



a2a

SHAPING THE FUTURE TODAY



2015

Report on operations

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This is a translation of the Italian original “Relazione sulla gestione 2015” and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available on the website www.a2a.eu

Letter to Shareholders



The results of 2015 - the first year of the new Strategic Plan approved last year - were particularly expected to confirm the validity of the path of strategic repositioning undertaken by the Group. It is an ambitious path that stems from the desire to gradually transform A2A into a more modern multi-utility, a leader

in the environment, in smart grids and new energy models, more balanced and profitable, able to seize opportunities in the Green Economy and Smart Cities and to create value for the communities served. It is therefore with satisfaction and gratitude to all those involved in the Group's daily activities that we present the operating and financial results achieved in 2015, which, despite the unfavourable context conditions, have exceeded the Plan forecasts.

In 2015, world economic growth (+3.1%) was lower than 2014, due to the braking in the development of China and the emerging economies, the drop in oil prices and monetary tightening initiated by the Federal Reserve (FED). In Italy, there has been a return to GDP growth (+0.8%), while signs of recovery of investments and employment (+0.9%) have remained weak.

In this scenario, A2A achieved higher economic results than the previous year, which had also benefited from strong and unusual hydraulicity, as well as from high non-recurring positive items. The result is even more remarkable, considering significant asset write-downs incurred in 2015, due to the persistence of the crisis in the Italian thermoelectric sector and the downward revision of tariff growth estimates in Montenegro.

Despite the decrease in revenues, largely due to lower volumes of electricity sold to end customers and to lower gas and electricity prices, the gross operating margin (1,048 million

euro) rose by 24 million euro compared to 2014, with a net profit from ordinary operations of 278 million euro (+58.9% compared to 2014).

The growth is mainly attributable to the Generation and Trading, Networks and Heat Business Units. The margins of the Commercial Business Unit were substantially in line with forecasts. A counter-trend, on the other hand, was seen in the result of the Environment Business Unit, which was strongly penalized by the prices of electricity produced by waste-to-energy plants and of the EPCG Business Unit, which was penalized by low hydraulicity.

The Group achieved a net profit of 73 million euro, compared to a net loss of 37 million euro in the previous year, positively reflecting the reduction in financial expenses and a lower tax burden, due to the reduction of IRAP and elimination of the Robin Hood Tax.

In terms of financial position, net debt decreased by 466 million euro, bringing the NFP/EBITDA ratio to 2.76x, confirming greater solidity of the Group. Investments increased, amounting to 344 million euro (+12%) and dividends were distributed for 113 million euro (+11%).

As part of the simplification of the corporate structure, A2A S.p.A. established Unareti S.p.A., a single company for the distribution of electricity and gas, in operation since April 1st 2016, which integrates the subsidiaries operating in the sector with positive effects on operating costs and on the ability of investment and access to financial markets.

In March 2016, A2A S.p.A. signed with AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema, partners of Linea Group Holding, a contract that provides for the entry of A2A S.p.A. in the share capital of LGH with 51%. Closing is expected by June 2016, subject to the fulfilment of certain conditions, including obtaining approval by the Competition and Market Protection Authority. The transaction represents the first concrete implementation of the “Multi-utility of the Territories” model devised by the A2A Group, aimed at creating an integrated operator in Lombardy.

Continuing the path started in 2015, the A2A Board of Directors approved the 2016-2020 Strategic Plan in April, which confirms the industrial targets that were already defined a year ago, introducing some new initiatives to counter the adverse conditions of the energy market and some negative impacts related to regulation.

The main development lines of the Plan continue to refer to three main areas of intervention:

- restructuring and reduction of exposure in the thermoelectric sector;
- relaunch of investments in key areas of the environment, networks and the free energy market;
- redesign of A2A’s mission to seize the opportunities arising from the technological and industrial evolution of some of the Group’s businesses.

Among the new initiatives of the 2016-2020 Plan are: further actions to improve operating efficiency, strengthening growth with more investments in the integrated water cycle, electricity grids and smart gas meters, in commercial development and external growth operations, as well as the identification of further paths of territorial aggregation and industrial partnership. Against this background, an increase is expected in investments, which in five years will reach 2.2 billion euro (+7% compared to the 2015-2019 Plan) and a significant increase in the gross operating margin in 2020 (1.3 billion euro, +24.4% compared to 2015).

