Group could vary from those described in this Prospectus and, depending on the final terms of the settlement or termination of the ACEA/Electrabel JV, ACEA could in principle assume direct ownership and/or responsibility of one or more of the business areas currently jointly run by the ACEA/Electrabel JV (i.e. electricity generation, trading and sale) and lose direct ownership and/or responsibility of one or more of such business areas. For further information of the ACEA/Electrabel JV see "*Description of the Issuer – History*". In relation to the risks relating to the direct ownership and/or responsibility in these business areas see "*There can be no assurances of the success of any of the ACEA Group's future attempts to acquire additional businesses or of the ACEA Group's ability to integrate any businesses acquired in the future*".

Risks related to legal proceedings

The Issuer and the entities of the ACEA Group are party to a number of proceedings arising in the ordinary course of business. In addition to provisions in its accounts in relation to ongoing proceedings, it is possible that in future years the Issuer and the entities of the ACEA Group may incur significant losses in connection with pending legal proceedings due to: (i) uncertainty regarding the final outcome of such proceedings; (ii) the occurrence of new developments that were not known to management when evaluating the likely outcome of proceedings; (iii) the emergence of new evidence and information; and (iv) underestimation of probable future losses. In particular, in relation to (a) the Processo Verbale di Constatazione (PVC) issued in February 2009 by the Italian Tax Authority in relation to Acea Distribuzione (see "*Description of the Issuer – Litigation – ACEA - Sale of 50% of Acea Distribuzione*), (b) the Processo Verbale di Constatazione (PVC) issued in September 2009 by the Italian Tax Authority in relation to the general fiscal inspection of AE Elettricità (see "*Description of the Issuer – Litigation – Aceaelectrabel Elettricità fiscal inspection*") and (c) the ACEA ATO 5 current litigations in relation to the CO.VI.RI. resolution No. 7/2008 (see "*Description of the Issuer – Litigation – ACEA ATO 5 - Measures concerning the alleged illegitimacy of the tariffs*") ACEA has an aggregate potential exposure up to approximately Euro 132,000,000. In this respect ACEA may be required to make in its year end financial statements as at 31 December 2009 a further provision for litigation up to this aggregate amount. Irrespective to the above, there is uncertainty if such provision for litigation would be sufficient to cover the actual exposure that may derive to ACEA in relation to the litigation referred under (a), (b) and (c) above.

Adverse outcomes in existing or future litigation could have adverse effects on the financial position and results of operations of the ACEA Group and consequently an adverse impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity. For further information on the principal legal proceedings that the ACEA Group is currently involved in, see "*Description of the Issuer — Litigation*".

Risk management policies, procedures and methods may leave the ACEA Group exposed to unidentified or unanticipated risks

The ACEA Group has devoted significant resources to developing policies, procedures and assessment methods to manage market, credit, liquidity and operating risk and intends to continue to do so in the future. Nonetheless, the ACEA Group's risk management techniques and strategies may not be fully effective in mitigating its risk exposure in all market environments or against all types of risks, including risks that ACEA Group fails to identify or anticipate.

Any failure to adequately identify or anticipate risk could have an adverse effect on the ACEA Group's business and results of operations, financial position and cash flows, with a consequent negative impact on the market value of the Notes and/or on the Issuer's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

The Issuer's historical consolidated financial and operating results may not be indicative of future performance

The Issuer's historical consolidated financial and operational performance may not be indicative of the Issuer's future operating and financial performance. There can be no assurance of the Issuer's continued profitability in future periods.

The Issuer's restated consolidated financial information provided in this Prospectus may not be representative of actual results of operations or financial condition

The unaudited restated consolidated financial information of the Issuer as at and for the year ended 31 December 2007 (the "**2007 Annual Restated Financial Information**") and for the nine months ended 30 September 2008 (the "**2008 Interim Restated Financial Information**", and together with the 2007 Annual Restated Financial Information, the "**Restated Financial Information**") set forth in the section entitled ‘‘Summary Financial Information of the Issuer’’ below has been inserted for information purposes only. The Restated Financial Information principally results from the fact that ACEA discovered an error in the method of accounting for differentials arising from the purchase of electricity underlying the CIP6 contract that AceaElectrabel Elettricità and the Energy Services Operator (ESO) enter into each year. As a consequence, the Restated Financial Information for such periods should be read and interpreted separately and independently from the audited consolidated financial statements as at and for the year ended 31 December 2007 and the unaudited consolidated financial statements as at and for the nine months ended 30 September 2008, respectively. For further information in relation to the reasons which led ACEA to restate the 2007 Annual Restated Financial Information, see sections "Disclosure pursuant to IAS 8" and "Disclosure pursuant to IAS 1" on page 292 of the Issuer's financial statements as at and for the year ended 31 December 2008, incorporated by reference herein.

The purpose of the Restated Financial Information in this Prospectus is to present the financial position, results of operations and certain other selected information as at and for the year ended 31 December 2007 and for the nine months ended 30 September 2008 as if the differentials arising from the purchase of electricity underlying the CIP6 contract that AceaElectrabel Elettricità and the Energy Services Operator (ESO) enter into each year, had been correctly accounted in the original financial statements. Because the Restated Financial Information is based on assumptions, it does not purport to represent what the Group's financial condition and results of operations would actually have been if such change in method of accounting had actually occurred on an earlier date, or to indicate what the Group's results of operations will be for any future period.

The preparation of the restated financial information has been conducted by ACEA in accordance with IAS 8 and IAS 1. However, the Restated Financial Information has been prepared by the Issuer and has not been separately audited or reviewed by independent auditors. Reconta Ernst & Young S.p.A. have examined the methods adopted to restate the 2007 Annual Restated Financial Information only for the purpose of their audit opinion in relation to the Issuer's financial statements as at and for the year ended 31 December 2008, incorporated by reference herein. Investors are cautioned against placing undue reliance on the Restated Financial Information.

RISKS RELATING TO THE NOTES

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "Market Interest Rate"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes may be redeemed prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction of Italian taxation, the Issuer may redeem all outstanding Notes in accordance with the Conditions as described under "Terms and Conditions of the Notes – Redemption for taxation reasons". In addition, the Issuer may redeem all, but not some only, of the Notes on an Optional Redemption Date (as described under "Terms and Conditions of the Notes – Redemption at the option of the Issuer"). If the Issuer calls and redeems the Notes in the circumstances mentioned above, Noteholders may deem the repayment of the principal amount and the payment of any accrued interest thereon (and, in the case of repayment at the option of the Issuer pursuant to Condition 5(c), any premium) unsatisfactory and, furthermore, the Noteholders may not be able to reinvest the redemption proceeds in securities offering a comparable yield.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes and, as a result, the Notes will be represented by Global Notes. These will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, which will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

The Notes do not restrict the amount of debt which the Issuer may incur

The terms and conditions relating to the Notes do not contain any restriction on the amount of indebtedness which the Issuer and its Subsidiaries may from time to time incur. In the event of any insolvency or winding-up of the Issuer, the Notes will rank equally with the Issuer's other unsecured senior indebtedness and, accordingly, any increase in the amount of the Issuer's unsecured senior indebtedness in the future may reduce the amount recoverable by Noteholders. In addition, the Notes are unsecured and, save as provided in Condition 3 (*Negative Pledge*), do not contain any restriction on the giving of security by the Issuer and its Subsidiaries over present and future indebtedness. Where security has been granted over assets of the Issuer to secure indebtedness, in the event of any insolvency or winding-up of the Issuer, such indebtedness will, in respect of such assets, rank in priority over the Notes and other unsecured indebtedness of the Issuer.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €50,000 that are not integral multiples of €50,000. In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €50,000 may be illiquid and difficult to trade.

Payments in respect of the Notes may in certain circumstances be made subject to withholding or deduction of tax

All payments in respect of Notes will be made free and clear of withholding or deduction of Italian taxation, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of the Notes had no such withholding or deduction been required. The Issuer's obligation to gross up is, however, subject to a number of exceptions, including withholding or deduction of:

(a) Italian substitutive tax (*imposta sostitutiva*), pursuant to Italian Legislative Decree No. 239 of 1 April 1996; and

(b) withholding tax operated in certain EU Member States pursuant to EC Council Directive 2003/48/EC and similar measures agreed with the European Union by certain non-EU countries and territories,

a brief description of which is set out below.

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws of any country or territory. See also "Taxation".

Italian substitutive tax

Italian substitutive tax is applied to payments of interest and other proceeds (including the difference between the redemption amount and the issue price) at a rate of 12.5 per cent. to (i) certain Italian resident Noteholders and (ii) non-Italian resident Noteholders who have not filed in due time with the relevant depository a declaration (*autocertificazione*) stating, *inter alia*, that he or she is resident for tax purposes in a country which allows for an adequate exchange of information with the Italian tax authorities (See also "**Taxation**").

Credit Rating

The Notes are expected on issue to be assigned a rating of A- by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc and A+ by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States, including Belgium from 1 January 2010, are required to provide the tax authorities of another Member State with details of payments of interest (or similar proceeds) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead 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). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus, save that provisions relating to the meetings of Noteholders and the appointment of the Noteholders' Representative are subject to compliance with mandatory provisions of Italian law. No assurance can be given as to the impact of any possible judicial decision or change to English law and/or Italian law (where applicable) or administrative practice after the date of this Prospectus.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Risks related to the market generally

Set out below is a brief description of the principal market risks.

The secondary market generally

The Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid and, consequently, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

The market value of the Notes may also be significantly affected by factors such as variations in the Group's annual and interim results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the Group.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to Notes in definitive form to the extent described in the next section of this Prospectus entitled "Summary of Provisions relating to the Notes in Global Form".

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 issue of the €500,000,000 4.50 per cent. Notes due 2020 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) was authorised by resolutions of the board of directors of ACEA S.p.A. (the "**Issuer**") passed at meetings held on 17 February 2010 and 9 March 2010. A fiscal agency agreement dated 16 March 2010 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Notes between the Issuer, BNP Paribas Securities Services, Luxembourg Branch 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 coupons relating to the Notes (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 the Notes) (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 5 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 denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000 with Coupons attached on issue. Notes of one denomination will not be exchangeable with Notes of another denomination.

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

3. NEGATIVE PLEDGE

So long as any Note 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 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, 16 March 2010 (the "**Issue Date**") at the rate of 4.50 per cent. per annum (the "**Interest Rate**") payable annually in arrear on 16 March in each year (each an "**Interest Payment Date**") subject as provided in Condition 6 (*Payments*).

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 any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be €45 per Calculation Amount. Where interest is to be paid in respect of a Note on any other date, it shall be calculated by applying the Interest Rate to the Calculation Amount, multiplying the product by the Day Count Fraction and

rounding the resulting figure to the nearest cent. (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means €1,000 in principal amount of Notes;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. REDEMPTION AND PURCHASE

(a) Final redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 March 2020, subject as provided in Condition 6 (*Payments*).

(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 in accordance with Condition 14 (*Notices*) (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 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction (as defined below) 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 12 March 2010, 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:

(x) 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

(y) 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.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) **Redemption at the option of the Issuer**

The Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes, on the date falling 18 months and 1 day after the Issue Date or at any time thereafter (the "**Optional Redemption Date**") at a redemption price per Note equal to the greater of:

(i) 100 per cent. of the nominal amount of the Note; or

(ii) as determined by the Reference Dealers (as defined below), the sum of the then current values of the remaining scheduled payments of principal and interest on the Note (not including any interest accrued on the Note to, but excluding, the Optional Redemption Date) discounted to the Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) 366) at the Reference Dealer Rate (as defined below),

plus, in each case, any interest accrued on the Notes to, but excluding, the Optional Redemption Date. Any notice so given shall oblige the Issuer to redeem the Notes on the Optional Redemption Date accordingly.

For the purposes of this Condition 5(c):

"**Reference Dealers**" means Banca IMI S.p.A., BNP Paribas, Mediobanca – Banca di Credito Finanziario S.p.A., MPS Capital Services Banca per le Imprese S.p.A. and UniCredit Bank AG, or their successors; and

"**Reference Dealer Rate**" means, with respect to the Reference Dealers and the Optional Redemption Date, the average of the mid-market annual swap rate as determined by the Reference Dealers at 11.00 a.m. London time, on the third business day in London preceding such Optional Redemption Date quoted in writing to the Issuer and the Fiscal Agent by the Reference Dealers.

For this purpose, the "**mid-market annual swap rate**" means the arithmetic mean of the bid and offered rates for the annual fixed leg calculated on such Optional Redemption Date on a 30/360 day count basis on a fixed-for-floating euro interest rate swap transaction maturing on 16 March 2020.

(d) **No other redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 5(a) (*Final Redemption*) to (c) (*Redemption at the option of the Issuer*) above.

(e) **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).

(f) **Cancellation**

All Notes redeemed pursuant to the Conditions 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(e) 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.

6. **PAYMENTS**

(a) **Principal**

Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(b) **Interest**

Payments of interest shall, subject to Condition 6(g) (*Payments other than in respect of matured* Coupons) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 6(a) (*Principal*) above.

(c) **Interpretation**

In these Conditions:

"**TARGET Settlement Day**" means any day on which the TARGET System is open for the settlement of payments in euro; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system (TARGET2) which utilises a single shared platform and which was launched on 19 November 2007.

(d) **Payments subject to fiscal laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged by or on behalf of the Issuer or any of its agents to the Noteholders or Couponholders in respect of such payments.

(e) **Deduction for unmatured Coupons**

If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such

missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment, provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment, *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 6(a) *Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(f) **Payments on business days**

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.

(g) **Payments other than in respect of matured Coupons**

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(h) **Partial payments**

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

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 any Relevant Jurisdiction, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is imposed, levied, collected, withheld or assessed by or within any Relevant Jurisdiction, 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:

(a) 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 Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(b) 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

(c) in the case of a Note and/or Coupon presented for payment in the Republic of Italy; or

(d) in the case of a Note and/or Coupon presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(e) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC or any law or agreement implementing or complying with, or introduced in order to conform to, such Directive; or

(f) 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

(g) 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 ("**Decree No. 239**") and any related implementing regulations (as the same may be amended or supplemented at the date of issue of the Notes).

"**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 in a city in which banks have access to the TARGET System 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 14 (*Notices*).

"**Relevant Jurisdiction**" means Italy or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer is or becomes subject in respect of its income by reason of its tax residence or a permanent establishment maintained therein.

Any reference in these Terms and Conditions to principal and/or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7.

8. EVENTS OF DEFAULT

If any of the following events occurs:

(a) the Issuer (1) fails to pay any amount of principal in respect of the Notes when due and such failure continues for a period of seven days, or (2) fails to pay any amount of interest in respect of the Notes when due and such failure continues for a period of 14 days; or

(b) without prejudice to Condition 8(a), 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

(c) (i) 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 (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any applicable grace period, or (iii) 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 (c) have occurred (in the case of (iii) 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

(d) 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

(e) 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

(f) the Issuer or any of its Material Subsidiaries is (or is, or 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

(g) 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) a reconstruction, amalgamation, reorganisation, merger, demerger or consolidation (i) on terms approved by a resolution of the Noteholders, or (ii) in the case of a Material Subsidiary, whereby all or substantially all of the undertaking and assets of the Material Subsidiary are transferred, sold, contributed, assigned to or otherwise vested in the Issuer or another of its Material Subsidiaries, or (B) a Permitted Reorganisation; or

(h) 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 this Condition 8:

"**Indebtedness for Borrowed Money**" means any present or future Indebtedness for money borrowed;

"**Investment Grade Rating**" means a rating of BBB- by Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc and/or BBB- by Fitch Ratings Ltd.;

"**material part**" means 15% or more by value of the whole;

"**Minimum Rating**" means:

(i) if, immediately prior to the announcement of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring of the Issuer the Notes carried a credit rating equal to or higher than an Investment Grade Rating, the higher of (1) an Investment Grade Rating, and (2) a credit rating that is not more than 3 notches lower than the rating assigned by the Rating Agencies to, or carried by, the Notes immediately prior to the announcement of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring of the Issuer;

(ii) if, immediately prior to the announcement of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring of the Issuer the Notes carried a credit rating lower than an Investment Grade Rating, a credit rating that is not lower than the rating assigned by the Rating Agencies to, or carried by, the Notes immediately prior to the announcement of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring of the Issuer;

"**Permitted Reorganisation**" means an amalgamation, reorganisation, merger, demerger, consolidation or restructuring whilst solvent whereby the assets and undertaking of the Issuer (or, in the case of a demerger, all or substantially all of such assets and undertaking) are vested in a body corporate in good standing and (A) such body corporate (i) assumes or, if the surviving entity is the Issuer, maintains liability as principal debtor in respect of the Notes and (ii) continues substantially to carry on the business of the Issuer as reported in the Issuer's most recently published audited financial statements immediately prior to the amalgamation, reorganisation, merger, demerger, consolidation or restructuring and (B) following the completion of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring, the Notes continue to carry by each Rating Agency that rated the Notes prior to the announcement of the amalgamation, reorganisation, merger, demerger, consolidation or restructuring a rating at least equal to the Minimum Rating;

"**Rating Agency**" means each of Standard & Poor's Ratings Services, a division of the McGraw Hill Companies Inc. and Fitch Ratings Ltd. and any of their respective successors; 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 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest, in each case 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. PAYING AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

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 to appoint a successor fiscal agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain (a) a fiscal agent, (b) for so long as the Notes are listed on the Luxembourg Stock Exchange, a paying agent in Luxembourg, (c) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law or agreement implementing European Council Directive 2003/48/EC or any other similar measure adopted by non-EU Countries and (d) a paying agent in a jurisdiction within continental Europe, other than the Relevant Jurisdiction.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. MEETINGS OF NOTEHOLDERS; NOTEHOLDERS' REPRESENTATIVE; MODIFICATION AND WAIVER; 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, paragraph 1, n. 2, 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**") shall 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 5 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 (d) 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 (*Events of Default*) 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 (*Events of Default*) 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(a) – 8(h) inclusive shall be deemed to apply in addition to the guarantor.

13. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities 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 Notes.

14. **NOTICES**

Notices to the Noteholders shall be valid if published in a reputable leading English language daily newspaper published in London with an international circulation and, for so long as the Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange and it is a requirement of applicable laws and regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

15. **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.

16. **GOVERNING LAW**

(a) **Governing law**

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law. Conditions 12(a) and 12(b) are subject to compliance with mandatory provisions of Italian law.

(b) **English courts**

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) **Appropriate forum**

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) **Rights of the Noteholders to take proceedings outside England**

Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing law*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) **Process agent**

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Parts 34 and 37 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together, the "**Global Notes**") which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note ("**NGN**") form. On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), provided that certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of €50,000 and integral multiples of €1,000 in excess thereof, up to and including €99,000, at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of €50,000 and higher integral multiples of €1,000, notwithstanding that no Definitive Notes will be issued with a denomination above €99,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached (in respect of interest which has not already been paid in full on the Permanent Global Note), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(i) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(ii) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 5.00 p.m. (London time) on such due date (in the case of (ii) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 16 March 2010 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Global Notes will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Notes. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Permanent Global Note and/or the Temporary Global Note, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

DESCRIPTION OF THE ISSUER

Overview

ACEA S.p.A. ("**ACEA**" or the "**Issuer**") is a joint stock company limited by shares (*società per azioni*) incorporated under Italian law. Its registered office and principal place of business is at Piazzale Ostiense, 2, 00154 Rome, Italy and it is registered with the Companies' Register of Rome under number 05394801004. Acea may be contacted by telephone on +39 0657991 and by fax on +39 0657994146.

Pursuant to Article 3 of its by-laws, the maturity of ACEA is set at 31 December 2050, but this term may be extended.

