Financial statements

for the year ended 31 December 2007

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Income Statement

for the year ended 31 December

Note	€000	2007	2006	Increase/ (Decrease)
1	Sales and service revenues	154,085	205,122	(51,036)
2	Other operating income	29,485	29,378	108
	Net revenue	**183,570**	**234,499**	**(50,929)**
3	Staff costs	35,807	32,790	3,017
4	Cost of materials and overheads	133,487	187,484	(53,997)
	Operating costs	**169,294**	**220,274**	**(50,980)**
	Gross operating profit	**14,277**	**14,225**	**51**
5	Amortisation, depreciation, provisions and impairment charges	24,037	17,236	6,800
	Operating profit/(loss)	**(9,760)**	**(3,011)**	**(6,749)**
6	Finance (costs)/income	132,233	109,327	22,906
	Ordinary finance (costs)/income	132,233	92,179	40,055
	Exceptional finance (costs)/income	0	17,148	(17,148)
7	Profit/(Loss) on investments	20,367	2,545	17,821
	Profit/(Loss) before tax	**142,840**	**108,861**	**33,979**
8	Taxation	30,258	31,601	(1,344)
	Net profit/(loss) from continuing operations	**112,583**	**77,260**	**35,323**
	Net profit/(loss) from discontinued operations	0	0	0
	Net profit/(loss)	**112,583**	**77,260**	**35,323**

Balance Sheet

at 31 December

Note	ASSETS €000	2007	2006	Increase/ (Decrease)
9	Property, plant and equipment	107,674	130,266	(22,592)
10	Investment property	2,196	2,600	(404)
	Goodwill	0	0	0
	Concessions	0	0	0
11	Other intangible assets	7,513	7,052	461
12	Investments in subsidiaries and associates	1,616,680	1,605,399	11,281
13	Other investments	7,142	6,978	164
14	Deferred tax assets	9,781	32,125	(22,345)
15	Financial assets	97,928	147,667	(49,739)
16	Other non-current assets	949	924	25
	NON-CURRENT ASSETS	**1,849,862**	**1,933,011**	**(83,148)**
	Non-current assets held for sale	**0**	**0**	**0**
	Inventories	0	18,921	(18,921)
	Trade receivables	47,828	46,612	1,216
	Intercompany trade receivables	114,693	153,980	(39,287)
	Other current assets	5,113	6,691	(1,579)
	Cash and cash equivalents	90,585	88,045	2,541
	Current financial assets	55,375	38,426	16,948
	Intercompany current financial assets	700,964	405,158	295,805
	Current tax assets	4,921	775	4,147
	Deferred tax assets	19,041	0	19,041
17	**CURRENT ASSETS**	**1,038,520**	**758,609**	**279,911**
	Current assets held for sale	**0**	**0**	**0**
	TOTAL ASSETS	**2,888,382**	**2,691,620**	**196,762**

Balance Sheet

at 31 December

Note	LIABILITIES AND SHAREHOLDERS' EQUITY €000	2007	2006	Increase/ (Decrease)
	Shareholders' equity			
	Share capital	1,098,899	1,098,899	0
	Legal reserve	59,183	55,320	3,863
	Reserve for treasury shares	0	0	0
	Other reserves	335,272	380,019	(44,747)
	Retained profit/(accumulated losses)	0	645	(645)
	Net profit/(loss) for the period	112,583	77,260	35,323
18	**Shareholders' equity**	**1,605,937**	**1,612,143**	**(6,206)**
19	Staff termination benefits and other defined-benefit obligations	32,960	32,494	466
20	Provisions for liabilities and charges	65,891	57,666	8,225
21	Borrowings and financial liabilities	549,698	517,255	32,443
22	Other liabilities	11,909	13,336	(1,427)
23	Deferred tax liabilities	8,142	2,187	5,955
	NON-CURRENT LIABILITIES	**668,599**	**622,937**	**45,662**
	Non-current liabilities held for sale	**0**	**0**	**0**
	Trade payables	119,928	165,220	(45,292)
	Other current liabilities	44,389	41,024	3,365
	Borrowings and other financial liabilities	419,618	226,452	193,165
	Tax liabilities	29,912	23,844	6,068
24	**CURRENT LIABILITIES**	**613,846**	**456,539**	**157,307**
	Current liabilities held for sale	**0**	**0**	**0**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,888,382**	**2,691,620**	**196,762**

Cash Flow Statement
for the year ended 31 December

€000	2007	2006	Increase/(Decrease)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**88,044**	**88,251**	**(207)**
Cash flows from operating activities			
Profit before tax and net finance costs	(19,651)	(3,011)	(16,640)
Amortisation and depreciation	12,231	12,781	(550)
Revaluations/(Impairment charges)	21,470	(1,642)	23,112
Movement in provisions for liabilities	8,225	(2,078)	10,303
Net movement in staff termination benefits	466	(2,438)	2,904
Realised gains	19,731	(15,843)	35,574
Income taxes paid	(73,641)	(31,601)	(42,040)
Cash generated by operations before movements in working capital	**(31,168)**	**(43,832)**	**12,664**
Increase in current receivables	4,593	(56,238)	60,831
Increase /(Decrease) in current liabilities	(36,187)	33,847	(70,033)
Increase/(Decrease) in inventories	18,921	(192)	19,113
Movement in other operating assets/(liabilities)	14,747	45,406	(30,659)
Movement in working capital	**2,075**	**22,823**	**(20,748)**
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**(29,093)**	**(21,009)**	**(8,084)**
Cash flows from investing activities			
Purchase/(Sale) of property, plant and equipment and intangible assets	10,304	15,033	(4,729)
Investments	(12,016)	(48,235)	36,219
Purchase/(Sale) of investments in subsidiaries	0	(5)	5
Proceeds/(Payments) deriving from other investments	(209,719)	0	(209,719)
Dividends received	109,080	106,163	2,917
Interest received	73,771	19,361	54,411
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**(28,579)**	**92,318**	**(120,897)**
Cash flows from financing activities			
Decrease in long-term borrowings	(7,557)	(9,485)	1,928
Increase in medium- to long-term borrowings	40,000	159,763	(119,763)
(Decrease)/Increase in other short-term borrowings	193,165	(91,559)	284,724
Interest paid	(50,618)	(30,382)	(20,236)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	**174,990**	**28,337**	**166,889**
DIVIDENDS PAID	**(114,776)**	**(99,852)**	**(55,778)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,541**	**(207)**	**2,748**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**90,585**	**88,044**	**2,541**

Form, content and scope of the financial statements for the year ended 31 December 2007

General information

Acea SpA's financial statements for the year ended 31 December 2007 were approved by the Board of Directors on 28 March 2008. Acea SpA is an Italian-registered company whose shares are traded on the Milan stock exchange.

Compliance with IFRS

The financial statements have been prepared under the IFRS effective at the balance sheet date, including the IFRS recently adopted by the International Accounting Standards Board (IASB), International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC).

Acea SpA has adopted International Financial Reporting Standards (IFRS) as of 2006, with the date of transition to IFRS established as 1 January 2005. The last financial statements prepared under Italian GAAP relate to 31 December 2005.

Basis of presentation

The financial statements for the year ended 31 December 2007 consist of the balance sheet, income statement, cash flow statement and statement of changes in shareholders' equity, all of which have been prepared under IAS 1. They also include notes prepared under the IAS/IFRS currently in effect.

The income statement is classified on the basis of the nature of expenses, whilst the cash flow statement is presented using the indirect method.

The financial statements for the year ended 31 December 2007 have been prepared in euros and all amounts have been rounded off to the nearest thousand euros, unless otherwise indicated.

Use of estimates

In application of IFRS, preparation of the financial statements for the year ended 31 December 2007 required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date. The actual amounts may differ from such estimates. Estimates are used in order to make provisions for credit risk, obsolescent inventories, impairment charges incurred on assets,

employee benefits, taxes and other provisions. The original estimates and assumptions are periodically reviewed and the impact of any change recognised in the income statement.

Accounting standards and policies

The most significant accounting standards and policies are described below.

Non-current assets held for sale

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

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

Foreign currencies

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

The functional currency used by the Latin American subsidiaries is the US dollar. At the balance sheet date the assets and liabilities of these companies are translated into Acea SpA's

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

Revenue recognition

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Rendering of services

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

Interest income

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

Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

Grants

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

Grants related to specific assets are recognised as non-current liabilities and progressively recognised in the income statement on a straight-line basis over the useful life of the asset to which they refer.

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

Construction contracts

Construction contracts are accounted for on the basis of the percentage of completion method, attributing revenue and profits on the contract to the individual reporting periods in proportion to the stage of contract completion. Any positive or negative difference between contract revenue and any prepayments received is recognised in assets or liabilities.

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

Borrowing costs

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

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

Employee benefits

Post-employment benefits in the form of defined-benefit plans (such as staff termination benefits, bonuses, tariff subsidies) or other long-term benefits are recognised in the period the related right accrues. Such funds and benefits are not financed.

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

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

Share-based payment transactions (stock options)

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

Acea SpA has opted to apply IFRS 2 on a prospective basis from 1 January 2005.

With effect from 2000, Acea SpA introduced annual stock option plans, with the aim of equipping the Company with a means of boosting management incentives and loyalty.

Leases

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

The Company as lessor

Assets held under a finance lease are presented as receivables at an amount equal to Acea SpA's net investment in the leased asset. Finance income is recognised on the basis of a pattern reflecting a constant periodic rate of return on Acea SpA's residual net investment.

Lease income from operating leases is recognised on a straight-line basis over the lease term. Initial direct costs incurred in respect of negotiating and securing the operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

The Company as lessee

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

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

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

Income taxes

Income taxes for the period represent the aggregate amount of current (under the tax consolidation regime) and deferred taxes.

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

Deferred taxes are the taxes expected to be paid or recovered on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases, accounted for using the liability method. Deferred tax liabilities are generally recognised on all taxable temporary differences, whilst deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

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

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

Property, plant and equipment

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

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

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

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

Item	Economic and technical rate		
	Min		**Max**
Land and buildings used in operations	1.67%		2.00%
Other land and buildings		1.67%	
Plant and machinery used in operations	1.25%		8.33%
Other plant and machinery		4.00%	
Industrial and commercial equipment used in operations		6.67%	
Other industrial and commercial equipment		6.67%	
Sundry assets used in operations		12.50%	
Other sundry assets	6.67%		19.00%
Motor vehicles used in operations		8.33%	
Other motor vehicles		16.67%	

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

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

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

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

Under IAS 16, property, plant and equipment includes leasehold improvements to publicly owned assets granted free of charge for the exclusive use of Acea SpA by the *Comune di Roma*, on the basis of a special service contract, and used in operating the public lighting service.

Investment property

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

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

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

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

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

Intangible assets

Intangible assets acquired separately or deriving from a business combination

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

Intangible assets are tested for impairment annually. The tests are conducted in respect of each intangible asset or, if necessary, in respect of each cash-generating unit.

The useful life of an asset is reviewed annually and, where applicable, any adjustments are made on a prospective basis.

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

Research and development costs

Research and development costs are recognised as an expense during the period in which they are incurred. Development costs incurred in relation to a specific project are capitalised when there is reasonable assurance that they will be recovered in future periods. After initial recognition, such costs are carried at cost, which may be reduced by any accumulated amortisation or accumulated impairment charges.

Each capitalised development cost is amortised throughout the period in which the related project is expected to generate future economic benefits.

The carrying amount of development costs is subject to an annual impairment review when the asset is not yet in use, or more frequently when an indicator during the period raises doubts about whether or not the carrying amount is recoverable.

Brands and patents

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

A summary of the useful lives of intangible assets is as follows:

- development costs are amortised on a straight-line basis over a period of five years based on the expected residual useful life of the asset;
- intellectual property is amortised over an estimated useful life of three years.

Impairment of assets

At each balance sheet date, Acea SpA reviews the value of its property, plant and equipment and intangible assets to assess whether there is any indication that an asset may be impaired. If any indication exists, the Company estimates the recoverable amount of the asset in order to determine the impairment charge.

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

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

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

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

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

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

Investments

Investments in subsidiaries and associates are recognised in the balance sheet at cost, after taking account of any impairment of the value of individual investments. The purchase or subscription cost, in the case of investments transferred, corresponds to the value estimated by independent experts in accordance with article 2343 of the Italian Civil Code.

Any excess of the cost of the acquisition over the company's interest in the fair value of the investee company's shareholders' equity is recognised as goodwill. Goodwill is included in the carrying amount of the investment and subject to impairment reviews. Any resulting impairment charges are not reversed if the circumstances that led to the impairment no longer exist.

The portion of an impairment that exceeds the value of shareholders' equity is posted to provisions for liabilities and charges, despite the existence of receivables due and until the claim on such receivables is formally waived. The cost of liquidating investments is taken into account in the measurement of the investments themselves, regardless of any provisions posted in the financial statements of the related companies.

Investments in other companies, held as non-current assets and not for trading, are accounted for at fair value if determinable. In this case fair value gains and losses are recognised directly in shareholders' equity until the investment is sold, when all the accumulated gains and losses are recognised in the income statement for the period.

Investments in other companies for which the fair value is not known are accounted for at cost and written down in the event of anything other than a temporary impairment. Dividend income is recognised in the income statement when the right to receive payment is established and when deriving from distributions of profits subsequent to acquisition of the investment. Should dividend income derive from the distribution of reserves formed prior to acquisition of the investment, the amount received is accounted for as a reduction of the cost of the investment.

Treasury shares

The cost of purchasing treasury shares is accounted for as a reduction of shareholders' equity. The effects of any subsequent transactions involving the shares are also recognised directly in shareholders' equity.

Inventories

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

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

Financial instruments

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

Trade receivables and other assets

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

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

Trade receivables refer to the invoice amount that at the balance sheet date has yet to be collected, and to the accrued portion of revenue for the period represented by invoices to be issued subsequently.

Financial assets

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

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

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

When financial assets are **held for trading**, gains and losses deriving from changes in fair value are recognised in the income statement for the period. In the case of financial assets **available for sale**, gains and losses deriving from changes in fair value are recognised directly in a separate item of shareholders' equity until they are sold or impaired. At this time, the total gains and losses previously recognised in equity are recycled through the income statement for the period. The total loss must equal the difference between the acquisition cost and current fair value.

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

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

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

After initial recognition, they are carried at amortised cost using the effective interest method. The amortised cost of a financial asset means the amount recognised initially, less principal repayments and plus or minus accumulated amortisation using the effective interest method of the difference between the initial amount and the maturity amount, after any reductions. The

effective interest method is a method of calculating the amortised cost of a financial asset (or group of financial assets) and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset.

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

Cash and cash equivalents

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

Borrowings

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

Derivative financial instruments

Derivative financial instruments are initially recognised at cost and then re-measured to fair value at subsequent balance sheet dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of forecast transactions are recognised directly in shareholders' equity, whilst the ineffective portion is immediately recognised in the income statement. If the hedged contract commitment or forecast transaction results in recognition of an asset or a liability, the gains and losses on the instrument previously recognised directly in shareholders' equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability.

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

In the case of fair value hedges, the hedged item is adjusted for changes in fair value attributable

to the hedged risk and the resulting gain or loss recognised in the income statement. Gains and losses deriving from measurement of the derivative instrument are also recognised in the income statement.

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

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

Embedded derivatives are treated as stand-alone derivatives, when the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract and when the host contract is not measured at fair value with changes in fair value recognised in the income statement.

Trade payables

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

Derecognition of financial instruments

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

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

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

Provisions for liabilities and charges

Provisions for liabilities and charges are made when Acea SpA has a present (legal or constructive) obligation as a result of a past event, it is more likely than not that an outflow of

resources will be required to settle the obligation and the related amount has been reliably estimated.

Provisions are measured on the basis of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date, and are discounted when the effect is significant.

Financial risk management

This information is provided in the section "Additional disclosures on financial instruments and risk management policies".

Notes to the income statement

In order to ensure a better understanding of changes between the end of the previous year and the end of 2007, a number of items in the financial statements for the year ended 31 December 2006 have been reclassified, with particular reference to staff costs and other operating income.

1. Sales and service revenues

Revenues for 2007 amount to 154,085 thousand euros, (compared with 205,122 thousand euros in 2006) representing a decrease of 51,036 thousand euros on the previous year.

The reduction compared with the previous year primarily reflects changes in the logistics cycle within the Group. From January 2007, ownership of stocks was re-allocated to the operating companies and, at the same time, management of the stocks was contracted out to a third party provider.

As a result, Acea SpA no longer reports revenues from the sale of materials acquired by the Company and sold to subsidiaries for activities relating to their specific business purpose, leading to a 58,736 thousand euro reduction in revenues.

The remaining balance consists of:

- revenues from the supply of administrative, financial, legal and technical services to subsidiaries and associates, totalling 78,512 thousand euros (74,061 thousand euros in 2006); such revenues primarily regard the subsidiaries, Acea Distribuzione (26,976 thousand euros), Acea Ato 2 (24,756 thousand euros), AceaElectrabel Elettricità (12,206 thousand euros), AceaElectrabel Produzione (2,200 thousand euros), Marco Polo (2,044 thousand euros), LaboratoRI (2,500 thousand euros), Crea (864 thousand euros), AceaElectrabel Trading (540 thousand euros), Luce Napoli (718 thousand euros), Acea Luce (1,119 thousand euros), Acea Ato 5 (616 thousand euros) and Tad (313 thousand euros). This item also includes 2,554 thousand euros in revenues from activities carried out for the overseas companies;
- revenues from services and work carried out for third parties, totalling 75,573 thousand euros (72,325 thousand euros in 2006). This item refers primarily to the management and construction of public lighting systems for the *Comune di Roma* (62,558 thousand euros), amounts paid by the Municipality of Naples (10,449 thousand euros) for management of public lighting in the municipality; and other income of 1,704 thousand euros, including revenues from AceaElectrabel Produzione as a result of the recovery of rent paid for the use of public land (730 thousand euros).

2. Other operating income

Other operating income amounts to 29,485 thousand euros, representing an increase of 108 thousand euros compared with 2006 (29,378 thousand euros).

A breakdown is as follows:

€000	2007	2006	Increase/(Decrease)
Property income	1,311	158	1,153
Income from end users	0	0	0
Gains on asset disposals	19,731	1,306	18,425
Contingent assets and other revenues	3,206	23,159	(19,953)
Damages, fines and compensation	1,198	922	276
Recharged cost of governance bodies	1,525	1,759	(234)
Other	23	0	23
Seconded staff	2,491	2,073	418
TOTAL	**29,485**	**29,378**	**108**

Property income, which is up 1,311 thousand euros on 2006, primarily relates to rent paid by the contractor who has taken over the Group's stock management on the storage space used.

Gains on asset disposals essentially regard the sale of civil properties during the year. The increase compared with the previous year essentially derives from the net gain on the sale of the property in Via Valleranello. The sale price was 52,500 thousand euros, representing a gain of 19,731 thousand euros after transaction costs. The sale price was 52,500 thousand euros (collected in full in March 2008) and the transaction includes an earnout based on the difference between the price already received and the price once the building's renovation has been completed within nine years of completion of the sale. Acea has also entered into a nine-year lease agreement with the buyer for the same property, which is renewable for a further nine years unless one of the parties gives notice. The annual rental is 3,150 thousand euros. Should urban conversion of the property take place during the lease term, the lease will be considered terminated.

Contingent assets and other revenues show a decrease of 19,953 thousand euros compared with the figure for 2006, which included income of 18,634 thousand euros deriving from the sentence handed down by the Superior Public Water Court, requiring the Abruzzo Regional Authority to compensate Acea SpA for the removal of water granted to Acea for use in the

production of hydroelectric power at its plants in the Abruzzo region. The above amount was collected in full in September 2007.

This item primarily includes contingent assets deriving from increased estimates of income for previous years and/or excess provisions for estimated costs for previous years.

Income from **seconded staff** amounts to 2,491 thousand euros (compared with 2,073 thousand euros in 2006) and relates to recovery of the costs of Acea SpA personnel seconded to other units and companies.

The **recharged cost of governance** bodies amounts to 1,525 thousand euros and regards fees payable to managers of Acea SpA as members of subsidiaries' boards of directors.

3. Staff costs

Staff costs amount to 35,807 thousand euros for 2007, representing a reduction of 3,017 thousand euros compared with 2006.

The following table provides a breakdown of the item.

€000	2007	2006	Increase/(Decrease)
Wages and salaries	24,452	24,489	(37)
Capitalised costs	(347)	(742)	394
Total	**24,105**	**23,748**	**357**
Social security contributions	7,819	8,216	(397)
Staff termination benefits	2,973	822	2,151
Other	911	5	906
TOTAL	**35,807**	**32,790**	**3,017**

The increase reflects:

- the recognition of 266 thousand euros in charges deriving from renewal of the electricity workers contract, the salary component of which expired on 30 June 2007;
- the estimated charge deriving from the long-term incentive scheme for Acea's senior management, amounting to 905 thousand euros. The scheme has a three-year term (2007–2009) and envisages a cash payment to be calculated as a percentage of the Gross Annual Remuneration of beneficiaries, based on the achievement of pre-established operating and financial targets at the end of the period.

This item was also influenced by initiatives within the Group for the redeployment of staff in order to fill vacancies in the largest operating companies. In addition, steps have been taken to

reorganise operations in such a way as to transfer responsibility for operating activities to subsidiaries.

The following table shows the average number of staff by category, compared with the same period of the previous year. The figure for the end of 2007 is also shown.

	Average number of employees			Employees
	2007	**2006**	**Increase/(Decrease)**	**31 Dec 2007**
Senior managers	52	45	7	55
Middle managers	87	82	5	86
White-collar staff	345	368	(23)	343
Blue-collar staff	11	24	(13)	11
TOTAL	**495**	**519**	**(23.6)**	**495**

4. Cost of materials and overheads

The cost of materials and overheads amounts to 133,487 thousand euros, representing a decrease of 53,997 thousand euros on the previous year.

The decrease is primarily due to the decentralised management of logistics, whereby Acea no longer incurs the cost of procuring materials for use by its subsidiaries.

€000	**2007**	**2006**	**Increase/(Decrease)**
Materials	1,383	61,024	(59,641)
Services	116,127	111,801	4,326
Contract work	904	914	(10)
Lease expense	8,426	9,291	(864)
Taxes and duties	1,266	966	300
Other operating costs	5,381	3,487	1,893
TOTAL	**133,487**	**187,484**	**(53,997)**

Materials

This amount (1,383 thousand euros) represents the cost of materials used during the year. A breakdown is as follows:

€000	**2007**	**2006**	**Increase/(Decrease)**
Materials	1,289	61,216	(59,927)
Change in inventories	94	(192)	286

Total	**1,383**	**61,024**	**(59,641)**
Capitalised costs	0	0	0
TOTAL	**1,383**	**61,024**	**(59,641)**

Services and contract work

This item totals 117,031 thousand euros, an increase of 4,316 thousand euros on the previous year (112,715 thousand euros for 2006) and refers to:

- service costs totalling 116,127 thousand euros, compared with 111,801 thousand euros in 2006. The substantial increase primarily reflects the increase in charges paid to Acea Distribuzione deriving from management and maintenance of public lighting activities following the transfer of the related division;
- maintenance work and contracts totalled 904 thousand euros, compared with 914 thousand euros in 2006.

Services costs break down as follows:

- consultants' fees: 5,481 thousand euros (5,505 thousand euros in 2006);
- cleaning, transport and porterage: 24 thousand euros (519 thousand euros in 2006);
- freelance workers: 1,399 thousand euros (1,009 thousand euros in 2006);
- services for personnel: 2,297 thousand euros (2,417 thousand euros in 2006);
- insurance: 6,490 thousand euros (6,976 thousand euros in 2006);
- telecommunications, postage and printing: 7,757 thousand euros (8,688 thousand euros in 2006);
- maintenance of electronic equipment: 1,054 thousand euros (1,340 thousand euros in 2006);
- administrative, IT and engineering: 3,793 thousand euros (2,871 thousand euros in 2006);
- communication costs: 3,987 thousand euros (3,147 thousand euros in 2006);
- travel expenses: 449 thousand euros (383 thousand euros in 2006);
- intercompany services, totalling 79,889 thousand euros (78,082 thousand euros in 2006), regarding the purchase of electricity and water (21,173 thousand euros), electricity used in the supply of public lighting services, and other services provided by Group companies (47,417 thousand euros). The following table shows a breakdown of the type of services rendered by Group companies:

€000	Description	2007	2006	Increase/(Decrease)
Acea Distribuzione	Cost of the public lighting contract in the municipality of Rome	40,030	42,841	(2,811)
Acea Luce	Cost of public lighting service in the municipality of Naples (routine and extraordinary maintenance)	2,911	2,971	(60)
Luce Napoli	Cost of managing public lighting service in the municipality of Naples	4,442	3,569	873
LaboratoRi	Sundry services	34	128	(94)
AceaElectrabel Elettricità	Electricity	19,401	15,311	4,090
Acea Ato 2	Water consumption	878	926	(47)
Marco Polo	Service contract	12,177	12,337	(160)
Si(e)nergia	Sundry services	16	0	16
TOTAL		**79,889**	**78,082**	**1,807**

- the cost of corporate officers of 1,242 thousand euros (920 thousand euros in 2006);
- the cost of seconded staff (1,002 thousand euros);
- bank charges of 1,689 thousand euros (1,615 thousand euros in 2006).

Pursuant to article 149-*duodecies* of the CONSOB Regulations for Issuers, the fees accruing to the Independent Auditors, Deloitte & Touche, are as follows:

- auditing for Acea: 100 thousand euros
- tax assistance for Acea: 32 thousand euros
- other services for Acea: 753 thousand euros, relating to support services for implementation of the 262 project.

Lease expense

This item totals 8,426 thousand euros in 2007, compared with 9,291 thousand euros for 2006, and primarily refers to rent on the Company's headquarters in Piazzale Ostiense (3,490 thousand euros), rent on the office premises in Via Marco Polo (683 thousand euros), rent for the Data Processing and Remote Control Centre (1,293 thousand euros), and to municipal taxes (1,913 thousand euros) for production plants, which are subsequently recharged to AceaElectrabel Produzione SpA. The amount also includes other expenses, such as motor vehicle hire charges, amounting to 654 thousand euros.

Other operating costs (Taxes and duties – Other costs)

Such costs amount to 6,647 thousand euros for 2007, an increase of 2,193 on the previous year. The difference primarily regards the increase in "Contingent liabilities and exceptional write-downs of assets", which include adjustments to estimates made in previous years (1,487 thousand euros) and the grant payable to the Electricity and Gas Authority for 2007 (up 452 thousand euros).

Taxes and duties include municipal property tax and charges for the occupation of public space (279 thousand euros), refuse collection tax and other taxes (987 thousand euros). Overheads include contributions paid to industry organisations (322 thousand euros), the Electricity and Gas Authority (818 thousand euros) and CONSOB (121 thousand euros), payments to charity (208 thousand euros) and other mandatory charges (1,582 thousand euros)

5. Amortisation, depreciation and impairment charges

€000	2007	2006	Increase/(Decrease)
Amortisation of intangible assets	4,538	6,151	(1,612)
Depreciation of property, plant and equipment	7,693	6,630	1,063
Provisions for the impairment of receivables	1,103	903	200
Provisions for liabilities	10,702	3,552	7,150
TOTAL	**24,037**	**17,236**	**6,800**

Amortisation of intangible assets amounts to 4,538 thousand euros (6,151 thousand euros for 2006) and refers to amortisation of assets with indefinite useful lives. The difference compared with the previous year regards completion, at 31 December 2006, of the process of amortising the software forming part of the technology platform purchased from the subsidiary, VoiNoi.

Depreciation of property, plant and equipment amounts to 7,693 thousand euros (6,630 thousand euros for 2006) and is calculated by systematically applying economic and technical rates, which are the same as those used by the experts when appraising the assets transferred as part of the demerger, in order to allocate the value of the assets over their estimated residual useful lives. This item includes depreciation of public lighting assets.

Provisions for the impairment of receivables total 1,103 thousand euros (903 thousand euros in 2006).

The provisions represent adjustments to the value of receivables due from end users and customers at 31 December 2007 to reflect their estimated realisable value.