To complete the reading of this important phase of the life of A2A, we recall that, in November 2015, the Board of Directors resolved to commence a challenging two-year development program of Corporate Social Responsibility activities, in line with international best practices and with the Strategic Plan. The planned actions include A2A's commitment to submit the Sustainability Report for the first time for approval by the Shareholders' Meeting in May 2016. For this event, the Group has also defined a 2030 Sustainability Policy and a 2016-2020 Sustainability Plan, which contain concrete commitments and measurable objectives on sustainability and corporate social responsibility, which have become two pillars of A2A's new approach. A company able to combine a solid plan of industrial development with value return for shareholders and all stakeholders, starting from citizens.

Chairman of the Board of Directors

Giovanni Valotti



Chief Executive Officer

Luca Valerio Camerano



Corporate boards

BOARD OF DIRECTORS

CHAIRMAN

Giovanni Valotti

DEPUTY CHAIRMAN

Giovanni Comboni

CHIEF EXECUTIVE OFFICER

Luca Camerano

DIRECTORS

Antonio Bonomo

Giambattista Brivio

Maria Elena Cappello

Michaela Castelli

Elisabetta Ceretti

Luigi De Paoli

Fausto Di Mezza

Stefano Pareglio

Secondina Giulia Ravera

BOARD OF STATUTORY AUDITORS

CHAIRMAN

Giacinto Gaetano Sarubbi

STANDING AUDITORS

Cristina Casadio

Norberto Rosini

SUBSTITUTE AUDITORS

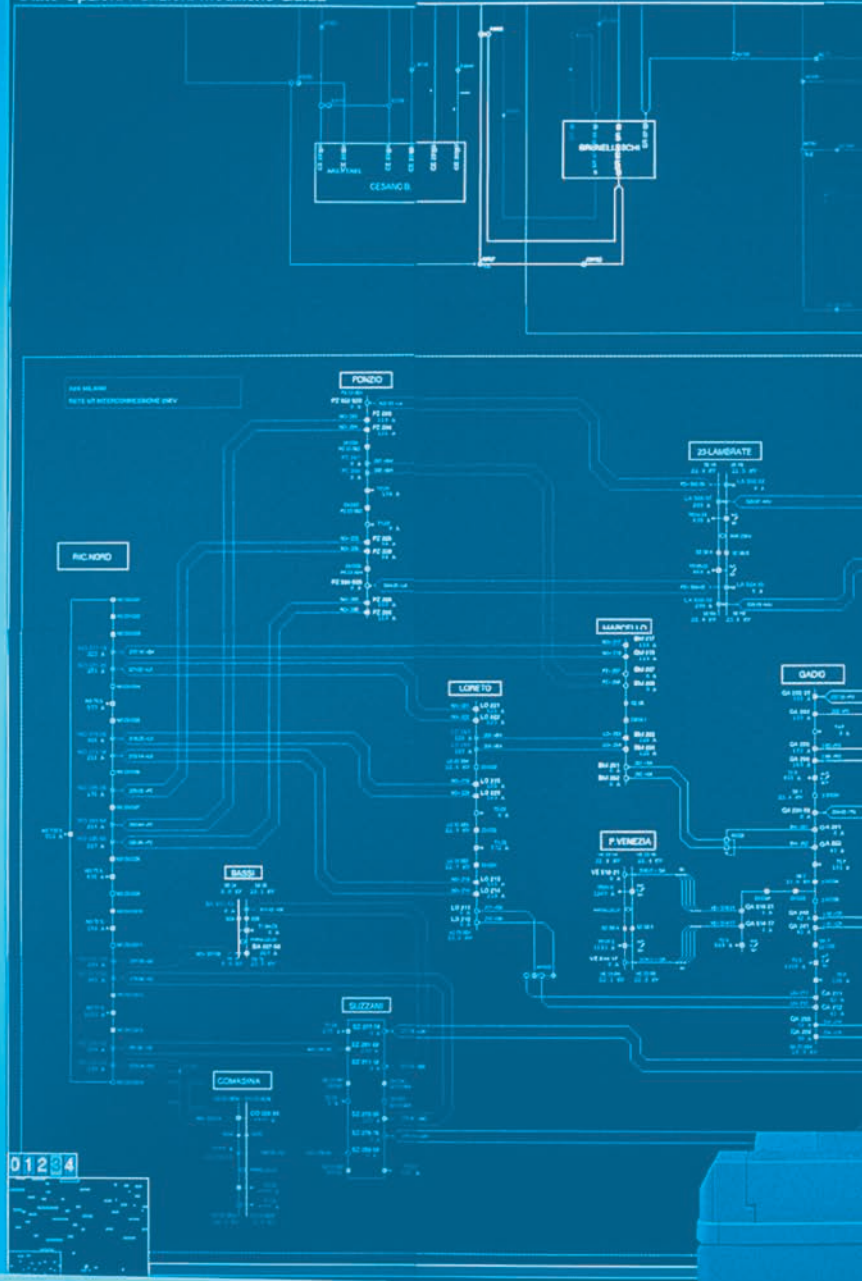
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Paolo Prandi