Pursuant to Article 4 of its by-laws, the principal objects of the Issuer are: (i) the procurement, generation, transmission, distribution and selling of electric power and heat deriving from an energy source, in accordance with the relevant existing provision 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, the diffusion and the implementation of actions and plants supplied with renewable and similar energy sources.

At the date of this Prospectus, the share capital of ACEA amounts to Euro 1,098,898,884 represented by 212,964,900 ordinary shares with a par value of Euro 5.16 each. The ordinary shares of ACEA have been listed on the Italian Stock Exchange since 1999. As of 1 February 2010, ACEA had a market capitalisation of Euro 1,671,774,465.

ACEA has been assigned a "A" long-term credit rating with a "stable outlook" by Standard & Poor's Rating Services, a division of McGraw-Hill Companies Inc., and a "A" long-term credit rating with a "negative outlook" by Fitch Ratings Ltd.

ACEA is the parent company of an integrated group consisting of ACEA and its consolidated subsidiaries (collectively, the "**ACEA Group**"). The ACEA Group is an industrial group which deals with the management of energy, environmental and water services: the production, sale and distribution of energy, the development of renewable energy sources, the disposal and creation of energy from waste, public lighting and an integrated water service (aqueducts, sewerage and purification). The ACEA Group mainly operates in Italy (primarily in Rome as well as throughout other parts of Italy) and, to a lesser extent, with respect to the water sector, outside Italy (Honduras, Peru, Colombia and the Dominican Republic).

The ACEA Group provides services in, and focuses on the consolidation and creation of value from, two main sectors:

- *water sector*, carrying out the activities of collection, transportation, distribution, treatment, sewerage and laboratory analysis, research and planning; and

- *energy sector*, carrying out the activities of production, distribution, energy and gas trading, sale of electricity and gas, public lighting, district heating and waste to energy.

As of 31 December 2008, consolidated revenues of the ACEA Group amounted to 3,144.0 million euro (an increase of 21.7% compared to the financial year ended 31 December 2007).

For the nine months ended 30 September 2009, consolidated revenues of the ACEA Group amounted to 2,177.4 million euro compared to 2,291.2 million euro for the nine months ended 30 September 2008. This decrease is

due to a reduction in the volume of electricity produced and sold, which Management believes to be as a result of the general economic downturn.

History

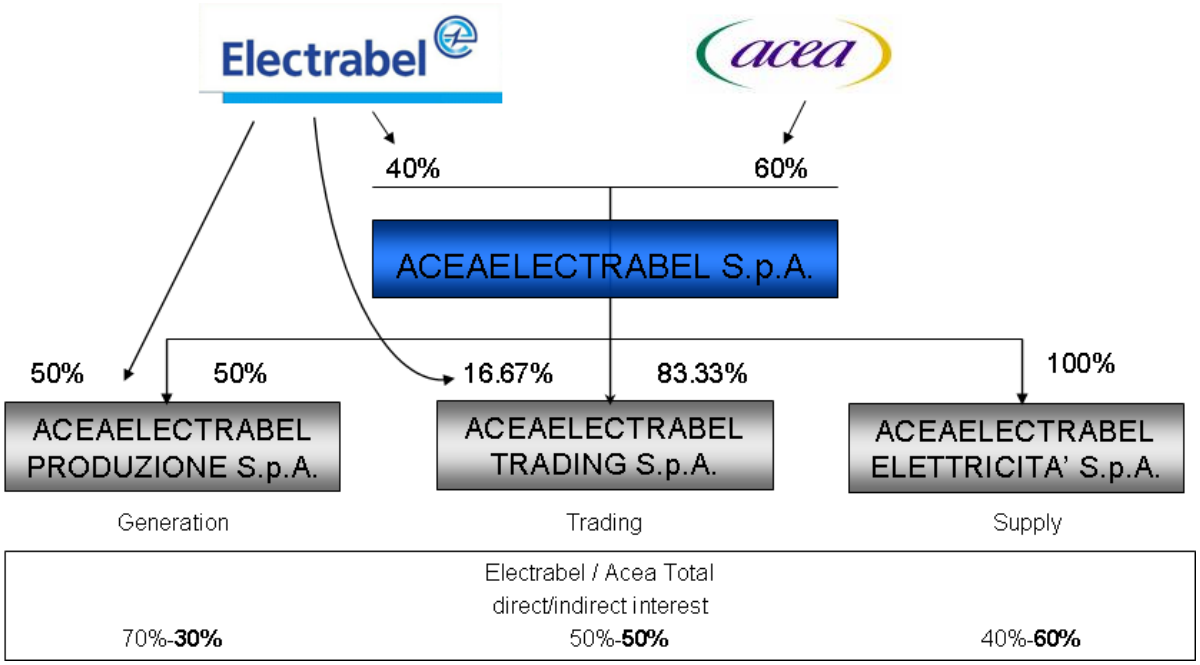
ACEA was founded by the Municipality of Rome as a municipal company in 1909 under the original name *Azienda Elettrica Municipale* ("**AEM**") for the purpose of providing energy services for public and private usage throughout the Municipality of Rome. In 1937, the Governor of Rome entrusted AEM with the construction and administration of the municipal water system and water distribution network for the city of Rome. AEM was subsequently renamed *Azienda Governatoriale Elettricità e Acque* ("**AGEA**") and AGEA 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 Municipality of Rome transferred to A.C.E.A. 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, A.C.E.A. began water purification activities, servicing a customer base of approximately 3 million residents, which step constituted the foundation of its integrated management services for the entire water cycle. In 1989, A.C.E.A. adopted the name of *Azienda Comunale Energia e Ambiente* and took over the management of the public lighting services within the Municipality of Rome. Three years later it was transformed from a municipal company (*azienda municipalizzata*) into a special company (*azienda speciale*) and, with effect from 1st January 1998, was incorporated as a joint stock company under Italian law no. 142 of 8 June 1990, adopting its present name (i.e. ACEA S.p.A.).

In 2001, ACEA became the third biggest electricity distributor in Italy in terms of volumes distributed[1], acquiring the electricity distribution division for the metropolitan area of Rome from Enel Distribuzione S.p.A.

In 2002, ACEA and Electrabel S.A., a Belgian company and a member of the GDFSuez Group (previously Suez Group), entered into a strategic joint venture (named AceaElectrabel) to develop energy activity in Italy: notably, production, trading and sales to free market consumers and customers under contract. 2003 was the first entire year of operation of the joint venture. Electrabel S.A. is one of the major energy companies in Europe and is the market leader in energy services in 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 AceaEletrabel companies 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* o GRTN).

[1] Source: data elaborated by Management on the basis of publicly available information.

The division of share capital among the component members of the joint venture corporate structure is shown in the following chart:



In the same year, 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 sold by Enel S.p.A. as part of the generation downsizing programme imposed on Enel S.p.A. pursuant to the Bersani Decree. Interpower, now renamed Tirreno Power S.p.A., in the fourth largest electricity generator in Italy[2].

The table below includes also figures related Tirreno Power S.p.A.. In particular, the EBIDTA is composed as follow: 86 million for the activity of generation on which Tirreno Power S.p.A. has an impact of 57% and 13 million for the activities of supply to which Tirreno Power S.p.A. does not contribute. For the remaining figures: Tirreno Power S.p.A. has an impact of 46% on the net debt and of 38% on the invested capital.

	Year ended 31 December 2008 (un*audited*) (*millions of euro*)
EBITDA.....	99
Net debt.....	294
Invested Capital.....	501

The ACEA Group calculates EBITDA as profit (loss) for the year before: (i) net profit (loss) from discontinued operation, (ii) taxation, (iii) finance (costs) and income, (iv) profit (loss) on investments and (v) depreciation, amortization and impairments charges recorded for the period; and (iv) non-recurring charges. The ACEA

[2] Source: data elaborated by Management on the basis of publicly available information

Group calculates the net debt as the sum of current and non-current financial activities plus current and non-current liabilities. The ACEA Group calculates the invested capital as the sum of the non financial activities plus non financial liabilities.

In the same year, ACEA took over management of the whole sewerage system in Rome.

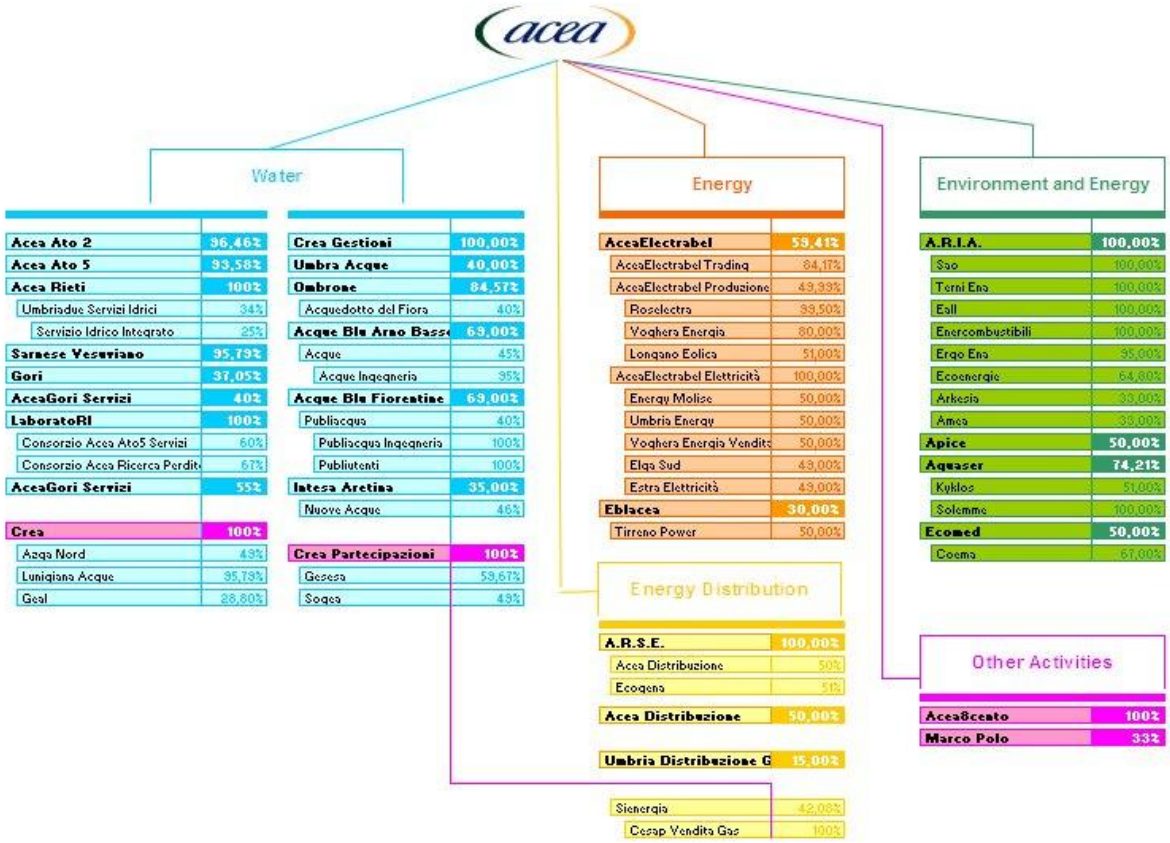
In 2004, ACEA launched the integrated water service in Ato 2 area (Rome – Central Latium) and in the same year won the right to manage the service in new areas, consolidating its national leadership in water management. ACEA also purchased a stake in Tirreno Power S.p.A. in the same year and established a plan to enhance production of energy.

In 2006, ACEA purchased A.R.I.A S.p.A. (previously named TAD *Energia Ambiente*), entering into the waste to energy sector.

In 2009, ACEA presented a major investment plan, and has programmed investments totalling 1,294 million euro for the period 2010-2012.

ACEA Group

The following diagram illustrates the main companies of the ACEA Group as at the date hereof:



PRINCIPAL ACTIVITIES

ACEA exercises corporate, service, direction and control functions and its subsidiaries are operating companies in the water and energy sectors.

The tables in this section set forth the contribution to Revenues, Operating Costs, Personnel Costs and EBITDA of each of ACEA'S lines of business for the periods indicated[3]. Such figures include intra-group transactions which are then eliminated for the purpose of consolidation in the Issuer's consolidated financial statements.

Water business

The ACEA Group is the leading provider of integrated water services to the Italian water market and the largest operator in Italy with a current customer base of approximately 8,300,000 Italian residents representing approximately 14,7% of the entire Italian market[4]. The ACEA Group also operates outside in Honduras, Peru, Columbia and Dominican Republic.

In 2008, revenues from integrated water services amounted to 733 million euro having risen 82 million euro (12.7%) compared with the previous year (651 million euro).

Integrated Water Services	**Year ended 31 December**		**Nine months ended 30 September***	
	2008	**2007**	**2009**	**2008**
	(unaudited)		*(unaudited)*	
	(millions of euro)		(millions of euro)	
Revenues	733	651	552	532
Operating Costs	(349)	(323)	(243)	(245)
Personnel Costs	(131)	(115)	(121)	(113)
EBITDA	**253**	**213**	**188**	**173**

* Personnel costs for the periods ended 30 September 2009 and 2008 are gross of capitalized costs for personnel. Operating costs for the periods ended 30 September 2009 and 2008 are net of capitalized costs for personnel.

In Italy, the water sector (but not the energy sector) is not governed by a national authority. Instead the rules and regulations are set forth by district public authorities (the *Autorità di Ambito Territoriale Ottimale* or ATO[5]) which, among the other activities, establish the applicable water tariff for the district and, as a consequence, the revenues of the provider of the integrated water services.

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[3] The ACEA Group calculates EBIT as profit (loss) attributable to the ACEA Group before: (i) taxation, (ii) financial income and financial charges; and (iii) non-recurring charges. The ACEA Group calculates EBITDA as profit (loss) attributable to the ACEA Group for the year before: (i) net profit (loss) from discontinued operations, (ii) taxation, (iii) financial costs and income, (iv) profit (loss) on investments, (v) depreciation, amortisation and impairment charges recorded for the period, and (vi) non-recurring charges. Such measures are not indicative of the ACEA Group's historical operating results or financial condition, nor are they meant to be predictive of future results. Such measures are used by the Company's management to monitor the underlying performance of the ACEA Group. Since companies may not calculate similarly EBIT and EBITDA in an identical manner, the Company's measures may not be consistent with similar, or similarly entitled, measures used by other companies.

[4] Source: Utilitatis Research Institute – Bluebook 2009.

[5] For a detail description of the ATO and the water tariff mechanism, please refer to "Regulation" below.

Integrated water services in Italy are provided under concession regime (*in regime di concessione*) by ACEA in the following Italian regions:

(1) Lazio, where ACEA Ato2 S.p.A. and ACEA Ato5 S.p.A provide services in the provinces of Rome and Frosinone, respectively;

(2) Campania, where Gori S.p.A. provides water services in part of the province of Salerno and in part of Naples;

(3) Tuscany, where the ACEA Group operates in the province of Pisa through Acque S.p.A., in the province of Florence through Publiacqua S.p.A. and in the provinces of Siena and Grosseto through Acquedotto del Fiora S.p.A.; and

(4) Umbria, where the ACEA Group operates in the province of Perugia through Umbra Acque SpA.

The service provided by the ACEA Group comprises (i) the management of the entire cycle of integrated water services from withdrawal at the springs to transportation via aqueducts and the water network, (ii) the distribution of water to users and (iii) the purification of waste water in treatment plants.

Management of Water Services in Lazio

ATO 2 Central Lazio

The ACEA Group manages, as the sole operator, the integrated water services of ATO 2 Central Lazio ("**ATO 2**"), covering Rome and its province, one of the largest Italian integrated water districts in terms of geographic area with a population of approximately 3.5 million inhabitants and comprising 95 municipalities in 2008.

ACEA Ato2 S.p.A ("**ACEA ATO 2**"), the company which manages the water services for the ATO 2 district, operates integrated water services on the basis of an agreement entered into on 6 August 2002 by the company and Rome Provincial Authority, which has a duration of 30 years.

ACEA ATO 2 provides a range of fresh water distribution services to the ATO 2 district including collection and extraction, as well as retail and wholesale distribution. Water is extracted on the basis of long-term concessions. Ten water sources - including five springs (Peschiera, Capore, Acqua Marcia, Acquoria and Salone), four well fields (Pantano Borghese, Finocchio, Torre Angela and Torre Spaccata) and the Lake Bracciano Aqueduct - supply approximately 3,500,000 people in Rome and Fiumicino, as well as 60 municipalities in the Lazio region, through four aqueducts and a system of pressurised pipes. Three further sources of supply provide non-drinking water used in the municipal sprinkler system.

In addition, ACEA ATO 2 also manages the Simbrivio aqueduct, which supplies water to 54 municipalities and 3 consortia[6], the Laurentino aqueduct, which supplies the municipalities of Pomezia, Ardea and the Campoleone area of the Municipality of Lanuvio, the Doganella aqueduct, serving eight municipalities in the Castelli Romani area, and the distribution of water in 72 municipalities in addition to Rome.

[6] The consortium of *Simbrivio* (which comprises several municipalities), the consortium *Area Industriale Frosinone* (which is made up by several companies) and the consortium *Altipiani di Arcinazzo* (which made up by private individuals)

ACEA ATO 2 manages the waste water treatment system and pumping stations that serve the network and sewage collectors. Some of them are quite large, with a capacity of more than 10 cubic meters per second, and in some cases they also provide flood protection.

In 2008, the main waste water treatment plants handled some 493.7 million cubic meters, an increase of around 3.7% compared with the previous year.

Sludge production from all the company's plants amounted to just over 125,000 tonnes in 2008, which was not substantially different from the figure of the previous year.

As of 31 December 2008, ACEA ATO 2 managed a total of 436 sewage pumping stations, including 153 in the Municipality of Rome, and a total of 176 waste water treatment plants, including 37 in the Municipality of Rome. Compared with 31 December 2007, both the number of waste water treatment plants and the number of sewage pumping stations has increased by two.

During the first half of 2008, the company entered into contracts to manage water services in the municipalities of San Polo dei Cavalieri and Cerveteri.

During the second half of 2008, ACEA ATO 2 joined a consortium set up by the municipalities of Trevi nel Lazio, Piglio (ATO 5) and Altipiani di Arcinazzo to manage their water treatment plant.

ATO 5 South Lazio - Frosinone

ACEA ATO 5 S.p.A. ("**ACEA ATO 5**") is the company which manages the integrated water services of ATO 5 Southern Lazio – Frosinone covering a geographic area with a population of approximately 570,000 inhabitants and 86 municipalities. The number of end users of ACEA ATO 5 services amounts to approximately 185,000. The company is also responsible for all other related, resulting or associated water activities. The water distribution network covers approximately 3,600 km and has a sewerage network around 1,700 km long which, via 140 linked treatment plants, manages the return of the treated water to the environment.

ACEA ATO 5 provides integrated water services on the basis of an agreement entered into on 27 June 2003 between ACEA ATO 5 and Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities), which has a duration of 30 years.

Management of water services in Campania

Gori S.p.A. ("**Gori**"), a joint-stock company in which ACEA's 95.8% owned subsidiary Sarnese Vesuviano S.r.l. holds 37.05%, is the company which manages the integrated water services of ATO 3 of the Campania region, know as the "*Sarnese Vesuviano*" area, where it provides water services in part of the province of Salerno and in part of Naples. Gori provides integrated water services in 76 municipalities in the provinces of Naples and Salerno, involving 1,400,000 inhabitants. The water network covers nearly 4,570 km and the sewerage network is 2,435 km long.

Gori provides integrated water services on the basis of an agreement entered into on 30 September 2002 between Gori and the *Sarnese Vesuviano* Area Authority, which has a duration of 30 years.