More information on such movements is provided in the notes to the above receivables.

Provisions for liabilities total 10,702 thousand euros (3,552 thousand euros in 2006) and primarily regard:

- 3,360 thousand euros for legal liabilities;
- 1,292 thousand euros relating to staff, above all liabilities regarding contributions;
- 2,409 thousand euros for voluntary redundancy schemes;
- 2,298 thousand euros for the cost of managing investments, including provisions for charges linked to the liquidation of the subsidiary, VoiNoi;
- 8,300 thousand euros to cover the estimated maximum liability regarding the fine imposed by the Antitrust Authority.

This item has benefited from elimination of the risk deriving from the issue of social welfare contributions. The provisions made at 31 December 2006 amounted to 5,869 thousand euros.

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

6. Finance (costs)/income

Finance income/(costs)

Net finance income amounts to 132,233 thousand euros, representing an increase of 22,906 thousand euros compared with 2006.

Finance income amounts to 182,861 thousand euros (up 40,128 thousand euros on the previous year) and regards:

- an increase in interest on loans to subsidiaries (up 4,864 thousand euros), above all to the generating companies;
- an increase in interest on intercompany current accounts (up 4,201 thousand euros);
- an increase in interest on bank deposits (up 773 thousand euros);
- an increase in dividends paid by subsidiaries and associates (up 46,592 thousand euros), referring to:
  - Acea Reti e Servizi Energetici (26,594 thousand euros);
  - Acea Ato 2 (66,500 thousand euros);
  - Acea Distribuzione (37,812 thousand euros);
  - AceaElectrabel (7,012 thousand euros);
  - LaboratoRI (1,632 thousand euros);

- overseas companies (1,068 thousand euros);
- Eblacea (11,947 thousand euros);

- on the other hand, the total for 2006 included proceeds of 17,148 thousand euros from the sale of building land on the Via Laurentina, which were collected in February 2007.

Interest expense of 50,609 thousand euros is up 17,399 thousand euros. This reflects:

- a 10,510 thousand euro increase in interest on short-term borrowings due to rising interest rates; the weighted average rate of interest payable in 2006 was 3.14%, compared with 4.78% in 2007;
- a 4,808 thousand euro increase in interest on medium/long-term borrowings, essentially relating to the loan from Banco Bilbao. Unlike 2006, finance costs include interest for the full year on the first tranche (6,922 thousand euros, compared with 2,926 thousand euros in 2006), and interest on the second tranche drawn down in July 2007 (923 thousand euros);
- 4,018 thousand euros in interest deriving from cash pooling and payable to the subsidiary, AceaElectrabel Elettricità.

€000	2007	2006	Increase/(Decrease)
Finance costs	**50,609**	**33,210**	**17,399**
Charges on interest rate swaps	0	0	0
Interest on bonds in issue	14,794	14,782	12
Interest on medium- to long-term borrowings	10,348	5,540	4,808
Interest on short-term borrowings	17,947	7,437	10,510
Interest on intercompany running accounts	5,203	1,025	4,178
Interest costs on defined-benefit plans (IAS 19)	1,404	1,404	0
Interest pursuant to article 1 of Legislative Decree 10/2007	0	3,022	(3,022)
Other	912	0	912
Finance income	**182,852**	**125,524**	**57,328**
Income on interest rate swaps	0	0	0
Interest on loans to subsidiaries and associates	13,558	8,694	4,864
Interest on repurchase agreements	45	103	(58)
Interest on EIB/Banca di Roma loan	1,798	1,861	(63)
Bank interest	2,065	1,292	773
Interest on intercompany running accounts	11,094	6,901	4,193
Dividends	152,754	106,163	46,591
Finance income pursuant to IAS 19	0	93	(93)
Other	1,538	417	1,121
Foreign exchange gains/(losses)	**(9)**	**(134)**	**125**
Ordinary (costs)/income	**132,233**	**92,180**	**40,053**
Gains on the disposal of properties not used in operations	0	17,148	(17,148)
Exceptional (costs)/income	**0**	**17,148**	**(17,148)**
TOTAL	**132,233**	**109,328**	**22,905**

7. Profit/(Loss) on investments

The positive balance of 20,367 thousand euros (compared with 2,545 thousand euros in 2006) primarily derives from:

€000	2007	2006	Increase/(Decrease)
Losses on investments	**905**	**728**	**177**
Impairments of investments	905	119	786
Joint venture agreement with Electrabel	0	609	(609)
Profits on investments	**21,272**	**3,273**	**17,999**
Joint venture agreement – price adjustments	19,632	1,682	17,950
Gain on the sale of investments	48	0	48
Gain on the transfer of the public lighting business	1,591	1,591	0
TOTAL	**20,367**	**2,545**	**17,822**

Profits (20,367 thousand euros in 2007) break down as follows:

- 19,632 thousand euros in further portions of the price to be paid by Electrabel under the joint venture agreement, linked to the achievement of a certain degree of market liberalisation and a number of financial targets, and including revaluation;
- 1,591 thousand euros representing the attributable portion, based on the term of the service contract with the *Comune di Roma* (ten years), of the gain on the transfer of the public lighting business to Acea Distribuzione;
- 48 thousand euros deriving from the elimination of impairment charges following the decision to bring the investee company, Ecomed, out of liquidation.

Losses (905 thousand euros in 2007) include the Company's share of losses incurred by the subsidiaries, AceaRieti and Montenero Energia (in liquidation).

8. Taxation

This item amounts to 30,258 thousand euros (31,601 thousand euros in 2006). The total expense is the sum of the following components:

Current taxes

At 31 December 2007 current taxes amount to 80,336 thousand euros (52,420 thousand euros at 31 December 2006) and refer to:

1. 79,571 thousand euros for consolidated IRES expense, representing the sum of the taxable income and tax losses reported by companies included in the tax consolidation (50,830 thousand euros at 31 December 2006). The increase compared with the previous year is due to the change in the basis of consolidation. The number of companies now included in the tax consolidation in 2007 was 20, compared with 8 in 2006;
2. 765 thousand euros in IRAP due from Acea SpA, compared with 1,589 thousand euros in 2006. The decrease compared with the previous year is in part due to exploitation of the so-called tax wedge (363 thousand euros) and partly to deferment of taxation on realised gains.

From 2007 Acea is subject to the changes introduced by Legislative Decree 262 of 2 October 2006, converted into Law 286 of 24 November 2006, which a ban on offsetting shareholders' tax losses against the investee company's income attributed under tax transparency. As a result, Acea SpA's taxable income is represented by its share of the taxable income of Acea Distribuzione SpA, amounting to 61,318 thousand euros. No deferred tax assets were recovered due to use of the loss.

In the light of the above, Acea SpA's management believes that further strategic and tax planning can be carried out at Group level, in order to obtain the benefits of the accumulated tax losses accrued to date and recognised in these financial statements, amounting to approximately 16 million euros. The losses are expected to be recovered by 2008.

Deferred taxes

Deferred tax assets of 3,303 thousand euros represent the sum of provisions (3,378 thousand euros), made solely with regard to provisions for liabilities and IFRS provisions for defined-benefit plans, and uses (6,681 thousand euros), which include: 1,232 thousand euros due to the reduction by a fifth of impairments incurred on investments in 2002; 196 thousand euros relating to the use of provisions for liabilities; 381 thousand euros due to the use of deferred tax assets on IFRS adjustments; 4,871 thousand euros due to the adjustment of existing provisions to reflect the new IRES and IRAP rates. Deferred tax liabilities of 5,955 thousand euros consist of provisions for a gain taxable in 2008 (6,483 thousand euros), the use of deferred tax liabilities on IFRS adjustments (185 thousand euros) and, in common with deferred tax assets, adjustment for the new tax rates (343 thousand euros). Net provisions for the period amount to 9,258 thousand euros.

Tax expense and income

Net tax income amounts to 59,336 thousand euros, which represents the balance of tax expense due from the Parent Company to companies included in the tax consolidation in return for the transfer of tax losses (1,063 thousand euros) and tax income represented by taxable income transferred to the tax consolidation (60,399 thousand euros).

In accordance with the Group's general tax consolidation rules, the value of the gain deriving from the transfer of tax losses is determined by applying the current IRES rate at the time to the total tax losses transferred.

The following table provides a reconciliation of the expected and effective tax charges.

	2007		2006	
	€000	%	€000	%
Profit before tax from continuing operations	142,840		108,861	
Expected tax charge at 33% of profit before tax	47,137	33.0	35,924	33.0
Permanent differences	(17,644)	(12.4)	(12,275)	(11.3)
IRES for the year including deferred taxation	29,493	20.6	23,649	21.7
Recovery unpaid taxes pursuant to Legislative Decree 10/2007	0	0.0	6,362	5.8
IRAP	765	0.5	1,590	1.4
Taxation on continuing operations	30,258	21.2	30,601	29.0

The tax rate for the previous year is influenced by the payment demands issued by the tax authorities in accordance with Legislative Decree 10/2007. This component accounts for approximately 6 percentage points of last year's tax rate.

Earnings per share

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

	2007	2006
Net profit attributable to Acea SpA (€000)	112,583	77,260
Net profit attributable to ordinary equity holders of Acea SpA (A) (€000)	112,583	77,260
Weighted average number of ordinary shares in issue for the purposes of determining earnings per share		
basic (B)	212,964,900	212,964,900
diluted (C)	212,964,900	212,964,900
Earnings/(Loss) per share (€)		
basic (A/B)	**0.5286**	**0.3628**
diluted (A/C)	**0.5286**	**0.3628**

Notes to the balance sheet

In order to ensure a better understanding of changes between the end of the previous year and the end of 2007, a number of items in the financial statements for the year ended 31 December 2006 have been reclassified, with particular reference to other loans and receivables.

Assets

9. Property, plant and equipment

€000	31 Dec 2007	31 Dec 2006	Increase/ (Decrease)
Land and buildings	23,682	56,558	(32,876)
Plant and machinery	65,810	56,091	9,719
Industrial and commercial equipment	4,163	4,198	(35)
Other assets	8,317	8,180	137
Assets in the course of construction and prepayments	5,701	5,239	462
TOTAL	**107,674**	**130,266**	**(22,592)**

At 31 December 2006, property, plant and equipment, net of the allowance for depreciation, amounts to 107,674 thousand euros, compared with 130,266 thousand euros at 31 December 2006, representing a net reduction of 22,592 thousand euros.
The most significant movements in 2007 are described below:

Land and buildings

At 31 December 2007 this item amounts to 23,682 thousand euros, representing a decrease of 32,876 thousand euros compared with the previous year (56,558 thousand euros). This reflects the combined effect of:

- disposals (32,231 thousand euros), primarily regarding the sale of the property in Via Valleranello to 7 NOVE 12 Roma Srl. The sale price of 52,500 thousand euros (in addition to VAT as required by law) will increase should development of the property, with the aim of changing its permitted use and effective above-ground space, be successfully completed. In this case the earnout will be increased by a premium based on the difference between the

post-development price and the price paid on completion of the sale. Acea has also entered into a nine-year lease agreement with the buyer for the same property.

- depreciation for the period of 985 thousand euros.

Plant and machinery

This item, amounting to 65,810 thousand euros, regards leasehold improvements to publicly owned assets granted exclusively for the use of Acea SpA by the *Comune di Roma*, based on a specific service contract and used in the provision of public lighting. The movement regards:

- increases due to new investment (14,339 thousand euros);
- depreciation for the period (4,335 thousand euros);
- disposals for the period (286 thousand euros), relating to properties owned by the Company located in Vicovaro and former IACP properties.

Industrial and commercial equipment

This item, totalling 4,163 thousand euros, is substantially unchanged compared with the previous year.

Other assets

This item, totalling 8,317 thousand euros (8,180 thousand euros at 31 December 2006) has increased by 137 thousand euros due to investment (2,181 thousand euros) in the purchase of new electronic office equipment, less depreciation for the period (amounting to 1,927 thousand euros) and disposals (117 thousand euros).

This item also includes the hardware component (505 thousand euros) of the technology platform acquired from the subsidiary, VoiNoi SpA (in liquidation), and depreciated over five years.

Assets in the course of construction

Investment totalled 5,701 thousand euros (5,239 thousand euros in 2006). The net increase (462 thousand euros) primarily refers to the purchase of industrial equipment.

This item includes 975 thousand euros regarding the Valle Galeria area.

Accumulated depreciation amounts to 47,038 thousand euros and covers 19.63% of the value of plant in operation at 31 December 2007.

Rates of depreciation for assets entering service in 2007 are reduced by 50% for their first year in service.

The following table shows the rates of depreciation applied in 2007, which, as specified in the accounting policies, correspond to the economic and technical rates.

Item	Economic and technical rate	
	Min	**Max**
Land and buildings used in operations	1.67%	2.00%
Other land and buildings	1.67%	
Plant and machinery used in operations	1.25%	8.33%
Other plant and machinery	4.00%	
Industrial and commercial equipment used in operations	6.67%	
Other industrial and commercial equipment	6.67%	
Other assets used in operations	12.50%	
Other assets	6.67%	19.00%
Motor vehicles used in operations	8.33%	
Other motor vehicles	16.67%	

An analysis of movements during the year is provided in the following table.

Disclosure required by article 10 of Law 72 of 19 March 1983: the value of assets at 31 December 2007 does not include any revaluations pursuant to Laws 576/75 and 72/83.

Property, plant and equipment	31 Dec 2006			Movements during the period				31 Dec 2007		
€000	Cost	Accumul. deprec.	Carrying amount	Additions	Reclass.	Disposals	Deprec.	Cost	Accumul. deprec.	Carrying amount
Land and buildings	65,544	(8,986)	56,558	8	332	(32,231)	(985)	33,653	(9,971)	23,682
Plant and machinery	60,082	(3,991)	56,091	14,340	0	(286)	(4,335)	74,136	(8,326)	65,810
Industrial and commercial equipment	15,801	(11,603)	4,198	553	0	(212)	(376)	16,142	(11,979)	4,163
Other assets	23,006	(14,826)	8,180	2,181	0	(117)	(1,927)	25,070	(16,753)	8,317
Assets in the course of construction and prepayments	5,239	0	5,239	468	0	(6)	0	5,701	0	5,701
Total property, plant and equipment	**169,672**	**(39,406)**	**130,266**	**17,500**	**332**	**(32,851)**	**(7,622)**	**154,702**	**(47,028)**	**107,674**

10. Investment property

Investment property amounts to 2,196 thousand euros (2,600 thousand euros at 31 December 2006) and primarily includes land and buildings not used in operations and held for rental.
The following table shows movements during the period:

€000	31 Dec 2006	Additions	Depreciation	Disposals	Reclassificat.	31 Dec 2007
Land and buildings	2,600	0	(72)	0	(332)	2,196
Total	**2,600**	**0**	**(72)**	**0**	**(332)**	**2,196**

The reduction compared with the previous year reflects disposals in 2007.

11. Other intangible assets

€000	31 Dec 2007	31 Dec 2006	Increase/ (Decrease)
Industrial patents and intellectual property rights	2,727	4,020	(1,293)
Concessions, licences, trade marks and similar rights	0	0	0
Intangible assets in progress and prepayments	4,081	2,405	1,676
Other	706	627	(78)
Total	**7,513**	**7,052**	**460**

At 31 December 2007 other intangible assets total 7,513 thousand euros (compared with 7,052 thousand euros at 31 December 2006), after amortisation for the year totalling 4,538 thousand euros. Intangible assets mainly refer to the following items.

Industrial patents

This item amounts to 2,727 thousand euros at 31 December 2007 (compared with 4,020 thousand euros at 31 December 2006) and primarily consists of SAP R/3 software (amortised over five years) and software for the customer information system (amortised in three years).
The difference compared with 2006 is due to the fact that this item included a portion of the business unit acquired from VoiNoi SpA (in liquidation) in 2004. The unit consisted of a specially developed technology platform designed to provide multimedia services to Acea Group customers, and primarily includes software classified as an intangible asset. This component was fully amortised at 31 December 2006, as reflected in the reduction.

Intangible assets in progress and prepayments

This item amounts to 4,081 thousand euros at 31 December 2007, compared with 2,405 thousand euros at 31 December 2006, and regards new information technology projects to be completed.

Other

At 31 December 2007 this item amounts to 706 thousand euros (at 31 December 2006 the figure was 627 thousand euros), and essentially regards both extraordinary maintenance (so-called "evolutive maintenance") of the NSIU system and costs incurred for development of the TESS project (software).

An analysis of movements during the year is provided in the following table:

Other intangible assets €000	**31 Dec 2006**	**Movements during the period**				**31 Dec 2007**
	Carrying amount	**Additions**	**Reclass.**	**Disposals**	**Amort.**	**Carrying amount**
Industrial patents and intellectual property rights	4,020	2,563	0	0	(3,856)	2,727
Other	627	759	0	0	(681)	705
Intangible assets in progress and prepayments	2,405	1,676	0	0	0	4,081
Total	**7,052**	**4,998**	**0**	**0**	**(4,538)**	**7,513**

12. Investments in subsidiaries and associates

At 31 December 2007 the item "Investments in subsidiaries and associates" amounts to 1,616,680 thousand euros (1,605,399 thousand euros at 31 December 2006).

€000	**31 Dec 2007**	**31 Dec 2006**	**Increase/(Decrease)**
Investments in subsidiaries	1,578,412	1,567,117	11,295
Investments in associates	38,268	38,282	(14)
Total	**1,616,680**	**1,605,399**	**11,281**

Investments in subsidiaries

At 31 December 2007 such investments total 1,578,412 thousand euros, compared with 1,567,117 thousand euros at the end of the previous year, showing an increase of 11,295 thousand euros.

The most important transactions during the year are described below:

- Additions:
  - AceaElectrabel SpA: the investment has increased by 5,400 thousand euros due to the disbursement of a shareholder loan to AceaElectrabel SpA to be converted into a future capital increase in order to cover losses (900 thousand euros) and the subsequent recapitalisation of AceaElectrabel Trading (4,500 thousand euros).
  - Aquaser Srl: the investment has increased by 150 thousand euros due to the transfer to Acea of ownership of 30% of Aquaser by Azienda Servizi Val di Cecina. In the new shareholder structure, Acea now holds 57% of the share capital.
  - Dyna Green: the increase in the value of the investment derives from disbursement of shareholder loans to be converted into a future capital increase. Acea's share is 120 thousand euros and was paid in July 2007.
  - Ecomed: this investment was fully written down in 2006 following the decision to place the company in liquidation. On 29 January 2007 a general meeting of shareholders resolved to bring the company out of liquidation, electing a new board of directors and amending the articles of association. As a result, Acea reversed the impairment of the investment (47 thousand euros).
- Acquisitions:
  - Umbra Acque: this acquisition, in December, followed a tender process that resulted in Acea being chosen to be the private minority shareholder in Umbra Acque SpA, which manages integrated water services in 37 municipalities in ATO Umbria 1. The winning private shareholder was then expected to acquire an interest in the company via a capital increase, involving no less then 6,219,956 shares, that resulted in 60% of the company being owned by public sector shareholders and 40% by the private industrial shareholder. This holding is represented by 4,457,339 shares purchased from the existing private shareholders, with the remaining 1,762,617 shares acquired as a result of the capital increase. Acea thus proceeded to acquire the interests of the selling shareholders (totalling 7,245 thousand euros) and subscribed the capital increase, amounting to 3,619 thousand euros.

The price paid to Crea was 6,519 thousand euros, with 2,506 thousand euros represented by Umbra's book value. This amount, in addition to the capital increase (3,619 thousand euros) and

the price paid to third-party private shareholders (726 thousand euros), represents the amount accounted for on initial recognition of the investment in Acea's financial statements. The carrying amount is thus 6,851 thousand euros.

Goodwill (4,013 thousand euros) purchased as part of the transaction has been accounted for as a reduction in Acea's equity in compliance with IFRS governing business combinations between related parties.

- Reductions:
  - Acque Blu Fiorentine the reduction of 1,029 thousand euros derives from events relating to ownership of the investment in Publiacqua. Acea owns this investment via Acque Blu Fiorentine and has adjusted its value following the direct collection of dividends from Publiacqua, based on the payout attributable to Publiacqua's public sector shareholders. Collection of the dividends is based on an agreement granting Acea (as the lead company for the consortium that took part in the tandem process) and Acque Blu Fiorentine's other shareholders the right to restore the balance sheet equilibrium that was compromised by the failure of the public sector shareholders to take part in a capital increase for Publiacqua.
  - AceaRieti: the reduction of 245 thousand euros in the value of the investment reflects contrasting factors. At the end of 2006 the investment amounted to 444 thousand euros. However, in response to the company's negative operating performance during 2007, it was necessary to pay in 95 thousand euros to cover the resulting capital deficit and inject 200 thousand euros in fresh capital. Further operating losses required the injection of a further 355 thousand euros and the resulting recapitalisation. This has also led to recognition of an impairment charge of 740 thousand euros. The above events have resulted in a net reduction in the value of the investment of 295 thousand euros.
- Impairments:

The investment in Montenero Energia has been fully written down.

The following table shows a breakdown and movements during the year:

Investments in subsidiaries €m	**Historical cost**	**Reclassifications**	**Impair./Reval.**	**Disposals**	**Net carrying amount**
Amount at 31 December 2006	**2,535**	**1**	**(26)**	**(943)**	**1,567**
Movements in 2006:					
- movement in share capital	5	0	1	0	6
- acquisitions	7	0	0	0	7
- disposals	0	0	0	0	0

- reclassifications	0	0	0	0	0
- impairments	0	0	(2)	0	(2)
Total movements in 2006	**12**	**0**	**(1)**	**0**	**11**
Amount at 31 December 2007	**2,548**	**1**	**(27)**	**(943)**	**1,578**

Investments in associates

At 31 December 2007 this item amounts to 38,268 thousand euros, compared with 38,282 thousand euros at 31 December 2006, showing a decrease of 14 thousand euros. This is due to reclassification of the investment in Aquaser, over which Acea exercises dominant influence and which is thus now considered a subsidiary.

The following table shows a breakdown and movements during the year:

Investments in associates €000	**Historical cost**	**Reclassific.**	**Impairm./ Revaluat.**	**Disposals**	**Net carrying amount**
Amount at 31 December 2006	**80,330**	**37,707**	**(78,643)**	**(1,112)**	**38,282**
Movements in 2007:					
- movement in share capital	0	0	0	0	0
- acquisitions	150	(164)	0	0	(14)
- disposals	0	0	0	0	0
- impairments	0	0	0	0	0
Total movements in 2007	**150**	**(164)**	**0**	**0**	**(14)**
Amount at 31 December 2007	**80,480**	**37,544**	**(78,643)**	**(1,112)**	**38,268**

13. Other investments

At 31 December 2007 this item amounts to 7,142 thousand euros (6,974 thousand euros at 31 December 2006) and consists of investments that do not qualify as investments in subsidiaries, associates or joint ventures. These investments are accounted for at fair value.

Other investments €000	**Historical cost**	**Revaluations**	**Impairments**	**Movements**	**Net carrying amount**
Amount at 31 December 2006	**7,082**	**0**	**(108)**	**4**	**6,978**
Movements in 2006:					
- assets held for sale	0	0	0	0	0
- movements in share capital	0	0	0	0	0
- acquisitions	164	0	0	0	164
Total movements in 2006	**164**	**0**	**0**	**0**	**164**
Amount at 31 December 2007	**7,246**	**0**	**(108)**	**4**	**7,142**

The movement reflects the increased investment in Umbria Distribuzione Gas SpA following disbursement of shareholder loans to be converted into a future capital increase, totalling 164 thousand euros.

14. Non-current deferred tax assets

At 31 December 2007 deferred tax assets amount to 9,781 thousand euros (32,125 thousand euros at 31 December 2006). The reduction is primarily due to reclassification of deferred tax assets on tax losses from non-current to current assets (16,352 thousand euros). This item breaks down as follows: 598 thousand euros from taxed provisions for liabilities (390 thousand euros at 31 December 2006); 1,253 thousand euros from impairments of receivables and investments (2,486 thousand euros at 31 December 2006); 577 thousand euros for other provisions. As a result of retrospective application of IAS 19, deferred tax assets recognised in shareholders' equity total 7,352 thousand euros (8,915 thousand euros at 31 December 2006).

The recoverability of deferred tax assets is reviewed on the basis of Acea SpA's business plans and a reasonable estimate of the period in which the related difference is expected to reverse.

The following table shows movements in both non-current and current deferred tax assets.

€000		Movements during the period			
	31 Dec 2006	**Uses IRES / IRAP**	**Adjustment for new tax rates**	**Provisions for IRES/IRAP**	**31 Dec 2007**
Deferred tax assets					
Tax losses	19,623	0	(3,270)	0	16,352
Directors' fees	0	0	0	0	0
Provisions for liabilities and charges	390	(196)	(31)	3,125	3,287
Impairment of investments	1,232	(1,232)	0	0	0
Impairment of receivables	1,253	0	0	0	1,253
Depreciation and amortisation	0	0	0	0	0
Amortisation of goodwill	0	0	0	0	0
Revenue – IAS 18	0	0	0	0	0
Defined-benefit plans – IAS 19	8,775	(381)	(1,462)	253	7,215
Other	852	0	(107)	0	715
Total	**32,125**	**(1,810)**	**(4,870)**	**3,378**	**28,822**
Deferred tax liabilities					
Deferred tax on reversal of tax-related entries	1,497	0	(229)	0	1,268
Increased provisions (art. 109 Consolidated Income Tax Act)	0	0	0	0	0
Depreciation and amortisation	0	0	0	0	0
Defined-benefit plans – IAS 19	691	(185)	(114)	0	391
Other	0	0	0	6,483	6,483
Total	**2,187**	**(185)**	**(343)**	**6,483**	**8,142**
NET TOTAL	**29,938**	**(1,625)**	**(4,642)**	**(2,991)**	**20,680**

As mentioned above, Legislative Decree 262/2006, converted into Law 286 of 24 November 2006, has, in line with the regulations governing tax consolidation, introduced a ban on offsetting shareholders' tax losses, for years prior to the start-up of tax transparency, against the investee company's income in the option period.

15. Non-current financial assets

At 31 December 2007 non-current financial assets amount to 97,928 thousand euros (147,667 thousand euros at 31 December 2006) and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Loans and receivables due from subsidiaries	92,923	107,367	(14,444)
Loans and receivables due from associates	4,760	40,280	(35,520)
Other loans and receivables	245	20	225
Non-current financial assets	**97,928**	**147,667**	**(49,739)**

The item comprises existing medium/long-term receivables referring to the following items.

€000	31 Dec 2006	Movements during the period				31 Dec 2007
		Increases	Reclassifications	Capitalised interest	Repayments	
Loans and receivables due from subsidiaries						
Acea Distribuzione	21,652	0	(3,331)	0	0	18,321
Acea Ato 2	9,064	0	(1,394)	0	0	7,669
AceaElectrabel Produzione	8,597	0	(1,207)	0	0	7,390
Non-interest bearing loan to Acea Ato 5	15,939	14,275	0	0	0	30,213
Receivable due from Terni En.A	0	10,500	0	(2,417)	0	8,083
Receivable due from Eall	0	20,900	0	(2,944)	0	17,976
Loan to Voghera Energia	668	0	(668)	0	0	0
Loan to AceaElectrabel Produzione	51,446	25,132	(73,322)	15	0	3,271
Total	**107,367**	**65,465**	**(79,923)**	**15**	**0**	**92,923**
Loans and receivables due from associates						
Loan to Eblacea to finance repowering	17,699	0	0	0	(17,699)	0
Loan to Eblacea to finance acquisitions	22,580	0	0	0	(17,820)	4,760
Total	**40,280**	**0**	**0**	**0**	**(35,519)**	**4,760**

TOTAL	**147,647**	**0**	**(79,923)**	**15**	**(35,519)**	**97,683**

Loans and receivables due from subsidiaries

Amounts due from subsidiaries relate to the principal not yet due at the balance sheet date on loans transferred, wholly or in part, to the demerged companies, as they were linked to allocation constraints. Such portions of loans were transferred to the related companies under the related deeds of transfer and total 33,380 thousand euros at 31 December 2007.

This amount has decreased with respect to the previous year (down 5,933 thousand euros) as a result of the scheduled repayments made.