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.P.A.

Stato Opzioni Funzioni Modifiche Guida





0.1

Key Figures of
the A2A Group

Business Units

The A2A Group operates in the production, sale and distribution of gas and electricity, district heating, environmental services and the integrated water cycle.

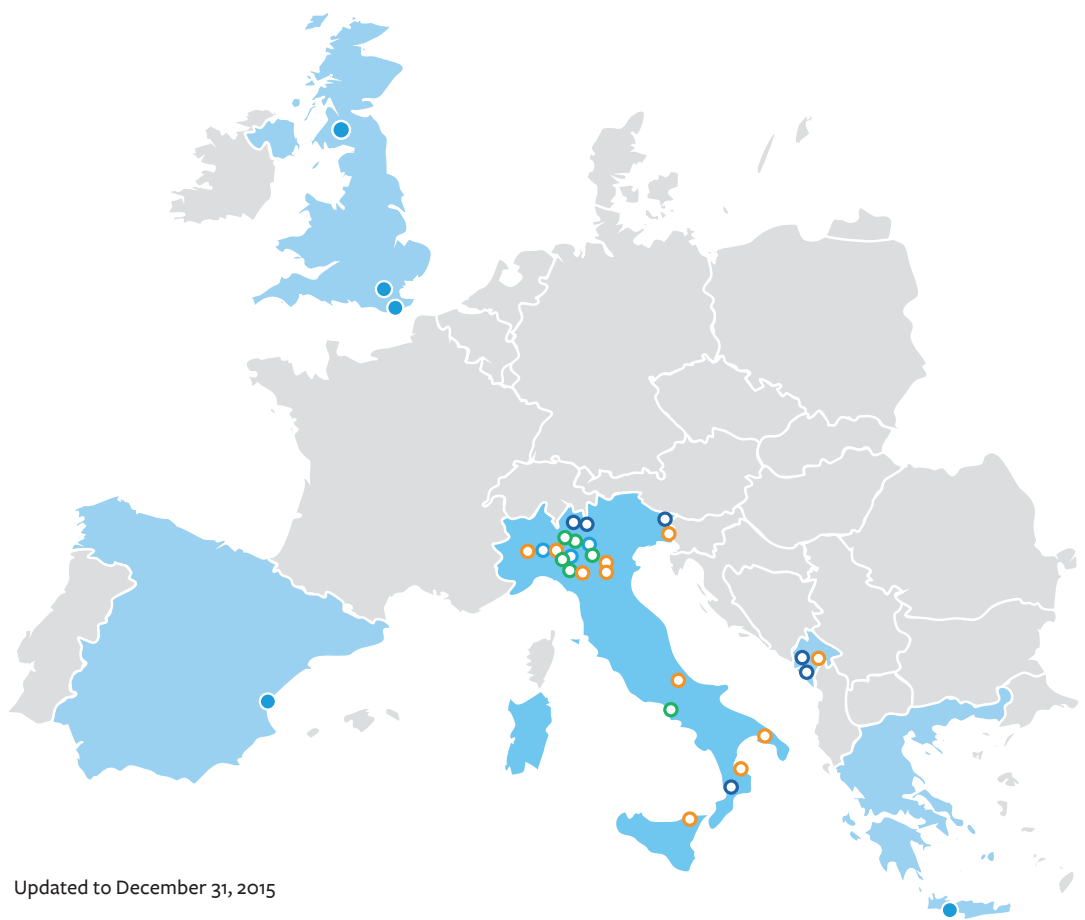
These sectors are in turn attributable to the “Business Units” specified in the following diagram identified as a result of the reorganization carried out by the management:

Business Units of the A2A Group

Generation and Trading	Commercial	Environment	Heat and Services	Networks	EPCG	Other Services and Corporate
Thermoelectric and hydroelectric plants	Sale of Electricity and Gas	Collection and street sweeping	District Heating Services	Electricity networks	Electricity generation and commercial	Other services
Energy Management		Treatment	Heat management services	Gas networks	Electricity networks	Corporate services
		Disposal and energy recovery		Integrated water cycle		
				Public lighting and other services		

This breakdown into Business Units reflects the organization of financial reports regularly analyzed by management and the Board of Directors in order to manage and plan the Group’s business.