Management of water services in Tuscany

Acque S.p.A. ("**Acque**") is the company that manages the integrated water services of ATO 2 Tuscany - *Basso Valdarno* covering a geographic area with a population of approximately 751,000 inhabitants and 57 municipalities in 2008, covering the provinces of Florence, Lucca, Pisa, Pistoia and Siena. The water network covers nearly 5,511 km and the sewerage network is 3,028 km long (with 143 linked treatment plants). ACEA's

interest in Acque is through its 69% owned subsidiary, Acque Blu Basso Arno S.p.A., which in turn holds 45% of the share capital of Acque.

Acque supplies integrated water services on an exclusive basis in ATO 2 Tuscany on the basis of an agreement signed on 28 December 2001 (that came into effect on 1 January 2002) between Acque and ATO 2 Tuscany - *Basso Valdarno* Area Authority, which has a duration of 20 years.

Publiacqua S.p.A. ("**Publiacqua**"), in which ACEA's 69% owned subsidiary Acque Blu Fiorentine S.p.A. holds 40%, is the company that manages the integrated water services of ATO 3 Tuscany – Medio Valdarno with an area of 3,726 square kilometres. The area includes 50 municipalities, among which the provinces of Pistoia, Prato and Florence and comprised approximately 1,200,000 inhabitants in 2008.

Publiacqua supplies integrated water services on the basis of an agreement signed on 20 December 2001 (that came into effect on 1 January 2002) between Publiacqua and ATO 3 Tuscany – Medio Valdarno Area Auhtority, which has a duration of 20 years. The water network covers nearly 6,770 km and the sewerage network is 4,200 km long with 120 linked treatment plants.

Acquedotto del Fiora S.p.A. ("**Acquedotto del Fiora**"), in which ACEA's 84.57% owned subsidiary Ombrone S.p.A. holds 40%, is the company that manages the integrated water services of ATO 6 Ombrone covering a geographic area of 7,600 square kilometres with a population of approximately 374,000 in 2008 inhabitants that increases, during the summer season, up to approximately 600,000 inhabitants.

Acquedotto del Flora supplies integrated water services, on an exclusive basis in ATO 6, on the basis of an agreement signed on 28 December 2001 between Acquedotto del Fiora and ATO 6 Ombrone Area Authority The concession term is 25 years from 1 January 2002.

Crea S.p.A. ("**Crea**"), a 100% owned subsidiary of ACEA, through which ACEA maintains a presence in ATO 1 – Northern Tuscany, holds stakes in the following companies:

- 28.80% stake in GEAL S.p.A., the integrated water services operator in the town of Lucca;
- 49% stake in AZGA Nord S.p.A., the integrated water services operator in the town of Pontremoli;
- 95.79% stake in Lunigiana Acque S.p.A., the integrated water services operator in the towns of Aulla, Tresana and Podenzana in the province of Massa Carrara.

Management of water services in Umbria

Umbra Acque S.p.A. ("**Umbra Acque**"), in which ACEA holds a 40% stake, manages the integrated water services of ATO 1 Perugia with a geographic area of 4,300 square kilometres, approximately 452,000 inhabitants in 2008 and 37 municipalities. The water network covers nearly 5,000 km and the sewerage network is 3,500 km long, with 140 linked treatment plants. Umbra Acque provides integrated water services on the basis of an agreement entered into on 18 December 2002 between Umbra Acque by the company and Perugia Provincial Authority, that came into effect on 1 January 2003, which has a duration of 25 years.

Other activities related to the water services

Acquaser ("**ACQUASER**"), in which ACEA holds a 74.21 % stake is a company that manages ancillary services associated with the integrated water cycle, recycling and disposing of biological sludge and waste from water treatment plants, the treatment of liquid waste and refuse, and providing connected services.

It currently carries out the transport and recycling of sludge from treatment plants for ASA S.p.A., the operator of integrated water services in ATO 5 along the Tuscan coast, Acquedotto del Fiora and ACEA ATO2. It also manages the Le Ferriere platform, located in Piombino, for the treatment of domestic waste water transported by road.

Recycling is carried out primarily through spreading sludge on agricultural land in agreement with third-party landowners, or through transferring sludge to composting plants operated by third parties.

In 2008, AQUASER purchased: (i) a 100% interest in SOLEMME S.p.A. and (ii) a 51% interest in Kyklos S.r.l. These two companies are located in the municipality of Monterotondo Marittimo (Grosseto) and the municipality of Aprilia (Latina), respectively, and both operate composting plants and hold the related licences. The acquisition of these companies has given AQUASER access to plants enabling it to carry out a part of the recycling process itself, thus reducing variation in waste treatment prices, which can be highly volatile and subject to speculation.

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 business which has expanded significantly in recent years leading to a growth in the role of LaboratoRI within the ACEA Group.

Acea Gori Servizi S.c.a.r.l ("**Acea Gori Servizi**") is the company which provides Gori and the ACEA Group companies located in Lazio and Campania with technical and laboratory support activities, engineering services and innovation.

Acque Ingegneria S.r.l. ("**Acque Ingegneria**") is the company which provides Acque and the ACEA Group companies located in Tuscany with engineering services, design, programming, assistance in the financing, management and test engineering works.

Energy business

The ACEA Group is the third electricity distributor in Italy[7]. It distributes electricity to the municipality of Rome, serving approximately 3 million inhabitants. The ACEA Group also manages the municipality's public lighting service, which since 2009 is managed only in the town of Rome, and not other municipalities ("**Energy Business**").

[7] Source: data elaborated by Management on the basis of publicly available information

It also manages the energy services in the main sector of energy saving, solar power, cogeneration and control of air quality ("**network services**").

Through its joint venture with Electrabel (see " History" above), ACEA is one of the major players providing generation, trading and sale of energy and gas to end customers[8] ("**market services**").

Market Services *	**Year ended 31 December**		**Nine months ended 30 September ****	
	2008	**2007**	**2009**	**2008**
	(unaudited) (millions of euro)		*(unaudited)* (millions of euro)	
Revenues	2.360	1.758	1.554	1.709
Operating Costs	(2240)	(1700)	(1489)	(1609)
Personnel Costs	(21)	(11)	(20)	(15)
EBITDA	**99**	**46**	**45**	**85**

(*) Includes figures of the AceaElectrabel joint venture

(**) Personnel costs for the periods ended 30 September 2009 and 2008 are gross of capitalized costs for personnel. Operating costs for the periods ended 30 September 2009 and 2008 are net of capitalized costs for personnel.

Network Services*	**Year ended 31 December**		**Nine months ended 30 September****	
	2008	**2007**	**2009**	**2008**
	(unaudited) (millions of euro)		*(unaudited)* (millions of euro)	
Revenues	483	464	353	348
Operating Costs	(173)	(162)	(107)	(111)
Personnel Costs	(65)	(65)	(67)	(67)
EBITDA	**245**	**237**	**178**	**170**

(*) Includes distribution of energy and public lighting and ACEA RSE

(**) Personnel costs for the periods ended 30 September 2009 and 2008 are gross of capitalized costs for personnel. Operating costs for the periods ended 30 September 2009 and 2008 are net of capitalized costs for personnel.

[8] Source: data elaborated by Management on the basis of publicly available information

Energy business*	Year ended 31 December		Nine months ended 30 September**	
	2008	**2007**	**2009**	**2008**
	(unaudited) (millions of euro)		*(unaudited)* (millions of euro)	
Revenues	2.844	2.222	1.906	2.056
Operating Costs	(2413)	(1862)	(1596)	(1720)
Personnel Costs	(86)	(76)	(87)	(82)
EBITDA	**344**	**283**	**223**	**254**

(*) Represents the sum of the Market Services and the Network Services above.

(**) Personnel costs for the periods ended 30 September 2009 and 2008 are gross of capitalized costs for personnel. Operating costs for the periods ended 30 September 2009 and 2008 are net of capitalized costs for personnel.

Energy Services

In the energy services sector, the activities of Acea Reti e Servizi Energetici S.p.A. ("**ACEA RSE**") which has been operative since 1 April 2005, focus on four main sectors: energy saving, solar power, cogeneration and control of air quality (through the "*Caldaia Sicura*" and "*Sanacaldaia*" projects).

Energy saving: ACEA RSE is responsible for coordinating the ACEA Group's network management companies and for carrying out the activities linked to compliance with energy saving regulations introduced by the Italian ministerial decree of 20 July 2004. It also provides consultancy services in the so-called Energy Services Company (ESCO) sector. In addition, in 2008 ACEA RSE completed the distribution of high-efficiency light bulbs and water and energy saving kits to customers in many Italian areas. These kits were developed in collaboration with a number of the ACEA Group's water companies operating in the regions of Tuscany and Umbria and with Asub S.p.A., a company which supplies integrated services for the environment, property and people.

Solar power: ACEA RSE continues to carry out the design, installation, operation and maintenance of solar power plants for civil and industrial building, and has entered into agreements with a number of clients such as Q8 S.p.A., ADR S.p.A. (*Società Aereoporti di Roma*) and Tecnopolo S.p.A. for construction, in the coming years, of solar power plants. For example, on the basis of the agreement with Q8 S.p.A., ACEA RSE will develop a project of building power plants for service stations. For ADR S.p.A., ACEA RSE is developing a project of building integrated power plants for car parks at Rome airport.

Cogeneration: In September 2007, ACEA set up a joint venture with ASTRIM S.p.A., a company working in the sector of facility and management providing multi hi-tech services to public and retail clients. This joint venture, called Ecogena, is aimed at marketing and building cogeneration power plants. Cogeneration plants are small systems located at the end user and can provide a service of heating, cooling and supply of electricity and heat. Ecogena services are offered to the real estate sector with particular emphasis on public administration, hospitals, universities, residential complexes, commercial centres and office buildings. Ecogena is 51% owned by ACEA RSE with the remaining interest held by Energia Alternativa S.r.l.

Energy Distribution

The ACEA Group's distribution activities are operated through Acea Distribuzione S.p.A ("**ACEA Distribuzione**"), a wholly owned subsidiary of ACEA.

ACEA Distribuzione runs the electricity distribution services in the municipality of Rome and Formello. In the municipality of Rome, ACEA Distribuzione serves around 2.7 million inhabitants by means of a grid of cables

and overhead lines covering more than 28,000 km. ACEA Distribuzione also carries out the planning, design, construction and maintenance of high-voltage primary distribution plants and medium and low-voltage secondary distribution networks. In addition, ACEA Distribuzione manages public lighting through a management agreement with ACEA (as ACEA holds the concession relating to public lighting), pursuant to an agreement with the municipality of Rome which will remain in force until 2015. ACEA Distribuzione also manages the cemetery lighting systems in the municipality of Rome on the basis of an agreement with the municipality of Rome, entered into in February 2007, which will remain in force until 2015.

The overall amount of electricity injected into ACEA Distribuzione's network (from the national grid, generating plants linked directly to ACEA Distribuzione's network and ENEL Distribuzione's interconnected network) increased by 2.26% for the year ended 31 December 2008 compared to 2007.

Energy Generation

AceaElectrabel Produzione S.p.A. ("**AE Produzione**"), one of the companies resulting from ACEA's joint venture with Electrabel referred to above, operates in the electricity generation market. AE Produzione was formed following an agreement signed in 2002 between ACEA and Electrabel (GDF Suez Group) for electricity and heat production activities.

For the year ended 31 December 2008, the ACEA Group's energy generation revenues[9] amounted to 411.8 million euro (compared to 134.7 million euro in 2007) which were generated by the thermoelectric, hydroelectric and wind power plants of the AE Produzione Group and those plants owned by Tirreno Power.

With regard to renewable electricity production, AE Produzione's two wind farms (Longano and Capracotta), which started in 2007, recorded an output of 37.7 GWh in 2008. Renewable electricity production was expanded in 2008, with the rollout of the new Monte della Difesa wind farm, which is located in Campania, occupying an area that includes the municipalities of Postiglione, Serre and Sicignano degli Alburni in the Province of Salerno, and has an installed capacity of 28.9 MW. The commercial launch of Monte della Difesa took place on 20 October 2008. At the same time, AE Produzione was granted the right to produce green certificates[10].

In the urban heating segment, in which AE Produzione operates through the Tor di Valle plant's cogeneration unit, the company supplied 214 end users located in the Torrino Sud and Mostacciano districts (located in the southern part of Rome) with 53.8 GWh of heat. The cogeneration unit at the Leinì plant also enabled the company to supply the Municipality of Settimo Torinese with 27 GWh of heat.

In 2008 AE Produzione produced a total of around 4,910 GWh of gross electricity, of which approximately 4,485 GWh was from fossil fuel and around 425 GWh was from renewable sources (water and wind).

Tirreno Power S.p.A. is one of the largest operators for the generation of electricity in Italy in terms of MW installed[11]. Tirreno Power S.p.A. was created following the reorganisation of the energy market imposed by Italian legislative decree no. 79/1999, implementing EU Directive 96/92. In November 2002, the company formed by Energia Italiana S.p.A. and Eblacea S.p.A. obtained the authorisation to acquire Interpower S.p.A. that then changed its name to Tirreno Power S.p.A.

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[9] These revenues are consolidated "pro-quota" in ACEA's financial statements.

[10] For further detail of "green certificate", see "Regulatory – Energy Sector – Promotion of Renewable Resources".

[11] Source: Italian Authority of Electricity and Gas.

Electricity Trading

AceaElectrabel Trading S.p.A. ("**AE Trading**") was set up in 2002 in order to manage the 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 since 1 October 2009, the procurement of electricity and natural gas for the sales companies within the AceaElectrabel group, obtaining green certificates[12] for the joint venture companies and the management of the relationship with both the Electrical Market Operator (*Gestore del Mercato Elettrico* or GME) and the National Grid (*Gestione Rete Trasmissione Nazionale*).

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 to sell certain of AceaElectrabel's energy commodities on the market.

For the year ended 31 December 2008, AE Trading reported a 36% increase in the volume of electricity traded compared to 2007, due to (i) a higher volume of electricity sold to the free market (AE Elettricità) and to the Italian Power Exchange ("IPEX") (in the context of AE Trading's role, as market operator and dispatching user for other ACEA Group companies (i.e. AE Produzione, Voghera Energia S.p.A. and Roselectra S.p.A.)), (ii) an increase in the gas sales; and (iii) a rise in commodity prices.

Electricity sales

The ACEA Group is among the largest electricity retail companies in Italy[13]. The ACEA Group sells electricity through AceaElectrabel Elettricità S.p.A. ("**AE Elettricità**"). AE Elettricità also sells gas to wholesalers.

In 2008 AE Elettricità continued its expansion throughout Italy entering into joint venture agreements with local players, with strong local roots and well-established customer base.

Local presence breaks down as follows:

- Umbria Energy S.p.A., which operates in Umbria, was set up on 24 September 2004 as a joint venture between ASM Terni S.p.A and AE Elettricità, with each shareholder holding 50%.

- Voghera Energia Vendita S.p.A., which operates in the provinces of Pavia and Alessandria, was established on 17 March 2005 under an agreement between ASM Voghera and AE Elettricità, with each shareholder holding 50%.

- Estra Elettricità S.p.A. (formerly Elettria), which operates in Tuscany, was set up on 17 July 2006 under an agreement between the Consiag Group and AE Elettricità. The company is 51% owned by Consiag, whilst AE Elettricità holds a 49% stake.

- Elgasud S.p.A., which operates in Puglia and Basilicata, was set up on 10 November 2006 under an agreement between Amgas Bari, Amet Trani and AE Elettricità. The company is 51% owned by Puglienergy (70% of which is held by Amgas Bari and 30% by Amet Trani), whilst AE Elettricità holds a 49% stake.

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[12] For further detail of "green certificates", see "Regulatory – Energy Sector – Promotion of Renewable Resources".

[13] Source: data elaborated by Management on the basis of publicly available information.

For the year ended 31 December 2008, sales of electricity on the market by AE Elettricità towards users subject to regulation set forth by Art. 1, paragraph 2, section 2, of Law Decree no. 73/2007 (i.e. users that decided not to choose a new electricity distribution company and that, thus, benefit from economic and contractual conditions protected and regulated by Italian Authority of Electricity and Gas ("**AEEG**"))[14] amounted to 4,905 GWh, which constitutes a reduction of 14.6% compared to 2007. The number of customers was 1,484,260 (1,516,024 at 31 December 2007). Management believes that this decrease is linked to stronger competition following completion of the liberalisation process.

AE Elettricità recorded free market electricity sales (i.e. not to the users referred to in the paragraph above) of 9,970 GWh and 2,303 GWh by the retail joint ventures[15] for the year ended 31 December 2008, representing a total of 12,273 GWh and a 12.4% increase compared to 2007.

The number of end users switching from the regulated to the free market in 2008 amounted to 50,585, representing an annual volume of 560 GWh, with around 38% of users acquired by other wholesalers, whilst the remaining 62% (equal to 38% of total consumption) remained with AE Elettricità. AE Elettricità also sold 142.6 million cubic metres of gas to end customers and wholesalers, with supplies coming from AE Trading, including 28 million cubic metres in the thermal year 2008/2009, which began in October 2008.

Public Lighting Services

ACEA manages the public lighting service in the municipality of Rome, on the basis of a 30 year concession agreement that will expire in 2028. In February 2007 ACEA and the municipality of Rome renewed a management contract governing the performance related services for public lighting which will expire in 2015. The services are entrusted to ACEA Distribuzione by ACEA through a contract.

Digital Meters Project

The Digital Meters Project is aimed at replacing customers' previous and outdated electronical meters. The work related to the Digital Meters Project continued during 2008 with the large-scale introduction of a remote-controlled system for the Medium Voltage and Low Voltage networks and remote control of the digital meters launched by ACEA in October 2005. Approximately 319,000 digital meters were installed during 2008, with 56,000 installed independently by local branches of the Networks Division of ACEA. The total number of digital meters installed since the start of the project is around 1,168,000. Around 3,300 concentrators were installed in secondary substations during the period, bringing the total number installed since the start of the project to around 11,800.

Environment and energy: waste to energy

The ACEA Group is also active in the sector of environment and energy (formerly "waste to energy") through a number of wholly-owned companies comprising the "A.R.I.A Group" (previously named TAD *Energia*

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[14] Pursuant to Art. 1, paragraph 2, section 2, of Law Decree No. 73/2007 and the AEEG Resolution No. 156/2007, the end users are free to choose on the market their own electricity distribution company, by withdrawing from the contracts entered into with the previous distribution companies. However, the customers that choose to keep their previous contracts, continue to be supplied by the same distribution company trough its sale companies. In order to ensure the application of reasonable prices by the above-mentioned sale companies, such users benefit from a specific protection regime since the economic and contractual conditions with the company supplying them with the electricity are regulated by AEEG.

[15] The data make reference to the total amount sold by the joint ventures.

Ambiente). The activities of the companies in the "waste to energy" segment may be divided into two principal areas which are highly interconnected. The first area, covered by SAO S.p.A., regards the management of local public services covering the treatment, disposal and recycling of urban solid waste and special waste deriving from the treatment of the latter. The second area, primarily covered by EALL S.r.l. and TERNI EN.A. S.p.A., consists of the recycling of special waste, principally for use in the production of electricity. In the case of EALL S.r.l, the source of fuel is Refuse Derived Fuel ("**RDF**") produced by (i) SAF S.p.A., (a company set up by certain municipalities of the province of Frosinone that produce urban waste in the area served by EALL S.r.l) on the basis of a five-year contract entered into in 2008 and (ii) Enercombustibili S.r.l.

In 2008, the revenues from biomass transfer and waste management amounted to 24.9 million euro, marking an increase of 2.9 million euro compared to 2007. The table below shows the contribution to revenues, operating costs, personnel costs and EBITDA of ACEA's waste to energy business.