The terms applicable to this receivable coincide with the cost of the loans transferred, with particular reference to a portion of the EIB loan and a portion of the EIB loan handled by the Banca di Roma.

Loans to subsidiaries

These loans amount to 59,543 thousand euros (68,053 thousand euros at 31 December 2006) and regard:

- 3,271 thousand euros granted to AceaElectrabel Produzione. This amount regards a new loan disbursed in order to finance construction of the "Monte della Difesa" wind farm. The amount disbursed, totalling 3,344 thousand euros, includes capitalised interest for the period (14 thousand euros), calculated at a rate of Euribor for the period plus a spread of 1.50% per annum;
- 30,213 thousand euros granted to the subsidiary, Acea Ato 5 SpA. This amount includes 14,275 thousand euros disbursed by Acea SpA under the "Shareholder loan" agreement of 27 June 2003, which involves a thirty-year, non-interest bearing irrevocable facility of 82,633 thousand euros to be disbursed in tranches over the first twelve years;
- during the first half of the year the project financing granted to the project companies, Energia Ambiente Litorale Laziale Srl in San Vittore ("Eall") and Terni Energia Ambiente Srl in Terni ("Terni") was repaid early, whilst the derivative financial instruments (executed with the banks that granted the project financing) hedging the companies' exposure to interest rate movements were unwound. The amount repaid on the base facility amounted to 33,624 thousand euros, whilst 3,700 thousand euros was repaid on the working capital facility. The cost of unwinding the derivative instruments was 635 thousand euros. In order to fund early repayment, the companies took out intercompany loans with Acea totalling 31.4 million euros (10.5 million euros for Terni En.A, maturing

on 30 June 2009, and 20.9 million euros for Eall, maturing on 31 December 2010). Interest on the loans disbursed by Acea is equal to six-month Euribor plus a spread of 75 bps per annum. The companies have also had access to revolving lines of credit worth 3.875 million, to be used to meet working capital requirements. These lines of credit may be drawn down at the request of the beneficiaries. Interest is charged at a rate equal to average daily three-month Euribor plus a spread of 20 bps per annum. Amounts drawn on these lines of credit are to be repaid at the end of each interest period (the first interest period ends on 30 September 2007). As the table shows, during the second half Eall and Terni En.A repaid 2,944 thousand euros and 2,417 thousand euros, respectively.

The difference compared with 31 December 2006 reflects, on the one hand, (i) the addition of loans to Eall and Terni En.A (up 26,059 thousand euros), (ii) further shareholder loans to Acea Ato 5 (up 14,275 thousand euros), and, on the other, the classification of loans to AceaElectrabel Produzione and its subsidiaries in current assets as they mature on 15 February 2008 (down 51,446 thousand euros).

Loans to associates

The item includes amounts due from Eblacea SpA, totalling 4,760 thousand euros (40,280 thousand euros at 31 December 2006).

The reduction of 34,235 thousand euros derives from the execution, in June 2007, of a shareholder loan agreement that cancelled all previous loan agreements with Eblacea. Electrabel Italia has signed the same agreement with Eblacea, and the latter company and Energia Italiana have executed a similar agreement with Tirreno Power. In this case the new agreements have cancelled all previous loan agreements, including the amendments to the original agreements of 2003.

Signature of the new agreement required Eblacea to repay 35,220 thousand euros to Acea, including interest accrued through to the date of repayment.

The amount financed is 4,760 thousand euros, with maturity on 31 December 2035. The interest rate is Euribor for the period plus a spread of 1.10%.The shareholder loans are convertible into shares in the borrowing company at the request of the lenders on condition that the conversion maintains the same percentage interests as prior to the conversion. The interest period is six-monthly, with the first interest period ending on 31 December 2007. Accrued interest was paid to the shareholders by Eblacea.

The above agreements were renewed following the agreement executed by Tirreno Power and its banks.

Other receivables

These items amount to 245 thousand euros (20 thousand euros at 31 December 2006). They include claims for rebates of VAT paid on vehicle purchases (99 thousand euros) and amounts due from Frama (125 thousand euros) following the payment to Acea Ato 5 of amounts payable by this company. Repayment of this receivable will take place via Acea's collection of dividends.

16. Other non-current assets

At 31 December 2007 this item amounts to 949 thousand euros (924 thousand euros at 31 December 2006) and breaks down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/ (Decrease)
Amounts due from others	949	924	25
Accrued income	0	0	0
Other non-current assets	**949**	**924**	**25**

Amounts due from the State

Amounts due from the State total 221 thousand euros and relate to withholding tax paid by Acea SpA, at a rate of 3.89%, on staff termination benefits.

Such receivables were used to pay withholding tax on staff termination benefits and on advances granted from 1 January 2000, as allowed by recent legislation. Moreover, in 2002 such amounts were utilised to pay the capital gains tax on revaluations of staff termination benefits. The receivables in question are subject to revaluations at the end of every year and any revaluations are recorded under the item "Finance income".

Deposits

These amount to 709 thousand euros and primarily regard long-term deposits.

17. Current assets

At 31 December 2007 current assets total 1,038,520 thousand euros (758,609 thousand euros at 31 December 2006) and break down as follows:

Inventories

€000	31 Dec 2007	31 Dec 2006	Increase/ (Decrease)
Raw, ancillary and consumable materials	398	20,903	(20,505)
Provisions for obsolete materials	(398)	(1,982)	1,584
Total inventories	**0**	**18,921**	**(18,921)**

The reduction in inventories reflects Acea's sale of stocks to its subsidiaries as part of the plan to decentralise stock management. The remaining amount regards inventories of equipment. The value has been written down to take account of the technical obsolescence of the materials and the bring the value of inventories into line with market prices, if lower. Provisions for obsolescence of 398 thousand euros have reduced this item to zero.

Trade receivables

Trade receivables amount to 47,828 thousand euros (46,613 thousand euros at 31 December 2006) and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Receivables due from end users for bills issued	0	0	0
Receivables due from end users for bills to be issued	0	0	0
Total receivables due from end users	**0**	**0**	**0**
Receivables due from other customers	18,919	18,135	784
Disputed receivables	20,555	20,268	287
Receivables due from the Municipality of Fiumicino	8,354	8,210	144
TOTAL RECEIVABLES	**47,828**	**46,613**	**1,215**

It should be noted that all receivables fall due within 12 months.

Receivables due from other customers

At 31 December 2007 these receivables amount to 18,919 thousand euros (18,135 thousand euros at 31 December 2006), after provisions for the impairment of receivables of 2,147 thousand euros. They are due from customers other than end users related to accrued

amounts due from private and public parties in return for services other than the supply of electricity and water. This item includes bills to be issued amounting to 4,863 thousand euros.

The balance essentially consists of the following categories of customer:

- private customers: 3,676 thousand euros;
- the State: 4,341 thousand euros;
- Municipalities: 6,831 thousand euros. This relates exclusively to amounts due from the Municipality of Naples.

During 2007 receivables due from the Municipality of Naples, amounting to 12,247 thousand euros, were sold under a without-recourse factoring agreement at a cost of 6.6% (808 thousand euros).

Disputed receivables

Disputed receivables amount to 20,555 thousand euros at 31 December 2007 (20,268 thousand euros at 31 December 2006), including 6,953 thousand euros fully written down. Such receivables include 20,555 thousand euros due from the Vatican City at 31 December 1997; as being a sovereign state, the Vatican deems the fees charged for fresh and waste water services to be inapplicable. Such receivables are matched by a corresponding debt payable to the *Comune di Roma* as the provider of waste water and sewerage services through to 31 December 1997. It should be noted that the Company is not obliged to settle the debt payable to the *Comune di* Roma before collection of the receivables due from the Vatican City.

Other such receivables regard amounts due from consortia set up by government bodies and municipalities and municipalities in financial difficulty, which have been fully written down (4,382 thousand euros).

Disputed receivables also include trade receivables due from private parties, for which legal recovery procedures are in progress (2,571 thousand euros). The difference compared with the previous year (823 thousand euros) regards receivables that have been written off.

These receivables are also fully written down.

Receivables due from the Municipality of Fiumicino

These receivables total 8,354 thousand euros, representing an increase of 144 thousand euros compared with 2006.

During 2007 the Acea Group and representatives from the Municipality of Fiumicino continued the process of recognising the Group's receivables and payables in relation to the Municipality. At 31 December 2007 the amount due to Acea totals 8,303 thousand euros.

The amounts due to Acea SpA and its subsidiaries (approximately 4 million euros) will be recovered by offsetting them against payables as they accrue, above all in relation to the concession fee payable by Acea Ato 2.

Provisions for the impairment of receivables

Provisions for the impairment of receivables amount to 14,890 thousand euros at 31 December 2007 (compared with 14,940 thousand euros at 31 December 2006). The provisions cover credit risk pertaining to end users and other customers.

The provisions are based on analytical valuations, supplemented by valuations based on historical analyses of end users and customers broken down according to the default period relating to the outstanding amounts, the type of action undertaken to recover the amount due and the status of the receivable concerned (ordinary, disputed, etc.).

The decrease in provisions represents the sum of provisions used (795 thousand euros), as a result of the derecognition of receivables during the year, and provisions made during the year (845 thousand euros).

Intercompany trade receivables

These receivables amount to 114,693 thousand euros (153,980 thousand euros at 31 December 2006) and break down as follows:

€000	**31 Dec 2007**	**31 Dec 2006**	**Increase/ (Decrease)**
Receivables due from the parent	84,630	129,568	(44,938)
Receivables due from subsidiaries	27,617	22,028	5,589
Receivables due from associates	2,445	2,384	61
Total intercompany trade receivables	**114,693**	**153,980**	**(39,287)**

Amounts due from the parent total 84,630 thousand euros at 31 December 2007 and relate entirely to the *Comune di Roma* (129,568 thousand euros at 31 December 2006).

The following table presents an analysis of the Acea Group's relations with the *Comune di Roma* regarding both receivables and payables, including those of a financial nature described in the specific section of this document (Note 24).

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Receivables	84,630	129,568	(44,938)
Payables	33,613	45,706	(12,093)
Balance	**51,017**	**83,863**	**(32,846)**

The following table provides a breakdown of amounts due from the *Comune di Roma* by type of service and broken down further by amounts billed and those to be billed.

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Utilities	3,289	3,289	0
Contract work	10,065	17,446	(7,381)
Services	48,635	40,064	8,571
Other	840	574	266
Total services billed	**62,828**	**61,373**	**1,455**
Grants due	75	0	75
Surtaxes	0	0	0
Total services requested	**62,903**	**61,373**	**1,530**
Total services billed	**20,245**	**64,753**	**(44,508)**
New regulations for street cables	1,482	3,443	(1,961)
TOTAL	**84,630**	**129,569**	**(44,939)**

The following table provides a breakdown of amounts due to the *Comune di Roma* by type of relation.

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Sewerage and water treatment fees	8,409	13,177	(4,768)
Vatican City disputed fees	20,516	20,516	0
Rental on the Company's headquarters	0	7,322	(7,322)
Other	1,461	1,463	(2)
New regulations for street cables	1,015	1,015	0
Total trade payables	**31,401**	**43,493**	**(12,092)**
Financial liabilities (including dividends)	2,213	2,213	0
TOTAL	**33,613**	**45,706**	**(12,092)**

There was a decrease in receivables and payables in 2007.

The decrease in receivables is due primarily to the collection of amounts due under the public lighting contract for the period 1 June 2005 – 31 December 2006 (90,512 thousand euros). At 31 December 2006 these amounts were partly allocated to services to be billed (51,471 thousand

euros) and partly to services billed (27,953 thousand euros). Further receivables of 24,504 thousand euros billed in 2007 were collected during the second half of the year. This amount includes the amount representing Acea's return on investment for 2006 (4,200 thousand euros) and the accrued portion of the amount billed to 31 July of 2007.

In addition to payment for the public lighting service, the main items collected included 3,865 thousand euros for the construction of public lighting systems, which was billed prior to 2007.

Services billed include 10,506 thousand euros regarding the public lighting contract prior to the one in force.

The new public lighting contract was signed on 13 February 2007.

The new contract is substantially similar to the former arrangement, envisaging a lump-sum payment for day-to-day management, routine and extraordinary maintenance, the supply of electricity and the implementation of a pre-established investment plan, whilst the installation of new plant and equipment is to be commissioned and paid for separately. The most important difference compared with the previous contract regard: the duration of 10 years from 1 June 2005; the inclusion of a significant investment plan in the contract; a different method of calculating payments for new plant and equipment, now based on agreed prices; and a different and more detailed definition of penalties to be paid in relation to service quality.

The annual fee is to be billed monthly with payment due at 60 days, whilst specific bills are to be issued for the installation of new plant and equipment on completion of the related works.

The reduction in trade payables reflects the offset of sewerage and water treatment fees and elimination of the payable relating to rent on the Company's headquarters. Until 7 December 2006 Acea paid this rent to the *Comune di Roma*.

In December 2006, the *Comune di Roma* sold the property to Beni Stabili, to which the lease agreement was also transferred.

Dividends payable for 2006 approved by Acea in 2007 (totalling 58,650 thousand euros) were also offset against receivables.

It should be noted that an agreement governs reciprocal creditor and debtor relations with reference to the terms and conditions of payment. The agreement came into effect on 1 May 2001 and is valid for three years, subject to tacit renewal for a further three-year period. The process of renewing the agreement is currently underway: the draft submitted to the *Comune di Roma* has met with agreement from the various technical departments.

During the year administrative offsets with regard to amounts due from the *Comune di Roma* totalling 103,423 thousand euros were carried out. Moreover, in December 2007 Acea collected 23,373 thousand euros for contract work and services.

Further information on related party transactions, including entities owned by the *Comune di Roma*, is provided in the final section of this document.

Trade receivables due from subsidiaries and associates

These receivables amount to 30,062 thousand euros (up 5,650 thousand euros on 31 December 2006) and break down as follows.

Receivables due from subsidiaries

Such receivables amount to 27,617 thousand euros at 31 December 2007, compared with 22,028 thousand euros at 31 December 2006. They consist of the following items:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Abab SpA	31	76	(45)
Acea Ato 2 SpA	5,259	1,957	3,302
Acea Ato 5 SpA	2,242	1,265	977
Acea Distribuzione SpA	10,010	10,696	(686)
Acea Dominicana SA	170	0	170
Acea Luce SpA	465	350	115
AceaElectrabel Produzione SpA	1,665	215	1,450
AceaElectrabel SpA	161	124	37
AceaElectrabel Elettricità SpA	2,586	3,090	(504)
AceaElectrabel Trading SpA	202	212	(10)
AceaRieti Srl	0	3	(3)
Acque SpA	309	315	(6)
Acque Servizi SpA	24	0	24
Acque Blu Fiorentine SpA	43	21	22
Acquedotto Nicolay SpA	0	0	0
Aguazul Bogotá SA ESP	0	5	(5)
Acea & Co. Armenian Utility Scarl	0	0	0
Acea Reti e Servizi Energetici SpA	603	154	449
Cartesia SpA	0	(25)	25
Consorcio Agua Azul SA	30	40	(10)
Crea SpA	1,629	845	784
Eall Srl	0	6	(6)
Ecomed Srl	(13)	33	(46)
Enercombustibili Srl	0	3	(3)
Gesesa SpA	133	100	33
Gori SpA	243	485	(242)
Interpark Srl	0	6	(6)
LaboratoRI SpA	(427)	124	(551)
Luce Napoli Scarl	353	775	(422)
Lunigiana Acque SpA	22	1	21
Ombrone SpA	43	52	(9)

Publiacqua SpA	36	140	(104)
Publiacqua Ingegneria SpA	25	0	25
S.A.O. SpA	9	6	3
Sarnese Vesuviano Srl	856	360	496
Sigesa SpA	131	46	85
TEA Tad Energia Ambiente SpA	324	9	315
Ergo En.A Srl	9	0	9
Sorepla Srl	10	0	10
Ecoenergie Srl	9	0	9
Recupera Srl	9	0	9
Aquaser Srl	10	0	10
Ameatad Srl	9	0	9
Terni En.A SpA	0	5	(5)
TS Tecnologie del Sottosuolo Srl	0	28	(28)
Voghera Energia SpA	126	0	126
Utilitas Srl (in liquidation)	0	354	(354)
VoiNoi SpA (in liquidation)	272	152	120
Total	**27,617**	**22,028**	**5,589**

Trade receivables primarily relate to the supply of services, sales of materials and interest accrued on the intercompany current account resulting from the balance of intercompany accounts relating to the centralised treasury management service provided by the Parent Company, Acea SpA. The companies pay interest on the intercompany current account on a quarterly basis, applying the interest rate deriving from the arithmetic mean of daily three-month Euribor rates over the quarter plus a spread of 0.20%.

Receivables due from associates

These receivables total 2,445 thousand euros at 31 December 2007 (2,384 thousand euros at 31 December 2006) and primarily refer to amounts due from Tirana Acque (255 thousand euros), Aguas de San Pedro (1,060 thousand euros) and Marco Polo (743 thousand euros) for contract work and services rendered.

The following table provides a breakdown:

€000	**31 Dec 2007**	**31 Dec 2006**	**Increase/(Decrease)**
Tirana Acque Scarl	255	1,023	(768)
Aguas de San Pedro SA de CV	1,060	903	157
Acquedotto del Fiora SpA	33	217	(184)
Amea SpA	7	0	7
Arkesia SpA	6	0	6
Marco Polo SpA	743	222	521

Geal SpA	3	8	(5)
Eblacea SpA	138	0	138
Si(e)nergia SpA	138	0	138
Azga Nord SpA	34	0	34
Umbriadue Servizi Scarl	30	0	30
Umbra Acque SpA	0	11	(11)
Total	**2,445**	**2,384**	**61**

Other current assets

These amount to 5,113 thousand euros (6,691 thousand euros at 31 December 2006), representing a net reduction of 1,578 thousand euros, and consist of:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Advances to suppliers and guarantee deposits	0	678	(678)
Receivables due from social security institutions	415	402	13
Receivables due from Equalisation Fund	127	127	0
Receivables due from Enel SpA	0	303	(303)
Sundry receivables	94	4,176	(4,082)
Receivables due from TeSiMa SpA	46	46	0
Accrued income and prepayments	4,430	959	3,471
Total	**5,113**	**6,691**	**(1,578)**

The following should be noted:

- the amount regarding advances to suppliers has been reduced to zero due to recognition of the non-recoverability of these receivables, resulting in an exceptional write-down of assets;
- 4,430 thousand euros primarily regards rent paid for the use of public land (683 thousand euros), vehicle insurance (1,136 thousand euros), and the contract governing the lease of the Company's headquarters (2,065 thousand euros);
- at the end of the previous year sundry receivables primarily regarded disputed amounts, deposits on packaging to be returned and bounced cheques. These items have been eliminated as non-recoverable.

Receivables falling due beyond five years

In compliance with article 2427, paragraph 1.6 of the Italian Civil Code, it should be noted that at 31 December 2007 the Company had no receivables falling due beyond five years.

The collection of receivables beyond this time limit would derive solely from unforeseen events, such as the payment of disputed amounts.

Current financial assets

Current financial assets amount to 55,375 thousand euros (38,426 thousand euros at 31 December 2006) and include:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Loans and receivables due from Electrabel	0	9,136	(9,136)
Loans and receivables due from Agag De Centroamerica	401	508	(107)
Loans and receivables due from Milano 90	0	18,000	(18,000)
Loans and receivables due from Acqua Italia	96	0	96
Loans and receivables due from Interpark	700	0	700
Receivables due from 7 NOVE 12 Roma Srl	52,500	0	52,500
Amounts due for loans to be disbursed	1,094	1,094	0
Other	43	0	43
Receivables due from Abruzzo Regional Authority (formerly Casmez)	540	9,689	(9,149)
Total	**55,375**	**38,426**	**16,948**

The item includes:

- 52,500 thousand euros deriving from the sale of the property in Via Valleranello. This amount was collected in full on 10 March 2008 on execution of the final contract;
- a decrease of 9,136 thousand euros in the amount due from Electrabel compared with the previous year, reducing the balance to zero. This is due to collection of the amount payable in relation to partial liberalisation of the market for business users from 1 July 2004 and the estimated interest and revaluation on the remaining receivable outstanding;
- 700 thousand euros due from Interpark. This amount, which was classified in amounts due from subsidiaries at 31 December 2006, will be paid according to a payment schedule agreed with the buyer of the former subsidiary;
- 540 thousand euros due from Abruzzo Regional Authority, representing the balance still to be collected on the sum deriving from recognition of the accrued portion of the extraordinary income resulting from the sentence handed down by the Superior Public Water Court in June 2006, which finally established that the Abruzzo Regional Authority had to pay damages to Acea SpA for the removal of water granted to Acea for use in the production of hydroelectric power at its plants in the Abruzzo region. The case dates back to the period between 1974 and 1991. A part of the 18,634 thousand euros awarded to Acea

SpA under the above sentence was collected in November 2006 (8,558 thousand euros), whilst 9,275 thousand euros was collected last October.

The difference compared with 31 December 2006 reflects, on the one hand, (i) the collection of the 18 million euros recognised in 2006 as due on the sale of land on the Via Laurentina; (ii) the collection of 9.1 million euros in relation to partial liberalisation of the market for business users from 1 July 2004 and the estimated interest and revaluation on the remaining receivable; (iii) the collection of 9.2 million euros in October from the Regional Authority, and, on the other, recognition of the amount due on the sale of the property in Via Valleranello, totalling 52.5 million euros.

Intercompany current financial assets

The item totals 700,964 thousand euros (405,158 thousand euros at 31 December 2006) and breaks down as follows:

Receivables due from subsidiaries

At 31 December 2007 these receivables amount to 691,193 thousand euros (405,158 thousand euros at 31 December 2006) and break down as follows:

€000	**31 Dec 2007**	**31 Dec 2006**	**Increase/(Decrease)**
Loans due from subsidiaries	256,645	181,938	74,707
Intercompany current account receivables/(payables)	347,534	178,138	169,396
Other receivables due from subsidiaries	66,182	17,250	48,932
Amounts due from subsidiaries for short-term portion of EIB loans	5,933	7,782	(1,849)
Amounts due from subsidiaries as IRES under the tax consolidation	9,291	16,058	(6,767)
Current accrued finance income	5,608	1,573	4,035
Total	**691,193**	**402,739**	**288,454**

The item includes:

- amounts due as a result of centralised treasury management transactions (347,534 thousand euros), including 73,020 thousand euros due from Acea Distribuzione SpA, 149,076 thousand euros due from Acea Ato 2 SpA, 26,226 thousand euros due from Acea Reti e Servizi Energetici SpA, 64,425 thousand euros due from AceaElectrabel Elettricità and

14,242 thousand euros due from AceaElectrabel Produzione. Acea SpA charges interest on the above receivables at a rate based on the average daily 3-month Euribor rate plus a spread of 0.20%. Interest is calculated on the stock of receivables for each quarter of the year;

- amounts due from AceaElectrabel Produzione SpA (1,207 thousand euros), from Acea Distribuzione SpA (3,331 thousand euros) and from Acea Ato 2 SpA (1,394 thousand euros) as the short-term portion of EIB loans transferred to the Company. The conditions applied are the same as those applied to Acea SpA by the lenders;
- amounts generated on interest-bearing loans (256,645 thousand euros), principally granted to Roselectra SpA (68,302 thousand euros), Voghera Energia SpA (1,785 thousand euros), Sigesa SpA (18,829 thousand euros), to Tad Energia Ambiente (44,522 thousand euros), to S.A.O. SpA (11,474 thousand euros), to Eall Srl (12,831 thousand euros), Terni En.A (7,747 thousand euros), Ergo En.A (4,912 thousand euros) and Acea Rieti (5,069 thousand euros).

  The difference of 74,707 thousand euros compared with the previous year reflects the reclassification of loans to the generating companies to current financial assets as they mature on 15 February 2008.

  Acea receives interest on these loans equal to Euribor for the period plus a spread of 1.50% per annum. Moreover, the agreement provides for a non-use fee of 0.45% per year of the unused amount, to be paid quarterly in arrears.
- amounts due from subsidiaries as dividends (66,038 thousand euros), above all 64,405 thousand euros in dividends due from the subsidiaries, Acea Distribuzione and Acea Reti e Servizi Energetici.
- amounts due as IRES under the tax consolidation (9,291 thousand euros) regard amounts due to Acea SpA from its subsidiaries who take part in the tax consolidation. These amounts regard IRES transferred from the individual companies less any advance payments made in 2007. The amount due break down as follows: Acea Ato 5 (4,649 thousand euros), AceaElectrabel Trading (885 thousand euros), Acea Reti e Servizi Energetici (1,654 thousand euros), Terni En.A (688 thousand euros) and AceaElectrabel Elettricità (553 thousand euros);
- the sum of 5,608 thousand euros relates to accrued interest yet to be paid on the above loans from Acea SpA to its subsidiaries.

Receivables due from associates

At 31 December 2007 these receivables amount to 9,770 thousand euros (2,419 thousand euros at 31 December 2006) and regard dividends due from Eblacea.

Current deferred tax assets

This item totals 19,041 thousand euros and consists of deferred tax assets on accumulated losses (16,352 thousand euros), reclassified from non-current to current assets, and provision for liabilities (2,689 thousand euros).

Current tax assets

Current tax assets total 4,921 thousand euros (775 thousand euros at 31 December 2006).
The amount essentially reflects VAT credits at Group level (3,277 thousand euros) and advance payments of IRAP (840 thousand euros).

Cash and cash equivalents

Cash and cash equivalents total 90,585 thousand euros at 31 December 2007 (88,045 thousand euros at 31 December 2006). This item represents the year-end balance of bank and post office current accounts held with various institutions, including the Italian Postal Service.
Cash includes 30,821 thousand euros (29,558 thousand euros at 31 December 2006) regarding the term deposit paid in since December 2002, in compliance with the cash collateral issued to cover the commitments of Atlanet SpA and its minority shareholders in respect of Ipse 2000 SpA. The term deposit is subject to a lien issued to Mediocredito Centrale and accrues interest at 3-month Euribor less 3 basis points per annum.

Liabilities and shareholders' equity

18. Shareholders' equity

At 31 December 2007 shareholders' equity amounts to 1,605,937 thousand euros (1,612,143 thousand euros at 31 December 2006).

Changes in shareholders' equity are shown in the following table.

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Share capital	1,098,899	1,098,899	0
Legal reserve	59,183	55,320	3,863
Reserve for treasury shares	0	0	0
Other reserves	335,272	380,019	(44,747)
Retained earnings/(accumulated losses)	0	645	(645)
Net profit/(loss) for the period	112,583	77,260	35,323
TOTAL	**1,605,937**	**1,612,143**	**(6,206)**

Share capital

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

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

Legal reserve

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

At 31 December 2007, this item amounts to 59,183 thousand euros (55,320 thousand euros at 31 December 2006) and has increased by 3,863 thousand euros compared with the previous year following the allocation of 5% of net profit, as required by the Italian Civil Code.

Reserve for treasury shares

At 31 December 2007 this item amounts to 3,853 thousand euros.

Pursuant to article 2428 of the Italian Civil Code, the treasury shares purchased consist of 416,993 shares with a par value of 5.16 euros each, representing 0.196% of total shares outstanding.

The balance of the reserve offsets the value of the treasury shares accounted for as a reduction of shareholders' equity in compliance with IAS 32.

Other reserves

Distributable reserve for treasury shares

The reserve (9,881 thousand euros at 31 December 2006) has been used in full to cover a part of the losses deriving from the Company's first-time adoption of IFRS.

Extraordinary reserve

At the end of 2006 this reserve amounted to 456 thousand euros, but has been used in full to cover a part of the losses deriving from the Company's first-time adoption of IFRS.

Demerger reserve

At 31 December 2007, this reserve amounts to 339,285 thousand euros. Compared with the end of the previous year, this reserve has decreased by 150,412 thousand euros as a result of the use of 114,776 thousand euros to pay dividends and 35,636 thousand euros to cover losses deriving from the Company's first-time adoption of IFRS.