Geographical areas of activity

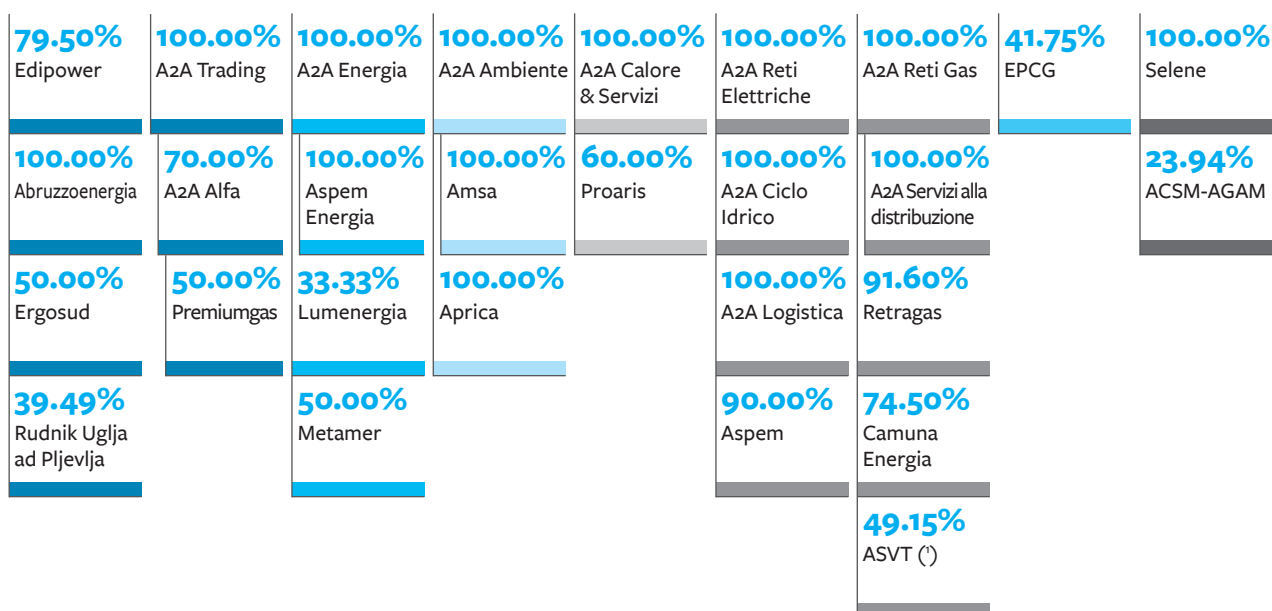


Updated to December 31, 2015

- Hydroelectric plants
- Thermoelectric plants
- Cogeneration plants
- Waste treatment plants
- Technological partnerships

Group structure

A2A S.p.A.



Business Units

- Generation and Trading
- Commercial
- Environment
- Heat and Services
- Networks
- EPCG
- Other companies

(1) Of which 0.38% held through AzA Reti Gas S.p.A.
This chart shows the most significant shareholdings of the A2A Group.
See attachments 3, 4 and 5 for full details of shareholdings.

Financial highlights at December 31, 2015 (**)

Revenues _____	4,921 millions of euro
Gross operating income _____	1,048 millions of euro
Result of the year _____	73 millions of euro

Income statement figures

Millions of euro

	01 01 2015 12 31 2015	01 01 2014 12 31 2014
Revenues	4,921	4,984
Operating expenses	(3,244)	(3,311)
Labour costs	(629)	(649)
Gross operating income	1,048	1,024
Depreciation, amortization, provisions and write-downs	(833)	(662)
Net operating income	215	362
Result from non-recurring transactions	(1)	9
Financial balance	(138)	(210)
Result before taxes	76	161
Income taxes	(133)	(179)
Net result from discontinued operations	-	-
Minorities	130	(19)
Group result of the year	73	(37)
Gross operating income/Revenues	21.3%	20.5%

(**) The figures serve as performance indicators as required by CESRN/05/178/B.