Waste to energy Services	**Year ended 31 December**		**Nine months ended 30 September***	
	2008	**2007**	**2009**	**2008**
	(unaudited) (millions of euro)		*(unaudited)* (millions of euro)	
Revenues	76	58	69	52
Operating Costs	(39)	(30)	(40)	(27)
Personnel Costs	(7)	(7)	(6)	(6)
EBITDA	**30**	**21**	**23**	**20**

(*) Personnel costs for the periods ended 30 September 2009 and 2008 are gross of capitalized costs for personnel. Operating costs for the periods ended 30 September 2009 and 2008 are net of capitalized costs for personnel.

Terni EN.A S.p.A ("**Terni EN.A**") produces energy from renewable sources, above all in the form of biomass-fuelled waste to energy production, consisting of paper mill pulp which benefits from the incentives provided in the CIP6 measure[16].

In 2008, the Electrical Market Operator awarded Terni green certificates for self-consumption of electricity within the plant from 2006.

EALL S.r.l. ("**EALL**") produces electricity from renewable sources and, above all, from RDF, as defined by the Ministerial Decree of 5 February 1988 and the subsequent Legislative Decree 152/2006 (the "**Environment Code**").

SAO S.p.A. ("**SAO**") owns a waste dump located in the Municipality of Orvieto and manages urban refuse and special waste.

Enercombustibili S.r.l. ("**Enercombustibili**") manages an RDF production plant in Castellaccio di Paliano (FR). The plant is authorised to treat dry waste deriving from urban solid waste and special waste, producing an annual total of up to 120,000 tonnes of RDF in accordance with the law.

A.PI.C.E. S.p.A, which was established on 7 May 2008, is a joint venture between ACEA (50%) and Pirelli & C. Ambiente Renewable Energy S.p.A. (50%) and was set up to operate in the waste to energy sector and to

[16] For further detail of CIP6 measure see " – *Regulatory – Electricity – promotion of the Renewable Resources*" below.

carry out related activities, consisting of the purchase, sale, exchange, construction and operation of industrial plants in this sector.

Other activities

The main business of Acea8cento S.p.A. is planning and performin customer care services for the companies of the ACEA Group through all the long-distance channels. The company works as a partner of the companies of the ACEA Group during the entire phases of development, acquisition and consolidation of new customers and satisfaction, retention and increase of value of the old customers.

Marco Polo, a joint venture of ACEA, Ama S.p.A. and Eur S.p.A., provides to its customers a wide range o non-core services, such as the management and maintenance of civil, technological and industrial plants, restructuring and improvement of property, projecting and carrying out equipment, network and supervision services, monitoring of technological networks and industrial plants and other ancillary services such as: environment hygiene, management of green area, reception, surveillance, office supply, documentation, delivery services, management of energy service and management of purchase stations.

Recent developments in the ACEA Group's business

On 15 July 2009, ACEA launched the waste treatment plant in the Lazio region in the town of Aprilia, with a capacity of 60,000 tonnes per year of composting plants and of 20,000 tonnes of compost produced.

During 2009 ACEA was also awarded the right to Cip6 tariffs for the gasification plant waste of Albano.

Strategy

In 2009, ACEA's Board of Directors approved an updated business plan for the period 2010-2012. The business plan confirms the growth strategy for all of the ACEA Group's areas of business and takes account of the worsened macroeconomic situation.

The main items of the business plan are:

- the consolidation of ACEA's leadership in the Italian water industry, aiming to target a customer base of approximately 8.7 million by 2012;

- the consolidation of earnings from electricity distribution taking into account the amendments to national electricity tariffs. The ACEA Group aims to find a balance between electricity production and sales to reduce the volatility of both margins and customer numbers, in part through the development of renewable generating capacity (wind);

- the growth of the waste to energy and co-generation businesses through repowering the "waste to energy" and RDF plant of Terni EN.A and EALL, the development of the 20 MW "biomass fuelled Plant", and the 40 Mw WTE- Plant ("Gassificatore"); and

- strong commitment in respect of increasing operating efficiency.

The business plan aims to create value for shareholders via increased earnings and implementing a sustainable dividend policy, as well as maintaining a solid financial structure.

MATERIAL CONTRACTS

Strategic Agreements

At the end of July 2008, AQUASER purchased: (i) a 100% interest in SOLEMME S.p.A. for a consideration of Euro 2 million and (ii) a 51% interest in Kyklos S.r.l. for a consideration of Euro 1.3 million. These two companies are located in the municipality of Monterotondo Marittimo (Grosseto) and the municipality of Aprilia (Latina), respectively, and both operate composting plants and hold the related licences. The acquisition of these companies has given AQUASER access to plants enabling it to carry out a part of the recycling process itself, thus reducing variation in waste treatment prices, which can be highly volatile and subject to speculation.

On 1 October 2008, ACEA S.p.A. and ACEA RSE completed the sale of 100% of ACEA Luce to Manutencoop Facility Management S.p.A. for a total consideration of 3 million euro.

In compliance with a joint venture agreement entered into between Suez Environnement (45%) and ACEA (55%), a sub-holding, named Acque Blu S.r.l., was established on 19 December 2008 for the purpose of concentrating the stakes held by ACEA and Suez Environnement in several companies managing integrated water services.

At the end of September 2009 ACEA Group acquired from Iride S.p.A. a 35% stake in Intesa Aretina S.c.a.r.l. which holds 49% of Nuove Acque S.p.A. the company that manages the integrated water services of ATO 4 Tuscany – *Alto Valdarno* for a total consideration of approximately 11.4 million euro. According to the agreement, the transaction was effective from 1 October 2009.

Financing Agreements

On 23 July 2004 ACEA issued €300,000,000 4.875% Notes due 2014 (ISIN Code XS0196712086).

On 3 March 2010 ACEA issued the ¥20,000,000,000 2.5 per cent. Notes due 2025.

Between September 2009 and the beginning of February 2010 ACEA has been granted four different revolving credit lines, for an amount of 100 million euro each, with a maturity of 36 months from the signing date, as back up lines to be drawn in case of financial need.

MAJOR SHAREHOLDERS

As at 9 February 2010, the shareholders which owned, directly or indirectly, a shareholding exceeding 2% of ACEA's voting capital were the following:

Declarer	Direct Shareholder	Type of Possession	Percentage of ordinary share capital	Percentage of voting share capital
CALTAGIRONE FRANCESCO GAETANO*	FINCAL SPA	Owner	3.897 %	3.897 %
		Total	3.897 %	3.897 %
	VIAPAR SRL	Owner	2.841 %	2.841 %
		Total	2.841 %	2.841 %
	SO.FI.COS SRL	Owner	0.188 %	0.188 %
		Total	0.188 %	0.188 %
	VIAFIN SRL	Owner	1.526 %	1.526 %
		Total	1.526 %	1.526 %
	VIANINI LAVORI SPA	Owner	0.493 %	0.493 %
		Total	0.493 %	0.493 %
	Total		**8.945 %**	**8.945 %**
GDF SUEZA SA	ONDEO ITALIA SPA	Owner	4.990 %	4.990 %
		Total	4.990 %	4.990 %
	GDF SUEZ ENERGIA ITALIA SPA	Owner	4.991 %	4.991 %
		Total	4.991 %	4.991 %
	Total		**9.981 %**	**9.981 %**
MUNICIPALITY OF ROME	MUNICIPALITY OF ROME	Owner	51.000 %	51.000 %
		Total	51.000 %	51.000 %
	Total		**51.000 %**	51.000 %
TOTAL			**69.926 %**	**69.926 %**

* Francesco Gaetano Caltagirone also holds a stake of more than 2% in, and is vice-president of, Banca Monte dei Paschi S.p.A. Banca Monte dei Paschi S.p.A. is the parent company of MPS Capital Services Banca per le Imprese S.p.A., one of the Joint Lead Managers.

ACEA's controlling shareholder is the municipality of Rome.

The municipality of Rome does not carry out any management and coordination activity with respect to ACEA in accordance with the Italian Civil Code.

At the date of this Prospectus, there is no shareholders' agreement among ACEA's shareholders.

CORPORATE GOVERNANCE

ACEA's corporate governance is implemented in accordance with Italian legal requirements and best practice and is compliant with the model recommended by the Code of Best Practice for Listed Companies issued by Borsa Italiana S.p.A.

ACEA has a "traditional" system of corporate governance, based on a conventional organisational model comprised of shareholders, a Board of Directors, a Managing Director and a Board of Statutory Auditors.

ACEA is managed by the Board of Directors which is made up, according to the Article 15 of the by-laws, of no less than 5 and no more than 9 members. The members remain in office for three accounting periods and can be

reappointed. The by-laws provide for a voting list system for the appointment of all member of Board of Director.

The by-laws also state that shareholders other than the municipality of Rome, or its subsidiaries, which hold equity investments of over 8% in the share capital cannot exercise the right to vote in respect of shares held above this limit.

The Board of Statutory Auditors is made up by three statutory auditors and two substitute auditors. The by-law provides for the recourse to voting list for the appointment of all member of Board of Director.

MANAGEMENT

Board of Directors

The Board of Directors of ACEA is currently composed of the following members:

Name	Position	Date elected
Giancarlo Cremonesi	Chairman	29 October 2008
Marco Staderini	Chief Executive Officer	6 May 2009
Paolo Giorgio Bassi	Director	29 October 2008
Marco Maria Bianconi	Director	11 May 2007
Massimo Caputi	Director	11 May 2007
Pierre Clavel	Director	14 May 2009 and confirmed by the Shareholders' meeting on 15 September 2009
Jean Louis Chaussade	Director	11 May 2007
Luigi Pelaggi	Director	8 May 2009 and confirmed by the Shareholders' meeting on 15 September 2009
Andrea Péruzy	Director	8 May 2009 and confirmed by the Shareholders' meeting on 15 September 2009

The current Board of Directors shall remain in office until the shareholders' meeting called to approve ACEA's financial statements for the year ended 31 December 2009.

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

Other offices held by members of the Board of Directors

The principal business activities and other directorships, if any, of each of the members of the Board of Directors outside the ACEA Group are summarised below.

Name	Position	Main position held by the Directors outside ACEA Group
Giancarlo Cremonesi	Chairman	Board member of AceaElectrabel S.p.A.
		Board member of Imprebanca S.p.A.
		Board member of Ag. Regionale Sviluppo Lazio S.p.A.
		Board member of Assonime
Marco Staderini	Chief Executive Officer	Board member of AceaElectrabel S.p.A.
		Board member of Tirreno Power S.p.A.
Paolo Giorgio Bassi	Director	Chairman of Board of Directors Investimenti e Sviluppo S.p.A.
		Chief Executive Officer of Centrale Attività Finanziarie Società per Azioni.
		Board member of Eurocastle Investment Ltd
		Board member of Ciccolella S.p.A.
		Chairman of Board of Directors of TAS S.p.A.
		Chairman of Board of Directors of Equita Sim S.p.A. (previously named as Euromobiliare Sim S.p.A. Milano).
Marco Maria Bianconi	Director	Vice - Chairman of Fabbrica Immobiliare SGR
		Board member of Aalborg Portland A/S
		Board member of Cementir Italia S.r.l.
		Board member of Unicom S.r.l.
Massimo Caputi	Director	Board member of Bancaantonveneta S.p.A.
		Vice - Chairman of MPS Leasing & Factoring S.p.A.
		Managing Director of Fimit SGR S.p.A.
Pierre Clavel	Director	-

Jean Louis Chaussade	Director	Board member of SITA France
		Board member of Société des Eaux de Marseille (S.E.M.)
		Board member of Inversiones Aguas Metropolitanas
		Board member of Aguas de Barcelona
		Board member of Sino French Holdings
		Board member of Swire SITA Waste Service Ltd
		Board member of Suez Environnement Espana
		Board member of Culture Espaces
		Board member of Lyonnaise des Eaux France
		Chairman of Board of Directors of Association des Amis de l'Université Francaise d'Egypte
		Chairman of Board of Directors of Lyonnaise del Eaux France, SITA France
		Permanent representative of Suez Environnement Espana at the Board of Directors of Hisusa.
Luigi Pelaggi	Director	Board member of Sogesid S.p.A.
		Board member of Società Poggio Agricola Cennina A.R.L.
Andrea Péruzy	Director	Board member of CAAM RE Italia SGR S.p.A.
		Board member of Cassa di Risparmio della provincia di Viterbo S.p.A.

Committees of the Board of Directors

The Board of Directors appoints an Internal Control Committee and a Remuneration Committee, (respectively, Mr Paolo Giorgio Bassi, Marco Maria Bianconi and Jean Louis Chaussade for the Internal Control Committee and Mr Luigi Pelaggi, Massimo Caputi and Jean Louis Chaussade for the Remuneration Committee). The Board of Directors has deemed it unnecessary to set up an Appointment Committee.

Officers

The table below set forth ACEA's current executive officers who are not members of the Board of Directors (together with their role and the relative area) at the date of this Prospectus.

Name	Position	Area
Giovanni Barberis	Chief Financial Officer	Finance, business development, administration and control
Francesco Sperandini	Director	Network
Andrea Bossola	Director	Water
Sergio Agosta	Director	Energy
Luciano Piacenti	Director	Waste to Energy

Board of Statutory Auditors

The ACEA shareholders' meeting of 11 May 2007 appointed the current Board of Statutory Auditors of ACEA, comprising three permanent Statutory Auditors and two substitute auditors, conferring a mandate to last for three financial years, until the shareholders' meeting held to approve ACEA's financial statements for the year ended 31 December 2009.

The Board of Statutory Auditors of ACEA is currently composed of the following members:

Name	Position
Maurizio Lauri	Chairman
Roberto Pertile	Statutory Auditor
Francesco Lopomo	Statutory Auditor
Claudio Bianchi	Substitute Auditor
Claudio Valerio	Substitute Auditor

The business address of the members of the Board of Statutory Auditors is Piazzale Ostiense, 2, 00154 Rome, Italy.

Other offices held by members of the Board Statutory Auditors

The principal business activities and other directorships, if any, of each of the members of the Board of Statutory Auditors outside the ACEA Group are summarised below.

Name	Position	Main position held by the Member of Statutory Auditors
Maurizio Lauri	Chairman	-
Roberto Pertile	Statutory Auditor	-
Francesco Lopomo	Statutory Auditor	-
Claudio Bianchi	Substitute Auditor	Statutory auditor Caltagirone Società per Azioni Chairman of the Board of the Statutory auditor of Cementir Holding S.p.A.
Claudio Valerio	Substitute Auditor	-

Potential conflicts of interest

There are no potential conflict of interest between the duties of the members of the Board of Directors and the Board of Statutory Auditor to ACEA and their private interest or other duties.

INDEPENDENT AUDITORS

The current independent auditors of the ACEA Group are Reconta Ernst & Young S.p.A, with registered office at Via Po, 32 00198 Roma (Italy). Reconta Ernst & Young S.p.A. is registered under No. 2 in the Special Register (Albo Speciale) maintained by CONSOB and set out in Article 161 of the *Testo Unico delle Disposizioni in Materia di Mercati Finanziari* and under No. 70945 in the Register of Accounting Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of Legislative Decree No. 88 of 27 January 1992, and is also a member of the *ASSIREVI - Associazione Nazionale Revisori Contabili*.

Ernst & Young S.p.A audited the consolidated annual financial statements of ACEA for the financial year ended 31 December 2008.

The consolidated annual financial statements of ACEA for the financial year ended 31 December 2007 were audited by the Deloitte & Touche S.p.A, with registered office at Via Tortona, 25 20144 Milano. Deloitte & Touche S.p.A is registered under No. 46 in the Special Register (Albo Speciale) maintained by CONSOB and set out in Article 161 of the *Testo Unico delle Disposizioni in Materia di Mercati Finanziari* and under No. 132587 in the Register of Accounting Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of Legislative Decree No. 88 of 27 January 1992.

EMPLOYEES

As at 31 December 2008, the ACEA Group had 6,588 employees.

LEGAL MATTERS

The aggregate volume of pending litigation in which one or more companies of the ACEA Group are involved is relatively small, both in terms of number of cases (around one thousand) and of economic risk associated

thereto. In any case ACEA has set, and regularly implements in accordance with the applicable law, an ad-hoc fund in its financial statement for the purpose of covering the financial risks arising from the legal proceedings in which it is part. See also "*Risk Factors – Risks relating to Legal Proceedings*"

Tax moratorium

Pursuant to Italian Law, ACEA had a "tax moratorium" i.e. an exemption from corporate tax from 1997 to 1999. In June 2002 the European Commission ruled that the exemption was classified as State aid and therefore incompatible with EU regulations.

ACEA acknowledges the "Community Obligations" Decree – published on 26 September 2009 – which among other issues introduces new measures concerning the "tax moratorium".

Despite the numerous measures already adopted by the Italian Government concerning this issue – which, after agreements between the Italian Government and the European Commission, have each time appeared to resolve the issue definitively – the procedure has not yet been closed at the Community level. ACEA has always maintained that it did not benefit from any tax incentives that might have distorted or hindered competition between 1996 and 1999, the period on which the dispute focuses.

Moreover, in response to the Italian Government's request, ACEA has already repaid to the Italian Tax Authority the alleged State aid requested with the notice of assessment of 2007 and 2009 issued by the latter in the total amount of 119,3 million euro (including interest). ACEA made the repayments in the belief that it represented the definitive closure of the dispute.

ACEA also emphasises that most net income was distributed in the form of dividends to the majority public shareholder (City of Rome), to which most of the alleged tax benefits have consequently been transferred. The additional recovery demanded under the "Community Obligations" Decree therefore duplicates what has already in effect been returned to the public administration.

ACEA has brought a claim against the Italian Tax Authority's 2007 and 2009 notices of assessment mentioned above disputing the recovery measures reported to ACEA in 2007 and 2009. On 3 December 2009 Acea's claim against such assessments was considered in a hearing before the Provincial Tax Commission of Rome. The decision of the commission has not yet been made.

Antitrust Authority investigation of the acquisition of Publiacqua

On 8 June 2006 Italy's Antitrust Authority started an investigation of an alleged violation of Article 81 of the Treaty of Rome (anti-competitive agreements) in relation to the acquisition by ACEA, in partnership with Suez, of a 40% stake in Publiacqua, which manages water services in the Florence area.

On 28 November 2007 ACEA was notified of the Antitrust Authority's decision, with which it:

- deemed the existence of an agreement in restriction of competition between ACEA and Suez in the integrated water services sector, which is managed by a public private partnership in which the private partner is selected via a tender process;

- ordered Acea and Suez to put in place actions in order to avoid the repetition of the sanctioned behaviour (i.e. those put in place through the horizontal agreement) and to notify the Authority of such actions within 90 days; and

- ordered ACEA and Suez to pay fines of 8.3 million euro and 3 million euro, respectively.

ACEA appealed the Authority's decision before Lazio Regional Administrative Court, and the hearing before the courts was held in April 2008: on 7 May 2008 the court announced its sentence, which was in ACEA's favour and cancelled all the rulings and the fine imposed. Details of the sentence, upholding all the appellant's arguments, were published at the end of June. The original fine was paid in February 2008 and, in view of the latest sentence, ACEA has filed a claim for the return of the sum paid. On 11 June 2009, the Ministry of Economy returned the fines of 8.3 million euro paid by ACEA in February 2008, following the ruling of the Lazio Regional Administrative Court. The Italian Antitrust Authority has since appealed against the decision of the Lazio Regional Administrative Court; these proceedings are currently pending and ACEA has no information as to when a decision will be made.

Further Antitrust case

An investigation is currently being conducted by Italy's Antitrust Authority against ACEA Distribuzione and other Italian utilities for an alleged breach of Art. 82 of the Treaty of Rome with regards to alleged conduct carried out in the sale of electricity to domestic users and small businesses, in order to obstruct the switching of its clients to different service providers. In this respect ACEA Distribuzione filed a request for the application of the leniency programme managed by the Italy's Antitrust Authority (so called *programma di clemenza*), which comprises a commitment to prevent the replication of the alleged abuse and to eliminate the relevant consequences, and as a consequence the dismissal of the investigation by the Italy's Antitrust Authority. ACEA Distribuzione is waiting to receive the final decision from Italy's Antitrust Authority.