This reserve consists of (i) the gain recognised in the income statement for 1999 deriving from the transfers of assets carried out by Acea SpA to Acea Distribuzione and Acea Ato 2, (ii) the after-tax gain on the transfer of the "customer services" division to VoiNoi (in liquidation), totalling 14,216 thousand euros. This latter component was used in full to cover losses deriving from the Company's first-time adoption of IFRS.

The first gain (of which 339,285 thousand euros remains at the end of the year), which contributed in its entirety to the operating result for 1999, was entirely covered by the same tax exemption applicable to other revenue components recorded in the financial statements for the year ended 31 December 1999. The General Meeting of 29 April 2000, held to approve the 1999 financial statements, also resolved to allocate the relevant portion of net profit for the year to a specific equity reserve. This was done on the understanding that the reserve would be distributable in future years in correspondence with annual amortisation charged by the subsidiaries on the above gain, or in correspondence with any proceeds from sales to third

parties. At 31 December 2007 this reserve is available in full to cover losses and increase capital, and the amount of 28,906 thousand euros is available for distribution to shareholders. This amount includes the amortisation charged by the subsidiaries, Acea Distribuzione and Acea Ato 2, less the goodwill purchased from Crea on acquiring Umbra Acque (4,013 thousand euros).

The amount relating to goodwill attributed to AceaElectrabel Elettricità on its spin off from Acea Distribuzione (whose value has been recognised by Electrabel in the price established in the joint venture agreement governing all the transactions involved in the creation of the AceaElectrabel Group) was used in previous years to pay dividends and/or cover losses (including those deriving from the Company's first-time adoption of IFRS).

The aid represented by unpaid taxes during the tax moratoria recovered by the tax authorities pursuant to Legislative Decree 10/2007, converted into Law 47 of 6 April 2007, also form a minimal part of distributable reserves.

The following table shows distributable and undistributable reserves:

Nature/description €	**Amount**	**Potential use**	**Available portion**	**Summary of uses during previous three years**	
				To cover losses	**Other purposes**
Capital reserves					
Revenue reserves					
Legal reserve	59,183,072	B	59,183,072		
Available reserve for treasury shares	0	A, B, C	0		
Reserve for treasury shares	3,853,456	To guarantee treasury shares	3,853,456		
Extraordinary reserve	0	A, B, C	0		48,243,340
Demerger reserve:	345,484,376	A, B	345,484,376		
of which available/distributable	28,905,721	A, B, C	28,905,721		
Taxed demerger reserve	0	A, B, C	0		
Retained earnings	0	A, B, C	0		
TOTAL	**408,520,905**		**408,520,905**		
Undistributable portion			379,615,183		
Remaining distributable portion			28,905,721		

A = to increase capital

B = to cover losses

C = to pay dividends

Pursuant to article 109 of Presidential Decree 917/86 equity reserves, including the legal reserve, are sufficient to cover the costs generated by tax-related entries and the effects on the current year of the reversal of tax-related entries, which amount to 2,592 thousand euros.

19. Staff termination benefits and other defined-benefit obligations

At 31 December 2007 such items total 32,960 thousand euros (32,494 thousand euros at 31 December 2006) and represent termination and other benefits payable to employees on retirement or termination of employment.

These defined-benefit obligations are measured using the actuarial valuation method. This method is based on the projected unit credit method, which measures the Company's liability at the balance sheet date on the basis of the average present value of estimated future cash outflows, using interest rates that have terms to maturity approximating to the terms of the related liabilities.

As a result of the changes made to staff termination benefits pursuant to Law 296 of 27 December 2006 ("Finance Act 2007") and subsequent decrees and measures issued in early 2007, this item has been accounted for as follows:

i) **the portion of staff termination benefits accruing after 1 January 2007**: these represent a defined-contribution plan in the case of both staff who have opted to contribute to a supplementary pension fund, and those who have decided to leave their benefits in the Company, and to thus transfer them to the Treasury Fund set up by INPS (the Italian National Social Security Institute). The accounting treatment is therefore similar to the one used for other forms of contribution;

ii) **staff termination benefits accrued as of 31 December 2006**: these continue to qualify as a defined-benefit plan with the resulting need to carry out actuarial calculations. Compared with the valuation reported in the consolidated financial statements for the year ended 31 December 2006, the calculation now excludes components regarding future salary increases. The difference resulting from the new calculation is treated as a "curtailment" in accordance with paragraph 109 of IAS 19, and is thus recognised in the income statement (including any actuarial gains and losses previously accounted for using the corridor method).

A breakdown of this item is shown in the following table.

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)

Termination benefits			
Staff termination benefits	6,828	5,896	932
Monthly bonuses	625	630	(5)
Total	**7,453**	**6,526**	**927**
Post-employment benefits			
Tariff subsidies	25,507	25,968	(461)
TOTAL	**32,960**	**32,494**	**466**

The decrease of 466 thousand euros over the two comparative periods derives, on the one hand, from the transfer of staff to a number of subsidiaries (Acea Ato 2, AceaElectrabel, AceaElectrabel Elettricità and Acea Ato 5), from cuts in the number of staff employed, the rationalisation of overtime and shift work and ongoing redundancies of employees and managers, and, on the other, the above reform, after excluding valuation effects relating to the period. The curtailment, representing the difference between the actuarial calculation at 31 December 2006 (based on legislation in force prior to the above changes) and the calculation applied at the balance sheet date of 31 December 2007 (which excludes future salary increases and does not take account of staff termination benefits accrued from 1 January 2007), amounts to 1,084 thousand euros.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation is based on returns, at the balance sheet date, on the securities of major companies listed on the same financial market as Acea, and on the return on government bonds in circulation at the same date that have terms to maturity approximating to the residual term of the related liability. In order to ensure consistency of valuation and comply with the provisions of IAS 19, the same basis has been used for the various types of plan.

The critical assumptions applied in the actuarial valuation of liabilities for defined-benefit plans are as follows.

	2007	**2006**
Discount rate	4.85%	4.25%
Rate of staff cost increase	3.00%	3.00%

20. Provisions for liabilities and charges

These provisions amount to 65,891 thousand euros at 31 December 2007, compared with 57,666 thousand euros at 31 December 2006. Movements in the provisions represent the balance of uses and provisions made during the period.

In calculating the entity of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.
The following table shows a breakdown of provisions and movements during 2007:

€000	31 Dec 2006	Uses	Reclassifications	Provisions	31 Dec 2007
Provisions for liabilities	19,396	(1,882)	0	7,083	24,597
Sundry provisions	38,270	(595)	0	3,619	41,294
Total provisions	**57,666**	**(2,477)**	**0**	**10,702**	**65,891**

At the end of 2007 provisions for liabilities and charges include: (i) 6.1 million euros deriving from an estimate of legal risks (disputes, litigation, etc.), (ii) 2.3 million euros deriving from risks linked to investments, (iii) 18.4 million euros for potential liabilities and charges relating to staff, including the dispute over contributions.
The principal movements are as follows:

- **uses**, amounting to 2,477 thousand euros, primarily include:
  - 595 thousand euros of provisions made by Acea SpA for early retirement and redundancy charges;
  - 1,882 thousand euros of provisions used in relation to litigation deriving from tenders.
- **provisions**, amounting to 10,702 thousand euros, refer to:
  - 1,321 thousand euros in provisions for charges linked to the voluntary redundancy scheme;
  - 8,300 thousand euros to cover the maximum potential liability represented by the fine imposed by the Antitrust Authority, which Acea has appealed before Lazio Regional Administrative Court, requesting its cancellation. The hearing is scheduled for April 2008 and Acea believes there is a good chance that the appeal will be upheld;
  - 2,298 thousand euros to cover liabilities relating to management of the investments in Atlanet and VoiNoi;
  - 1,292 thousand euros in staff-related provisions;
  - 3,360 thousand euros for legal liabilities.

Compared with 2006, provisions for potential liabilities and charges relating to staff are influenced by the release of 5,869 thousand euros regarding social welfare contributions. On 5

February 2008 the Welfare Department of the Ministry of Labour requested INPS to extend application of social security contribution obligations, deriving from the judgment handed down by the Council of State in Ruling 65 of 2006, to former municipalised utilities that have been converted into joint-stock companies with public and private shareholders. Essentially this means that the principle of non-retroactivity previously asserted by the above ruling has been extended to the former municipalised utilities, thus ensuring equal treatment for all market operators.

Acea SpA's Board of Directors believes, based on a present assessment of the likely outcomes of such disputes and the provisions recorded in the financial statements, that the disposition of such matters will not have a material adverse effect on the financial statements of the Group. The provisions represent the best estimate based on the available information.

Further information on the principal disputes outstanding at 31 December 2007 is provided in the section "Update on major disputes and litigation" at the end of these notes.

21. Non-current borrowings and financial liabilities

Non-current borrowings and financial liabilities total 549,698 thousand euros (517,255 thousand euros at 31 December 2006) and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Bonds	305,058	304,893	165
Medium/long-term bank borrowings	244,640	212,362	32,278
TOTAL	**549,698**	**517,255**	**32,443**

Bonds

These bonds are issued by Acea SpA and amount to 305,058 thousand euros (304,893 thousand euros at 31 December 2006). The above amount includes interest accrued over the period August-December 2007 (interest is paid annually in July).

Acea SpA's bonds were issued on the international Eurobond market on 23 July 2004. The bonds have a term to maturity of ten years and yield a nominal fixed rate of 4.875%. Redemption will take the form of a lump-sum payment at par value, unless the bonds are called prior to maturity. The terms and conditions include standard international Eurobond market conditions regarding negative pledge and events of default, including a cross default provision should the financial debt of the Company or its principal subsidiaries, totalling more than 15 million euros, become immediately repayable.

Medium/long-term bank borrowings

Such borrowings total 244,640 thousand euros (212,362 thousand euros at 31 December 2006) and represent principal outstanding at 31 December 2007 and falling due after 12 months.

The principal loans are described below:

- an unsecured loan granted by Banco Bilbao: the facility amounts to 200,000 thousand euros. Disbursement of 159,763 thousand euros took place on 11 September 2006. The remaining portion was disbursed on 27 June 2007. The loan is subject to interest equal to 6-month Euribor plus a spread of 15 basis points (from the sixth year the spread becomes 17.5 basis points), with interest due every six months and bullet repayment of the principal on maturity (3 August 2013). The spread may vary based on any changes to the ratings assigned to Acea. The loan is not subject to covenants and the agreement contains standard negative pledge and acceleration events clauses;
- an unsecured loan granted by the EIB, totalling 41,962 thousand euros (original total 77,469 thousand euros) and with a term to maturity of 15 years (grace period of 3 years), at an interest rate equal to 3-month Euribor less 15 basis points;
- an unsecured loan granted by the EIB, totalling 8,370 thousand euros (original total 51,646 thousand euros) and handled by Banca di Roma, subject to a fixed rate of interest of 4.45% and with a term to maturity of 15 years (grace period of 3 years);
- an unsecured loan granted by the EIB, totalling 2,295 thousand euros and handled by Banca di Roma, subject to a fixed rate of interest of 5.48% and with a term to maturity of 15 years.

The following table shows a breakdown of medium- to long-term bank borrowings by lender, term to maturity, type of loan and interest rate. The table also includes short-term portions falling due within 31 December 2007 and classified as current liabilities (Note 24).

€000 **Lender**	**Maturity**	**Total residual debt**	**Due within 31 Dec 2008**	**Due between 2008 and 2012**	**Due after 2012**	**Interest**
EIB / Banca di Roma	2014	8,384	1,156	5,087	2,141	409.07
EIB / Banca di Roma	2016	2,300	209	935	1,155	133.76
EIB	2014	42,050	6,543	25,823	9,684	1,884
Banco Bilbao	2016	202,253	2,438	0	200,000	7,205
TOTAL		**254,986**	**10,347**	**31,845**	**212,980**	**9,632**

Information on financial instruments is provided in the section "Additional disclosures on financial instruments and risk management policies".

22. Other non-current liabilities

At 31 December 2007 such liabilities total 11,909 thousand euros (13,336 thousand euros at 31 December 2006) and refer to deferment of the gain generated by the business combination of an entity under common control in 2005, following the transfer of the public lighting business to Acea Distribuzione. The amount accounted for at 31 December 2007 is shown less the accrued portion (1,591 thousand euros) calculated on the basis of the term of the service contract with the *Comune di Roma* (ten years).

23. Deferred tax liabilities

At 31 December 2007 provisions for deferred tax liabilities total 8,142 thousand euros (2,187 thousand euros at 31 December 2006). These provisions above all regard the difference between economic and technical rates of depreciation and tax-related rates (1,268 thousand euros), and provisions for deferred tax liabilities on a gain taxable in the subsequent year (6,483 thousand euros).

Application of IAS has led to the recognition of provisions totalling approximately 391 thousand euros. A breakdown of this item is provided in the table in Note 19.

24. Current liabilities

At 31 December 2007 current liabilities total 613,846 thousand euros (456,539 thousand euros at 31 December 2006) and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Borrowings and other financial liabilities	419,618	226,452	193,165
Trade payables	119,928	165,220	(45,292)
Tax liabilities	29,912	23,844	6,068
Other current liabilities	44,389	41,024	3,365
TOTAL	**613,846**	**456,539**	**157,307**

Borrowings and other financial liabilities

Current borrowings and other financial liabilities total 419,618 thousand euros and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Short-term bank lines of credit	379,542	155,213	224,329
Bank borrowings	10,347	11,517	(1,170)
Financial liabilities due to the parent, the *Comune di Roma*	2,213	2,213	0
Financial liabilities due to subsidiaries and associates	26,390	55,412	(29,022)
Financial liabilities due to third parties	1,127	2,097	(970)
TOTAL	**419,618**	**226,452**	**193,165**

Short-term bank lines of credit

At 31 December 2007 short-term bank lines of credit total 379,542 thousand euros (155,213 thousand euros at 31 December 2006), representing an increase of 224,329 thousand euros. This was closely linked to the increase in Acea SpA's debt.

Accrued interest expense at 31 December 2007 amounts to 17,902 thousand euros.

Bank facilities represented by lines of credit made available to Acea SpA to fund financial activities amount to approximately 1,079 million euros. These lines of credit are not committed and are unsecured.

Bank borrowings

Current bank borrowings total 10,347 thousand euros and regard the short-term portion of bank borrowings falling due within 12 months. Further details are provided in Note 21.

Financial liabilities due to the parent, the *Comune di Roma*

At 31 December 2007 this items totals 2,213 thousand euros, unchanged compared to the previous year. For further information on the composition and movements during the year, reference should be made to the corresponding note on receivables.

Financial liabilities due to subsidiaries and associates

This item amounts to 26,390 thousand euros at 31 December 2007, compared with 55,412 thousand euros at 31 December 2006, and breaks down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Intercompany current account payables	9,633	48,056	(38,423)
Amounts due to subsidiaries as IRES under the tax consolidation	6,626	3,800	2,826

VAT credit due to subsidiaries	3,598	3,552	46
Unpaid called-up share capital of subsidiaries	4	4	(1)
Short-term loan repayable to the subsidiary, Crea	6,530	0	6,530
TOTAL	**26,390**	**55,412**	**(29,022)**

These items regard: (i) the balance of the intercompany current account jointly held by Acea SpA and a number of subsidiaries, totalling 9,633 thousand euros, and used to settle financial transactions on behalf of or authorised by the subsidiaries. Acea SpA pays interest calculated on a quarterly basis, applying the interest rate deriving from the arithmetic mean of daily three-month Euribor rates over the quarter less a spread of 0.20%; (ii) the balance deriving from the participation of a number of companies in the tax consolidation regime, totalling 6,626 thousand euros (including 4,958 thousand euros due to Acea Ato 2 and 1,124 due to the companies of the Tad Group); (iii) the balance due to Acea Ato 5 for the VAT credit accrued during 2007, totalling 3,598 thousand euros, and transferred to the Group's VAT payment scheme; (iv) the loan repayable to the subsidiary, Crea.

The reduction compared with the previous year reflects the decrease in amounts due to subsidiaries under the cash pooling system, above all AceaElectrabel Produzione (41,257 thousand euros at 31 December 2006).

Trade payables

Trade payables total 119,928 thousand euros (165,219 thousand euros at 31 December 2006) and break down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Trade payables due to third-party suppliers	32,573	70,176	(37,603)
Trade payables due to the parent, the *Comune di Roma*	31,401	43,492	(12,091)
Trade payables due to subsidiaries and associates	55,954	51,551	4,403
TOTAL	**119,928**	**165,219**	**(45,291)**

Trade payables due to third-party suppliers

At 31 December 2007 this item totals 32,573 thousand euros (70,176 thousand euros at 31 December 2006) and breaks down as follows:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)

Bills received	13,048	49,316	(36,268)
Bills to be received	19,525	20,860	(1,335)
TOTAL	**32,573**	**70,176**	**(37,603)**

The reduction of 37,603 thousand euros on 2006 is primarily due to the fact that Acea SpA no longer purchases materials for the investment activities of Acea Distribuzione and Acea Ato 2.

Trade payables due to the parent, the *Comune di Roma*

These payables total 31,400 thousand euros (43,492 thousand euros at 31 December 2006). Details were provided in Note 17 on trade receivables.

Trade payables due to subsidiaries and associates

These payables total 55,954 thousand euros (51,551 at 31 December 2006). This item essentially consists of:

€000	**31 Dec 2007**	**31 Dec 2006**	**Increase/(Decrease)**
Due to Acea Distribuzione SpA	40,089	41,258	(1,169)
Due to LaboratoRI SpA	235	185	50
Due to Ecomed Srl	15	15	0
Due to VoiNoi SpA	0	0	0
Due to Utilitas Srl	0	4	(4)
Due to AceaElectrabel SpA	291	0	291
Due to Cartesia SpA	0	6	(6)
Due to AceaElectrabel Produzione SpA	372	703	(331)
Due to AceaElectrabel Elettricità SpA	6,504	1,008	5,496
Due to Acea Ato 2 SpA	89	428	(339)
Due to Acea Luce SpA	528	2,975	(2,447)
Due to Acea Reti e Servizi Energetici SpA	0	0	0
Due to Acea Ato 5 SpA	99	22	77
Due to AceaElectrabel Trading SpA	384	367	17
Due to Crea SpA	164	164	0
Due to Luce Napoli Scarl	1,206	333	873
Due to Marco Polo SpA	5,962	2,356	3,606
Due to Si(e)nergia SpA	16	0	16
Intercompany payables for electricity and water	0	1,727	(1,727)
TOTAL	**55,954**	**51,551**	**4,403**

These essentially refer to: (i) bills to be received from AceaElectrabel Elettricità SpA regarding electricity purchased and transport costs, totalling 6,504 thousand euros; (ii) charges passed on by the subsidiary, Acea Luce SpA, for managing public lighting in the municipality of Naples,

totalling 528 thousand euros; (iii) the cost of energy dispatched and other minor services provided by Acea Distribuzione SpA, amounting to 40,089 thousand euros; (iv) costs of 89 thousand euros due to Acea Ato 2 SpA regarding interest expense generated by the intercompany current account; (v) 1,206 thousand euros due to Luce Napoli and 5,962 thousand euros due to Marco Polo.

Tax liabilities

Tax liabilities total 29,912 thousand euros, representing an increase of 6,068 thousand euros compared with 31 December 2006 (23,844 thousand euros). The increase compared with the previous year reflects the greater amount of IRES payable following expansion of the basis of the tax consolidation.

This item breaks down as follows.

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Deferred VAT	13,622	12,793	829
Withholding taxes	1,204	1,521	(317)
Recovery of aid pursuant to Legislative Decree 10/2007	0	9,384	(9,384)
Sewerage and water treatment fees	0	61	(61)
IRES	15,086	0	15,086
Other	0	84	(84)
TOTAL	**29,912**	**23,844**	**6,068**

Other current liabilities

Other current liabilities amount to 44,389 thousand euros (41,024 thousand euros at 31 December 2006) and consist of:

€000	31 Dec 2007	31 Dec 2006	Increase/(Decrease)
Social security contributions	1,751	1,617	134
Amounts due to the Municipality of Fiumicino	17	637	(620)
Other	42,621	38,770	3,851
TOTAL	**44,389**	**41,024**	**3,365**

Social security contributions

Social security contributions total 1,751 thousand euros and refers principally to payables that Acea SpA owes and has not yet paid to social security institutions relating to monthly salaries for December 2006.

Other current liabilities

At 31 December 2007 other current liabilities amount to 42,621 thousand euros (38,770 thousand euros at 31 December 2006).

This item essentially regards:

- amounts due to staff (4,697 thousand euros) as accrued vacation pay, bonuses, additional monthly pay, etc.;
- amounts collected from end users in the process of being allocated or reimbursed, totalling 35,590 thousand euros. This item also includes amounts collected in the name of and on behalf of certain municipalities in ATO 2 (223 thousand euros) for which Acea SpA provided billing and credit management services until 31 December 2002.

The financial statements do not report payables falling due after five years, other than those already mentioned in the note to "Medium/long-term bank borrowings".

Related party transactions

PARENT: *COMUNE DI ROMA*

The parent, *Comune di Roma*, holds a controlling interest via its 51% holding in Acea SpA.

Trading relations between Acea SpA and the *Comune di Roma* include the provision of maintenance and upgrading of public lighting by the Company to the *Comune* governed by a service contract, renewed on 13 February 2007.

The new contract is substantially similar to the former arrangement, envisaging a lump-sum payment for day-to-day management, routine and extraordinary maintenance, the supply of electricity and the implementation of a pre-established investment plan, whilst the installation of new plant and equipment is to be commissioned and paid for separately. The most important difference compared with the previous contract regard: the duration of 10 years from 1 June 2005; the inclusion of a significant investment plan in the contract; a different method of calculating payments for new plant and equipment, now based on agreed prices; and a different and more detailed definition of penalties to be paid in relation to service quality.

The annual fee is to be billed monthly with payment due at 60 days, whilst specific bills are to be issued for the installation of new plant and equipment.

An exclusive contract grants a thirty-year concession, free of charge, for the provision of routine and extraordinary maintenance services for plants within the municipality of Rome.

The Company's head office premises are also rented to Acea SpA by the *Comune* (until December 2006). In May 2006 Acea SpA and the *Comune di Roma* agreed a new lease agreement for the head office premises. This new agreement entirely replaces the previous agreement signed in 1999. The agreement establishes that:

- the lease term is 9 years, automatically renewable at the first expiry date for a further 9 years;
- the annual rental is 3,450 thousand euros until 30 June 2009; from 1 July 2009 and until 30 June 2021 the annual rental will be 5,650 thousand euros and from 1 July 2021 until expiry the annual rental will be 6,750 thousand euros;
- Acea SpA has undertaken to carry out all necessary maintenance work.

As already noted, the above lease agreement was transferred to Beni Stabili along with the sale of the property.

As a local authority, the *Comune di Roma* has the power to regulate the local taxes and duties to be paid by Acea SpA, which in no case is the sole payer of any of these taxes and duties within the municipality of Rome.

Since 2001, an agreement between Acea SpA and the *Comune di Roma* regulates the terms and conditions applicable to reciprocal receivables and payables. The three-year agreement (tacitly renewable for a further three years on expiry), which came into effect on 1 May 2001 concerns all reciprocal trading relations between the Acea Group companies and the Comune di Roma.

Regarding service contracts, the Comune di Roma's terms of payment establish that payment shall take place within sixty days of receipt of an invoice, and in the case of late payment the parties have agreed to apply the current bank rate at the time.

For sales of electricity and water to the Comune di Roma, it is stipulated that the *Comune di Roma* shall make an advance payment of 90% within 40 days of receiving a summarised list of the invoices issued by Group companies. The *Comune di Roma* must settle the remaining balance by June of the following year. In the case of late payment for electricity or water, interest shall be paid under the terms of the current provisions issued by the Electricity and Gas Authority.

The process of renewing the agreement is currently underway: the draft submitted to the *Comune di Roma* has met with agreement from the various technical departments.

For further information regarding relations between Acea SpA and the *Comune di Roma*, reference should be made to the notes to receivables and payables in the notes to Acea SpA's financial statements.

The following table shows details of revenues and costs deriving from the most significant financial relations between Acea SpA and the *Comune di Roma* in 2007.

€000	**Revenues**		**Costs**	
	2007	**2006**	**2007**	**2006**
Public lighting service contract	57,170	55,392	0	0
Head office rental	0	0	0	3,234

ENTITIES OWNED BY THE *COMUNE DI ROMA*

Acea does not currently engage in trading relations with other companies, special agencies and bodies owned by the *Comune di Roma.*

SUBSIDIARIES

Financial relations

Within the Group, Acea SpA acts as a centralised treasurer for certain subsidiaries, in particular, those that were demerged.

Current account relations between the Parent Company and subsidiaries are conducted on an arm's length basis. In particular, subsidiaries are subject to a borrowing rate calculated on a quarterly basis by applying the rate of interest deriving from the arithmetical average of daily three-month Euribor rates plus a spread of 0.20%.

It should be pointed out that Acea SpA also acts as guarantor for Group companies. In particular, the Company has issued a corporate guarantee covering the principal and interest deriving from Acea Distribuzione SpA's refinancing of its loan from Cassa Depositi e Prestiti. Moreover, as part of its commitments in the Master Agreement executed with Electrabel, Acea has issued corporate and bank guarantees on behalf of AceaElectrabel Trading and AceaElectrabel Elettricità (in line with the Company's interests in the two companies). Further information is provided in "Commitments and contingencies".

The above relations also include the dividends paid by subsidiaries, and receivables and payables deriving from tax consolidation.

In addition, Acea and Electrabel finance the Roselectra and Leinì thermoelectric plan construction projects and the wind farm development (currently under way at Monte della Difesa). Further information is provided in the notes to the relevant balance sheet items.

Trading relations

The Parent Company, Acea SpA, provides administrative, financial, legal, logistical, management and technical services to subsidiaries and associated companies in order to optimise the use of existing resources and know-how in an economically advantageous manner. These services are governed by annual service contracts.

PRINCIPAL ASSOCIATES

€000	Revenues		Costs		Receivables		Payables	
	2007	2006	2007	2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Marco Polo	2,044	2,058	12,202	12,362	743	248	5,962	2,356
Eblacea	0	0	0	0	14,669	22,580	0	0
Tirreno Power	0	0	0	0	0	0	0	0

Marco Polo SpA operates facility management services following the transfer of the relevant division under a nine-year lease from Acea SpA, which previously carried out this activity.

The supply of services to Acea Group companies is conducted on an arm's length basis. Marco Polo SpA is provided with administrative services from Acea SpA under an annual service contract. This supply of such services is conducted on an arm's length basis.

Based on agreements entered into as a result of the acquisition of Tirreno Power SpA, Acea has disbursed a shareholder loan to **Eblacea SpA**, based on an agreement signed in June 2007, which cancelled all previous loan agreements.

The terms and conditions of the new loan are described in Note 15 to the balance sheet.

ACEA SPA AND PRINCIPAL ELECTRABEL GROUP COMPANIES

As a result of the joint venture between Acea SpA and Electrabel, Acea recognises receivables and payables in its balance sheet essentially deriving from price adjustments. Acea has, above all, recognised 19.6 million euros in profit on investments linked to the achievement of a certain

degree of market liberalisation (as set out in the joint venture agreement) and the monetary revaluation of receivables accounted for on the basis of the agreement in previous years.
At the balance sheet date Acea and Electrabel have settled all reciprocal receivables and payables.