Balance sheet figures <i>Millions of euro</i>	12 31 2015	12 31 2014
Net capital employed	6,156	6,542
Equity attributable to the Group and minorities	3,259	3,179
Consolidated net financial position	(2,897)	(3,363)
Consolidated net financial position/Equity attributable to the Group and minorities	0.89	1.06
Consolidated net financial position/Average market capitalization	0.85	1.27

Financial data <i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014
Net cash flows from operating activities	896	940
Net cash flows used in investing activities	(336)	(303)
Free cash flow	560	637

Dividend _____ **0.041** euro per share

Average market capitalization in 2015 _____ **3,405** millions of euro

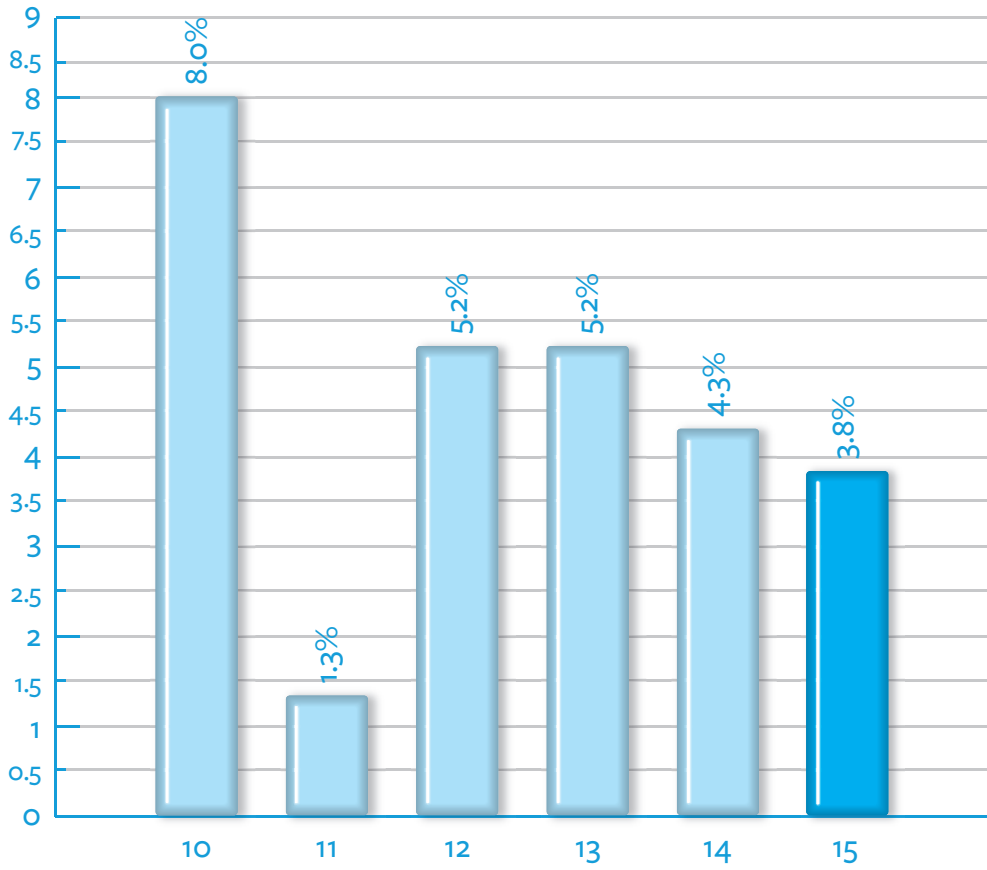
Market capitalization at December 31, 2015 _____ **3,929** millions of euro

Key figures of A2A S.p.A.	12 31 2015	12 31 2014
Share capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	26,917,609	26,917,609