ACEA – sale of 50% of Acea Distribuzione

In February 2009, the Italian Tax Authority served ACEA with a Tax Audit Report referring to: (i) the 2004 corporate reorganization under which ACEA sold the 50% shareholding in Acea Distribuzione S.p.A. to Acea Reti e Servizi Energetici S.p.A.; and (ii) the subsequent option for the "tax transparency" regime with Acea Distribuzione S.p.A.

According to the Tax Audit Report, the corporate reorganisation was put in place with the sole purpose of offsetting - under the "tax transparency" regime - the tax losses of previous tax periods (amounting to Euro 109 million) of ACEA with taxable income of Acea Distribuzione S.p.A. As a consequence, according to the Tax Audit Report, the offsetting led to a tax saving of Euro 35.9 million which was not due.

In December 2009, ACEA received a questionnaire asking to provide clarifications and objections to the content of the Tax Audit Report. In February 2010, ACEA replied to the questionnaire explaining the reasons for which the alleged violation is groundless. The reply is under examination of the competent tax authorities and so far no notice of assessment has been issued.

ACEA maintains that valid arguments exist to challenge the position of the Italian Tax Authorities. Should such authorities issue a notice of assessment and the transaction be deemed as conducted for tax avoidance purposes by the competent Tax Court, the maximum liability would be equal to Euro 35.9 million, plus penalties (ranging from 100% to 200% of avoided taxes) and interest.

ACEA ATO 5 - Measures concerning the alleged illegitimacy of the tariffs

ACEA ATO 5 is dealing with some issues arising from a resolution issued by Italy's Supervisory Committee for the Use of Water Resources (*i.e.* the ministerial body in charge of the supervision of the tariffs applied to the users, hereinafter "**CO.VI.RI**") which, following the tariffs review of 2007 that involves ATO 5- Southern

Lazio and Frosinone (i.e. one of the geographical optimal districts of the Lazio Region), contested the decision taken by the Authority representing the municipalities belonging to the ATO 5 ("**AATO 5**")[17].

On February 27, 2007 the Mayor's Conference of the municipalities belonging to ATO 5 Southern Lazio and Frosinone (i.e. the decisional body of the AATO 5) passed Resolution no. 4/2007, which recognised the higher costs sustained by ACEA ATO 5 since taking over the management of integrated water services compared with the costs estimated at the time of the award of the management of integrated water services and decided "to approve revised tariffs with effect from 2006".

On the basis of Resolution no. 4/2007, the Chairman of AATO 5 took Decision no.1/2008 resolving upon modifying "the tariffs for the year 2006 to enable the operator to recoup the shortfall via increases in the amounts billed to its customers".

Following introduction of the revised tariffs, CO.VI.RI, with Resolution no. 7/2008, raised two objections to the decision taken by the Mayor's Conference:

- firstly, the increase in the average real tariff for integrated water services exceeded the limit established by the Ministerial Decree of 1 August 1996, being over 5% for each year;

- secondly, the resolution underlines "the principle of non-retroactivity of administrative actions designed to guarantee certainty in legal relation, and the legal principle prohibiting unilateral changes with retroactive effect to legal relations between private parties".

With reference to the Resolution no. 7/2008 issued by CO.VI.RI, the Mayors' Conference for ATO 5 issued Resolution no. 3 of 27 January 2009, resolving upon: "not suspending, or cancelling Resolution no. 4/2007 issued by the same Mayors' Conference; not appealing to the Regional Administrative Court (TAR) against CO.VI.RI Resolution no. 7/2008; and immediately launching procedures to comply with all the requirements set forth by CO.VI.RI Resolution no. 7/2008".

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[17] The water integrated service in each Italian Region is organised on the basis of geographical optimal districts ("**ATOs**"), including a certain number of Municipalities. In order to ensure unity in the management of the service, the municipalities belonging to each ATO have to associate and institute an Authority of the ATO ("**AATO**"), to which they transfer their competences in the sector of the management of the waters researches. Although the internal organisation of each AATO is not regulated by law and depends on decisions of the municipalities, as a rule, the municipalities choose, as internal bodies of the AATO, a Mayor's Conference (decisional body) and a Chairman.

Each AATO shall enter into, on behalf of the municipalities belonging to it, the contract for the management of the integrated water service, with a sole operator selected by competitive procedure ("**Sole Operator**").

Pursuant to Art. 154, of L.D. No. 152/2006, each AATO determines the reference tariff applicable by the Sole Operator to the users, on the basis of the principles set forth by ministerial decree (as of today, Ministerial Decree, dated 1 August 1996). Such Decree provides that each AATO may annually recognize to the Sole Operator increases (within certain percentage limits) of the average real tariff applied to the users as a consequence of the higher costs sustained by the same Sole Operator in comparison with the planned costs.

Finally, the tariff, as determined by the AATO, is submitted to the CO.VI.RI (i.e. the ministerial body in charge of the supervision of the tariffs determined and adjusted by the AATO).

ACEA ATO 5 appealed to the Regional Administrative Court of Lazio ("**Tar Lazio**") against CO.VI.RI Resolution no. 7/2008, as ACEA believes that such Resolution is unfounded. This appeal is still pending.

On 21 December 2009, the Mayors' Conference for ATO 5 Southern Lazio – Frosinone voted the cancellation of Resolution no. 4/2007. In accordance with the agreement governing the terms of services provided by ACEA ATO 5 ("*convenzione di gestione*"), ACEA ATO 5 and AATO 5 set up a negotiation table to find a solution. The negotiations between the parties are ongoing. As soon as the parties reach a final agreement on the issue, they will formalise an agreement.

On 19 February 2010, ACEA ATO 5 challenged before the TAR Lazio the resolution of the Mayors' Conference for ATO 5 Southern Lazio – Frosinone that voted the cancellation of its previous Resolution no. 4/2007.

In the event that the appeals of ACEA ATO 5 before the TAR Lazio are unsuccessful and the negotiations between ACEA ATO 5 and AATO 5 aimed at quantifying the tariffs applicable to the users from 2006 does not reach a positive conclusion, ACEA ATO 5 could be exposed to potential damages estimated at an amount of approximately Euro 25 million.

AE Elettricità fiscal inspection

In September 2009, the Italian Tax Authority served Aceaelectrabel Elettricità S.p.A. with a Tax Audit Report for the tax periods 2003-2007 in which the following findings were raised:

- for the tax period 2005, the deduction of certain expenses borne by Aceaelectrabel Elettricità S.p.A. in relation to the sale of receivables connected to the energy equalization. According to the Italian Tax Authority such expenses were only partially deductible and accordingly Euro572,395 was a non deductible item;

- for the tax periods from 2003 to 2007, the deduction (for a total amount of Euro 39.7 million) of the amortization of the goodwill transferred to Aceaelectrabel Elettricità S.p.A. as part of the going concern relating to the energy sales demerged by Acea Distribuzione S.pA. in 2002.

According to the Italian Tax Authority, the deduction is denied because: (i) before the demerger, Acea Distribuzione S.p.A. reclassified such goodwill for accounting purposes (together with the goodwill pertaining to the distribution business) as a concession for accounting purposes; and (ii) the concession pertains to the distribution business and not also to the business of sale of energy demerged in favor of Aceaelectrabel Elettricità S.p.A.

In line with the content of the Tax Audit Report, for the tax periods 2003-2004, the Italian Tax Authority has already issued two tax assessments for an overall amount of Euro 8.3 million, plus Euro 8.3 million penalties, plus interest.

Aceaelectrabel Elettricità S.p.A. maintains that valid arguments exist to challenge the position of the Italian Tax Authorities for all the tax periods referred to in the Tax Audit Report (2003 – 2007). For the time being, in respect of the two notices of assessment already issued (2003 -2004) the company has entered into discussions with the Italian Tax Authority under the settlement procedure called "*accertamento con adesione*". If the assessments are not settled on a satisfactory basis, the company will challenge them in front of the competent Tax Court.

For the tax periods 2003-2008, the maximum liability would be equal to Euro 17.4 million, plus penalties (ranging from 100% to 200% of unpaid taxes) and interest. Even though the tax period 2008 has not been

assessed by the Italian Tax Authority, it has been considered here because ACEA adopted the same behaviour challenged by the Italian Tax Authority in such period.

SAO fiscal inspection

In October 2008, the Italian Tax Authority (*Agenzia delle Entrate*) served SAO with a notice of assessment claiming the payment of taxes (IRPEG, IRAP and VAT) and penalties in relation to fiscal years 2003 and 2004 for an aggregate amount of Euro 5.8 million for taxes and Euro 5.7 million for penalties. The Issuer filed an appeal and, separately, filed a petition requesting that payment of such amounts be suspended pending the outcome of the appeal, which has been accepted by the competent Tax Court with an injunction issued on May 2009. In November 2009, the competent Tax Court submitted a petition to the Constitutional Court, in order to examine the legitimacy of the tax measure that led to the penalty.

Any penalties resulting from the proceedings will be charged to the previous shareholder.

Other pending litigation

Set out below is a summary of other principal litigation involving companies of the ACEA Group:

(a) In 2004, ACEA outsourced certain work to a call centre. Since then, 75 workers at such call centre have started proceedings against ACEA claiming that they should be considered full-time employees of ACEA. At first instance, the court upheld 49 claims, and rejected the remaining 26. All such judgments have been appealed against, and the result of the appeals is still pending. In the meantime, ACEA is required to pay sums corresponding to the salary owed to the 49 workers who were successful at first instance, as if they had in fact been full-time employees of ACEA. Should the workers' position be finally upheld by the courts, ACEA shall also be subject to fines and required to make payments in respect of social security.

(b) In March 2009, a company operating a hydroelectric plant fuelled by the Peschiera river in the Lazio region has brought a claim against ACEA requesting 80 million euro in damages for the alleged inadequacy of an indemnity paid by ACEA to them pursuant to a concession contract granted to ACEA by the Lazio region. The concession contract allows ACEA to use the water of the Peschiera river in order to feed the fresh water distribution network in Rome. ACEA believes that the claim has little or no merit. Proceedings have just begun before the Lazio regional water court (*Tribunale regionale delle Acque*) and ACEA is unable to predict when such proceedings will finish.

(c) In October 2009, one of the minority shareholders of ACEA ATO5, whose stake amounts to 5.02% (ACEA'S stake is approximately 93.5%), brought a claim against ACEA for alleged breach by ACEA of the shareholders agreement governing the management of ACEA ATO5. The minority shareholder claims that such alleged breach caused a depreciation of the value of its stake in ACEA ATO5 amounting to approximately 40 million euro and therefore requests payment of damages in that amount. Although ACEA believes that the claim has no merit, it is not possible to predict the outcome of this claim, particularly as the proceedings are still in the preliminary stages and the case has not been assigned to a court or judge.

CAPITALISATION OF THE ISSUER

The following table sets out the capitalisation on a consolidated basis of ACEA as of 30 September 2009 and as at 31 December 2008. This information has been extracted from, should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated unaudited interim financial statements of ACEA for the nine months ended 30 September 2009 and the audited consolidated financial statements of ACEA as at and for the year ended 31 December 2008, which are incorporated by reference herein.

	As at	
	September 30, 2009	**December 31, 2008**
	(Unaudited)	*(Audited)*
	(***in millions of Euro***)	
Cash and cash equivalents	289	212
Current financial assets	255	214
Non-current financial assets	23	30
Total Cash and Financial assets	**567**	**456**
Non-current borrowings and financial liabilities		
Bonds	305	309
Medium/long term bank borrowings	1.561	1.397
Other medium/long term borrowings	2	2
Total non-current borrowings and financial liabilities	**1.868**	**1.708**
Current borrowings and financial liabilities	**806**	**381**
Total borrowings and financial liabilities	**2.674**	**2.089**
Shareholder's equity		
Share capital	1.099	1.099
Retained earnings and other reserves, net	145	278
Minority interest	71	67
Total shareholder's equity	**1.315**	**1.444**
Total Capitalisation	**3.989**	**3.533**

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

Set out below is a summary of certain financial information of ACEA derived from the consolidated unaudited interim financial statements of ACEA for the nine months ended 30 September 2009 and 2008 and the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2008 and 2007 (in each case, prepared in accordance with IFRS) together with certain unaudited restated consolidated information as further described below.

Such financial statements, together with, in the case of the audited financial statements of the Issuer as at and for the years ended 31 December 2008 and 2007, the audit reports of, respectively, Reconta Ernst & Young S.p.A and Deloitte & Touche S.p.A thereon and the accompanying notes, are incorporated by reference into this Prospectus.

The consolidated unaudited interim financial statements of ACEA for the nine months ended 30 September 2009 and 2008 have been prepared by the Issuer and have not been audited or reviewed by independent auditors. Investors are cautioned against placing undue reliance on such financial statements.

During 2008, ACEA, as part of the wider process of reviewing the hedging strategies for transaction involving the purchase and sale of electricity and gas, discovered an error in the method of accounting for differentials arising from the purchase of electricity underlying the CIP6 contract that AceaElectrabel Elettricità and the Energy Services Operator (ESO) enter into each year. Because of these developments, (i) the audited financial statements as at for the year ended 31 December 2008 are not directly comparable with those for the same period in 2007 approved by the Shareholders General meeting of the Issuer as of 29 April 2008, and (ii) the unaudited financial statements for the nine months ended 30 September 2009 are not directly comparable with those for the same period in 2008 approved by the Board of Directors meeting of the Issuer as of 10 November 2008.

This section also contains:

(i) the unaudited consolidated financial statements of the Issuer as at and for the year ended 31 December 2007 restated in order to present the financial position, results of operations and certain other selected information relating to the year ended 31 December 2007 as if the differentials arising from the purchase of electricity underlying the CIP6 contract that AceaElectrabel Elettricità and the Energy Services Operator (ESO) enter into each year, had been correctly accounted in its consolidated financial statements as at and for the year ended 31 December 2007 (the "**2007 Annual Restated Financial Information**"); and

(ii) the unaudited consolidated financial statements of the Issuer for the nine months ended 30 September 2008 restated in order to present the results of operations and certain other selected information relating to the nine months ended 30 September 2008 as if the differentials arising from the purchase of electricity underlying the CIP6 contract that AceaElectrabel Elettricità and the Energy Services Operator (ESO) enter into each year, had been correctly accounted in its consolidated financial statements for the nine months ended 30 September 2008 (the "**2008 Interim Restated Financial Information**", and together with the 2007 Annual Restated Financial Information, the "**Restated Financial Information**").

The Restated Financial Information has been prepared by the Issuer, who has represented that (i) the underlying assumptions used in preparing the Restated Financial Information and for presenting the effects of the transactions described therein are reasonable; and (ii) the methodology used in the preparation of the Restated Financial Information has been applied correctly and consistently for the purposes illustrated therein. The Restated Financial Information has not been separately audited or reviewed by independent auditors. Reconta

Ernst & Young S.p.A. have examined the methods adopted to restate the 2007 Annual Restated Financial Information only for the purpose of their audit opinion in relation to the Issuer's financial statements as at and for the year ended 31 December 2008, incorporated by reference herein. As such, investors are cautioned against placing undue reliance on the Restated Financial Information. See "*Risk Factors - The Issuer's restated consolidated financial information provided in this Prospectus may not be representative of actual results of operations or financial condition*".

The financial information below should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements, reports and the notes thereto incorporated by reference herein. See also "Documents Incorporated by Reference".

Consolidated Balance Sheet of ACEA - Assets

	As at 30/09/2009	As at 31/12/2008	As at 31/12/2007	As at 31/12/2007 *restated*
	(unaudited)	*(audited)*		*(unaudited)*
		(millions of euro)		
Property, plant and equipment	3,057	2,908	2,538	2,538
Investment property	3	3	2	2
Goodwill	77	77	22	22
Concessions	272	290	294	294
Other intangible assets	61	56	32	32
Investments in: subsidiaries and associates	38	26	93	93
Other investments	6	6	7	7
Deferred tax assets	237	215	143	169
Financial assets	23	30	36	36
Other assets	10	14	18	18
NON CURRENT ASSETS	**3,784**	**3,625**	**3,184**	**3,210**
Inventories	79	76	67	67
Trade receivables	1,319	1,262	1,204	1,204
Other current assets	97	112	119	111
Cash and cash equivalents	289	212	129	93
Current financial assets	255	214	277	286
Current tax assets	104	73	46	46
CURRENT ASSETS	**2,143**	**1,949**	**1,842**	**1,807**
TOTAL ASSETS	**5,927**	**5,574**	**5,026**	**5,017**

Consolidated Balance Sheet of ACEA – Liabilities and Shareholders' Equity

	As at 30/09/2009	As at 31/12/2008	As at 31/12/2007	As at 31/12/2007 *restated*
	(unaudited)	*(audited)*		*(unaudited)*
			(millions of euro)	
Shareholders' Equity:				
Share capital	1,099	1,099	1,099	1,099
Legal reserve	107	99	86	86
Other reserves	(261)	(179)	(99)	(97)
Retained earnings / (accumulated losses)	304	172	121	117
Net profit / (loss) for the year	(5)	186	167	164
Total shareholders' equity attributable to the Group	**1,244**	**1,377**	**1,374**	**1,368**
Minority interests	71	67	66	66
Total shareholders' equity	**1,315**	**1,444**	**1,440**	**1,434**
Staff termination benefits and other defined benefit obligations	124	128	138	138
Provisions for liabilities and charges	120	161	150	150
Borrowings and financial liabilities	1,868	1,708	1,126	1,126
Other liabilities	191	188	192	190
Deferred tax liabilities	85	86	95	92
NON-CURRENT LIABILITIES	**2,388**	**2,271**	**1,701**	**1,696**
Trade payables	929	1,056	951	951
Other current liabilities	273	357	262	263
Borrowings	806	381	612	612
Taxes liabilities	216	65	61	61
CURRENT LIABILITIES	**2,224**	**1,859**	**1,885**	**1,887**
TOTAL LIABILITIES AND SHAREHOLDERS 'EQUITY	**5,927**	**5,574**	**5,026**	**5,017**

Annual Consolidated Income Statement of ACEA

	Year ended 31 December		
	2008	**2007**	**2007 Restated**
	(audited)		*(unaudited)*
	(millions of euro)		
Sales and service revenues	3,056	2,522	2,515
Other operating income	88	69	69
Consolidated Net Revenues	**3,144**	**2,591**	**2,584**
Staff costs	(249)	(225)	(224)
Cost of materials and overheads	(2,269)	(1,836)	(1,831)
Total Operating Costs	**(2,518)**	**(2,061)**	**(2,054)**
Net profit / (loss) from commodity risk management	(3)	(2)	(6)
Gross Operating Profit	**623**	**529**	**523**
Amortisation, depreciation, provisions and impairment charges	(238)	(205)	(230)
Operating Profit / (loss)	**385**	**323**	**293**
Finance (costs) / income	(90)	(74)	(73)
Profit / (loss) on investments	0	40	40
Profit / (loss) before tax	**295**	**290**	**260**
Taxation	(104)	(117)	(89)
Net Profit / (loss) from continuing operations	**191**	**173**	**171**
Net Profit / (loss) from discontinued operations	1	0	(1)
Net Profit / (loss) for the year	**192**	**173**	**170**
Net Profit / (loss) attributable to minority interests	6	6	6
Net Profit / (loss) attributable to the Group	**186**	**167**	**164**

Interim Consolidated Income Statement of ACEA

	Nine months ended 30 September	
	2009	**2008 Restated**
	(unaudited)	
	(millions of euro)	
Sales and service revenues	2,138	2,246
Other operating income	39	45
Consolidated Net Revenues	**2,177**	**2,291)**
Staff costs	(218)	(197)
Cost of materials and overheads	(1,551)	(1,657)
Total Operating Costs	**(1,769)**	**(1,854)**
Net profit / (loss) from commodity risk management	(3)	(5)
Gross Operating Profit	**405**	**442**
Amortisation, depreciation, provisions and impairment charges	(202)	(176)
Operating Profit / (loss)	**203**	**266**
Finance (costs) / income	(63)	(68)
Profit / (loss) on investments	0	0
Profit / (loss) before tax	**140**	**198**
Taxation	(140)	(80)
Net Profit / (loss) from continuing operations	**0**	**118**
Net Profit / (loss) from discontinued operations	0	0
Net Profit / (loss) for the year	**0**	**118**
Net Profit / (loss) attributable to minority interests	5	5
Net Profit / (loss) attributable to the Group	**(5)**	**113**

REGULATORY

EU and Italian laws significantly regulate ACEA's core energy, water and waste management businesses and these regulations may affect ACEA's operating profit or the way it conducts business. The principal regulations applicable to ACEA are summarised below. Although this summary contains all the information that ACEA's management considers material in the context of the issue of the Notes, it is not complete. Investors should read this summary together with the legislation applicable to ACEA, and not rely on this summary only.