Update on major disputes and litigation

Social security issues

Contributions for social welfare schemes

In lieu of the eagerly awaited reform, substantial changes to the regulations governing social welfare schemes were announced by INPS in Circular no. 96 of 22 May 2002. On the basis of Ministry guidelines, the circular declared an end to the suspension introduced by the then Ministry of Labour in March 2000. INPS thus maintains that former municipalized utilities that are not wholly owned by the relevant Municipality are liable for social welfare and redundancy contributions from the year in which full ownership by the Municipality came to an end. In line with other member companies of Confservizi, the Company holds that such a claim is unfounded due to the fact that collective labour agreements at the time contained the so-called "stability clause", which excluded employers from access to the aid covered by the contributions in question. Moreover, during the period of suspension, INPS took no steps regarding the failure to make payment of the contributions.
Changes to collective contracts on renewal and, above all, as a result of the adoption of individual industry-specific contracts, lead the Company to believe that it is liable to pay the above contributions once the Ministry of Labour's suspension expired.
Acea SpA has presented appeals. The judge of first instance has ruled that he does not have jurisdiction in such matters and has referred the appeals to the relevant administrative bodies. On 3 August 2004 appeals were thus deposited with the relevant Administrative Committee at INPS (*Comitato Amministratore della Gestione Prestazioni Temporanee ai Lavoratori Dipendenti)*. The hearing of 30 November 2006 resulted in favourable outcomes for Acea SpA.
The Council of State has issued a consultative opinion regarding contributions for social welfare schemes, stating that the mandatory payment of social welfare and redundancy contributions by privatised public utilities cannot be applied retroactively. According to INPS, former municipalized utilities that are not wholly owned by the relevant Municipality are liable for the

above contributions from the year in which full ownership by the Municipality came to an end. This interpretation, which INPS has continued to maintain, was repeated in Circular no. 63 of May 2005. The Council of State, however, is not in agreement with this view, finding that the mandatory payment of the contributions does not have retroactive effect, and arriving at the logical conclusion that obligation to pay the contributions coincides with the issue of the above circular.

In a note dated 10 July 2007, INPS issued its final ruling regarding the issue of obligatory contributions for redundancy provisions in relation to Enel and companies in the Enel Group. The ruling specifies that the new obligations, which came into force with the instruction of April 2006, cannot be backdated.

On 5 February 2008 the Welfare Department of the Ministry of Labour requested INPS to extend application of social security contribution obligations, deriving from the judgment handed down by the Council of State in Ruling 65 of 2006, to former municipalised utilities that have been converted into joint-stock companies with public and private shareholders. Essentially this means that the principle of non-retroactivity previously asserted by the above ruling has been extended to the former municipalised utilities, thus ensuring equal treatment for all market operators.

Inpdap contributions

Acea SpA currently employs staff registered with both Inpdap and INPS pension funds. Certain contribution rates applied by the two entities differ greatly: these include those for family benefit payments, for which Inpdap applies a rate of 6.20% and INPS a rate of 2.48%.

In response to the failure to pass legislation bringing the pension and social security contributions into line, the Group companies decided that from November 2002 they would pay such contributions at the more favourable rate. The underlying legal basis is rather unclear: INPS Circular no. 103 of 16 June 2002 reiterated that, whilst awaiting clarification from the Ministry of Economy and Finance and the Ministry of Labour, the rate of 6.20% was to be considered provisional. In terms of legal action, Acea SpA has appealed through the administrative courts. The Company's appeal was turned down during the second half of 2006.

An appeal has also been brought with regard to contributions for maternity benefits, with those paid for employees registered with Inpdap brought into line by Acea SpA as of October 2003. The appeals filed by Acea SpA have been turned down and the Company has filed a further appeal to be heard between the end of 2007 and the first quarter of 2008.

Following a series of unfavourable outcomes for Acea SpA, a Court of First Instance (in Brescia) has upheld the position taken by a former municipalised utility, recognising the company's right to pay the above contributions at the reduced rate and declaring the tax demands issued by INPS to have no basis in law. The court's opinion appears to be substantially in line with the arguments adopted in the appeals submitted by Acea SpA.

Health insurance contributions

The Court of Rome has accepted the request submitted by Acea SpA, nullifying the Company's obligation to pay health insurance contributions to INPS. INPS has appealed this judgment and the relevant hearing has been scheduled for the first quarter of 2008.

The case concerns certain health insurance contributions levied at a rate of 2.22% on the salaries of blue collar workers. Acea SpA argues that the obligation of INPS to pay certain disability benefits, which is the reason underlying the employer's obligation to pay the contribution involved in this dispute, is expressly excluded by article 6, section 2 of Law 138 of 11 January 1943 in cases where the payment of this benefit is assured by the employer or other bodies to an extent either equal to or greater than what is established by collective labour agreements.

Other favourable judgments regarding this matter have been handed down, including the successful action brought by Aem Milano SpA in first and second instance. In June 2004, however, the Supreme Court contradicted the two earlier Supreme Court judgments in favour of companies in the sector, based on the principle that article 6 of Law 138/1943 does not exclude the employer's obligation to pay the contributions even when the employer has a contractual obligation to pay the benefits concerned.

In January 2006 the Appeal Court in Brescia, having been asked by the Supreme Court to rule on the merits of certain issues raised by Aem Milano SpA, passed sentence. The judgment touched on a number of aspects: (i) the claim of unconstitutionality was turned down; this request involved a reference to the Constitutional Court with wider significance compared with the request made by another former municipalized utility, whose claim of unconstitutionality had been upheld, (ii) the right of companies who pay health insurance contributions to claim the amounts paid to their employees from INPS was recognised. This judgment is radically different from the one issued by the Supreme Court with regard to Aem Milano SpA.

The Courts of Milan, Bolzano and Bologna have requested the Constitutional Court to rule on the constitutionality of the regulations applicable to the matters in question.

In February 2008 a Constitutional Court hearing examined the matter. The resulting sentence upholds all the arguments put forward by INPS in terms of existence of the obligation to pay the

contributions even when the employer has a contractual obligation to pay the benefits concerned. The same sentence, however, grants INPS the right to act on individual cases via ad hoc administrative measures.

At present it is reasonable to assume that the period covered by the litigation starts from 1 October 1995.

With regard to the **special unemployment contribution**, the Ministry of Labour issued a specific decree in January 2007 accepting Publiacqua's view that it should be exonerated from payment of the above contribution from 1 July 2002.

Tax issues

Tax moratorium

The situation relating to the dispute arising as a result of the final decision reached by the European Commission in June 2002, in which it declared that Acea SpA had benefited from illegal and incompatible state aid, has remained unchanged. Indeed, the appeal lodged against such decision by the Italian State to the European Court of first instance at the end of August 2002 is still pending. On 6 January 2003 the European Commission rejected the appeal submitted by Acea SpA on the grounds that the appellant lacked the right of action. Acea SpA submitted its response to this rejection on 15 March 2003. On 5 August 2004 Section V of the European Court of first instance put off a judgment on the merits of Acea SpA's appeal, combining any decision in this regard with the judgment on the merits of the Commission's decision that the Company has benefited from illegal and incompatible state aid.

The judgment on the Commission's decision regarding state aid will therefore be combined with an examination of the merits and the Court will thus be obliged to hear the motives for Acea SpA's appeal. Acea SpA's lawyers have prepared a document detailing the Company's defence, which was deposited at the Court on 18 March 2005.

It should be borne in mind that the Commission considered as state aid, incompatible with the common market, both the three-year exemption from corporate income taxes and the loans at below market rates from Cassa Depositi e Prestiti between 1994 and 1998.

The Commission thus requested the Italian State, to which the decision is directed, to take the necessary action to recover the sums involved, plus interest, from the beneficiaries. However, this decision does not rule out the possibility of considering aid to individual companies,

whether partial or complete, as compatible with the common market, depending on the specific circumstances.

Thus, there is the possibility that, in certain cases, it may not be necessary to seek restitution of the aid, given that the Commission's decision gives the Italian State some, if limited, discretion regarding the method of implementing the obligation to recover the aid. Generally, Acea SpA, backed by an authoritative legal opinion, believes that there are grounds for excluding the direct application of the Commission's decision given that the contents of the decision have not been transposed into Italian law.

On 15 May 2005 Law 62 ("Community Law 2004") of 18 April 2005 came into force. Article 27 of this law contains provisions regarding the recovery of any reduced or unpaid taxes relating to the period covered by the tax moratorium.

Moreover, on 14 June 2005, the Official Gazette published a ruling issued by the Director of the Italian tax authorities containing guidelines for application of the provisions of the above article 27.

Despite the fact that the joint decree to be drawn up by the Interior Ministry, the Ministry for the Economy and the Ministry for Community Affairs, as envisaged by section 6 of the above article 27, containing guidelines for a correct assessment of cases qualifying for non-application of the recovery of the above taxes, has yet to be enacted, on 11 July 2005 Acea SpA submitted tax declarations for the tax years potentially covered by the tax relief. Section 5 of article 27 allows the tax authorities six months from the deadline for submission of the tax declarations to notify assessments of unpaid taxes. This term expired on 11 January 2006.

Section 132 of article 1 of the Finance Act for 2006 (Law 266/2005), which was approved on 23 December 2005, has radically amended the above article 27 of Law 62/2005.

The new regulations have significantly changed the procedure for recovering what are now termed "aid equivalent to taxes not paid as a result of a tax moratorium".

The role of the Interior Ministry is highly significant with regard to both the issue of regulations and the compulsory recovery of any sums corresponding to the illegal aid.

The discretionary nature of application of the regulations governing recovery has, however, been confirmed, with the procedure continuing to exclusively regard joint-stock companies under majority public ownership, established pursuant to Law 42 of 8 June 1990.

Whilst waiting for the European Court of Justice to issue its judgments regarding the various appeals pending, based on existing regulations the situation is as follows:

1. the issue by the Interior Ministry, in consultation with the Ministry for Finance and the Ministry for Community Affairs, of regulations pursuant to section 2 of article 17 of Law

400/1988, containing guidelines for a correct assessment of cases qualifying for non-application of the recovery of the above taxes and for calculation of the illegal aid. No term has been set for adoption of such regulations, on which the entire procedure depends;

2. the above decree must be drawn up taking account of specific criteria that guarantee, among other things, compliance with constitutional principles, with the statutory rights of taxpayers, with the right of equal access to alternative tax regimes that could have been applied by the tax paying entity had the tax relief not been available, and the right of equal access to tax regimes ordinarily applicable to taxpayers in general. In addition, the decree must take account of the form of repayment of the aid already implemented via return of the lower taxes paid to the public sector;
3. the issue by the Interior Ministry, within 30 days of the entry into effect of the above decree, of guidelines governing implementation of the measures contained in the amended article 27;
4. within 60 days of entry into effect of the above decree, local authorities are to identify the entities that have potentially benefited from the aid, and the entities concerned are to submit tax declarations for the tax years covered by the tax moratorium. These requirements have already been complied with in accordance with the previous form of article 27. Clarification regarding the obligation to re-submit the tax declarations submitted on 11 July 2005 is awaited;
5. the Interior Ministry has six months from the date of issue of the above guidelines to notify any assessments containing the calculation of the illegal aid and related interest due;
6. any assessment must, in addition to the information required by law, also indicate the reasons for applying the regulations in question to the entity receiving the assessment.

At the end of 2006 the above procedure had not in any way been implemented.

After 31 December 2006, Legislative Decree 10/2007 was published in the Official Gazette dated 15 February 2007. Article 1 of this decree – which was converted into law on 6 April 2007 (Law 46) – envisages yet another change (the third since April 2005) to the procedure for recovering the aid.

This recent legislation envisages that recovery of the aid, represented by unpaid taxes and the related interest, should be carried out by the tax authorities, which are required (i) to calculate the taxes based on the information sent by local authorities and the tax declarations submitted by the companies that benefited from the aid pursuant to the legislation in force prior to the changes introduced by section 132 of article 1 of Law 266 of 23 December 2005, and (ii) to issue a specific notice within 90 days of the date of entry into force of the decree (15 May 2007)

containing, for each relevant tax year, the payment demand for the sums due, making a definitive entry in the delinquent tax list should payment not be made within thirty days of the notice date.

The decree expressly prohibits any term of payment extensions or administrative suspensions. In contrast, the payment demands may be appealed before the tax commissions and the demands suspended on a cautionary basis only under clearly defined circumstances and subject to verification of the seriousness and irreparability of the prejudice suffered by the appellant.

Based on the above legislation, on 13 April 2007 the tax authorities issued payment demands pursuant to article 1 of the decree, with a view to recovering the aid represented by unpaid taxes for the years 1998 and 1999. These taxes amounted to 6,362 thousand euros, on which interest of 3,022 thousand euros was also due. Acea paid the amounts due within the related terms.

Acea has appealed the payment demands before the Rome Tax Commission. The date for the hearing at first instance has yet to be announced.

Based on the regulations in force and the related obligations (satisfied with payment of the above amounts), Acea believes that the procedure should be considered closed, despite the lack of a formal announcement from the European Commission and/or the Italian State. Moreover, the appeals filed by the Italian State and the companies involved before the European Court of Justice have yet to be heard. Should the appeals be successful (and the tax moratorium no longer qualify as state aid) the Italian State would have to return the amounts paid.

With regard to subsidised loans, on 22 August 2006 the following Interministerial Decree, dated 21 July 2006, was published in the Official Gazette: "Determination of the guidelines and procedures for a correct assessment of individual cases qualifying for non-application of the recovery of state aid, required by European Commission decision 2003/193/EC of 5 June 2002". Article 27, section 11, included in the recitals, makes express reference to the fact that the Decree solely regards companies who obtained loans from Cassa Depositi e Prestiti during the period of the moratorium. As Acea SpA did not benefit from such loans, the Company is not covered by the provisions of the Decree.

VAT

On the basis of Ministry of Finance guidelines, the *aziende speciali* incorporated under the terms of articles 22 and 23 of Law 142 of 8 June 1990, contrary to previous indications from the same ministry, should have applied VAT to transactions with their local Municipality during the period of the tax moratorium. According to such an interpretation, with acquisition of legal status the above-mentioned *aziende speciali*, even though subject to a tax moratorium, were

bound to fulfil their VAT obligations. Furthermore, on the basis of the arguments in the Ministry's guidelines, the *aziende speciali* could have acquired the status of legal entities as they fulfilled the initial acts designed to achieve such status. Recent sentences have not upheld the arguments put forward by the Ministry of Finance with regard to VAT. The Directors of Acea SpA, backed by an authoritative opinion on tax matters, do not consider that Acea SpA will be obliged to assume *ope legis* the tax commitments of the former *Azienda Speciale* which, as recognized by the *Comune di Roma*, remain the responsibility of the conferee (the *Comune di Roma*).

Other information

During the year Acea SpA was subject to tax audits.

In September 2007 the tax authorities launched an investigation of the tax loss deriving from the sale of Atlanet pursuant to section 4 of article 1 of Legislative Decree 209/2002.

This audit is currently in progress and has been widened to include the corporate restructuring that took place in 2004. This is based on application of section 11 of article 36 of Legislative Decree 223/2006, which amended the legislation governing the use of accumulated tax losses under the tax transparency regime, and introducing the application of anti-evasion measures to transactions carried out prior to the above amendment.

Acea carried out the above restructuring for valid business reasons and without any intention to evade taxes. Moreover, at the time of the related transactions Acea obtained an authoritative expert opinion that covers this aspect.

In December 2007 Acea was also informed of an audit relating to consolidation adjustments regarding dividends applied in the 2006 tax return (for the 2005 tax year). The audit ended with the issue of an official report that substantially renders the above adjustments subject to taxation (4,430 thousand euros, on which taxation of 1,462 thousand euros is payable).

Acea has submitted its defence within the terms established in the Taxpayers' Charter, substantially arguing that the tax authorities' findings are based on violation of a regulation that was not applicable to dividends (a regulation that was, moreover, enacted in November 2005 with effect backdated to 1 January 2005) before being subsequently re-interpreted by the tax authorities in circular 160/E of 9 July 2007 after the deadline for filing the tax return.

Other matters

Casmez dispute

Acea SpA brought a successful action against the Ministry of Infrastructure and Transport and Abruzzo Regional Authority with aim of obtaining damages for the removal of water granted to Acea for use in the production of hydroelectric power at its plants in the Abruzzo region. On 8 May 2006 the Superior Public Water Court issued sentence 51/2006 awarding damages of approximately 18 million euros. Approximately 9 million euros was collected in 2006, with the remainder received in September 2007.

Antitrust Authority investigation of the acquisition of Publiacqua

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

On the same date Acea submitted the documentation relating to the transaction.

The investigation saw a number of key developments during the first half of 2007, with several Company representatives giving evidence during hearings held at the Authority's offices and deposition of defence briefs (prepared with the assistance of the consultants hired by the Company). The most important event took place during the second half of July, when the report containing the results of the investigation was passed to the Antitrust Authority Board for its final decision.

On 28 November 2007 Acea was notified of the Antitrust Authority's ruling, in which it:

- deemed that a horizontal agreement existed between Acea and Suez in the integrated water services sector, which is managed by a public-private partnership in which the private partner is selected via a tender process;
- ruled that the parties should take actions to avoid repetition of the sanctioned behaviour, with the Authority to be notified of the nature of such actions within 90 days, and also amend the rules governing the partnership regarding the part deemed to be in violation of competition regulations;
- ordered Acea and Suez to pay fines of 8.3 million euros and 3 million euros, respectively (the difference in the amounts derives from their respective turnovers in the relevant sector in Italy).

Acea has appealed the Authority's decision before Lazio Regional Administrative Court, with a hearing on the merits of the case scheduled for April 2008.

Backed up by an authoritative legal opinion, Acea believes there is a good chance that the fine will be reduced.

The fine was paid in February 2008.

Additional disclosures on financial instruments and risk management policies

Classes of financial instrument

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

Note	€000	Financial instruments held for trading at fair value	Loans and receivables	Available-for-sale financial instruments	Carrying amount
	Non-current assets	**0**	**97,928**	**7,142**	**105,070**
13	Other investments			7,142	7,142
15	Financial assets due from the parent, subsidiaries and associates		97,683		97,683
15	Financial assets due from third parties		245		245
	Current assets	**0**	**1,009,444**	**0**	**1,009,444**
17	Trade receivables due from customers		47,828		47,828
17	Trade receivables due from related parties		114,693		114,693
17	Financial assets due from the parent, subsidiaries and associates		700,964		700,964
17	Financial assets due from third parties		55,375		55,375
17	Cash and cash equivalents		90,585		90,585
	TOTAL FINANCIAL ASSETS	**0**	**1,107,372**	**7,142**	**1,114,514**

Note	€000	Financial instruments held for trading	Liabilities at amortised cost	Carrying amount
	Non-current liabilities	**0**	**549,698**	**549,698**
21	Bonds		305,058	305,058
21	Bank borrowings (non-current portion)		244,640	244,640
21	Financial liabilities due to related parties		0	0
	Current liabilities	**0**	**539,545**	**539,545**
24	Bank borrowings		389,889	389,889
24	Financial liabilities due to the parent, subsidiaries and associates		28,602	28,602
24	Financial liabilities due to factoring companies		210	210
24	Financial liabilities due to third parties		916	916
24	Trade payables due to suppliers		32,573	32,573
24	Trade payables due to the parent, subsidiaries and associates		87,355	87,355
	TOTAL FINANCIAL LIABILITIES	**0**	**1,089,243**	**1,089,243**

Fair value of financial assets and liabilities

The fair value of financial instruments that are not traded in an active market is determined using valuation models and techniques that make maximum use of market inputs or using the price supplied by a range of independent counterparties.

The fair value of medium/long-term financial assets and liabilities is calculated on the basis of the risk-free and the adjusted risk-free interest rate curves.

The fair value of trade receivables and payables falling due within twelve months is not calculated as their carrying amount approximates to fair value.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

The relevant fair values are shown below.

Type of financial risks and related hedging policies

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the translation of the financial statements of its overseas subsidiaries.

Liquidity risk

Acea SpA's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such facilities exceed the average requirement necessary to fund planned expenditure and enable the Company to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, Acea has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a treasury management contract.

The Company's available lines of credit amount to approximately 1,079 million euros. These short-term lines of credit are uncommitted and unsecured.

In addition, Acea has also obtained a medium/long-term committed line of credit of 100 million euros. This line has yet to be drawn down.

The following table shows financial obligations by term to maturity.

€000	Within 12 months	Within 5 years	After 5 years
Bonds	14,625	73,125	314,625
Medium/long-term borrowings	19,252	80,441	213,102
Amounts due to third-party suppliers	32,573	0	0

Interest rate risk

Acea's approach to managing interest rate risk, which takes account of the structure of assets and the stability of the Group's cash flows, essentially aims to hedge borrowing costs and stabilise cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

The approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

A static (as opposed to a dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure over the medium/long term.

Acea has thus opted to minimise interest rate risk by choosing a mix of borrowings heavily weighted towards fixed rate instruments.

Fixed rate debt protects a borrower from cash flow risk in that it stabilises financial outflows, whilst heightening exposure to fair value risk in terms of changes in the market value of the debt.

Acea is finalising an interest rate risk management policy that substantially aims to both control this risk and optimise borrowing costs, taking account of stakeholder interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The objectives of this policy are as follows:

- to identify the optimum mix of fixed and floating rate debt;
- to pursue a potential optimisation of the Group's borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;
- to manage derivatives transactions, should the Group opt to make use of such instruments, in accordance with the approved policies and strategies, and taking account (in advance) of the impact of transactions on the income statement and balance sheet, giving preference to instruments that qualify for hedge accounting.

Acea does not currently use derivatives to hedge its interest rate risk exposure.

The following table shows the fair value of the above borrowings by type of borrowing and interest rate at 31 December 2007.

The fair value of medium/long-term debt is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

€000	Amortised cost	Risk-free fair value	Increase/ (Decrease)	Risk-adjusted fair value	Increase/ (Decrease)
	(A)	(B)	(A) - (B)	(C)	(A) – (C)
Bonds	305,058	310,913	(5,855)	303,013	2,045
Fixed rate	10,684	10,758	(74)	10,603	80
Floating rate	244,303	245,936	(1,633)	245,795	(1,492)
Total	**560,045**	**567,607**	**(7,562)**	**559,411**	**633**

It should also be noted that:

- the medium/long-term term loan from Acea to Eblacea has the following fair values, again calculated on the basis of the risk-free and the risk-adjusted interest rate curves:
  - amortised cost: 4,760 thousand euros;
  - risk-free fair value: 5,527 thousand euros;
  - risk-adjusted fair value: 5,475 thousand euros;

- the medium/long-term term loans from Acea to Terni En.A and Eall have the following fair values, again calculated on the basis of the risk-free and the risk-adjusted interest rate curves:
  - amortised cost: 26,059 thousand euros;
  - risk-free fair value: 23,727 thousand euros;
  - risk-adjusted fair value: 26,359 thousand euros.

The fair value of the loans to subsidiaries deriving from the transfer of EIB loans to Acea is identical to the fair value of the liability due to the lender.

Sensitivity analysis has been carried out on medium/long-term financial liabilities, applying a symmetrical movement of 50 bps in the interest rate curves used to calculate the above fair values.

€m	Effect on income statement		Effect on equity	
	50 bp	-50 bp	50 bp	-50 bp
Risk-free	(2.6)	2.7	(1.7)	1.8
Risk-adjusted	(2.3)	2.5	(1.5)	1.7

Credit risk

Acea holds the concession to provide public lighting services in the municipalities of Rome and Naples.

Acea manages amounts billed and to be billed to the *Comune di Roma* via administrative offsets of reciprocal receivables and payables at Group level.

With regard to the Municipality of Naples and other public entities, on the other hand, Acea – in common with the approach adopted in previous years – uses without-recourse factoring.

In 2007 Acea carried out the without-recourse factoring of receivables due from the Municipality of Naples, amounting to 12.2 million euros at a cost of 6.6%.

The following table summarises the different types of receivable described in Note 17 – Trade receivables.

Balance at 31 December 2007 €000	**Total receivables**	**Due**	**Past-due for >**	**0 - 30 days**	**30 - 90 days**	**90 - 180 days**	**over 180 days**	**Negotiated due date**	**Impairments**
Non-current assets									
Trade receivables	-	-	-	-	-	-		-	
Gross receivable	-	-	-	-	-	-		-	
Provisions for impairment of receivables	-	-	-	-	-	-		-	-
Other receivables	-	-	-	-	-	-		-	
Gross receivable	-	-	-	-	-	-		-	
Provisions for impairment of receivables	-	-	-	-	-	-		-	-
Current assets									
Trade receivables	-	-	-	-	-	-	-	-	-
End users for bills issued	-	-	-	-	-	-	-	-	-
Assets									-
Public sector	-		-						-
Private users	-		-						-
Total assets	-	-	-	-	-	-	-		-
Terminated									-
Public sector	-		-						-
Private users	-		-						-
Total terminated	-	-	-	-	-	-	-		
End users for bills to be issued	-	-	-	-	-	-	-	-	-
Collected amounts to be allocated			-						
Provisions for impairment of receivables	-			-	-	-		-	-
Other receivables	48,009	-	48,009	1,542	6,166	1,978	38,142	-	-
Gross receivable	53,045		53,045	1,542	6,166	1,978	38,142	-	
Provisions for impairment of receivables	(5,217)		(5,217)	-	-	-		-	-
TOTAL	**47,828**	**-**	**47,828**	**1,542**	**6,166**	**1,978**	**38,142**	**-**	**-**

Commitments and contingencies

At 31 December 2007 commitments and contingencies total 1,017,901 thousand euros, compared with 788,703 thousand euros at 31 December 2006.
A description of the items that underwent significant movements in 2007 is given below.

Liens and sureties issued and received

A net positive balance of 55,043 thousand euros was reported between liens and sureties issued (106,012 thousand euros) and those received (50,969 thousand euros).
These are guarantees granted by Acea SpA to third parties and regard sureties provided in order to bid for contracts in Italy and overseas.
For example, Acea SpA has issued bank sureties for water contracts bids, totalling 3,425 thousand euros, including a surety of 683 thousand euros in relation to the selection process for a partner for Publiacqua in the Municipality of Florence and 5,165 thousand euros regarding a tender in the Campania region. The latter was issued to the Agency for ATO Sarnese Vesuviano in order to take part in the tender process to select a partner to take an interest in Gori SpA.
Sureties issued also include those issued to Sidra SpA, totalling 6,830 thousand euros, in relation to a contract to carry out a "Project to repair water leaks in the Catania distribution network".
This item also includes Acea SpA's share of guarantees for AceaElectrabel Trading SpA (52,122 thousand euros), AceaElectrabel Elettricità SpA (18,983 thousand euros), AceaElectrabel Produzione SpA (846 thousand euros) and AceaElectrabel SpA (188 thousand euros).
Liens and sureties received from third parties regard guarantees received from third parties in relation to contract work and/or supplies provided, or for bids called.

Letters of patronage issued and received

A net positive balance of 683,538 thousand euros is the result of letters of patronage issued, totalling 683,741 thousand euros, and letters of patronage received, amounting to 203 thousand euros.
Those issued include:

- 481,879 thousand euros in favour of Acea Distribuzione SpA and in the interests of Cassa Depositi e Prestiti as security for the new loan granted;

- 21,342 thousand euros in favour of AceaElectrabel Elettricità SpA and in the interests of Terna SpA as a back-to-back guarantee for the dispatching of electricity;
- 77,371 thousand euros in favour of AceaElectrabel Trading SpA and in the interests of banks as back-to-back bank guarantees relating to hedging derivatives;
- 1,188 thousand euros in favour of AceaElectrabel Elettricità SpA and in the interests of the National Grid Operator;
- 2,675 thousand euros in favour of Banca di Roma and in the interests of Acea Ato 5 SpA, as a back-to-back guarantee for the definitive deposit of 2,844 thousand euros issued by the bank in favour of the Agency for ATO 5 (southern Lazio – Frosinone), and guaranteeing fulfilment of the obligations specified in the concession agreement.

Third-party assets held under concession

Such assets amount to 86,076 thousand euros at 31 December 2007 and are unchanged with respect to the previous year. They refer to public lighting assets.

Liens granted to banks

Such liens amount to 30,822 thousand euros and regard the cash collateral established in order to guarantee the undertakings given by the strategic shareholders of Ipse 2000 SpA. As of December 2002, payments have been made into the relevant term deposit. The lien was granted to Mediocredito Centrale SpA and the deposits accrue interest at 3-month Euribor less 3 basis points per annum. As the required cash collateral has already been paid in, the interest that accrues on the term account is available to the Group.

Other information

Acea - Electrabel partnership

The joint venture agreement between Acea SpA and Electrabel Italia SpA establishes that, should certain circumstances arise that render the regular conduct of meetings of the boards of directors or the shareholders of AceaElectrabel SpA, AceaElectrabel Produzione SpA and AceaElectrabel Trading SpA impossible:

- Acea SpA has a call option on all the shares of AceaElectrabel SpA and AceaElectrabel Trading SpA held by Electrabel;
- AceaElectrabel SpA has a put option on its shares in AceaElectrabel Produzione SpA, which it has the right to sell to Electrabel;

- Electrabel has a call option on all the shares of AceaElectrabel Produzione SpA held by AceaElectrabel SpA and, subordinated to the exercise of this option, a further call option on all the shares of AceaElectrabel Trading SpA held by AceaElectrabel SpA, and a put option on all its shares in AceaElectrabel SpA, which it has the right to sell to Acea SpA.