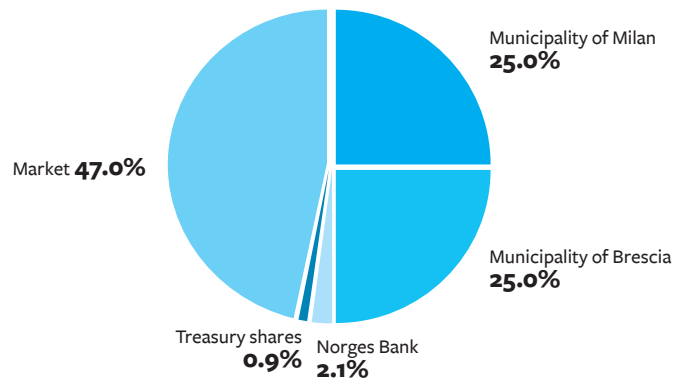
Key indicators	12 31 2015	12 31 2014
Average 6-month Euribor	0.053%	0.308%
Average price of Brent crude (US\$/bbl)	53.70	99.51
Average exchange rate euro/US\$ (*)	1.11	1.33
Average price of Brent crude (euro/bbl)	48.40	74.59
Average price of coal (euro/tonne)	50.90	56.65

(*) Source: Italian Foreign Exchange Office.

Dividend/average share price for the year (DIVIDEND YIELD)



Shareholdings (*)



(*) Source CONSOB for Stakes higher than 2% (update at December 31, 2015).

A2A S.p.A. on the Stock Exchange

A2A S.p.A. in figures (Italian Stock Exchange)

Market capitalisation at December 31, 2015 (millions of euro)	3,929
Average capitalisation in 2015 (millions of euro)	3,405
Average volumes in 2015 (shares)	17,204,368
Average price in 2015 (*)	1.087
Maximum price in 2015 (*)	1.352
Minimum price in 2015 (*)	0.792
Number of shares	3,132,905,277

(*) euro per share
Source: Bloomberg

A2A stock is also traded on the following platforms: Chi-X, BATS, Turquoise, Equiduct, Sigma-X, Aquis, BOAT OTC, LSE Europe OTC, BATS Chi-X OTC.

On June 24, 2015, A2A S.p.A. distributed a dividend of 0.0363 euro per share.

Rating

		Current
Standard & Poor's	M/L Term Rating	BBB
	Short Term Rating	A-2
	Outlook	Stable
Moody's	M/L Term Rating	Baa3
	Outlook	Stable

Source: Rating agencies

A2A forms part of the following indices

FTSE MIB

STOXX Europe

EURO STOXX

Wisdom Tree

S&P Developed Ex-US

Ethical Indices

ECPI Ethical Index EMU

Axia Sustainable Index

Solactive Climate Change Index

FTSE ECPI Italia SRI Benchmark

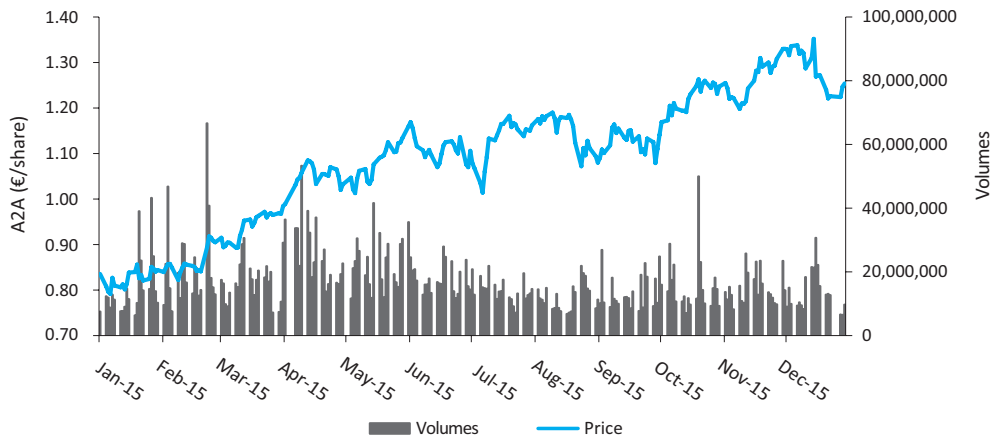
Standard Ethics Italian Index

Ethibel Sustainability Index Excellence Europe

Source: Bloomberg

A2A is also included in the Ethibel Excellence Investment Register and in the Ethibel Pioneer Investment Register.