Water business

Galli Law and Environmental Code

The first organic set of legal provisions enacted to regulate the sector of water services was contained in Law No. 36 of 5 January 1994 (the "**Galli Law**") aimed 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 advocated 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.

The Galli Law is no longer directly applicable since it has been abrogated and repealed by Legislative Decree No. 152 of 3 April 2006 (the "**Environmental Code**"). Through the Environmental Code, the Galli Law was reviewed but substantively maintained.

The Environmental Code which contains integrated provisions for all environmental businesses and, in principle, the regulation of the management of the integrated water service system in Italy, is based on the following principles:

- establishing a sole integrated system for the management of the entire cycle of the water resources, including the abstraction, transportation and distribution for civil purposes, water drainage and purification of waste water;

- identification, by the Italian Regions and within each of them, of "Optimal Territorial Districts" ("***Ambiti Territoriali Ottimali***" or "***ATOs***"), within which the integrated water services are to be managed (usually coinciding with the territory of the Italian Provinces);

- institution of a Water District Authority for each ATO ("***Autorità di Ambito Territoriale Ottimale***" or "***AATOs***"), responsible for:

  - organising the integrated water services, by means of an integrated water district plan which, *inter alia*, defines the investments policy and the legal water management model;

  - identifying and overseeing an operator of the integrated water services;

  - determining the tariffs; and

  - monitoring and supervising the service and the activities carried out by the selected operator, in order to ensure the correct application of the tariffs and the achievement of the objectives and quality levels set out in the district plan.

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. The Water District Authorities supervise, organise and control the integrated water services that are managed and operated on a day-to-day basis by (public and/or private) service operators.

The Water District Operator

Pursuant to the Environmental Code, the award of the management of the integrated water system is made in favour of a sole operator ("**Water District Operator**") for each ATO with a public tender procedure to be organised by the relevant AATO. In this respect, it should be noted that the legal regime governing the award of the public local services set forth in Art. 23 bis of Law Decree No. 112 of 25 June 2008 ("**Decree No. 112/2008**") has been recently amended by Art. 15 of Law Decree No. 135 of 25 September 2009 (converted in Law No. 166 of 20 November 2009). For an analysis of the new regime governing the award of the integrated water service, please see below, under *Regulations applicable to the supply of local public services: Water, Waste and Public Lightning Services*.

Relationships between the Water District Authority and the Water District Operator

The contractual relationship between the AATO and the operator is regulated by *ad hoc* agreements (*convenzioni di gestione*) which shall provide, in particular, for:

- the legal regime chosen for the management of the service;
- the term of the contract, which shall not exceed 30 years;
- the obligation for the operator to return the assets assigned to it at the end of the contractual term;
- the standards, in terms of quality of the service and financial performance, that the operator is required to guarantee, as well as the criteria to be applied to monitor such performance;
- the applicable penalties and the causes of termination pursuant to the Italian Civil Code;
- the criteria and the modalities for the application of the tariffs determined by the AATO; and
- the obligation to execute an appropriate financial guarantee.

The AATO shall be responsible for preparing the draft agreement, to be drafted on the basis of the "sample agreement" adopted by the Regions.

Quality of Water Fit for Human Consumption

Legislative Decree No. 31 of 2 February 2001 ("**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 Annex I of such legislative 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.

Water Tariff Mechanism

Pursuant to Art. 154 of the Environmental Code, the water tariff constitutes the consideration (corrispettivo) of the integrated water service owed to the selected operator and it is, in principle, calculated in such a way that it should allow a full recovery of the operating costs incurred and to entail in addition a given percentage return on the investments made.

The costs to be considered in order to calculate the tariff should be defined pursuant to a regulation of the Environmental and Territory Protection Minister. Such regulation has not been issued yet and the costs and elements based on which the water tariff is calculated are still regulated by a Minister of Public Works Decree dated 1 August 1996.

Such 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 AATO 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 ATO.

According to the Decree, the ''reference tariff'' for each district is determined in accordance with a formula which takes into account operating costs (such as raw materials, services, wages and salary, changes in inventories, depreciation), the amortisation of the tangible and intangible fixed assets, 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).

Constitutional Court sentence 335/2008

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

The judgement is based on the opinion that the integrated water services tariff represents payment for services provided under contract and not a form of taxation. On this basis the Court has, therefore, found fault with the part of the above provisions that establishes that the tariff component regarding waste water treatment is to be paid by end users even if there is no "direct link between the payment of this component and effective provision of the service for which the payment is due".

In implementation of the Constitutional Court sentence, Parliament approved Law 13 of 27 February 2009. Article 8 sexies of this legislation contains a definition of the tariff component regarding waste water treatment introducing a new binding component, consisting of the sum of the charges incurred, as expressly identified and

programmed in the area plans, in carrying out the overall activities involved in water treatment, including the design, construction and completion of plants and the related investments.

This new component "is payable to the operator by end users, in cases where there are no treatment plants or such plants are temporarily inactive, from the start-up of the tender procedures for the design or completion of the infrastructure necessary in order to provide the treatment service, provided that such procedures are implemented in accordance with the established schedule". The second paragraph of article 8 sexies also governs the method of reimbursing the sums received from end users, as required by the Constitutional Court sentence, establishing that the design, construction and completion costs incurred are to be deducted from the rebate.

In September 2009, Ministry of the Environment issued a decree (published on 8 February 2010), in order to set the rules concerning the reimbursement of the disallowed tariff component covering waste water treatment.

In particular, the Decree establishes that:

- The operator must provide the Area Authority with all the relevant information necessary to permit the Authority to calculate the amount of the rebates. In particular:
    - the customers' list containing all the information about whose customers are connected to the sewage network.
    - Amounts paid by the single customer with reference to the tariff component covering waste water treatment
    - All the information related to the design, construction and completion costs incurred in the past years.
- The rebate must be calculated by the operator's Area Authority, on the basis of the informations provided by the operator,
- The operator must reimburse the disallowed tariff component, either in a lump sum or in instalments, within five years from 1 October 2009
- The Area Authorities are authorised to take all measures necessary to guarantee the operator to mantain the economic and financial equilibrium. It could be assured through an extraordinary revision of tariffs.

Waste business

The Ronchi Decree and the Environmental Code

The first organic reform concerning the waste sector was carried out through Legislative Decree No. 22 of 5 February 1997 (the "**Ronchi Decree**") which pursued the objective of overcoming the fragmented management, separating planning functions from management, and reforming the system of remuneration of the service by applying a rate suitable to cover investment and operating costs. The regulatory frame has been recently changed after the approval of the Environment Code, which has repealed the Ronchi Decree, by introducing a number of important changes with the aim to promote the development of a competitive market for the assignment of the waste management service.

In particular, the regulations contained in the Environmental Code are based on the following fundamental principles:

- the fostering of segregated waste collection, establishing collection targets in defined timeframes: 35% by 31 December 2006, 45% by 31 December 2008 and 65% by 31 December 2012;

- each Region shall be divided into Atos and a Waste District Authority shall be established for each ATO ("***Autorità di Ambito Territoriale Ottimale***" or "***AATOs***"), which is responsible for organising, awarding and supervising the integrated waste management service;

- the AATO shall draft a district plan, in accordance with the criteria set out by the relevant Region;

- the Municipalities' competences relating to the integrated waste management shall be transferred to the AATOs;

- a progressive disuse of landfills as a disposal system for waste materials; and

- the order of priority of the procedures through which waste can be managed shall be the following: (i) material recycling; (ii) compost manufacture, and (iii) energy generation.

The Integrated Waste Operator

The Ronchi Decree provided that the phases of collection and transport of urban solid waste be managed in a unitary and centralised way by the Municipalities belonging to the ATO, in accordance with one of the modalities provided for by the general laws and regulations regarding local public services. Conversely, recycling and disposal operations were subject to a regulated access regime, permitting possible forms of competition on the market.

The Environment Code has partly modified the above-described regulatory framework, by providing that the award of the management of waste integrated cycle service is made in favour of a sole operator for each ATO by a competitive procedure to be organised by the AATOs pursuant to Art. 23 bis of Decree No. 112/2008, as recently amended by Art. 15 of Law Decree No. 135 of 25 September 2009 (converted in Law No. 166 of 20 November 2009) which sets forth the new legal regime in relation to the awarding of the local public services. For an analysis of such regime, please see below, under *Regulations applicable to the supply of local public services: Water, Waste and Public Lightning Services.*

Relationships between the Water District Authority and the Water District Operator

The relationships between the AATO and the operator shall be regulated by an ad hoc service contract, to be drafted in accordance with a sample contract adopted by the Regions. The service contract shall provide for:

- the legal regime chosen for the management of the service;

- the term of the contract (no less than fifteen years);

- the obligation to achieve economic and financial balance;

- the levels of efficiency and reliability of the service to be guaranteed to the users;

- the ways of monitoring the correct performance of the service;

- the applicable penalties and the causes of termination;

- the obligation to adopt the so-called *carta dei servizi* (service card); and

- the criteria and ways of applying the rates.

Waste Tariff Mechanism

The Ronchi Decree replaced the urban solid waste disposal tax (so-called *Tassa per lo smaltimento dei rifiuti solidi urbani*) with a tariff regime, aimed at fully covering costs, which was based on a "price cap" method: the Municipalities were responsible for determining the tariff on the basis of a reference value established according to the so-called "Normalised Method" provided for by Presidential Decree No. 158 of 27 April 1999 ("**Decree No. 158/1999**").

The Environment Code has assigned to each AATO the task of determining the tariff to be paid to the service operators: such tariff shall be commensurate with the ordinary average quantity and quality of waste produced by square meter in relation to the use and types of activities carried out, on the basis of general parameters determined by an ad hoc regulation of the Environmental and Territory Protection Ministry.

By December 31, 2009, the Ministry is required to adopt a regulation identifying the cost components for determining the tariff. Should the Ministry not adopt such regulation, on the basis of the provisions of Decree No. 158/1999, the tariff will be adopted on a voluntary basis. As of the date of this Prospectus, such regulation has not yet been adopted and there is currently no clarity as to the timing of the adoption of such regulation.

(i) Landfill disposal

(ii) Legislative Decree no.36 of 13 January 2003 (Decree no. 36/03) implements the Landfill Directive (Council Directive no. 1999/31/EC), which aims to prevent, or to reduce as far as possible, the negative environmental effects of landfill.

(iii) Decree no. 36/03 requires companies that operate a landfill to obtain a specific authorisation and to carry out a series of activities (including collection, storage and disposal of the percolate, aspiration, combustion and energy retrieval of the bio-gas) for a period of 30 years after closure of the landfill. The price applied by the operator for landfill disposal must cover the costs for landfill management for at least 30 years after closure.

Regulations applicable to the supply of local public services: Water, Waste and Public Lightning Services

The integrated water service, the integrated waste management service and the public lightning service are economic local public services.

Art. *23 bis* of Law Decree No. 112/2008, which regulates how to manage local public services, has been recently amended by Art. 15 of Law Decree No. 135 of 25 September 2009 (converted in Law No. 166 of 20 November 2009) (the "**New Regime**").

In light of the New Regime, the management of the services mentioned herein shall be awarded to private entities, to be selected through public tender procedures. The ordinary methods to award the local public services are the following:

- award to private entities selected through a public tender procedure; or

- award of the service directly to companies participated by public and private entities (società miste), provided that the following requirements are met: (i) the private entity is selected through a public

tender procedure and is entrusted with "specific operational duties related to the management of the service"; and (ii) the private entity holds an interest equal at least to 40% of the company's capital.

The New Regime confirms that the direct award (i.e. the so-called "in house providing"[18]) represents an extraordinary procedure. In particular, it is clarified that the awarding entities are entitled to directly award a local public service to a wholly controlled public company meeting the requirements set forth for by law with regard to the in-house and provided that specific economic, social, environmental and geomorphologic characteristics of the local context do not allow the awarding entities to outsource on the market the public utilities.

In such a case, the choice of the in-house option shall need to be adequately justified and submitted to the evaluation of the *Autorita' garante della concorrenza e del mercato* (the Italian Antitrust Authority), which shall be required to pronounce its opinion within the subsequent 60 days. In the event that the Italian Antitrust Authority does not issue its opinion within such date, then its silence shall be considered as approval.

The main changes introduced by the New Regime are those concerning the temporary regime of the existing awards. In particular the New Regime sets forth that, by 31 December 2011, the following awards shall be terminated:

- local public services awarded directly (i.e. without previous tender procedure) before 22 August 2008 even if such awards are in compliance with the European Commission principles relating to the in-house providing, referred to above. The direct awards can be maintained until their natural expiry date provided that by 31 December 2011 the public entities transfer to a private shareholder (selected through a public tender and entrusted with operating tasks) at least 40% of the corporate capital of the in-house company; and

- local public services awarded directly (i.e. without previous tender procedure) to companies participated by public and private entities in which the private shareholder has been selected through a tender procedure but has not been entrusted with operating tasks.

However, the following awards will continue up to their natural expiration date:

- local public services awarded to companies participated by public and private entities in which the private shareholder has been selected through a tender procedure concerning both the qualification of shareholder and the award of operating tasks; and

- local public services awarded directly before 1 October 2003 to public companies listed at such date (including the controlled companies pursuant to Art. 2359 of the Italian Civil Code), provided that the

[18] The term "in house providing" has been originally created by the European Commission to define contracts awarded within the public administration, for example between a central and a local administration or between a local authority and a company wholly owned by it, without calling a previous tender procedure. Since the "in house providing" represents an exception to the competition rules which would require the local public services to be awarded through public tender procedures, the European and national case law developed certain principles to limit the application of the "in house providing". In particular, the "in house providing" is allowed provided that:

(i) the "in house" company is wholly owned by the public awarding authority;

(ii) the local authority exercises over the "in house" company a control which is similar to that which it exercises over its own departments (so-called *Controllo analogo*); and

(iii) the "in house" company carries out its activities in favour of the controlling local authority or authorities.

participating local authorities gradually reduce their shareholding in the company up to a shareholding not higher than (i) 40% within 30 June 2013 and (ii) 30% by 31 December 2015. The gradual transfer of the shareholding shall be completed through competitive procedures or by the placement of the shares to authorised investors and industrial operators. Should it not be the case, the contracts shall be terminated (as the case may be) on 30 June 2013 or on 31 December 2015.

Moreover, the New Regime sets forth that any local public services awarded on the basis of procedures other than those listed above (including the in-house award which have not been awarded in compliance with the EC principles) shall be terminated on 31 December 2010.

For the purposes of the termination of the awards pursuant to the New Regime, no specific resolutions by the awarding authorities are required.

Art. *23 bis* of Law Decree no. 112/2008 also delegated the Government to adopt, within December 31, 2009, one or more ministerial regulations destined to its implementation according to the following executive guidelines:

- provide for that the in-house companies awarded with local public service are subject to the internal stability pact;
- provide for that the in-house companies and the companies participated by public and private entities adopt competitive procedures for the recruitment and the purchase of goods and services on the market;
- provide for, in case of succession in the contracts, the regime for the transfer to the incoming company, of the plants owned by the outgoing company which managed the local public service;
- provide for modalities for the depreciation of the investments and a duration of the awards not exceeding the period necessary to recover the investments;
- limit the cases of management, on an exclusive basis, of local public services;
- introduce measures aimed at separating the regulating and managing tasks, through a review of the cases of incompatibility for the directors and managers of the awarding local authorities and the companies participated by local authorities;
- indentify the provisions of Art. 113 of Legislative Decree 267/2000 to be abrogated.

On November 17, 2009, the Council of the Ministries adopted the final draft of the Regulation implementing Art. 23 bis of Law Decree No. 112/2008 (the "**Regulation**"). Amongst the main changes introduced by the Regulation, its Art. 1 provided that the request for the opinion of Italian Antitrust Authority in case of direct award of the services to in-house companies is mandatory only in the event that the value of the awarded services exceeds the amount of Euro 200.000,00 or, regardless of the value of the awarded services, in the event that the concerned population exceeds 50.000 units.

In addition, based on the new provisions and with specific reference to the water sector, in case of request for the Antitrust Authority's opinion, the awarding local authority will be entitled to indicate in such request specific efficiency conditions which make the direct award not jeopardising of the competition.

Currently, the Regulation is still under the approval of the State-Region Unified Conference (*Conferenza Unificata*), the Council of State and the competent parliamentary committees.

Energy business

EU Energy Regulation: The Third Energy Package

The European Union is active in energy regulation by means of its legislative powers, as well as investigations and other actions carried out by the European Commission. The European institutions have recently adopted the so-called "third energy package", which includes two directives and three regulations aimed at completing the liberalisation of both electricity and gas markets. In particular, the third energy package contemplates the separation of supply and production activities from transmission network operations. To achieve this goal, the member states of the European Union will be able to choose between the following three options:

- full ownership unbundling. This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations;

- Independent System Operator ("**ISO**"). Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations.

- Independent Transmission Operator ("**ITO**"). This option is a variant of the ISO option under which vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission.

The third energy package also contains several measures that enhance consumers' rights, such as the right: (i) to change supplier within three weeks and free of charge; (ii) to obtain compensation if quality targets are not met; (iii) to receive information on supply terms through bills and company websites. The third energy package also strengthens protection for small businesses and residential clients, while rules are introduced to ensure that liberalisation does not cause detriment to vulnerable energy consumers.

Finally, the third energy package provides for the creation of a European Union agency for the coordination of national energy regulators, which will issue non-binding framework guidelines for the national agencies. It is expected that this will result in more harmonised rules on energy regulation across the European Union.

Italian Energy Regulation

The Ministry of Economic Development ("**MED**") and the Regulatory Authority for Electricity and Gas ("**AEEG**") share responsibility for overall supervision and regulation of the Italian electricity sector. The MED establishes the strategic guidelines for the electricity sector. The AEEG:

- sets electricity and gas distribution tariffs, as well as the price for previously regulated (or ‘‘captive’’) customers, which have not yet chosen a different supplier;

- formulates observations and recommendations to the Government and Parliament regarding the market structure and the adoption and implementation of European Directives and licenses or 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 where standards are not met and for the accounting and administrative unbundling of the various activities under which the electricity and gas sectors are organised;

- protects the interests of customers, monitoring the conditions under which the services are provided, with 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 Italian Antitrust Authority (the "**AGCM**") any suspected infringements of Law No. 287 of 10 October 1990 by companies operating in the electricity and gas sectors.

In addition to regulation by the AEEG, the AGCM also plays an active role in the energy market in ensuring competition between suppliers and protecting the rights of clients to choose their suppliers.

Italian Electricity regulation

The regulatory framework for the Italian electricity sector has changed significantly in recent years due to the implementation of the previous European energy directives, including, in particular, Directive 2003/54/EC and Directive 2001/ 77/ EC.