Should the options right be exercised, the price of the shares to be purchased and sold is to be determined by an arbitrator, to be appointed by mutual agreement of the parties.

Tirreno Power SpA

Based on its interest in Eblacea SpA, Acea SpA has given a commitment that Eblacea SpA will pay Tirreno Power SpA the equity necessary in order to meet future disbursements based on the line of credit granted to fund the repowering project.

Master Agreement between Acea SpA and Electrabel

Acea SpA and Electrabel are in the process of drawing up a Master Agreement (MA) governing the issue of guarantee commitments on behalf of AceaElectrabel Trading SpA (AET) and AceaElectrabel Elettricità SpA (AEE).

The guarantee commitments that the shareholders may issue consist of:

1. corporate guarantees issued on behalf of operating companies in favour of the related counterparties;
2. back-to-back guarantees in favour of banks securing the use of bank guarantee commitments pertaining to the shareholders, with the aim of issuing bank sureties on behalf of the operating companies.

The shareholders have the right to assess each transaction put forward by the operating companies with a view to the issue of a guarantee commitment.

The MA establishes that Electrabel, acting on behalf of Acea SpA, will act as Agent for the issue of the guarantees described in point 1, to be issued on behalf of AET in favour of the related counterparties. Similarly, the MA establishes that Acea SpA, acting on behalf of Electrabel, will act as Agent for the issue of the guarantees described in point 1, to be issued on behalf of AEE in favour of the related counterparties. The Agent is to fully guarantee the counterparties of the operating companies, but will benefit from a back-to-back guarantee provided by the other shareholder in proportion to their percentage interest in the operating company.

The MA establishes a ceiling of 76.9 million euros for AET and 26.6 million euros for AEE.

With reference to point 2, the MA requires the two shareholders to provide back-to-back guarantees in proportion to their percentage interests in AET and AEE, and in accordance with the ceilings pre-established and announced to the agent bank (113.3 million euros for AET and 40.9 million euros for AEE). The agent bank has extended appropriate guarantee facilities to the two shareholders.

The shareholders are to be paid the following fees by the operating companies in return for their commitments:

- in the case of corporate guarantees, a fee of 0.20% per year or fraction of the year of validity of the guarantee;
- in the case of back-to-back guarantees in favour of banks, a fee of 0.40% per year or fraction of the year of validity of the guarantee. In any event, it is established that the fee may not be less than the fee charged by the bank granting the surety plus 0.15%.

The MA is valid until 31 December 2008 and is automatically renewable for a further 12 months.

Annexes

1 - Statement of changes in shareholders' equity

€000	Share capital	Legal reserve	Extraordinary reserve	Reserve for treasury shares	Treasury shares in portfolio	Demerger reserve	Reserve for investments	IFRS reserve	Retained profit/(accumulated losses)	Net profit/(loss) for the period	Total shareholders' equity
Balances at 31 December 2006	**1,098,899**	**55,320**	**457**	**15,276**	**(5,394)**	**489,697**	**0**	**(120,016)**	**645**	**77,260**	**1,612,143**
Appropriation of result for 2006		3,863						73,397		(77,260)	0
Coverage of losses from transition to IFRS			(457)	(11,423)	1,541	(35,636)		46,619	(645)		0
Dividends paid						(114,776)					(114,776)
Goodwill on investments acquired from subsidiary							(4,013)				(4,013)
Net profit for the period										112,583	112,583
Balances at 31 December 2007	**1,098,899**	**59,183**	**0**	**3,853**	**(3,853)**	**339,285**	**(4,013)**	**0**	**0**	**112,583**	**1,605,937**

2 - Statement of movements in investments at 31 December 2007

€000	31 Dec 2006	Movements in 2007					31 Dec 2007
		Acquisitions	Disposals	Reclass.	Additions/ (Reductions)	Impair./ Losses	
Subsidiaries							
Acea Distribuzione SpA	344,152						344,152
Acea Ato 2 SpA	585,442						585,442
VoiNoi SpA (in liquidation)	0						0
Consorcio Agua Azul SA	5,454						5,454
LaboratoRI SpA	3,104						3,104
Acea Luce SpA	150						150
Ecomed Srl	0				48		48
AceaElectrabel SpA	155,583				5,400		160,984
Acea & Company Armenian Utility Scarl (in liquidation)	0						0
Acea Ato 5 SpA	15,014						15,014
Montenero Energia Srl (in liquidation)	5					(5)	0
Aguazul Bogotá SA	660						660
Consorcio Acea-Tradexco	43						43
Acea Dominicana SA	348						348
Acque Blu Arno Basso SpA	13,132						13,132
Ombrone SpA	15,926						15,926
Luce Napoli Scarl	8						8
Dyna Green Srl	100				120		220
Acea Reti e Servizi Energetici SpA	354,295						354,295
Sigesa SpA	2,053						2,053
AceaRieti Srl	445				496	(740)	200
Acque Blu Fiorentine SpA	41,568				(1,029)		40,539
Tad Energia Ambiente SpA	22,145				(9)		22,136
Umbra Acque SpA	0	6,851					6,851
Aquaser Srl				164			164
Sarnese Vesuviano Srl	7,491						7,491
Total subsidiaries	**1,567,117**	**6,851**	**0**	**164**	**5,025**	**(745)**	**1,578,412**
Associates							
Acque Potabili SpA	0						0
Aguas de San Pedro Honduras SA	2,940						2,940
Aquaser Srl	14	150		(164)			0
Tirana Acque Scarl (in liquidation)	0						0
Marco Polo SpA	294						294
Eblacea SpA	35,034						35,034
Total associates	**38,282**	**150**	**0**	**(164)**	**0**	**0**	**38,268**
Other companies							
Polo Tecnologico SpA	2,542						2,542
WRc Plc	2,554						2,554
Centro Agroalimentare Roma SpA	1,040						1,040
Csm SpA	838						838
Umbria Distribuzione Gas	5				164		168
TeSiMa SpA (in liquidation)	0						0
Total other companies	**6,978**	**0**	**0**	**0**	**164**	**0**	**7,142**

3 – List of significant investments in subsidiaries, associates and other companies at 31 December 2007

€000 Company	Registered office	Share capital	%	Equity at 31 Dec 2007	Equity attributable to Acea SpA (A)	Net result for the period	Net result attributable to Acea SpA	Value of investment (B)	Difference (A - B)
Subsidiaries									
Acea Distribuzione SpA	Piazzale Ostiense, 2 – Rome	345,000	50.00	807,758	403,879	76,710	38,355	344,152	59,727
Acea Ato 2 SpA	Piazzale Ostiense, 2 – Rome	362,834	96.46	674,402	650,528	49,928	48,161	585,442	65,086
Acea Luce SpA	Via delle Testuggini, 98/100 - Rome	300	50.00	279	140	(159)	(79)	150	(10)
Acea Electrabel SpA	Piazzale Ostiense, 2 – Rome	153,500	59.41	296,752	176,300	(860)	(511)	160,984	15,317
Cartesia SpA (in liquidation)*	Viale Europa, 190- Rome	100	50.00	111	56	379	190	0	56
Ecomed Srl	Via di Grotta Perfetta, 302 – Rome	50	50.00	96	48	(12)	(6)	48	0
Acea & Company Armenian Utility Scarl* (in liquidat.)	Piazzale Ostiense, 2 – Rome	10	55.00	140	77	48	26	0	77
VoiNoi SpA (in liquidation)	Piazzale Ostiense, 2 – Rome	822	100.00	(8,183)	(8,183)	(321)	(321)	0	(8,183)
Consorcio Agua Azul SA	Los Pinos, 399 - Lima 27, Peru	18,844	25.50	21,007	5,357	2,254	575	5,454	(97)
LaboratoRI SpA	Via Vitorchiano, Grottarossa - Rome	2,444	95.00	6,814	6,473	3,063	2,910	3,104	3,369
Acea Ato 5 SpA	Via Monti Lepini, 220 -Frosinone	10,330	93.58	14,319	13,399	306	287	15,014	(1,614)
Aguazul Bogotá SA	Bogotá- Colombia	1,483	51.00	2,616	1,334	963	491	660	674
Consorcio Acea-Tradexco*	Santo Domingo - Dominican Repub.	82	50.00	90	45	2	1	43	2
Acea Dominicana SA	Santo Domingo - Dominican Repub.	299	99.99	1,183	1,183	605	608	348	835
Acque Blu Arno Basso SpA	Piazzale Ostiense, 2 – Rome	8,000	69.00	20,798	14,351	1,728	1,192	13,132	1,219
Ombrone SpA	Piazzale Ostiense, 2 – Rome	6,500	79.58	19,391	15,431	(99)	(79)	15,926	(495)
Acea Reti e Servizi Ebergetici SpA	Piazzale Ostiense, 2 – Rome	300,120	100.00	377,539	377,539	20,138	20,138	354,295	23,244
Dyna Green Srl*	Viale Bianca Maria, 24 – Milan	30	33.33	100	33	0	0	220	(187)
Sigesa SpA (in liquidation)	Piazzale Ostiense, 2 – Rome	3,300	100.00	(1,911)	(1,911)	(901)	(901)	2,053	(3,964)
AceaRieti Srl	Via Alessandro Comotti, 11- Rieti	200	100.00	(103)	(103)	(658)	(658)	200	(303)
Aquaser Srl	Via dei Sarti, 15 - Volterra	50	57.00	957	546	501	286	164	382
Acque Blu Fiorentine SpA	Piazzale Ostiense, 2 - Rome	15,153	68.50	61,118	41,866	918	628	40,539	1,328
Umbra Acque SpA	Via Benucci ,162 - Ponte San Giovanni (Perugia)	15,550	40.00	15,808	6,323	95	38	6,851	(528)
Tad Energia Ambiente SpA	Via Giordano Bruno, 7 - Terni	2,225	100.00	(2,169)	(2,169)	(811)	(811)	22,136	(24,305)
Luce Napoli Scarl	Piazzale Ostiense, 2 - Rome	10	70.00	10	7	0	0	8	(1)
Sarnese Vesuviano Srl	Piazzale Ostiense, 2 - Rome	6,735	95.79	5,976	5,725	211	202	7,491	(1,765)
Total subsidiaries		**1,253,982**		**2,322,076**	**1,715,451**	**155,504**	**112,194**	**1,578,412**	**137,039**

Associates									
Aguas de San Pedro SA de CV*	San Pedro Sula - Honduras	7,058	31.00	7,837	2,429	608	188	2,940	(511)
Tirana Acque Scarl* (in liquidation)	Via Santi Giacomo e Filippo, 7 - Genoa	95	40.00	116	46	38	15	0	46
Marco Polo SpA*	Viale Marco Polo, 31 Rome	894	33.00	894	295	0	0	294	1
Eblacea SpA	Via Orazio, 31 Rome	44,460	30.00	165,703	49,711	49,008	14,702	35,034	14,676
Total associates		**53,007**		**175,036**	**52,686**	**49,711**	**14,930**	**38,268**	**14,417**
Other companies									
TeSiMa SpA* (in liquidation)	Via Ostiense, 106 - Rome	103	19.20	(419)	(80)	(522)	(100)	0	(80)
Società per il Polo Tecnologico Industriale Romano SpA*	Via de' Burrò, 147 - Rome	61,974	4.10	61,450	2,519	294	12	2,542	(23)
Centro Agroalimentare Rome SpA*	Via Crescenzio, 42 - Rome	43,656	2.38	33,641	801	(500)	(12)	1,040	(239)
WRc Plc*	Frankland Road, Blagrove Swindon - England	1,296	12.50	7,542	943	(13)	(2)	2,554	(1,611)
Parco Tecnologico Ambientale Romano Srl (in liquidation)*	Via de' Burrò, 147 - Rome	103	15.00	72	11	22	3	0	11
Ambiente e Territorio SpA*	Corso del Mezzogiorno, 10 - Foggia	263	10.46	417	44	(167)	(17)	0	44
Centro Sviluppo Materiali SpA*	Via di Castel Romano, 100 - Rome	520	10.00	14,147	1,415	43	4	838	577
Umbria Distribuzione Gas**		N/A	N/A	N/A	N/A	N/A	N/A	168	(4)
Total other companies		**108,015**		**116,950**	**5,662**	**(843)**	**(112)**	**7,142**	**(1,317)**

**** data at 31 December 2005***

***** data not available***

4 - Related party transactions pursuant to CONSOB Resolution 15519 of 27 July 2006

€000	31 Dec 2007	Related parties	% impact	31 Dec 2006	Related parties	% impact
Sales and service revenues	154,085	141,070	92	205,122	195,714	95
Other operating income	29,485	3,718	13	29,110	3,566	12
Net revenue	**183,570**	**144,788**	**79**	**234,232**	**199,280**	**85**
Staff costs	35,807	0	0	32,523	902	3
Cost of materials and overheads	133,487	79,146	59	187,484	96,415	51
Operating costs	**169,294**	**79,146**	**47**	**220,007**	**97,317**	**44**
Gross operating profit	**14,277**	**65,641**	**5**	**14,225**	**101,963**	**717**
Amortisation, depreciation, provisions and impairment charges	24,037			17,236		
Operating profit/(loss)	**(9,760)**			**(3,011)**		
Finance (costs)/income	**132,233**	**175,427**	**133**	**109,327**	**122,757**	**112**
Ordinary finance (costs)/income	132,233	175,427		92,179	122,757	
Exceptional finance (costs)/income	0			17,148		
Profit/(Loss) on investments	**20,367**	**686**	**3**	**2,545**	**2,664**	**105**
Profit/(Loss) before tax	**142,840**			**108,861**		
Taxation	30,258			31,601		
Net profit/(loss) from continuing operations	**112,583**			**77,260**		
Net profit/(loss) from discontinued operations	0			0		
Net profit/(loss)	**112,583**			**77,260**		

Assets

€000	31 Dec 2007	Related parties	% impact	31 Dec 2006	Related parties	% impact
Property, plant and equipment	107,674			130,266	865	0.7
Investment property	2,196			2,600		
Goodwill	0			0		
Concessions	0			0		
Other intangible assets	7,513			7,052		
Investments in subsidiaries and associates	1,616,680			1,605,399		
Other investments	7,142			6,978		
Deferred tax assets	9,781			32,125		
Financial assets	97,928	97,683	100	95,480	95,460	100.0
Other non-current assets	949			924		
NON-CURRENT ASSETS	**1,849,862**	**97,683**	**5**	**1,880,824**	**96,325**	**5.0**
Non-current assets held for sale	**0**			**0**		
Inventories	0			18,921		
Trade receivables	47,828			46,612		
Intercompany trade receivables	114,693	114,693	100	153,980	153,980	100.0
Other current assets	5,113			6,691		
Cash and cash equivalents	90,585			88,045		
Current financial assets	65,145	9,771	15	42,435	9,136	25.8
Intercompany current financial assets	691,193	691,193	100	453,336	453,336	100.0
Current tax assets	4,921			775		
Deferred tax assets	19,041			0		
CURRENT ASSETS	**1,038,520**	**815,656**	**79**	**810,796**	**616,452**	**76.0**
Current assets held for sale	**0**			**0**		
TOTAL ASSETS	**2,888,382**	**913,340**	**32**	**2,691,620**	**712,777**	**26.0**

Liabilities and shareholders' equity

€000	31 Dec 2007	Related parties	% impact	31 Dec 2006	Related parties	% impact
Shareholders' equity						
Share capital	1,098,899			1,098,899		
Legal reserve	59,183			55,320		
Reserve for treasury shares	0			0		
Other reserves	335,272			380,019		
Retained profit/(accumulated losses)	0			645		
Net profit/(loss) for the period	112,583			77,260		
SHAREHOLDERS' EQUITY	**1,605,937**	**0**	**0**	**1,612,143**	**0**	**0**
Staff termination benefits and other defined-benefit obligations	32,960			32,494		
Provisions for liabilities and charges	65,891			57,666		
Borrowings and financial liabilities	549,698			517,255		
Other liabilities	11,909	11,909	100	13,336	13,336	100.00
Deferred tax liabilities	8,142			2,187		
NON-CURRENT LIABILITIES	**668,599**	**11,909**	**2**	**622,937**	**13,336**	**2**
Non-current liabilities held for sale	**0**			**0**		
Trade payables	119,928	87,355	73	165,220	95,043	58.20
Other current liabilities	44,389			41,024		
Borrowings and other financial liabilities	419,618	28,602	7	226,452	57,625	39.30
Tax liabilities	29,912			23,844		
CURRENT LIABILITIES	**613,846**	**115,958**	**19**	**456,540**	**152,668**	**33**
Current liabilities held for sale	**0**			**0**		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,888,382**	**127,866**	**4**	**2,691,620**	**166,004**	**6**

Net debt showing related party transactions

€000	31 Dec 2007	Related parties	31 Dec 2006	Related parties	Increase/ (Decrease)
Non-current financial assets/(liabilities)	265		6,998		(6,733)
Intercompany non-current financial assets/(liabilities)	97,683	97,683	147,647	147,647	(49,964)
Non-current payables and financial liabilities	(549,698)		(517,255)		(32,443)
Net medium/long-term debt	**(451,750)**	**97,683**	**(362,610)**	**147,647**	**(89,140)**
Cash and cash equivalents and securities	90,585		88,045		2,541
Short-term bank borrowings	(389,889)		(168,827)		(221,061)
Current financial assets/(liabilities)	54,678		37,333		17,345
Intercompany current financial assets/(liabilities)	672,499	672,499	347,533	347,533	324,966
Net short-term debt	**427,874**	**672,499**	**304,083**	**347,533**	**123,790**
TOTAL NET DEBT	**(23,876)**	**770,182**	**(58,527)**	**495,180**	**34,650**

Cash flow statement showing related party transactions

€000	2007	Related parties	% impact	2006	Related parties	% impact
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**88,044**			**88,251**		
Cash flows from operating activities						
Profit before tax and net finance costs	(19,651)			(3,011)		
Amortisation and depreciation	12,231			12,781		
Revaluations/(Impairment charges)	21,470			(1,642)		
Movement in provisions for liabilities	8,225			(2,078)		
Net movement in staff termination benefits	466			(2,438)		
Realised gains	19,731			(31,601)		
Income taxes paid	(73,641)			(15,843)		
Cash generated by operations before movements in working capital	**(31,168)**			**(43,832)**		
Increase in current receivables	4,593	39,287	855.32	(56,238)	(49,082)	87.28
Increase /(Decrease) in current liabilities	(36,187)	(7,688)	21.25	33,847	18,571	54.87
Increase/(Decrease) in inventories	18,921			(192)		
Movement in other operating assets/(liabilities)	14,747	(1,427)		45,406	1,649	3.63
Movement in working capital	**2,075**			**22,823**		
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**(29,093)**			**(21,009)**		
Cash flows from investing activities						
Purchase/(Sale) of property, plant and equipment	10,304			20,196		
Purchase/(Sale) of intangible assets	(12,016)			(5,163)		
Investments				(48,235)		
Purchase/(Sale) of investments in subsidiaries				(5)		
Proceeds/(Payments) deriving from other investments	(209,719)	(240,715)	114.78	(196,477)	(175,209)	89.18
Dividends received	109,080	109,080	100.00	106,163		
Interest received	73,771	39,823	53.98	19,361	8,253	42.63
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**(28,579)**			**(104,160)**		
Cash flows from financing activities						
Minority interests in capital increases by subsidiaries						
Decrease in long-term borrowings	(7,557)			(9,485)		
Increase in medium- to long-term borrowings	40,000			159,763		
(Decrease)/Increase in other short-term borrowings	193,165	(29,023)	(15.02)	104,918	(9,846)	(9.38)
Interest paid	(50,618)	5,203	(10.28)	(30,382)	(572)	(1.88)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	**174,990**			**224,814**		
DIVIDENDS PAID	**(114,776)**			**(99,852)**		
CHANGES IN SHAREHOLDERS' EQUITY AFTER NET PROFIT	**0**			**0**		
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,541**			**(207)**		
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**90,585**			**88,044**		

5 - Non-recurring material transactions pursuant to CONSOB Resolution 15519 of 27 July 2006

Note	€000	2007	2006	Increase/ (Decrease)
1	Sales and service revenues	154,085	205,122	(51,036)
2	Other operating income	10,203	10,476	(273)
2	Non-recurring other operating income	19,282	18,634	648
	Net revenue	**183,570**	**234,499**	**(50,929)**
3	Staff costs	35,807	32,790	3,017
4	Cost of materials and overheads	133,487	187,484	(53,997)
	Operating costs	**169,294**	**220,274**	**(50,980)**
	Gross operating profit	**14,277**	**14,225**	**51**
5	Amortisation, depreciation, provisions and impairment charges	24,037	17,236	6,800
	Operating profit/(loss)	**(9,760)**	**(3,011)**	**(6,749)**
6	**Finance (costs)/income**	**132,233**	**109,327**	**22,906**
	Ordinary finance (costs)/income	132,233	92,179	40,055
	Exceptional finance (costs)/income	0	17,148	(17,148)
7	**Profit/(Loss) on investments**	**20,367**	**2,545**	**17,821**
	Profit/(Loss) before tax	**142,840**	**108,861**	**33,979**
8	Taxation	30,258	31,601	(1,344)
	Net profit/(loss) from continuing operations	**112,583**	**77,260**	**35,323**
9	Net profit/(loss) from discontinued operations	0	0	0
	Net profit/(loss)	**112,583**	**77,260**	**35,323**

€000	Shareholders' equity		Net profit/(loss)		Net debt		Cash flow	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Carrying amounts (A)	**1,605.9**		**112.6**		**(23.9)**		**2.5**	
Sale of Via Valleranello property	13.0	0.8	13.0	11.5	52.5	219.7	52.5	
Total (B)	**13.0**		**13.0**		**52.5**			
Gross notional carrying amounts (A-B)	**1,592.9**		**99.6**		**(76.4)**		**(54.5)**	

6 - Positions or transactions deriving from unusual and/or exceptional transactions

Pursuant to the CONSOB Ruling of 28 July 2006, we hereby declare that during 2007 Acea SpA did not enter into any exceptional and/or unusual transactions as defined by the above Ruling.

7 - Segment information (IAS 14)

€	Public lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Investment	**10,541,050**	**12,006,089**	**22,547,139**		**22,547,139**
Segment assets	**0**				
Property, plant and equipment	64,852,169	45,017,679	109,869,848	0	109,869,848
Intangible assets	7,464,657	48,183	7,512,840	0	7,512,840
Non-current financial assets	0	1,616,679,903	1,616,679,903	0	1,616,679,903
Other non-current trading assets					**10,729,743**
Other non-current financial assets					**105,069,806**
Raw materials	0	0	0	0	0
Trade receivables	22,871,040	24,956,821	47,827,861	0	47,827,861
Trade receivables due from parent	75,724,424	8,905,994	84,630,418		84,630,418
Receivables due from subsidiaries/associates	339,413	29,723,055	30,062,468	0	30,062,468
Other non-current trading assets					**29,075,250**
Other non-current financial assets					**756,338,229**
Bank deposits					**90,585,344**
TOTAL ASSETS					**2,888,381,711**

€	Public lighting	Corporate	Total continuing operations	Discontinuing operations	Total
Segment liabilities					
Trade payables	6,200	32,566,332	32,572,532	0	32,572,532
Trade payables due to parent	2,230,954	29,169,853	31,400,807		31,400,807
Trade payables due to subsidiaries and associates	45,117,486	10,836,994	55,954,480		55,954,480
Other current trading liabilities					**74,300,650**
Other current financial liabilities					**419,617,601**
Defined-benefit obligations	0	32,959,716	32,959,716	0	32,959,716
Other provisions	0	65,890,692	65,890,692		65,890,692
Provisions for deferred taxes					**8,141,949**
Other non-current trading liabilities					**11,908,668**
Other non-current financial liabilities					**549,697,928**
Shareholders' equity					**1,605,936,689**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY					**2,888,381,711**

€	Public lighting	Corporate	Total continuing operations	Assets held for sale	Total
Segment revenue	74,599,802	30,458,902	105,058,705	0	105,058,705
Intersegment revenue	21,001	78,490,776	78,511,777	0	78,511,777
Staff costs	0	35,807,012	35,807,012	0	35,807,012
Cost of materials and overheads	67,564,874	65,921,805	133,486,679	0	133,486,679
Gross operating profit/(loss)	7,055,930	7,220,862	14,276,792	0	14,276,792
Amortisation, depreciation and provisions for the impairment of receivables	3,780,508	20,256,156	24,036,665	0	24,036,665
Impairment charges/Reversal of impairment charges on non-current assets	0	0	0		0
Operating profit/(loss)	3,275,422	(13,035,295)	(9,759,873)	0	(9,759,873)
Finance (costs)/income					132,233,444
Profit/(Loss) on investments accounted for using equity method					20,366,631
Profit/(Loss) from discontinued operations					0
Profit/(Loss) before tax					142,840,202
Taxation					30,257,517
NET PROFIT/(LOSS)					**112,582,685**

8 - Highlights extracted from the financial statements of subsidiaries and associates for the year ended 31 December 2007

Acea Ato 2 SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 362,834,320.00 euros
Interest: 96.46%

€000	31 Dec 2007	31 Dec 2006
Total revenue	410.963	390,842
Gross margin	224,780	235,231
Gross operating profit/(loss)	153,421	163,834
Operating profit/(loss)	84,212	106,235
Profit/(Loss) from ordinary activities	80,643	103,716
Profit/(Loss) before tax	85,273	101,888
Net profit/(loss) for the period	49,928	57,651
Current assets	334,104	270,977
Non-current assets	957,194	905,020
Current liabilities	504,639	344,007
Medium/long-term liabilities and provisions	112,256	138,579
Shareholders' equity	674,402	693,412
Net funds/(debt)	(194)	(115,200)
Memorandum accounts	1,042,740	1,039,792

Acea Distribuzione SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 345,000,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	421,177	398,524
Gross margin	287,325	269,401
Gross operating profit/(loss)	216,288	197,809
Operating profit/(loss)	103,876	95,473
Profit/(Loss) from ordinary activities	72,252	66,952
Profit/(Loss) before tax	76,102	71,148
Net profit/(loss) for the period	76,710	75,652
Current assets	274,867	201,431
Non-current assets	1,407,941	1,386,330
Current liabilities	466,572	332,026
Medium/long-term liabilities and provisions	509,729	530,714
Shareholders' equity	706,507	705,421
Net funds/(debt)	(605,750)	(615,470)
Memorandum accounts	45,703	38,168

Acea Reti e Servizi Energetici SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 300,120,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	12,864	11,008
Gross margin	5,514	5,236
Gross operating profit/(loss)	4,093	3,848
Operating profit/(loss)	4,079	3,825
Profit/(Loss) from ordinary activities	41,827	48,945
Profit/(Loss) before tax	41,837	48,975
Net profit/(loss) for the period	20,235	27,994
Current assets	96,086	65,317
Non-current assets	344,881	344,369
Current liabilities	62,982	25,268
Medium/long-term liabilities and provisions	441	423
Shareholders' equity	377,539	383,995
Net funds/(debt)	21,312	38,322
Memorandum accounts	6	0

Luce Napoli Scarl
Registered office: Piazzale Ostiense, 2 – 00154 Rome
Share capital: 10,000.00 euros
Interest: 80%

€000	31 Dec 2007	31 Dec 2006
Total revenue	6,401	4,502
Gross margin	1,558	1,252
Gross operating profit/(loss)	138	(295)
Operating profit/(loss)	138	(295)
Profit/(Loss) from ordinary activities	140	(291)
Profit/(Loss) before tax	140	(282)
Net profit/(loss) for the period	140	(450)
Current assets	6,165	3,712
Non-current assets	0	0
Current liabilities	7,070	4,141
Medium/long-term liabilities and provisions	69	11
Shareholders' equity	10	10
Net funds/(debt)	(354)	331
Memorandum accounts	0	0