On 1 April 1999, Legislative Decree No. 79 dated 16 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 and provided for a gradual liberalisation of the electricity market so that customers whose annual consumption of electricity exceeds specified amounts ("**Eligible Customers**") will be able to contract freely 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 Non-Eligible Customers. In particular, the Bersani Decree and the subsequent implementing regulations:

- as of 1 April 1999, liberalised the activities of generation, import, export, purchase and sale of electricity;

- as of 1 January 2003, provided that 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 the power generation market;

- provided for the establishment of the *Acquirente Unico* (the "**Single Buyer**"), 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, a virtual marketplace in which producers, importers, wholesalers, distributors, the operator of the national transmission grid, the Single Buyer and other participants in the free market, buy and sell electricity at prices determined through a competitive bidding process;

- provided for the creation of the entity that manages the Power Exchange (the "*Market Operator*" or "*Gestore del Mercato*"); and

- provided for that the activities of transmission and dispatching are reserved exclusively to the State and attributed under concession to the operator of the national transmission grid, while the activity of distribution of electricity is performed under a concession regime under the authority of the Ministry of Productive Activities.

In addition, Law No. 290 of 27 October 03 required the reunification of ownership and management of the transmission grid. La No. 239 of 23 August 04 (the "**Marzano Law**") reorganised certain aspects of the electricity market regulatory framework, including the limitation of the "captive market" to households pursuant to Directive 2003/54/EC concerning common rules for the internal market in electricity and repealing Directive 96/92/EC.

Law Decree No. 73/07, as enacted into law through Law No. 125/07, adopted urgent measures to place into effect EU market liberalisation requirements, including the following:

- a requirement for separating corporate functions into distribution, on the one hand, and electric energy sales, on the other;

- powers are assigned to the AEEG to adopt measures for the functional separation (pursuant to EU Directives 2003/54/EC and 2003/55/EC) of the administration of electric and gas infrastructure from non-related operations for the purpose of ensuring infrastructural administration that is both independent and transparent; and

- as of 1 July 2007 domestic end users have the right to withdraw from their pre-existing electricity supply contracts according to the procedures established by the AEEG which allow them to select a different electricity provider. If the end user does not select a provider, domestic end users not supplied with energy on the open market are guaranteed supply by the distributor or the distributor's affiliate. The responsibility for supplying such clients remains with the Single Buyer, a company formed pursuant to Article 4 of the Bersani Decree.

For those end users that decide not to purchase electricity on the open market, the regulations provide as follows: (i) households and small businesses that have fewer than 50 employees, lower than A10 million of turnover, and low levels of electricity consumption may access a regulated market ("*servizio di maggior tutela*") for which the Regulatory Authority establishes the electricity tariffs; and (ii) all businesses not included among those described in the preceding point (i) have access only to the ''safeguarded market'' which guarantees the supply of electricity but typically at higher than market rates, to provide an incentive to this category of business to access the open markets.

Electric 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 1 January 2003, no single electricity generation company shall be allowed to generate or import, directly or indirectly, more than 50 per cent. of the total electricity generated in and imported into Italy.

As to the regulations relating to environmental impact and publication of the related procedures, Law No. 99 of 23 July 2009 ("**Law No. 99/2009**") provides that the Italian government is responsible for adopting, within six months from the enactment of the law, one or more legislative decrees for the reorganisation of regulations regarding the siting of nuclear energy plants within Italy, nuclear combustion production facilities and storage systems for radioactive materials and radioactive waste, including systems for the final depositing of radioactive materials, as well as for fixing compensation to be paid to those local communities affected. The law also defines the principles and criteria that apply to the Government in the exercise of its responsibilities.

Hydroelectric Generation

In accordance with the Bersani Decree, as amended by Law No. 266/2005 (the "**Budget Law 2006** "), the concessions for large scale diversions of water for hydroelectric power plants shall be awarded through a public tender procedure ("**HE Concessions**").

In addition, the same Bersani Decree stated that the HE Concessions already expired or to be expired within December 31, 2010 shall be extended until this date while the HE Concessions that are due to expire after December 31, 2010 shall follow the expiring date provided in the relevant concession.

The Budget Law 2006 amended the provisions of the Bersani Decree, providing for an extension of the HE Concessions for a period of 10 years, subject to the condition both of the execution, by the holder of the concession, of refurbishment works and the payment , starting from 2006 and for a four-year period, of an additional unit fee.

However, on 14 January 2008, by decision No. 1/2008, the Italian Constitutional Court ruled that the extension of concessions was unconstitutional. As a consequence, paragraphs 6, 7 and 8 of article 12 of the Bersani Decree, which previously governed the renewal of concessions is once again in force.

Promotion of Renewable Resources

In 1992, the Interministerial Price Committee, an Italian governmental committee, issued Regulation 6/92 ("**CIP-6**"), which established incentives for new generation plants using renewable resources and for the sale of electricity produced from renewable resources. In November 2000, the MED issued a decree that transferred all energy produced from renewable resources under the CIP-6 regime to the Electricity Services Operator as of 1 January 2001.

Under current regulations, the Electricity Services Operator is required to purchase all CIP-6 electricity generated by the CIP-6 producers in order to resell it to Eligible Customers and, since 2004, also to the Single Buyer. The Electricity Services Operator sells the so-called green certificates representing electricity from renewable resources purchased from CIP-6 producers ("**Green Certificates**").

The Bersani Decree provided that, starting in 2001, all companies producing or importing more than 100 GWh of electricity generated from conventional sources into the national transmission grid in any year must, in the following year, introduce into the national transmission grid an amount of electricity produced from newly qualified renewable resources (the "**Renewable Obligation**"), initially equal to at least 2% of the amount of such excess over 100 GWh, net of co-generation, self-consumption and exports (the "**Green Certificates Quota**" – that is, the amount of renewable energy such companies are required to produce). Electricity from renewable resources may be produced directly or purchased from other producers who have obtained tradable Green Certificates representing a fixed amount of electricity certified as generated from renewable resources.

Law no. 99/2009 has altered the ambit of the Renewable Obligation, which no longer applies to producers and importers meeting the parameters mentioned above, but is instead applicable to all operators executing an off-taking dispatching agreement with Terna Rete Elettrica Nazionale S.p.A. (i.e. an agreement executed in order to off-take electricity from the Italian national electricity grid) (hereinafter, "**Terna**").

Law No. 99/2009 also provides that, within six months following the date on which the same Law No. 99/2009 has come in full force and effect, the Ministry of Economic Development shall issue a decree containing provisions:

- enacting the transfer of the Renewable Obligation starting from year 2011 and based on the electricity off-taken in the previous year. The term of 2011 however has been postponed to 2012 by the Law No. 166 of 20 November 2009; and

- amending the values of the Green Certificates Quota in compliance with the Italian national and European undertakings on renewable sources.

The preceding rules do not apply to solar plants. Photovoltaic solar plants may take advantage of the comprehensive rate on the energy account provided for by the ministerial decree of 19 February 2007, which implements Legislative Decree 387/03. Rates are differentiated based on the size of the solar panels and the extent of their integration in buildings.

On April 6, 2009, the Council of the European Union adopted the final text of a directive setting a common EU framework in the field of the promotion of energy from the renewable resources.

The main objective of the directive is the achievement of a 20% share of energy from renewable resources in the EU's final consumption of energy in 2020. In light of this objective, for the first time, Member States are assigned mandatory individual targets for the share of renewable energy sources in final energy consumption. For Italy, this target has been established at 17% in comparison to the 5.2% it had in 2005. In order to achieve this target:

- the directive amends the definition of renewable sources to include aerothermic and hydrothermal energy which will apply from 1 April 2010;

- each Member State has to pursue an indicative trajectory towards the assigned target.

Moreover, each of the Member states shall adopt a national renewable energy plan and provide it to the European Commission by June 2010. The new directive also contemplates several rules on cooperation mechanisms between the Member States and third countries, guarantees of origin and access to the electricity grids for energy from renewable resources. Member States are obliged to implement the new directive within 18 months from its publication in the EC Community Official Journal.

Amendments to Regulations Governing Green Certificates

In addition to providing for an annual increase (0.75 per cent.) in the requirement to generate/import electricity from renewable resources as a percentage of the conventional electricity generated/imported in the preceding year for the years 2007 to 2012 and establishing its incompatibility with other incentives, the Budget Law for 2008, with reference to power plants coming on line after 31 December 2007, updated the rules on Green Certificates and reintroduced a support mechanism (recognition of a comprehensive rate) for electricity generation from renewable resources by certain small power plants.

The updated Green Certificate rules:

- differentiate recognised Green Certificates by source using co-efficients that are adjusted every three years

- increase the recognition period to 15 years;

- calculate the price of Green Certificates issued by the Electricity Services Operator (pursuant to Article 11(3) of the Bersani Decree) as the difference between Euro 180/MWh (value updated every three

years) and the average annual price of electricity as established by the AEEG (for 2009 it has been fixed by resolution ARG/elt 10/09 in 91,34 €/MWh) ; and

- establish that, until the relevant national target set by the European Union has been met, at the request of the holder, the Electricity Services Operator withdraw any Green Certificates (expiring that year) in excess of those needed by the holder to meet its surrendering obligation.

As said above, according to Law No. 99/2009, as amended by Law No. 166/2009 the Renewable Obligation will be transferred as of 2012 from electricity producers and importers to suppliers (all operators executing an off-taking dispatching agreement with Terna S.p.A., as indicated under the resolution of the AEEG No. 111 of 9 June 2006.

Photovoltaic power plants

Photovoltaic plants benefit from a special incentives' regime other than the Green Certificates' incentive regime. The output produced by photovoltaic plants benefits from additional incentives paid by the GSE, on the basis of an incentive scheme known as "Conto Energia" regulated under Ministerial Decree of 19 February 2007 (the "**Conto Energia Decree**").

In a nutshell:

- incentives are paid for twenty years as of entry into operation of the photovoltaic plant, on the basis of a specific agreement to be executed with the GSE;

- The amount of the incentives is set forth under the Conto Energia Decree and varies according to whether the photovoltaic plants concerned are stand-alone or partially/totally integrated in buildings, based on specific technical criteria set out in the Conto Energia Decree. Stand-alone plants enjoy a lesser incentive than integrated plants.

For photovoltaic plants entering into operation in 2009, applicable tariffs have been decreased by 2% and will be further decreased by 2% in respect of photovoltaic plants entering into operation in 2010. The incentives paid to photovoltaic plants entering into operation as from 1 January 2011 will be fixed by the MED through a specific decree. Until such decree is issued the incentives payable to photovoltaic plants entering into operation in 2010 will continue to apply.

The Conto Energia Decree sets out the requisites to be held by applicants for incentives, as well as the minimum technical requirements of photovoltaic plants for being eligible for the Conto Energia scheme. Proceedings and other practicalities governing access to the Conto Energia scheme are provided under resolution of the Authority for Electricity and Gas No. 90/2007

CO2 Emissions

In the framework of the Kyoto Protocol, in 2003, the EU adopted Directive 2003/87/EC (the "**Emissions Trading Directive**") establishing a scheme for greenhouse gas emission allowance trading. In October 2004, the EU passed another directive (the "**Linking Directive**"), which amended the Emissions Trading Directive to allow further flexible mechanisms for limiting greenhouse gas emissions. Both the Emissions Trading Directive and the Linking Directive have been implemented in Italy by Legislative Decree 216/2006.

On 20 February 2008, the Italian National Committee for the management and implementation of the Emissions Trading Directive, formed by the Ministry of the Environment and the MED, announced the final decision on the assignment of Emissions Allowances, pursuant to Article 8(2) of Legislative Decree 216/2006. Compared to

the previous period (2005-2007), total allocations for 2008-2012 were reduced by approximately 10% overall and by 35% for the thermoelectric sector.

Wholesale market

The Power Exchange is a marketplace for the spot trading of electricity by producers and consumers under the management of the Electricity Market Operator. It began operations on 1 April 2004. Producers can sell their electricity on the Power Exchange at the system marginal price defined by hourly auctions. Alternatively they can choose to enter into bilateral contracts and, in this case, the price is agreed with the other counterparty.

One of the most important participants on the Power Exchange is the Single Buyer, a company belonging to the Electricity Services Operator which is wholly-owned by the Italian state. The Single Buyer has the goal of ensuring continuous, secure, efficient and competitively-priced electricity supply to clients remaining in the "Universal Service" regime (consisting, since 1 July 2007, of residential clients and small business clients that have not chosen a supplier in the market), in order to enable them to reap the benefits of the electricity liberalisation process. The Single Buyer is the largest wholesaler in the market, purchasing about 30% of the total national demand. The Single Buyer purchases electricity on the Power Exchange through bilateral contracts (including contracts for differences) with producers, and imports electricity.

The total payments by the Single Buyer to electricity producers for its purchases, plus its own operating costs, must equal the total revenues it earns from energy sales to the retail companies operating within the regulated market under the regulated price structure. As a consequence, the AEEG adjusts reference prices from time to time to reflect the ones actually paid by the Single Buyer, as well as other factors.

Other participants in the Power Exchange are the retail companies belonging to integrated operators, the wholesalers and some large electricity users. The AEEG and the Antitrust Authority constantly monitor the Power Exchange to ensure that it delivers the expected results.

Recently, the market was enhanced through the commencement of operations of new forward markets: (i) the forward physical market, "MTE", which is managed by Electricity Market Operator; and (ii) the derivatives financial market, "IDEX", which is managed by Borsa Italiana.

On 29 November 2008, Law Decree No. 185 (the "**Anti-Crisis Decree**") was approved and was subsequently converted in Law No. 2 of 28 January 2009. The provisions of the Anti-Crisis Decree concerning energy have been implemented by a ministerial decree issued by the MED on 29 April 2009. The new rules set forth a series of measures to be implemented in the period 2009-2012, involving: (i) the adoption of a new mechanism to set prices on the day-ahead market; and (ii) the creation of an intra-day market and the development of the aforementioned forward markets.

Distribution

The Bersani Decree provides that distribution services shall be performed on the basis of concessions issued by the Ministry of Industry. The current distribution companies will continue to perform that service on the basis of concessions issued by the Ministry of Industry in 2001, expiring on 31 December 2030.

The distribution companies are obliged to connect to their networks all parties who request connection, without compromising the continuity of the service and in compliance with the applicable technical regulations and provisions.

Efficiency in the end usage of energy

The distribution companies of electricity are required by Decree Bersani to undertake energy efficiency measures for the final user that are in line with pre-defined quantity target s fixed by ministerial decree. The companies that achieve such energy saving targets are entitled to receive by the regulator of the electricity market the Energy Efficiency Certificates (TEE), also called "*White Certificates*", (i.e.an incentive mechanism to save energy, into force starting from 1 January 2005) and to sold such certificates, by means of bilateral contracts or on a specific market instituted and regulated by GSE in agreement with AEEG, to (other) companies who cannot meet their targets.

On 21 December 2007, the Ministry of Economic Development issued a decree amending and updating the provision of two previous decrees issued on 20 July 2004 to promote greater efficiency in the end usage of energy, which outlined an increase in energy efficiency and, as a consequence, a reduction in primary energy consumption that each distributor of electric power and natural gas with more than 100,000 customers is required to achieve over the course of the period from 2005 to 2009. As of 31 December 2006, the minimum number of customers hooked up to a distributor's network shall decrease to 50,000, thereby increasing the number of distributors who are required to reduce energy consumption. In addition, AEEG issued Resolution No. 344/07 on 28 December 2007, which sets forth the guidelines for determining the targets applicable to distributors of natural gas and electric power to whom the abovementioned requirement applies.

The New Tariff structure for transmission, distribution and metering

The AEEG established a tariff regime that came into effect on 1 January 2000. This 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 any 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 end customers.

The third regulatory period is currently underway with respect to the regulation of the price of electricity. Pursuant to Resolution no. 348/2007, the AEEG set the transmission, distribution and metering rates for the current regulatory period (2008-2011).

The weighted average cost of capital (WACC) for distribution services was increased from 6.8 per cent. for the second regulatory period to 7 per cent., while that for metering services was reduced from 8.4 per cent. to 7.2 per cent. With regard to the consolidation of the regulated nature of the sector.

The X-factor, applied only to the rate component covering operating costs, was set at 1.9 per cent. for distribution services and at 5 per cent. for metering, so as to allow the higher efficiency gains achieved by the companies to be passed on to the end-user within eight and six years, respectively.

The rules envisage incentives, using differentiated WACCs (+2 per cent.) and for a minimum of eight years, for specific types of investments in the distribution network, such as those relating to the construction of new transformer stations, investments in replacing existing transformers and smart grids.

Natural Gas

Italian regulations enacted in May 2000, by means of the Legislative Decree No. 164/00 (the "**Letta Decree**") - implementing EU directives on gas sector liberalisation (Directive 1998/30/EC) - introduced competition into the Italian natural gas market through the liberalisation of the import, export, transport, dispatching, and sale of gas. The liberalisation process was successively strengthened by Directive 2003/55/EC, which introduced, on the one hand, stricter unbundling obligations on companies operating in the gas transport, distribution and sale

sectors and, on the other hand, incentives for new import infrastructure. The authorities responsible for turning this regulation into practice are the Ministry of Economic Development and the Italian Authority for Electricity and Gas.

Sale

As of 1 January 2003, companies that intend to sell gas to end customers must obtain a licence from the Ministry of Productive Activities. Authorisation is issued, on the basis of criteria set by the Ministry of Productive Activities, provided that the company meets certain requirements (e.g. appropriate technical and financial capacity) and may only be refused on objective and non-discriminatory grounds.

From 1 January 2002, only companies that are not engaged in any other activity in the natural gas sector, other than as importers, drillers or wholesalers, may sell gas.

Recently, Law No. 99/2009 provided for the constitution of a market exchange for the supply and sale of natural gas. It envisages that the Electricity Market Operator, in compliance with the principles of transparency, competition and non-discrimination, would be designated as manager of the natural gas exchange market. Law No. 99/2009 also established Last-Resort Service provisions for residential clients. In this regard, the Single Buyer would be responsible for ensuring annual supplies up to 200,000 cubic meters to residential customers.

Heat and Services

District heating activities are not subject to specific regulation in Italy. District heating supply agreements are subject to the general provisions of the Italian Civil Code. Each company determines prices for district heating at its own discretion, without being subject to any specific regulatory requirements regarding the determination of the tariffs or the methods of their calculation. Most companies, however, fix tariffs with reference to the cost of natural gas for similar usage.

This solution has maintained equivalent costs for the two categories of energy providers (gas and district heating) and as a result the customers receive equal treatment.

TAXATION

REPUBLIC OF ITALY

The statements herein regarding taxation summarise the principal Italian tax consequences of the purchase, the ownership, the redemption and the disposal of the Notes. They apply 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 resident in Italy for tax purposes (without a permanent establishment abroad) is structured and conducts its business in the manner outlined in this Prospectus. Changes in the Issuer's organisational structure, tax residence or the manner in which it conducts its business may invalidate this summary. This summary also assumes that each transaction with respect to Notes is at arm's length.

Where in this summary English terms and expressions are used to refer to Italian concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Italian concepts under Italian tax law.

The statements herein regarding taxation are based on the laws in force in the Republic of Italy as of the date of this Prospectus 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.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences under Italian tax law, under the tax laws of the country in which they are resident for tax purposes and of any other potentially relevant jurisdiction of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

1. Interest on the Notes that qualify as "*obbligazioni*" with an original maturity of 18 months or more

Decree No. 239 regulates the income tax treatment of interest, premium and other income (including any 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, securities similar to bonds are securities that incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value and that do not allow any direct or indirect participation either in the management of the issuer or in the business in connection with which they have been issued, nor any control on such management.