Acea Luce SpA
Registered office: Via di Porta Lavernale, 26 - 00143 Rome
Share capital: 300,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	10,320	11,341
Gross margin	3,082	3,599
Gross operating profit/(loss)	1,715	2,218
Operating profit/(loss)	1,255	1,573
Profit/(Loss) from ordinary activities	622	1,179
Profit/(Loss) before tax	636	1,182
Net profit/(loss) for the period	(159)	138
Current assets	13,434	17,154
Non-current assets	377	442
Current liabilities	12,529	15,083
Medium/long-term liabilities and provisions	765	2,075
Shareholders' equity	279	438
Net funds/(debt)	(6,620)	(9,838)
Memorandum accounts	2,392	2,290

LaboratoRI SpA
Registered office: Via Vitorchiano, 165 - Grottarossa - 00189 Rome
Share capital: 2,444,000.00 euros
Interest: 95%

€000	31 Dec 2007	31 Dec 2006
Total revenue	19,339	15,796
Gross margin	13,256	11,000
Gross operating profit/(loss)	6,198	4,153
Operating profit/(loss)	5,528	3,466
Profit/(Loss) from ordinary activities	5,663	3,553
Profit/(Loss) before tax	5,621	3,551
Net profit/(loss) for the period	3,063	1,809
Current assets	14,686	11,544
Non-current assets	1,943	1,555
Current liabilities	4,888	2,974
Medium/long-term liabilities and provisions	4,718	4,655
Shareholders' equity	6,814	5,469
Net funds/(debt)	3,167	2,811
Memorandum accounts	575	2,308

AceaElectrabel Elettricità SpA
Registered office: Viale dell'Aeronautica, 7 - 00154 Rome
Share capital: 45,000,000.00 euros
Interest: 59.41%

€000	31 Dec 2007	31 Dec 2006
Total revenue	2,054,427	1,396,057
Gross margin	52,770	35,971
Gross operating profit/(loss)	40,374	25,227
Operating profit/(loss)	7,141	(803)
Profit/(Loss) from ordinary activities	15,445	4,505
Profit/(Loss) before tax	15,315	5,633
Net profit/(loss) for the period	4,396	2,083
Current assets	655,640	514,358
Non-current assets	58,568	70,901
Current liabilities	555,054	429,291
Medium/long-term liabilities and provisions	43,564	45,677
Shareholders' equity	115,605	110,292
Net funds/(debt)	(74,505)	(38,710)
Memorandum accounts	70,068	9,066

AceaElectrabel Trading SpA
Registered office: Viale dell'Aeronautica, 7 - 00154 Rome
Share capital: 1,000,000.00 euros
Interest: 50%

€000	31 Dec 2007	31 Dec 2006
Total revenue	1,667,624	1,208,669
Gross margin	8,157	(1,436)
Gross operating profit/(loss)	6,858	(2,633)
Operating profit/(loss)	6,089	(5,216)
Profit/(Loss) from ordinary activities	5,956	(5,193)
Profit/(Loss) before tax	5,671	(5,193)
Net profit/(loss) for the period	4,148	(4,375)
Current assets	321,955	229,161
Non-current assets	5,241	1,463
Current liabilities	291,048	202,869
Medium/long-term liabilities and provisions	21,911	28,466
Shareholders' equity	14,236	(711)
Net funds/(debt)	(4,490)	(13,599)
Memorandum accounts	152,684	80,588

AceaElectrabel SpA
Registered office: Viale dell'Aeronautica, 7 - 00154 Rome
Share capital: 150,750,000.00 euros
Interest: 59.41%

€000	31 Dec 2007	31 Dec 2006
Total revenue	5,225	1,696
Gross margin	(512)	(1,015)
Gross operating profit/(loss)	(1,066)	(1,245)
Operating profit/(loss)	(1,496)	(1,895)
Profit/(Loss) from ordinary activities	(1,204)	(1,936)
Profit/(Loss) before tax	(1,204)	(2,030)
Net profit/(loss) for the period	(855)	(1,564)
Current assets	7,965	5,437
Non-current assets	294,561	286,120
Current liabilities	5,491	6,260
Medium/long-term liabilities and provisions	283	536
Shareholders' equity	296,752	284,761
Net funds/(debt)	4,963	1,705
Memorandum accounts	425	425

AceaElectrabel Produzione SpA
Registered office: Viale dell'Aeronautica, 7 - 00154 Rome
Share capital: 97,100,000.00 euros
Interest: 29.71%

€000	31 Dec 2007	31 Dec 2006
Total revenue	285,745	260,832
Gross margin	38,938	57,164
Gross operating profit/(loss)	30,222	50,213
Operating profit/(loss)	6,359	37,136
Profit/(Loss) from ordinary activities	3,315	36,675
Profit/(Loss) before tax	3,644	34,913
Net profit/(loss) for the period	2,485	20,453
Current assets	108,384	100,751
Non-current assets	586,069	500,128
Current liabilities	368,005	247,793
Medium/long-term liabilities and provisions	12,548	10,021
Shareholders' equity	313,900	343,066
Net funds/(debt)	(262,393)	(134,095)
Memorandum accounts	4,951	2,765

Acea Ato 5 SpA
Registered office: Via Monti Lepini, 220 – 03100 Frosinone
Share capital: 10,330,000.00 euros
Interest: 94.08%

€000	31 Dec 2007	31 Dec 2006
Total revenue	43,465	38,624
Gross margin	11,157	10,000
Gross operating profit/(loss)	3,807	3,505
Operating profit/(loss)	1,748	2,743
Profit/(Loss) from ordinary activities	1,217	2,492
Profit/(Loss) before tax	1,584	13,120
Net profit/(loss) for the period	306	7,789
Current assets	86,684	67,800
Non-current assets	31,518	21,963
Current liabilities	71,736	57,980
Medium/long-term liabilities and provisions	32,147	17,770
Shareholders' equity	14,319	14,012
Net funds/(debt)	(23)	(13)
Memorandum accounts	2,844	2,844

Ombrone SpA
Registered office: Piazzale Ostiense, 2 – 00154 Rome
Share capital: 6,500,000.00 euros
Interest: 79.57%

€000	31 Dec 2007	31 Dec 2006
Total revenue	0	0
Gross margin	(214)	(190)
Gross operating profit/(loss)	(214)	(190)
Operating profit/(loss)	(216)	(192)
Profit/(Loss) from ordinary activities	(211)	(185)
Profit/(Loss) before tax	(198)	(146)
Net profit/(loss) for the period	(99)	(90)
Current assets	228	358
Non-current assets	19,321	19,322
Current liabilities	158	190
Medium/long-term liabilities and provisions	0	0
Shareholders' equity	19,391	19,490
Net funds/(debt)	174	291
Memorandum accounts	0	0

Sarnese Vesuviano Srl
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 6,735,053.48 euros
Interest: 90%

€000	31 Dec 2007	31 Dec 2006
Total revenue	0	0
Gross margin	(59)	(56)
Gross operating profit/(loss)	(59)	(56)
Operating profit/(loss)	(118)	(197)
Profit/(Loss) from ordinary activities	394	(197)
Profit/(Loss) before tax	394	(197)
Net profit/(loss) for the period	211	(197)
Current assets	728	136
Non-current assets	10,110	6,555
Current liabilities	4,862	925
Medium/long-term liabilities and provisions	0	0
Shareholders' equity	5,976	5,766
Net funds/(debt)	(3,982)	(142)
Memorandum accounts	0	0

Longano Eolica SpA
Registered office: Via Mazzola, 66 – 00142 Rome
Share capital: 2,100,000.00 euros
Interest: 15.15%

€000	31 Dec 2007
Total revenue	3,637
Gross margin	3,022
Gross operating profit/(loss)	3,022
Operating profit/(loss)	2,498
Profit/(Loss) from ordinary activities	1,893
Profit/(Loss) before tax	1,876
Net profit/(loss) for the period	1,082
Current assets	7,973
Non-current assets	24,967
Current liabilities	3,935
Medium/long-term liabilities and provisions	22,868
Shareholders' equità	6,136
Net funds/(debt)	(21,433)
Memorandum accounts	0

Elga Sud SpA
Registered office: Via Monte Grappa, 6 – 70059 Trani (Bari)
Share capital: 250,000.00 euros
Interest: 29.11%

€000	31 Dec 2007
Total revenue	523
Gross margin	(121)
Gross operating profit/(loss)	(160)
Operating profit/(loss)	(167)
Profit/(Loss) from ordinary activities	(165)
Profit/(Loss) before tax	(165)
Net profit/(loss) for the period	(117)
Current assets	682
Non-current assets	50
Current liabilities	598
Medium/long-term liabilities and provisions	2
Shareholders' equity	133
Net funds/(debt)	(4)
Memorandum accounts	0

Elettria SpA
Registered office: Via Panziera, 16 – 59100 Prato
Share capital: 250,000.00 euros
Interest: 29.11%

€000	31 Dec 2007
Total revenue	79,708
Gross margin	919
Gross operating profit/(loss)	919
Operating profit/(loss)	702
Profit/(Loss) from ordinary activities	683
Profit/(Loss) before tax	683
Net profit/(loss) for the period	683
Current assets	23,669
Non-current assets	12
Current liabilities	22,609
Medium/long-term liabilities and provisions	138
Shareholders' equity	933
Net funds/(debt)	167
Memorandum accounts	0

Voghera Energia Vendita SpA
Registered office: Largo Toscanini, 5 – Voghera (Pavia)
Share capital: 250,000.00 euros
Interest: 29.71%

€000	31 Dec 2007	31 Dec 2006
Total revenue	82,151	48,333
Gross margin	1,211	402
Gross operating profit/(loss)	1,211	402
Operating profit/(loss)	1,109	301
Profit/(Loss) from ordinary activities	1,106	366
Profit/(Loss) before tax	1,106	367
Net profit/(loss) for the period	660	118
Current assets	25,172	19,798
Non-current assets	293	219
Current liabilities	24,542	19,696
Medium/long-term liabilities and provisions	0	0
Shareholders' equity	923	321
Net funds/(debt)	(3,947)	3,901
Memorandum accounts	0	0

Lunigiana Acque SpA
Registered office: Via Nazionale, 173/175 - Massa Carrara
Share capital: 750,000.00 euros
Interest: 100%

€000	31 Dec 2007
Total revenue	1,962
Gross margin	799
Gross operating profit/(loss)	315
Operating profit/(loss)	165
Profit/(Loss) from ordinary activities	44
Profit/(Loss) before tax	47
Net profit/(loss) for the period	4
Current assets	2,314
Non-current assets	1,874
Current liabilities	1,894
Medium/long-term liabilities and provisions	1,609
Shareholders' equity	685
Net funds/(debt)	(1,711)
Memorandum accounts	0

Acque Blu Arno Basso SpA
Registered office: Piazzale Ostiense, 2 – 00154 Rome
Share capital: 8,000,000.00 euros
Interest: 69%

€000	31 Dec 2007	31 Dec 2006
Total revenue	0	0
Gross margin	(199)	(190)
Gross operating profit/(loss)	(199)	(190)
Operating profit/(loss)	(201)	(192)
Profit/(Loss) from ordinary activities	1,671	709
Profit/(Loss) before tax	1,671	709
Net profit/(loss) for the period	1,728	757
Current assets	2,556	1,159
Non-current assets	18,355	18,358
Current liabilities	114	174
Medium/long-term liabilities and provisions	0	0
Shareholders' equità	20,798	19,344
Net funds/(debt)	(2,488)	1,110
Memorandum accounts	0	0

Acque Blu Fiorentine SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 15,143,000.00 euros
Interest: 68.50%

€000	31 Dec 2007	31 Dec 2006
Total revenue	0	0
Gross margin	(227)	(50)
Gross operating profit/(loss)	(227)	(50)
Operating profit/(loss)	(233)	(56)
Profit/(Loss) from ordinary activities	785	(53)
Profit/(Loss) before tax	785	(53)
Net profit/(loss) for the period	918	(53)
Current assets	1,110	122
Non-current assets	60,141	60,148
Current liabilities	133	69
Medium/long-term liabilities and provisions	0	0
Shareholders' equity	61,118	60,201
Net funds/(debt)	1,110	122
Memorandum accounts	0	0

Acque SpA
Registered office: Via A. Bellatalla, 1 – 56121 Ospedaletto (Pisa)
Share capital: 9,953,116.00 euros
Interest: 45%

€000	31 Dec 2007	31 Dec 2006
Total revenue	96,792	94,601
Gross margin	47,543	42,890
Gross operating profit/(loss)	36,187	26,158
Operating profit/(loss)	17,963	12,370
Profit/(Loss) from ordinary activities	14,094	11,638
Profit/(Loss) before tax	12,846	11,836
Net profit/(loss) for the period	4,706	6,785
Current assets	86,379	88,638
Non-current assets	188,265	131,319
Current liabilities	71,457	91,116
Medium/long-term liabilities and provisions	166,563	86,549
Shareholders' equity	36,623	35,953
Net funds/(debt)	(114,275)	(85,325)
Memorandum accounts	0	0

Acque Industriali SpA
Registered office: Via A. Bellatalla, 1 – 56121 Ospedaletto (Pisa)
Share capital: 100,000.00 euros
Interest: 45%

€000	31 Dec 2007	31 Dec 2006
Total revenue	9,992	8,606
Gross margin	4,077	3,754
Gross operating profit/(loss)	1,717	1,317
Operating profit/(loss)	1,366	1,008
Profit/(Loss) from ordinary activities	1,308	973
Profit/(Loss) before tax	1,316	968
Net profit/(loss) for the period	728	484
Current assets	4,493	3,911
Non-current assets	1,156	1,028
Current liabilities	3,196	3,472
Medium/long-term liabilities and provisions	1,101	1,144
Shareholders' equity	1,353	625
Net funds/(debt)	(810)	(942)
Memorandum accounts	1,950	0

Acque Ingegneria SpA
Registered office: Via A. Bellatalla, 1 – 56121 Ospedaletto (Pisa)
Share capital: 50,000.00 euros
Interest: 45%

€000	31 Dec 2007	31 Dec 2006
Total revenue	18,665	6,880
Gross margin	6,395	3,370
Gross operating profit/(loss)	3,950	1,511
Operating profit/(loss)	3,789	1,413
Profit/(Loss) from ordinary activities	3,722	1,397
Profit/(Loss) before tax	3,745	1,406
Net profit/(loss) for the period	2,188	695
Current assets	21,585	4,747
Non-current assets	1,205	358
Current liabilities	20,135	4,114
Medium/long-term liabilities and provisions	408	185
Shareholders' equity	2,248	807
Net funds/(debt)	(3,257)	(537)
Memorandum accounts	0	0

Acque Servizi SpA
Registered office: Via A. Bellatalla, 1 – 56121 Ospedaletto (Pisa)
Share capital: 400,000.00 euros
Interest: 45%

€000	31 Dec 2007	31 Dec 2006
Total revenue	19,013	6,274
Gross margin	6,086	2,432
Gross operating profit/(loss)	2,703	730
Operating profit/(loss)	2,362	626
Profit/(Loss) from ordinary activities	2,370	624
Profit/(Loss) before tax	2,344	628
Net profit/(loss) for the period	1,372	306
Current assets	6,568	3,240
Non-current assets	2,098	1,022
Current liabilities	6,525	3,555
Medium/long-term liabilities and provisions	79	17
Shareholders' equity	2,061	689
Net funds/(debt)	98	(0)
Memorandum accounts	0	0

Roselectra SpA
Registered office: Via Orazio, 31 – 00193 Rome
Share capital: 200,000.00 euros
Interest: 29.71%

€000	31 Dec 2007	31 Dec 2006
Total revenue	173,878	28,732
Gross margin	24,032	(6,648)
Gross operating profit/(loss)	23,991	(7,054)
Operating profit/(loss)	10,028	(7,072)
Profit/(Loss) from ordinary activities	(2,663)	(7,049)
Profit/(Loss) before tax	(2,698)	(7,053)
Net profit/(loss) for the period	(5,108)	(7,327)
Current assets	43,558	4,528
Non-current assets	229,349	236,681
Current liabilities	196,542	19,623
Medium/long-term liabilities and provisions	69,487	220,153
Shareholders' equity	6,877	11,985
Net funds/(debt)	(202,050)	(186,355)
Memorandum accounts	0	0

Voghera Energia SpA
Registered office: Via Pozzoni, 2 – 27058 Voghera (Pavia)
Share capital: 46,700,000.00 euros
Interest: 29.71%

€000	31 Dec 2007	31 Dec 2006
Total revenue	26,706	31,253
Gross margin	18,407	20,757
Gross operating profit/(loss)	17,110	19,155
Operating profit/(loss)	2,606	11,234
Profit/(Loss) from ordinary activities	(5,910)	3,380
Profit/(Loss) before tax	(5,890)	3,312
Net profit/(loss) for the period	(5,053)	1,578
Current assets	42,685	6,348
Non-current assets	208,865	223,122
Current liabilities	24,955	9,712
Medium/long-term liabilities and provisions	179,869	172,143
Shareholders' equity	46,727	51,779
Net funds/(debt)	(158,557)	0
Memorandum accounts	0	0

Gori SpA
Registered office: Via Dante,1 - 80058 Torre Annunziata (Napoli)
Share capital: 12,996,270.00 euros
Interest: 26.92%

€000	31 Dec 2007	31 Dec 2006
Total revenue	111	78
Gross margin	53	31
Gross operating profit/(loss)	27	10
Operating profit/(loss)	17	4
Profit/(Loss) from ordinary activities	15	2
Profit/(Loss) before tax	15	3
Net profit/(loss) for the period	8	0
Current assets	169	144
Non-current assets	113	73
Current liabilities	178	191
Medium/long-term liabilities and provisions	63	7
Shareholders' equity	40	19
Net funds/(debt)	(37)	(57)
Memorandum accounts	0	0

Crea SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 13,520,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	3,209	4,019
Gross margin	761	1,375
Gross operating profit/(loss)	(366)	(676)
Operating profit/(loss)	(723)	(1,110)
Profit/(Loss) from ordinary activities	(292)	(533)
Profit/(Loss) before tax	3,617	2,016
Net profit/(loss) for the period	3,627	2,332
Current assets	24,286	13,134
Non-current assets	5,942	7,141
Current liabilities	10,384	4,207
Medium/long-term liabilities and provisions	4,840	4,693
Shareholders' equity	15,004	11,377
Net funds/(debt)	11,044	5,111
Memorandum accounts	0	1,535

Sigesa SpA (in liquidation)
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 3,300,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	2,805	3,388
Gross margin	1,077	1,683
Gross operating profit/(loss)	391	712
Operating profit/(loss)	182	443
Profit/(Loss) from ordinary activities	(1,007)	(447)
Profit/(Loss) before tax	(835)	296
Net profit/(loss) for the period	(901)	194
Current assets	501	8,592
Non-current assets	21,222	19,972
Current liabilities	21,938	27,228
Medium/long-term liabilities and provisions	1,696	2,346
Shareholders' equity	(1,911)	(1,010)
Net funds/(debt)	(18,280)	(20,456)
Memorandum accounts	97	204

Gesesa SpA
Registered office: Zona Industriale Pezzapiana - 82100 Benevento
Share capital: 519,340.75 euros
Interest: 59.67%

€000	31 Dec 2007	31 Dec 2006
Total revenue	6,037	6,117
Gross margin	9,949	2,211
Gross operating profit/(loss)	385	762
Operating profit/(loss)	66	457
Profit/(Loss) from ordinary activities	121	444
Profit/(Loss) before tax	(8)	455
Net profit/(loss) for the period	(198)	186
Current assets	6,735	6,072
Non-current assets	1,734	1,604
Current liabilities	5,613	5,248
Medium/long-term liabilities and provisions	1,403	760
Shareholders' equity	1,453	1,668
Net funds/(debt)	(325)	(861)
Memorandum accounts	0	0

Ecogena SpA
Registered office: Piazzale Ostiense, 2 - 00154 Rome
Share capital: 1,000,000.00 euros
Interest: 51%

€000	31 Dec 2007
Total revenue	0
Gross margin	(52)
Gross operating profit/(loss)	(65)
Operating profit/(loss)	(65)
Profit/(Loss) from ordinary activities	(65)
Profit/(Loss) before tax	(65)
Net profit/(loss) for the period	(65)
Current assets	991
Non-current assets	9
Current liabilities	64
Medium/long-term liabilities and provisions	1
Shareholders' equity	935
Net funds/(debt)	990
Memorandum accounts	0

Ecomed Srl
Registered office: Via di Grotta Perfetta, 302 - 00142 Rome
Share capital: 50,094.00 euros
Interest: 50%

€000	31 Dec 2007
Total revenue	0
Gross margin	11
Gross operating profit/(loss)	(11)
Operating profit/(loss)	(11)
Profit/(Loss) from ordinary activities	(11)
Profit/(Loss) before tax	(11)
Net profit/(loss) for the period	(11)
Current assets	170
Non-current assets	7
Current liabilities	80
Medium/long-term liabilities and provisions	0
Shareholders' equity	96
Net funds/(debt)	85
Memorandum accounts	0

Umbria Energy SpA
Registered office: Via Bruno Capponi, 100 – 05100 Terni
Share capital: 250,000.00 euros
Interest: 29.71%

€000	31 Dec 2007	31 Dec 2006
Total revenue	78,383	63,376
Gross margin	854	790
Gross operating profit/(loss)	559	658
Operating profit/(loss)	453	489
Profit/(Loss) from ordinary activities	648	459
Profit/(Loss) before tax	647	452
Net profit/(loss) for the period	364	250
Current assets	25,355	33,290
Non-current assets	87	4
Current liabilities	24,777	32,781
Medium/long-term liabilities and provisions	36	25
Shareholders' equity	630	488
Net funds/(debt)	(4,962)	4,954
Memorandum accounts	0	0

Aguazul Bogotá SA
Registered office: Bogotá - Colombia
Share capital: 1,420,046.00 euros
Interest: 51%

€000	31 Dec 2007	31 Dec 2006
Total revenue	11,083	9,181
Gross margin	5,293	4,503
Gross operating profit/(loss)	1,828	2,090
Operating profit/(loss)	1,350	1,352
Profit/(Loss) from ordinary activities	1,236	1,297
Profit/(Loss) before tax	1,265	921
Net profit/(loss) for the period	963	531
Current assets	5,006	3,392
Non-current assets	1,820	593
Current liabilities	3,295	1,617
Medium/long-term liabilities and provisions	915	125
Shareholders' equity	2,616	2,243
Net funds/(debt)	2,583	7
Memorandum accounts	0	0

Acea Dominicana SA
Registered office: Santo Domingo – Dominican Republic
Share capital: 343,269.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	2,184	2,118
Gross margin	1,494	1,372
Gross operating profit/(loss)	929	821
Operating profit/(loss)	639	544
Profit/(Loss) from ordinary activities	641	522
Profit/(Loss) before tax	643	574
Net profit/(loss) for the period	605	406
Current assets	1,242	875
Non-current assets	273	451
Current liabilities	226	145
Medium/long-term liabilities and provisions	105	64
Shareholders' equity	1,183	1,118
Net funds/(debt)	383	480
Memorandum accounts	0	0

Geal SpA
Registered office: Viale Luporini, 1348 - 55100 Lucca
Share capital: 1,450,000.00 euros
Interest: 28.80%

€000	31 Dec 2007	31 Dec 2006
Total revenue	11,073	11,303
Gross margin	4,089	3,973
Gross operating profit/(loss)	1,588	1,493
Operating profit/(loss)	645	603
Profit/(Loss) from ordinary activities	617	596
Profit/(Loss) before tax	678	580
Net profit/(loss) for the period	316	209
Current assets	6,543	6,661
Non-current assets	9,436	8,437
Current liabilities	6,952	10,023
Medium/long-term liabilities and provisions	6,516	2,983
Shareholders' equity	2,512	2,092
Net funds/(debt)	(1,529)	1,412
Memorandum accounts	0	30,246

Cesap Vendita Gas Srl
Registered office: Via del Teatro - 06083 Bastia Umbra (Perugia)
Share capital: 44,440.80 euros
Interest: 55.55%

€000	31 Dec 2007	31 Dec 2006
Total revenue	5,008	5,044
Gross margin	3,866	175
Gross operating profit/(loss)	38	175
Operating profit/(loss)	38	175
Profit/(Loss) from ordinary activities	56	184
Profit/(Loss) before tax	86	190
Net profit/(loss) for the period	57	125
Current assets	3,555	2,829
Non-current assets	0	0
Current liabilities	2,698	2,452
Medium/long-term liabilities and provisions	562	21
Shareholders' equity	295	357
Net funds/(debt)	403	7
Memorandum accounts	0	0

Si(e)nergia SpA (formerly Cesap SpA)
Registered office: Strada Santa Lucia, 1 - 06125 Perugia
Share capital: 55,551.00 euros
Interest: 55.55%

€000	31 Dec 2007	31 Dec 2006
Total revenue	2,039	1,924
Gross margin	862	824
Gross operating profit/(loss)	360	438
Operating profit/(loss)	326	342
Profit/(Loss) from ordinary activities	483	348
Profit/(Loss) before tax	899	394
Net profit/(loss) for the period	711	223
Current assets	1,830	1,051
Non-current assets	412	337
Current liabilities	755	672
Medium/long-term liabilities and provisions	285	363
Shareholders' equity	1,202	353
Net funds/(debt)	1,053	57
Memorandum accounts	0	0

Tad Energia Ambiente SpA
Registered office: Via Giordano Bruno, 7 - 05100 Terni
Share capital: 2,224,992.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	3,957	2,057
Gross margin	2,616	1,244
Gross operating profit/(loss)	638	269
Operating profit/(loss)	(357)	(33)
Profit/(Loss) from ordinary activities	1,560	(843)
Profit/(Loss) before tax	970	(3,130)
Net profit/(loss) for the period	811	(3,531)
Current assets	12,861	8,994
Non-current assets	40,022	41,877
Current liabilities	49,870	48,413
Medium/long-term liabilities and provisions	843	1,098
Shareholders' equity	2,169	1,359
Net funds/(debt)	(37,664)	(44,446)
Memorandum accounts	0	0

S.A.O. Servizi Ambientali Orvieto SpA
Registered office: Piazza del Commercio, 21 - 05019 Orvieto
Share capital: 7,524,400.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	9,262	3,668
Gross margin	3,682	1,787
Gross operating profit/(loss)	2,156	1,029
Operating profit/(loss)	823	(333)
Profit/(Loss) from ordinary activities	337	(1,238)
Profit/(Loss) before tax	309	(724)
Net profit/(loss) for the period	202	(1,065)
Current assets	13,615	14,539
Non-current assets	13,714	24,463
Current liabilities	20,863	17,271
Medium/long-term liabilities and provisions	1,479	16,905
Shareholders' equity	4,987	4,826
Net funds/(debt)	(5,906)	(8,085)
Memorandum accounts	0	0

Terni En.A SpA
Registered office: Via Giordano Bruno, 7 – 05100 Terni
Share capital: 6,546,492.00 euros
Interest: 98%

€000	31 Dec 2007	31 Dec 2006
Total revenue	21,036	19,529
Gross margin	11,104	10,162
Gross operating profit/(loss)	9,702	8,728
Operating profit/(loss)	5,792	4,793
Profit/(Loss) from ordinary activities	4,859	3,704
Profit/(Loss) before tax	4,259	3,897
Net profit/(loss) for the period	2,532	3,169
Current assets	9,339	12,351
Non-current assets	28,793	29,530
Current liabilities	25,405	21,992
Medium/long-term liabilities and provisions	3,043	9,324
Shareholders' equity	9,684	10,404
Net funds/(debt)	(18,219)	(20,952)
Memorandum accounts	0	0

Ergo En.A Srl
Registered office: Via Giordano Bruno, 7 - 05100 Terni
Share capital: 50,000.00 euros
Interest: 70%

€000	31 Dec 2007	31 Dec 2006
Total revenue	304	327
Gross margin	186	186
Gross operating profit/(loss)	186	185
Operating profit/(loss)	152	166
Profit/(Loss) from ordinary activities	(142)	(154)
Profit/(Loss) before tax	(150)	(154)
Net profit/(loss) for the period	(157)	(164)
Current assets	917	801
Non-current assets	5,684	5,657
Current liabilities	6,709	6,533
Medium/long-term liabilities and provisions	0	0
Shareholders' equity	(107)	(75)
Net funds/(debt)	(6,344)	(1,035)
Memorandum accounts	0	0

Eall Energia Ambiente Litorale Laziale Srl
Registered office: Via Giordano Bruno, 7 - 05100 Terni
Share capital: 5,164,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	18,250	17,395
Gross margin	10,663	11,306
Gross operating profit/(loss)	9,094	9,709
Operating profit/(loss)	3,622	2,640
Profit/(Loss) from ordinary activities	2,118	3,119
Profit/(Loss) before tax	1,878	3,119
Net profit/(loss) for the period	968	1,745
Current assets	9,819	12,921
Non-current assets	33,453	36,806
Current liabilities	23,823	23,173
Medium/long-term liabilities and provisions	12,736	21,173
Shareholders' equity	6,713	5,381
Net funds/(debt)	(30,065)	(33,345)
Memorandum accounts	0	0

Ameatad Srl
Registered office: Viale San Francesco d'Assisi, 15 C - 03018 Paliano (Frosinone)
Share capital: 10,000.00 euros
Interest: 100%

€000	31 Dec 2007
Total revenue	154
Gross margin	(216)
Gross operating profit/(loss)	(227)
Operating profit/(loss)	(240)
Profit/(Loss) from ordinary activities	(241)
Profit/(Loss) before tax	(241)
Net profit/(loss) for the period	(241)
Current assets	140
Non-current assets	36
Current liabilities	407
Medium/long-term liabilities and provisions	0
Shareholders' equity	(231)
Net funds/(debt)	(104)
Memorandum accounts	0

Enercombustibili Srl
Registered office: Via Casilina Km 57.200 - 03018 Paliano (Frosinone)
Share capital: 45,000,000.00 euros
Interest: 100%

€000	31 Dec 2007	31 Dec 2006
Total revenue	5,393	5,145
Gross margin	(1,198)	(1,152)
Gross operating profit/(loss)	(1,803)	(1,816)
Operating profit/(loss)	(2,387)	(2,242)
Profit/(Loss) from ordinary activities	(2,496)	(2,115)
Profit/(Loss) before tax	(2,475)	(2,115)
Net profit/(loss) for the period	(1,813)	(2,115)
Current assets	5,050	5,930
Non-current assets	2,514	2,780
Current liabilities	7,584	8,441
Medium/long-term liabilities and provisions	259	247
Shareholders' equity	(279)	22
Net funds/(debt)	(69)	(1,019)
Memorandum accounts	0	0

Publiacqua SpA
Registered office: Via Villamagna - 50100 Florence
Share capital: 150,280,000.00 euros
Interest: 40%

€000	31 Dec 2007	31 Dec 2006
Total revenue	161,610	147,572
Gross margin	75,834	61,252
Gross operating profit/(loss)	49,797	33,570
Operating profit/(loss)	21,365	12,650
Profit/(Loss) from ordinary activities	18,675	7,620
Profit/(Loss) before tax	17,288	1,174
Net profit/(loss) for the period	5,916	(3,859)
Current assets	195,968	200,837
Non-current assets	303,022	268,668
Current liabilities	197,827	190,719
Medium/long-term liabilities and provisions	144,278	129,219
Shareholders' equity	10,037	149,567
Net funds/(debt)	(96,799)	(91,225)
Memorandum accounts	0	0

Publiacqua Ingegneria Srl
Registered office: Via Villamagna - 50100 Florence
Share capital: 50,000.00 euros
Interest: 40%

€000	31 Dec 2007	31 Dec 2006
Total revenue	9,543	5,326
Gross margin	2,676	348
Gross operating profit/(loss)	2,674	331
Operating profit/(loss)	2,667	328
Profit/(Loss) from ordinary activities	2,656	327
Profit/(Loss) before tax	2,633	288
Net profit/(loss) for the period	1,530	12
Current assets	11,571	4,263
Non-current assets	21	4
Current liabilities	8,742	4,146
Medium/long-term liabilities and provisions	1,200	0
Shareholders' equity	1,650	120
Net funds/(debt)	(1,165)	64
Memorandum accounts	0	0

Publiutenti Srl
Registered office: Via Villamagna - 50100 Florence
Share capital: 100,000.00 euros
Interest: 40%

€000	31 Dec 2007
Total revenue	98
Gross margin	(29)
Gross operating profit/(loss)	(78)
Operating profit/(loss)	(80)
Profit/(Loss) from ordinary activities	(72)
Profit/(Loss) before tax	(73)
Net profit/(loss) for the period	(73)
Current assets	701
Non-current assets	2
Current liabilities	669
Medium/long-term liabilities and provisions	7
Shareholders' equity	27
Net funds/(debt)	219
Memorandum accounts	0

Aquaser Srl
Registered office: Via dei Sarti, 15 - 56048 Volterra (Pisa)
Share capital: 50,000.00 euros
Interest: 25.5%

€000	31 Dec 2007
Total revenue	4,651
Gross margin	911
Gross operating profit/(loss)	873
Operating profit/(loss)	786
Profit/(Loss) from ordinary activities	817
Profit/(Loss) before tax	812
Net profit/(loss) for the period	501
Current assets	4,344
Non-current assets	288
Current liabilities	3,644
Medium/long-term liabilities and provisions	31
Shareholders' equity	957
Net funds/(debt)	(555)
Memorandum accounts	0

Consorcio Agua Azul SA
Registered office: Los Pinos, 399 - 27 Lima - Peru
Share capital: 18,844,302.00 euros
Interest: 25.5%

€000	31 Dec 2007	31 Dec 2006
Total revenue	8,573	9,089
Gross margin	7,057	7,364
Gross operating profit/(loss)	6,525	6,853
Operating profit/(loss)	4,644	4,775
Profit/(Loss) from ordinary activities	3,872	4,775
Profit/(Loss) before tax	3,872	4,106
Net profit/(loss) for the period	2,254	2,607
Current assets	4,566	4,319
Non-current assets	33,821	37,248
Current liabilities	1,489	1,365
Medium/long-term liabilities and provisions	15,891	19,113
Shareholders' equity	21,007	21,088
Net funds/(debt)	(13,351)	(16,248)
Memorandum accounts	0	0

Acea SpA

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE ORDINARY GENERAL MEETING OF SHAREHOLDERS PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

Article 153 of Legislative Decree 58 of 24 February 1998 requires the Board of Statutory Auditors to report to the Annual General Meeting of shareholders called to approve the financial statements for the year. The report must contain details of the audit procedures carried out and of any omissions and/or censurable events discovered, and gives the Board the option of making proposals regarding the financial statements and their approval and regarding aspects for which they are responsible.

This report meets the requirements of the above legislation and of article 2429, paragraph 2 of the Italian Civil Code.

During the year ended 31 December 2007, the Board of Statutory Auditors has carried out the audit procedures required by law (and, in particular, by article 149 of Legislative Decree 58 of 24 February 1998), and by the principles for Statutory Auditors recommended by the Italian Accounting Profession.

On the basis of the activities carried out, and taking account of CONSOB rulings regarding the controls and procedures to be carried out by boards of statutory auditors, we inform you that:

Board of Statutory Auditors

The Board of Statutory Auditors consists of three effective members, Mr. Maurizio Lauri (Chairman), Mr. Roberto Pertile (Effective Auditor) and Mr. Francesco Lopomo (Effective Auditor), and two alternate members, Mr. Claudio Bianchi and Mr. Claudio Valerio.

The Chairman of the Board of Statutory Auditors and one alternate auditor have been elected by minority shareholders.

The Board of Statutory Auditors held 18 meetings in the course of their audit activities during 2007. We also attended all Board of Directors' meetings, whilst the Chairman of the Board of Statutory Auditors also attended meetings of the Internal Audit Committee. When the nature of the matters to be discussed so required, meetings were organized jointly with the Internal Audit Committee.

Corporate Governance

The system of corporate governance adopted by the Company and the Group conforms to the principles contained in the Corporate Governance Code for Listed Companies and by the relevant CONSOB recommendations.

In compliance with article 149, letter 1c bis) of Legislative Decree 58 of 24 February 1998, we note that the Company has brought its corporate governance model into line with the recommendations contained in Borsa Italiana SpA's Corporate Governance Code for Listed Companies (dated 14 March 2006).

The Directors have prepared the Annual Corporate Governance Report in accordance with the instructions in the Regulations for Markets organised and managed by Borsa Italiana SpA, to which reference should be made for further information in this regard.

During the year, the Company amended its Articles of Association to bring them into line with (i) the provisions of Law 262 of 28 December 2005, as added to by Legislative Decree 303 of 29 December 2006, (ii) the Regulations for Issuers adopted by CONSOB in Resolution 15915 of 3 May 2007, and (iii) Borsa Italiana SpA's Corporate Governance Code for Listed Companies (dated 14 March 2006).

The Company's share capital exclusively consists of fully redeemed ordinary shares, with voting rights at both ordinary and special general meetings.

The Board of Statutory Auditors is not aware of any shareholder agreements regarding the Company's shares.

The Company has adopted Regulations for the Internal Management and External Disclosure of Documents and Company Information, which govern the establishment of a list of persons having access to privileged information and the related procedure.

The Company has also adopted a Code of Conduct for Internal Dealing, which has been updated in response to Law 262 of 2005.

In application of the above regulations (Law 262/2005, as amended by Legislative Decree 303/2006), the Company has appointed Ms. Roberta Neri, Acea's CFO, to serve as the Executive Responsible for Financial Reporting.

Relations with the generality of shareholders and institutional investors are managed by a specific department headed by an Investor Relations Manager.

The Company has adopted a Code of Ethics (establishing the Ethics Committee), a Code of Ethics for Tenders and a Values Charter, with the aim of standardising behaviours based on transparency and fairness in relations with all stakeholders.

The Company has also begun the process of establishing a state-of-the-art Health and Safety Work Management System for the Acea Group.

Board of Directors

The Board of Directors, which plays a central role in the Company's organization, is responsible for the Company's strategic and organizational management and for establishing the Group's corporate structure. It is also responsible for verifying the existence of the necessary controls to monitor the performances of the Company and the Group.

The Board examines and approves the Group's long-term business plans, its annual budget, the quarterly reports and the Parent Company and consolidated annual financial statements, in addition to all transactions having a significant effect on the financial position, results of operations and cash flows, including exceptional or unusual related party transactions or those involving a conflict of interest.
All significant transactions (understood to mean those with a value in excess of 7.5 million euros) and all acquisitions or disposals of investments, if carried out directly by the Parent Company, or previously assessed and authorized, if the responsibility of Group companies, are examined and approved by the Board of Directors.

The Board of Directors' responsibilities and functions are governed by specific regulations, which are also designed to ensure the orderly and efficient conduct of Board meetings, guaranteeing the right of each Director to request clarification regarding the matters under discussion, and to express his or her opinion and make proposals.

The Board of Directors received ongoing reports from its Chairman and the Chief Executive Officer on the activities carried out in the course of exercising the powers attributed to them.

The Board of Directors elected by the General Meeting of 11 May 2007 consist of nine members, five of whom are directly appointed by the *Comune di Roma* pursuant to both article 2449 of the Italian Civil Code and article 15 of the Articles of Association, with the remaining four elected by minority shareholders through the submission of voting lists (updated pursuant to Law 262/2005).

With the exception of the Chairman of the Board of Directors and the Chief Executive Officer, all other Board members are non-executive (in that they do not have executive powers and/or management roles within the Company) and independent.

During 2007, the Board of Directors held a total of nine meetings (the Articles of Association require the Board of Directors to meet at least quarterly), which were all attended by the Board of Statutory Auditors. We verified that the resolutions passed were adequately supported by appropriate documentation describing the analyses and controls carried out by management, if

necessary with the aid of external consultants, in order to evaluate the fairness of the transactions discussed by the Directors and their consistency with the Company's interests.

The activities of the Board of Directors are coordinated by its Chairman, who calls Board meetings and oversees their conduct, ensuring that the Directors receive the necessary documentation and information so that the Board is in a position to take fully informed decisions on the matters brought to its attention.

The Company publishes a Sustainability Report and an Environmental Report.

Internal Audit Committee

During the year, the Internal Audit Committee, established pursuant to the Corporate Governance Code for Listed Companies, carried out its responsibilities, in association with the Company's Internal Audit Department.

For a part of the year, the members of the Internal Audit Committee were the Directors Luisa Torchia, Dino Piero Giarda and Raffaele Ranucci. Following the election of the new Board of Directors, during the latter part of the year the Committee members were the Directors Luisa Torchia, Dino Piero Giarda and Marco Bianconi.
The Committee met five times in 2007. The Board of Statutory Auditors was represented at all the meetings by its Chairman and, when the nature of the matters to be discussed so required, by all its members.

As mentioned in the Internal Audit Committee's reports to the Company's Board of Directors, during the above meetings the Internal Audit Committee focused primarily (among the various matters dealt with by the Committee) on examination and evaluation of the activities carried out by the Internal Audit Department in 2007, on examination and evaluation of the audit plan for 2008 prepared by the Internal Audit Department, on examination and evaluation of the audit plan prepared by the Independent Auditors, Deloitte & Touche, and on examination and evaluation of the results of the audit of the separate and consolidated financial statements for the year ended 31 December 2007 carried out by the Independent Auditors.

In its six-monthly reports to the Board of Directors on the activities carried out during 2007, the Internal Audit Committee did not refer to any anomalies that might be considered to indicate serious shortcomings in the system of internal controls.

Remuneration Committee

The Board of Directors has established a Remuneration Committee, with responsibility for drawing up proposals regarding the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer and senior managers within the Company and the Group.

The remuneration system requires that such emoluments be divided into fixed and variable components, in order to guarantee an appropriate alignment of the remuneration system with the interests of shareholders and the Acea Group's stakeholders.

The Remuneration Committee, whose members are the Directors Dino Piero Giarda, Massimo Caputi and Luigi Spaventa, met three times during 2007.

Significant events during the financial year

The documents prepared by the Directors provide full information about the main events during the year.

In the water segment, the Group continued to acquire contracts to manage integrated water services in ATO 2 – Lazio, and took steps to establish a single provider of integrated water services in areas of operation in Tuscany.

In the electricity segment, the Electricity and Gas Authority published its Final Document for the new tariff cycle for 2008–2011. This envisages (i) a return on invested capital of 7.00% for distribution activities and 7.2% for metering activities, in addition to (ii) efficiency improvement targets of 1.9% for distribution and 5% for metering. The rollout of digital meters continued and is expected to be completed by the end of 2009. The Group's thermoelectric generation targets

were met, and it now plans future investment in generation to focus on wind farms. The Acea Group expects to see significant growth in gas sales.

In the waste to energy sector, the Group aims to increase power at its plants from the current 20 MW to 80 MW.
Finally, the Board of Directors has approved the new Business Plan for the period 2008–2012.

Information contained in the Directors' Management Report on Operations

The Directors' Management Report on Operations, to which reference should be made for information regarding the principal initiatives undertaken during the year, and the Notes provide analysis of the Group's activities, organization and structure.

Analytical information regarding the corporate structure of the Group is supplied, including: Group companies, share capital, shareholders' equity, the number of shares held by Acea SpA, and the percentage interest.

Information is also provided about the Group's markets and activities during 2007, with particular reference to the impact of market regulation.

The Directors have also provided detailed information on the impact for the Company of Legislative Decree 10 of 15 February 2007, as converted into Law 46 of 6 April 2007.

As confirmed by an authoritative legal opinion obtained by the Company, its compliance with the procedures established by the above Decree leads Acea to believe that recovery of the related state aid is definitively closed.

As a result the Board of Statutory Auditors concurs with the Directors' calculation of the related tax assets.

Information on intercompany and related party transactions has also been provided.

Transactions having a significant effect on the financial position, results of operations and cash flows

Through our direct observations, meetings with the Company's management and with the Independent Auditors, we verified compliance with the law and the Articles of Association, with regard to the aspects relevant to our responsibilities, checking that the principles of good governance were adhered to by the Company's Directors.

We paid particular attention to monitoring movements in working capital, with specific reference to outstanding receivables due from third parties, end users, related parties and public sector entities.

The Board of Statutory Auditors notes the value of provisions for liabilities designed to cover potential liabilities arising from the ongoing litigation described in detail in the notes.

Provisions for doubtful debts are based on analytical and historical assessments of amounts due from end users and other customers, carried out in relation to the type and age of receivables. These assessments are agreed on by the Directors and the Independent Auditors.

In the light of complex market developments, we believe that management should pay particular attention to achieving an increasingly more efficient receivables cycle.

The development and liberalization of the electricity market have confirmed the critical issues regarding customer relations highlighted in our previous reports.

These critical issues also extend to the water business, above all in relation to the Group's expansion into new areas of operation.

We also acknowledge that the notes to the memorandum accounts provide information on the commitments given by Acea SpA guaranteeing the obligations of subsidiaries and associates.

We have participated in Board of Directors' meetings, obtaining information and data regarding transactions, having a significant effect on the financial position, results of operations and cash flows, carried out by the Company and its subsidiaries.

Given the lack of definitive parameters to apply in order to identify transactions with a significant impact on the results of operations, we made reference to the corporate governance guidelines adopted by the Company.

The above transactions were carried out in conformity with the law and the Articles of Association. They do not appear to have been imprudent or risky, nor to give rise to a potential conflict of interest, or such as to contrast with resolutions passed by General Meetings or to compromise the integrity of the Company's net worth.

Exceptional or unusual transactions

The Management Report on Operations and the information obtained during Board of Directors' meetings or received from the Directors, the Company's management, the statutory auditors of subsidiaries, the Internal Audit Manager and the Independent Auditors did not reveal the existence of exceptional or unusual transactions, including intercompany and related party transactions.

Intercompany and related party transactions

Adequate information regarding intercompany and related party transactions is provided in the Notes and the Directors' Management Report on Operations, to which reference should be made for information regarding the nature of the transactions and their impact on the results of operations, above all transactions involving the parent, the *Comune di Roma* and entities owned by the *Comune di Roma*.

The Board of Statutory Auditors has verified the receivables due from the parent, the *Comune di Roma*.

The Board of Directors has approved procedures aimed at ensuring that related party transactions are carried out in accordance with criteria governing their procedural and substantial correctness.

Significant subsequent events

The appointment of the Independent Auditors, Deloitte & Touche SpA, will expire with the General Meeting called to examine and approve the separate and consolidated financial statements for the year ended 31 December 2007. According to the regulations in force, the appointment cannot be renewed.

The call for tenders to audit Acea SpA's separate and consolidated financial statements, pursuant to articles 155 *et seq.* of Legislative Decree 58/1998 and subsequent amendments and additions, was published in the Official Gazette of the European Union on 23 January 2008.
We shall present our views to shareholders in a separate report at the time of presentation of the proposed resolution regarding appointment of new Independent Auditors.

Independent Auditors' Reports on the separate and consolidated financial statements

The Board of Statutory Auditors informs the Meeting that, on 11 April 2008, the Independent Auditors, Deloitte & Touche SpA, issued their audit reports pursuant to article 156 of Legislative Decree 58/98 on the separate and consolidated financial statements for the year ended 31 December 2007, both prepared under IFRS.

We have not audited the consolidated financial statements, in that article 41 of Legislative Decree 127/1991 states that "controls are the responsibility of the bodies or entities assigned legal responsibility for the audit of the Parent Company's financial statements".

The Independent Auditors' report states that, in their opinion, the financial statements of Acea SpA for the year ended 31 December 2007 comply with the International Financial Reporting Standards adopted by the European Union, and with the measures enacted in implementation of article 9 of Legislative Decree 38/2005. It states that the financial statements have been properly

prepared and give a true and fair view of Acea SpA's financial position, results of operations, changes in shareholders' equity and cash flows for the year then ended.

Exchange of information with the Independent Auditors

The Independent Auditors, with whom we met periodically in order to exchange material data and information, have informed us that, in carrying out their engagement to audit the financial statements, no actions or events of an irregular nature or requiring notification came to light. This was also confirmed by the quarterly audits carried out.

The Board of Statutory Auditors analyzed the contents of the work program prepared by the Independent Auditors, verifying the adequacy of the planned checks and controls in relation to the size and organizational complexity of Acea SpA's businesses.

Fees paid to the Independent Auditors and additional engagements assigned to them or to persons that have ongoing relations with them

The Company's management has expressly declared, as confirmed by the Independent Auditors, that in addition to auditing the Parent Company financial statements, the consolidated financial statements and, for the purposes of their audit of such consolidated financial statements, the financial statements of a number of subsidiaries, as well as carrying out a review of the six-month report, checking that the accounting records are properly kept and that operating events are correctly reported in the accounts, and controls relating to completion of the Company's tax return, during 2007 the Independent Auditors, Deloitte & Touche SpA, were appointed to carry out the following engagements:

- to assist the Acea Group in bringing its corporate governance system into line with the requirements of Law 262 of 28 December 2005 (the "Savings Law"), providing methodological support in identifying the control standards to be applied to the processes that feed and generate information on the Group's financial position and results of operations, for a fee of 450,000.00 euros;
- to review the transition to IFRS of the subsidiary, Publiacqua SpA, for a fee of 50,000.00 euros.

The Directors have expressly declared, as confirmed by the Independent Auditors, that the Studio Tributario e Societario – a professional firm that has ongoing relations with the Independent Auditors, as defined by CONSOB Memorandum DACRM 96003558 of 18 April 1996 – was engaged to assess the correctness of the Company's tax records and the correct presentation of those records in tax returns, for a fee of 95,000.00 euros.

Adequacy of the Company's management structure and administrative and accounting system

On the basis of the information obtained from departmental heads, we believe that the administrative and accounting system is adequate and reliable, and capable of presenting a fair view of operating events. This was confirmed by the Independent Auditors during the periodic exchange of information with us.

As of 1 January 2007, the Company has appointed Ms. Roberta Neri, Acea's CFO, to serve as the Executive Responsible for Financial Reporting, as required by Law 262/2005 and subsequent amendments and additions.

The Board of Directors subsequently approved:

1. guidelines for the Acea Group's Internal Control Model (in compliance with Law 262), defining the rules and procedures for establishing and maintaining administrative and accounting procedures, components of the internal control system that oversee preparation of the financial statements, and the assessment of their effective application;

2. the "Regulations regarding the Executive Responsible for Financial Reporting" (hereinafter "ER"), governing the ER's activities in accordance with the Articles of Association and applicable legislation. The Regulations cover:
   - the establishment of the ER;
   - the ER's role and responsibilities;
   - the instruments and powers assigned to the ER;
   - the ER's relations with Acea's governance bodies and other functions;
   - the ER's relations with consolidated companies;
   - the attestation system (reporting flows).

The activities also included identification of the principal processes involved in financial reporting, the identification and assessment of the risks attributable to each process and the related assessment of the adequacy of the procedures put in place to manage the identified processes (including controls designed to mitigate such risks), based on industry best practices. The assessment of adequacy identified a number of "areas for improvement".

A Corrective Action Plan was drawn up for each area for improvement, defining the nature (organisational, IT) and the timing of the actions designed to resolve each area of improvement.

The Company's management also prepared a plan for carrying out independent checks, which aims, on the one hand, to assess the effective application of administrative and accounting procedures with respect to existing controls, and, on the other, to identify and carry out compensatory controls on the areas for improvement for which corrective action had been scheduled to take place after closure of the financial statements for the year ended 31 December 2007.

The Company uses the SAP system, which is updated year on year. This provides adequate coverage of Group companies in view of the Company's situation. The level with which the system is used also appears to be adequate. The Company has integrated SAP with planning, consolidation and reporting tools, in order to ensure the use of consistent criteria and outputs at all stages of the financial reporting process.

Adequacy of the guidelines established for subsidiaries

The guidelines established for subsidiaries, given their type and size, are, in our opinion and within the scope of our responsibilities, adequate in view of the existing intercompany services provided.

At the date of this Report, in response to specific requests, we have not received notification from the statutory auditors of subsidiaries or associates of observations to be included in this Report.

Adequacy of the Company's organizational structure and internal control system

We note, within the scope of our responsibilities, that the Company's organizational structure is adequate in view of the size and type of business concerned.

The organisational structure consists of six Areas of Business and four Staff Departments. It is based on an organisational model that provides for well-planned and effective management of operating activities and the decision-making processes of the Company and the Group.

Through identification, measurement, management and monitoring of the principal business risks, the internal control system has the role of overseeing safeguards of the Company's assets, the efficiency and effectiveness of operations, the reliability of financial information and legal and regulatory compliance.

The Company has assigned the Chief Executive Officer responsibility for designing, implementing and managing the internal control system.

The Company has assigned responsibility for the Internal Control System to the head of the Internal Audit Department, whose role involves (i) preparing an annual work plan to be approved by the Internal Audit Committee, and which is where necessary revised during the year in response to indications from the Company's management; (ii) execution of specific audits in line with the plan, which are then converted into reports, containing details of any critical areas identified during the audits and of the corrective action plans previously agreed with management, the Internal Audit Committee and the Board of Statutory Auditors.

The Internal Audit Department works closely with the Risk Control unit, which has responsibility for identifying, describing and measuring the principal business risks, supporting management in the identification of any critical areas in the preparation of action plans designed to keep risk at acceptable level.

During 2007, the Supervisory Board, established under Legislative Decree 231/2001, carried out its review of the Organisational Model, designed to bring it into line with organisational and regulatory changes. The Board also reviewed implementation of the Organisational Model by subsidiaries, provided guidance and coordination for the supervisory boards of subsidiaries, gathered and assessed the minimum disclosures required by the Model, and carried out detailed investigations of certain areas and transactions of potential significance with regard to Legislative Decree 231/2001. The Supervisory Board reported every six months to the Board of Directors on the outcome of the activities carried out.

With regard to potential areas for improvement of the internal control system, the Company has embarked on a number of specific initiatives designed to (i) introduce effective mechanisms to enhance coordination and communication between the various entities involved in controlling the applicable regulations and (ii) extend the mapping and assessment of the adequacy of administrative and accounting processes and the definition of areas for improvement, pursuant to Law 262/2005, to the internal control system as a whole. This has the aim of coordinating these activities with those involved in the controls carried out for the purposes of Legislative Decree 231/2001 and those that will be necessary in the light of recent changes to legislation regarding liability for damage to public property.
The framework used as the basis for this process of continuous improvement of the internal control system is the Internal Control COSO Framework.

Reports pursuant to article 2408 of the Italian Civil Code

No formal petitions were presented, pursuant to article 2408 of the Italian Civil Code, during 2007.

Complaints received by the Board of Statutory Auditors

No complaints were received by the Board of Statutory Auditors during 2007.

Omissions, censurable events or irregularities revealed during audit procedures

The audit procedures carried out by the Board of Statutory Auditors did not reveal any aspects, omissions or irregularities in the management and/or administration of the Company to be included in this Report.

Opinions issued by the Board of Statutory Auditors during the year

We issued the appropriate opinion regarding the appointment of Executive Directors.

Proposals to the General Meeting

We do not believe it necessary to exercise our right to make proposals to the General Meeting, pursuant to article 153, paragraph 2 of Legislative Decree 58/98.

Distribution of dividends

The Directors have published their proposal regarding the distribution of dividends.

Conclusions

On the basis of the above, and within the scope of our responsibilities, we are not aware of any obstacle to the approval of the Parent Company's financial statements for the year ended 31 December 2007 and of the Board of Directors' proposals contained therein.

Rome, Italy
11 April 2008

THE BOARD OF STATUTORY AUDITORS

Mr. Maurizio Lauri
Mr. Francesco Lopomo
Prof. Roberto Pertile

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AUDITORS' REPORT ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of Acea S.p.A.

1. We have audited the financial statements of Acea S.p.A., which comprise the balance sheet as of December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the prior year's financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on April 24, 2007.

3. In our opinion, the financial statements present fairly the financial position of Acea S.p.A. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/2005.

4. The explanatory notes provide information regarding transactions with the Comune di Roma, the majority Shareholder, and other related parties.

DELOITTE & TOUCHE S.p.A.

Signed by
Luca Petroni
Partner

Rome, Italy
April 11, 2008

This report has been translated into the English language solely for the convenience of international readers.