Noteholders resident/established in Italy

Where an Italian resident Noteholder, who is the beneficial owner of the Notes 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 – pursuant to Legislative Decree No. 461 of 21 November 1997 - when payment thereof is obtained by the Noteholder on a sale of the relevant Notes). The *imposta sostitutiva* may not be recovered by the Noteholder as a deduction from the income tax due.

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

Pursuant to Decree No. 239, *imposta sostitutiva* is generally levied 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 Economics and Finance (the "**Intermediaries**").

An Intermediary must satisfy the following conditions:

(i) it must be: (a) resident in Italy; or (b) a permanent establishment in Italy of an intermediary resident outside of Italy; or (c) an organisation or company non-resident in Italy, acting through a system of centralised administration of securities and directly connected with the Department of Revenue of the Italian Ministry of Finance (which includes Euroclear and Clearstream, Luxembourg) having appointed an Italian representative for the purposes of Decree No. 239; and

(ii) it intervenes, in any way, in the collection of Interest or in the transfer of the Notes. For the purpose 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.

Where the Notes are not deposited with an Intermediary, *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 paragraph 2, "**Capital Gains**", below). In such a case, Interest is not subject to *imposta sostitutiva* but contributes 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 subjects, to the extent that the Notes and the relevant coupons are deposited in a timely manner, directly or indirectly, with an Intermediary:

- *Corporate investors* - Where a Noteholder is an Italian 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: (a) the relevant Noteholder's yearly taxable income for the purposes of corporate income tax ("**IRES**"), generally applying at the rate of 27.5%; and (b) 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 3.9%. IRAP rate can be increased by regional laws up to 0.92%. Said Interest is therefore subject to general Italian corporate taxation according to the ordinary rules;

- *Investment funds* - Italian investment funds (i.e. *fondo comune d'investimento mobiliare*, or a *società d'investimento a capitale variabile* - SICAV, as well as Luxembourg investment funds regulated by article 11-bis of Law Decree No. 512 of 30 September 1983, collectively, "**Funds**") are subject to a

12.5% substitutive tax on their annual net accrued result. Interest on the Notes is included in the calculation of such annual net accrued result;

- *Pension funds* – Italian pension funds (subject to the tax regime set forth by Article 17 of Legislative Decree No. 252 of 5 December 2005, "**Pension Funds**") are subject to an 11% substitutive tax on their annual net accrued result. Interest on the Notes is included in the calculation of such annual net accrued result; and

- *Real estate investment funds* – Interest payments in respect of the Notes to Italian real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 (''**Real Estate Investment Funds'**'), as clarified by the Italian Revenue Agency, through Circular No. 47/E of 8 August 2003 are not generally subject either to *imposta sostitutiva* or to any other income tax in the hands of the same Real Estate Investment Funds. Please note that Law Decree No. 112 of June 25, 2008, converted into law by Law no. 133 of August 6, 2008, has introduced a 1% property tax, to be levied – on a yearly basis – upon certain conditions, on the net asset value of certain Real Estate Investment Funds.

Non-Italian resident Noteholders

An exemption from *imposta sostitutiva* is provided with respect to certain beneficial owners of the Notes resident outside of Italy, not having a permanent establishment in Italy to which the Notes are effectively connected. In particular, pursuant to Decree No. 239 the aforesaid exemption applies 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 the Republic of Italy (as currently listed by Ministerial Decree dated 4 September 1996, a "**White List Country**" as amended); or (ii) is an international body or entity set up in accordance with international agreements which have entered into force in the Republic of Italy; or (iii) is the Central Bank or an entity also authorised to manage the official reserves of a country; or (iv) is an institutional investor which is established in a White List Country, even if it does not possess the status of taxpayer in its own country of establishment (each, a "**Qualified Noteholder**").

Pursuant to Law No. 244 of December 24, 2007, a new list of White List Countries will be enacted by a Ministerial Decree.

The exemption procedure for Qualified Noteholders identifies two categories of intermediaries:

- an Italian or foreign bank or financial institution (there is no requirement for the bank or financial institution to be EU resident) (the "**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

- an Italian resident bank or SIM, or a permanent establishment in Italy of a non-resident bank or SIM, acting as depositary or sub-depositary of the Notes appointed to maintain direct relationships, via telematic link, with the Italian tax authorities (the "**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 Italian Ministry of Economics and Finance (which include Euroclear and Clearstream) are treated as Second Level Banks, provided that they appoint an Italian representative (an Italian resident bank or SIM, or permanent establishment in Italy of a non-resident bank or SIM, or a central depositary of financial instruments pursuant to Article 80 of Legislative Decree no. 58 of 24 February 1998) for the purposes of the application of Decree No. 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 from the *imposta sostitutiva* for Noteholders who are non-resident in Italy is conditional upon:

- the deposit of the Notes, either directly or indirectly, with an institution which qualifies as a Second Level Bank; and

- the submission to the First Level Bank or the Second Level Bank – as the case maybe - of a statement of the relevant Noteholder (*autocertificazione*), to be provided only once, in which it declares, inter alia, that it is eligible to benefit from the exemption from *imposta sostitutiva*. Such statement must comply with the requirements set forth by a Ministerial Decree dated 12 December, 2001, is valid until withdrawn or revoked (unless some information provided therein has changed) and needs not be submitted where a certificate, declaration or other similar document for the same or equivalent purposes 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 the Republic of Italy or Central Banks or entities also authorised to manage the official reserves of a State. Additional requirements are provided for "institutional investors".

The First Level Bank is obliged to send the above statement to the Second Level Bank within 15 days from receipt.

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 Note transactions carried out during the preceding month. The Italian Tax Authorities monitor and control such data and any discrepancies thereof.

In case of failure to comply with the above exemption procedure, *imposta sostitutiva* will apply on Interest payable to non-resident Noteholders without permanent establishment in Italy to which the Notes are effectively connected (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.

In the case of non-Italian resident Noteholders without permanent establishment in Italy to which the Notes are effectively connected, the *imposta sostitutiva* may be reduced (generally to 10%) or reduced to zero under certain applicable double tax treaties entered into by Italy, if more favourable, subject to timely filing of required documentation.

Early Redemption

Without prejudice to the regime described above, if the Notes are subject to an early redemption within eighteen 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 such early redemption, pursuant to Article 26, paragraph 1, of Presidential Decree No. 600 of 29 September, 1973, as amended. Pursuant to one interpretation of Italian tax law, this 20% additional tax may also be due in the event that the Issuer were to purchase the Notes and subsequently cancel them prior to the aforementioned eighteen-month period.

2. Capital Gains

Italian resident Noteholders

Pursuant to Legislative Decree No. 461 of 21 November, 1997, as amended, a 12.5% capital gains tax ("**CGT**") is in certain cases applicable to capital gains realised on any sale or transfer of the Notes for consideration or on redemption thereof by Italian resident individuals (not engaged in a business activity to which the Notes are effectively connected), regardless of whether the 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 the purchase and the sale of the Notes must be deducted from the purchase price and the sale price, respectively.

Such Noteholders can opt for one of the three following regimes:

- Tax return regime ("***Regime della Dichiarazione***") - The Noteholder must 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 CGT so assessed together with the income tax due for the same fiscal year. Losses exceeding gains can be carried forward into following fiscal years up to the fourth following fiscal year. Since this regime constitutes the ordinary regime, the taxpayer must apply it to the extent that the same does not opt for any of the two other regimes;

- Non-discretionary investment portfolio regime ("***Risparmio Amministrato***") - The Noteholder may elect to pay CGT separately on capital gains realised on each sale or transfer 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* 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 or transfer 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 CGT is applied, by deducting a corresponding amount from the proceeds to be credited to the Noteholder. Where a particular sale or transfer 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 following fiscal year. The Noteholder is not required to declare the gains in his annual income tax return; and

- Discretionary investment portfolio regime ("**Risparmio Gestito**") - If the Notes are part of a portfolio managed by an Italian asset management company, capital gains are not subject to CGT, but contribute to determine the annual net accrued result of the portfolio. Such annual net accrued result of the portfolio, even if not realised, is subject to an ad hoc 12.5% substitutive tax, which the asset management company is required to levy on behalf of the Noteholder. 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 such regime the Noteholder is not required to declare the gains in his annual income tax return.

The aforementioned regimes do not apply to the following subjects:

- *Corporate investors* - Capital gains realised on the Notes by Italian resident corporate entities (including a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected) form part of their aggregate income subject to IRES. In certain cases, capital gains shall also have to be included in the taxable net value of production of such entities 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 for IRES purposes.

- *Funds* - Capital gains realised by Funds on the Notes contribute to determine their annual net accrued result, which is subject to a 12.5% substitutive tax (see under paragraph 1.1. "Italian resident Noteholders", above).

- *Pension Funds* - Capital gains realised by Pension Funds on the Notes contribute to determine their annual net accrued result, which is subject to an 11% substitutive tax (see under paragraph 1.1., "Italian resident Noteholders", above).

- *Real Estate Investment Funds* - Capital gains realised by Real Estate Investment Funds on the Notes are not taxable at the level of same Real Estate Investment Funds, unless the latter are subject to the 1% property tax enacted by Law Decree No. 112 of June 25, 2008 (see under paragraph 1.1., "Italian resident Noteholders", above).

Non Italian resident Noteholders

Capital gains realised by non-resident Noteholders (not having a permanent establishment in Italy to which the Notes are effectively connected) on the disposal or redemption 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 in a regulated market in Italy or abroad (e.g. Luxembourg stock exchange).

Should the Notes not be listed in a regulated market as indicated above, the aforesaid capital gains would be subject to tax in Italy, if the Notes are held by the non-resident Noteholder therein. Pursuant to Article 5 of Legislative Decree No. 461 of 21 November, 1997, an exemption, however, would apply with respect to beneficial owners of the Notes which are Qualified Noteholders. In this circumstance, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected elect for the *Risparmio Amministrato* regime or the *Risparmio Gestito* regime, exemption from Italian taxation on capital gains will apply upon condition, inter alia, that they file in time with the authorised financial intermediary an appropriate self-declaration (*autocertificazione*) stating that they meet the requirement of residence, for tax purposes, in a country which recognises the Italian fiscal authorities' right to a satisfactory exchange of information.

In any event, non-Italian resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected that may benefit from a tax treaty with Italy providing that capital gains realised upon sale of Notes are taxed only in the country of tax residence of the recipient, upon certain conditions, will not be subject to tax in Italy on any capital gains realised upon any such sale or transfer. In these circumstances, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected elect for the Risparmio Amministrato regime or the Risparmio Gestito regime, exemption from Italian taxation on capital gains will generally apply on condition that they file in time with the authorised financial intermediary appropriate documents which include, inter alia, a statement from the competent tax authorities of the country of residence of the non-Italian residents.

3. Transfer Taxes

Stamp duty tax (*tassa sui contratti di borsa*), previously applicable on transfers of the Notes, has been repealed by Article 37 of Legislative Decree No. 248 of 31 December 2007, converted, with amendments, by Law No. 31 of 28 February 2008, effective as of December 31, 2007.

Following the repeal of the Italian transfer tax, as from 31 December 2007 contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarised deeds (*atti pubblici e scritture private autenticate*) executed in Italy should be subject to fixed registration tax (currently at a rate of €168); (ii) private deeds (*scritture private non autenticate*) should be subject to fixed registration tax (currently at a rate of €168) only in "case of use" or voluntary registration.

4. Inheritance and Gift Tax

Inheritance and gift taxes apply on the overall net value of the relevant transferred assets, at the following rates, depending on the relationship between the testate (or donor) and the beneficiary (or donee):

- 4%, if the beneficiary (or donee) is the spouse or a direct ascendant or descendant (such rate only applying on the net asset value exceeding, for each person, Euro 1 million);

- 6%, if the beneficiary (or donee) is a brother or sister (such rate only applying on the net asset value exceeding, for each person, Euro 100,000);

- 6% if the beneficiary (or donee) is a relative within the fourth degree or a direct relative-in-law ("*affini in linea retta*") as well an indirect relative-in-law ("*affini in linea collaterale*") within the third degree other than the relatives indicated above;

- 8% if the beneficiary is a person, other those mentioned other (a), (b) and (c) above.

In case the beneficiary has a serious disability recognised by law as "critical", inheritance and gift taxes apply on its portion of the net asset value exceeding Euro 1.5 million.

5. Tax Monitoring

Pursuant to Law Decree No. 167 of 28 June, 1990, converted by Law No. 227 of 4 August, 1990, as amended, 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 transactions 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). Such obligation is not provided if, inter alia, 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 carried out during the relevant fiscal year, does not exceed Euro 10,000.

6. EU Directive on the Taxation of Savings Income

The European Union has adopted a Directive regarding the taxation of savings income in the form of interest payments (Council Directive 2003/48/EC of 3 June 2003). Under the Directive Member States are required from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual and certain other persons in another Member State, except that Luxembourg and Austria may instead impose a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. Under such withholding system, tax will be deducted unless the recipient of the payment elects instead for an exchange of information procedure. The current rate of withholding is 20% and it will be increased to 35% with effect from 1 July 2011.

The ending of the transitional period depends on the conclusion of agreements by certain non-EU countries concerning the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

Also with effect from 1 July 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provisions of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual resident in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive. The proposal included a number of suggested changes which, if implemented, would broaden the scope of the rules described above. The European Parliament approved an amended version of this proposal on 24 April 2009.

The Directive has been implemented in Italy by Legislative Decree No. 84 of 18 April 2005. Pursuant to said decree Italian paying agents (e.g., banks, SIMs, SGRs, financial companies and fiduciary companies resident in Italy for tax purposes, permanent establishments in Italy of non-resident persons as well as any other person resident in Italy for tax purposes paying interest for professional or commercial reasons) shall report to the Italian tax authorities details of interest payments made from 1 July 2005 to individuals which qualify as beneficial owners thereof and are resident for tax purposes in another EU Member State. Such information will be transmitted by the Italian tax authorities to the competent authorities of the State of residence of the beneficial owner of the interest payment by 30th June of the fiscal year following the fiscal year in which said interest payment is made.

With reference to the definition of interest subject to the above described regime, Article 2, paragraph 1, lett. a, of Decree No. 84, provides that it includes, inter alia: "*interest paid or credited, on accounts arisen from receivables of whatever nature, secured or not by mortgage (...), in particular interest and any other proceeds, arising from public bonds and other bonds*".

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.

GRAND DUCHY OF LUXEMBOURG

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes, payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

All payments of interest and principal by a paying agent in Luxembourg under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(a) the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC) and providing for the possible application of a withholding tax (20% from 1 July 2008 to 30 June 2011 and 35% from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see, paragraph "EU Directive on the Taxation of Savings Income" above; and

(b) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10% final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). This law should apply to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement dated 12 March 2010 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.779 per cent. of their principal amount less commissions to be paid by the Issuer as set forth in the Subscription Agreement. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

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.

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 United States Internal Revenue Code and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that 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.

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

United Kingdom

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

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) 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.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Joint Lead Manager has represented and agreed that no Notes may be offered, sold or delivered nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended from time to time ("**Decree No. 58**") and as defined in Article 34-*ter*, first paragraph, letter b), of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

(b) in any other circumstances where an exemption from the rules governing public offers of securities (including prospectus requirements) applies, pursuant to Article 100 of Decree No. 58 and Article 34-*ter*, first paragraph, of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

General

Each Joint Lead Manager has agreed that it will obtain any consent, approval or permission which is required for the offer, purchase or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and it will comply with all such laws and regulations. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes has been authorised by resolutions of the Board of Directors of the Issuer dated 17 February 2010 and 9 March 2010 registered at the Companies' Registry (*Registro delle Imprese*) of Rome on 9 March 2010 and 10 March 2010, respectively.

Listing and Admission to Trading

Application for the approval of this document as a prospectus has been made to the CSSF. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Expenses Related to Admission to Trading

The total expenses related to admission to trading are estimated at €7,950.

Use of Proceeds

The net proceeds of the issue of the Notes will be used by the Issuer for refinancing existing short-term indebtedness and for general corporate purposes.

Legal and Arbitration Proceedings

Save as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Group.

Significant/Material Change

Since 31 December 2008 there has been no material adverse change in the prospects of the Issuer and, since 30 September 2009, there has been no significant change in the financial or trading position of the Group.

Material Contracts

Save as disclosed in this Prospectus, neither the Issuer nor any of its Subsidiaries has entered into any contracts in the last two years outside the ordinary course of business that have been or may be reasonably expected to be material to their ability to meet their obligations to Noteholders.

Auditors

The consolidated financial statements of the Issuer as at and for the years ended 31 December 2008 have been audited without qualification by Reconta Ernst & Young S.p.A., Via Po, 32, 00198 Roma, Italy. Reconta Ernst & Young S.p.A. is registered under No. 2 in the special register (*albo speciale*) maintained by CONSOB and set out under Article 161 of Legislative Decree No. 58 of 24 February 1998 (as amended) and under No. 70945 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*) in compliance with the provisions of Legislative Decree No. 88 of 27 January 1992.

The consolidated financial statements of the Issuer as at and for the year ended 31 December 2007 have been audited without qualification by Deloitte & Touche S.p.A., Via della Camilluccia 589/A, 00135 Rome, Italy. Deloitte & Touche S.p.A. is registered under No. 46 in the special register (*albo speciale*) maintained by CONSOB and set out under Article 161 of Legislative Decree No. 58 of 24 February 1998 (as amended) and under No. 132587 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*) in compliance with the provisions of Legislative Decree No. 88 of 27 January 1992.

Documents on Display

For so long as the Notes remain outstanding, copies of the following documents (together, where appropriate, with English translations) may be inspected during normal business hours at the offices of the Fiscal Agent at 33, rue de Gasperich, Howald – Hesperange, L-2085 Luxembourg:

(a) the by-laws (*Statuto*) of the Issuer;

(b) the Fiscal Agency Agreement;

(c) the Deed of Covenant; and

(d) the Issuer's 2008 and 2007 Annual Reports and the Issuer's Quarterly Reports as at 30 September 2009 and 2008.

Potential Conflicts of Interest

The Joint Lead Managers and their respective affiliates, including parent companies, engage, and may in the future engage, in investment banking, commercial banking (including the provision of loan facilities) and other related transactions with the Issuer and its affiliates, including its parent company, and may perform services for them, in each case in the ordinary course of business.

Yield

On the basis of the issue price of the Notes of 99.779 per cent. of their principal amount, the gross real yield of the Notes is 4.528 per cent. on an annual basis.

Legend Concerning US Persons

The Notes and any Coupons appertaining thereto will bear a legend to the following effect:

"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".

ISIN and Common Code

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0495012428 and the common code is 049501242.

REGISTERED OFFICE OF THE ISSUER

Piazzale Ostiense, 2
00154 Rome
Italy

FISCAL AGENT AND PAYING AGENT

BNP Paribas Securities Services, Luxembourg Branch
33, rue de Gasperich
Howald – Hesperange
L-2085 Luxembourg

LEGAL ADVISERS

To the Issuer as to Italian law:

Studio Legale Pavesi Gitti Verzoni
Via Borgonuovo, 27
20121 Milan
Italy

To the Issuer as to Italian tax law:

Studio Vitali Romagnoli Piccardi e Associati
Via della Scrofa, 57
00186 Rome
Italy

To the Joint Lead Managers as to English law:

Clifford Chance Studio Legale Associato
Piazzetta M. Bossi, 3
20121 Milan
Italy

To the Joint Lead Managers as to Italian law:

Legance Studio Legale Associato
Via Dante, 7
20121 Milan
Italy

AUDITORS TO THE ISSUER

Reconta Ernst & Young S.p.A.
Via Po, 32
00198 Rome
Italy

LUXEMBOURG LISTING AGENT

BNP Paribas Securities Services, Luxembourg Branch
33, rue de Gasperich
Howald – Hesperange
L-2085 Luxembourg