A2A in 2015

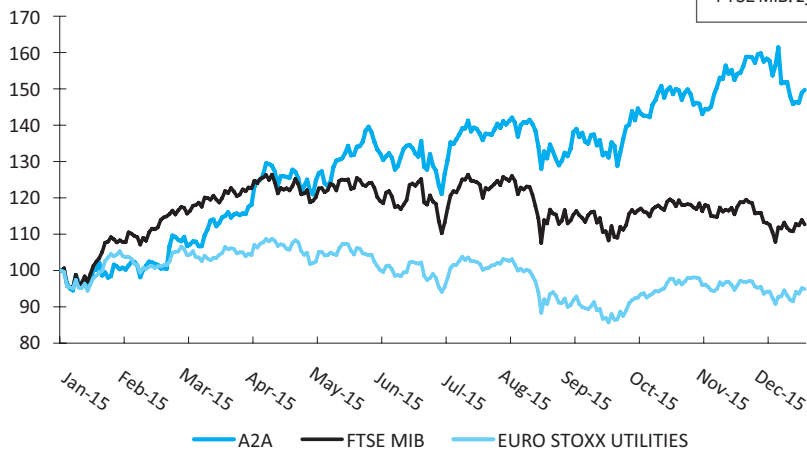


A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price December 30, 2014 = 100)

Historical volatility in 2015

A2A: 28.3%
FTSE MIB: 25.3%



Source: Bloomberg





0.2

—
Scenario
and market
—

Macroeconomic scenario

2015 Figures

The year 2015 was a year in which the global economy was impacted by the effects of various instability factors. Worldwide economic growth recorded a setback reaching +3.1% against +3.3% in 2014, according to the latest estimates of the International Monetary Fund (IMF). This decline is attributable to the slowdown in growth in China and emerging economies such as Brazil and Russia, to the drop in oil prices and the monetary tightening initiated by the Federal Reserve (FED) at year end.

The figures for Chinese GDP in the fourth quarter of 2015 certify the decline in the rate of economic expansion of Beijing below the 7% threshold. In all of 2015, the expansion was 6.9%, which corresponds to a record low for China: this has been the worst result in 25 years, at least since 1990. The economic slowdown is mainly related to manufacturing. Steel production fell by 2.3% in 2015, electricity by 0.2% as well as coal production. The decline in steel production reflects the slowdown in sectors such as mechanics, construction and shipbuilding. The United States resumed to be the main “locomotive” of the economy of industrialized countries with growth of 2.6% in 2015 and 2.8% expected for 2016. The United States have definitively left behind the crisis of 2008-2009, also managing to limit unemployment.

In the year 2015, Eurozone GDP amounted to 1.5% thanks to the increase in private consumption supported by the fall in oil prices and the rise in employment income. We note the growth in the German economy in 2015 with GDP rising 1.7% compared to 2014, thereby recording the sixth consecutive increase (source: IMF).

With regard to Italy, ISTAT confirmed the October estimates with GDP growth to +0.8% in 2015 characterized by the recovery of domestic demand. Instead, company capital expenditure remains weak. There are also slow improvement signals from the labour market with employment growth of 0.9% in 2015.

Global inflation has remained substantially unchanged at low levels in the major advanced economies. Outside the OECD, general deflationary pressures persist in China and India, while the consumer price index remains high in Russia and Brazil.

Inflation remains weak in the Eurozone with the consumer price index in December at +0.2%, far from the European target of 2%. A mark has been left, especially in the second half of the year, by the collapse of oil prices and therefore the energy component, which the ECB monetary policy only partially managed to counter.

With regard to Italy, inflation has slowed for the third consecutive year, reaching +0.1% in 2015 from +0.2% in 2014 (source: ISTAT).

With regard to interest rates, it is noted that the increase, decided at the meeting held December 15 and 16 of the Federal Reserve (Fed), has had overall limited effects on long-term returns. At the meeting held in December 2015, the ECB Governing Council decided not to intervene and has thus maintained the policy rate at 0.05%, the deposit rate at 0.3% while that on the marginal lending facility was confirmed at 0.3%.

The emphasis of the monetary expansion policy of the ECB and the start of the rate hike in the US have been reflected in a limited manner on the EUR/USD exchange rate, which since mid-October, has depreciated by about 4% against the dollar. The average EUR/USD exchange rate stood at 1.11 dollars in 2015, down 16% compared to 2014.

Outlook

The growth outlook of the global economy has weakened and the recovery will be more gradual, particularly in emerging markets and developing countries, with respect to as previously forecasted.

According to the International Monetary Fund (IMF), the current global growth forecasts are subject to downside risks related to the adjustments in place: a general slowdown in emerging economies, the rebalancing of China, the decline in commodity prices and the phasing out of extraordinarily accommodative monetary conditions in the United States (the monetary policy of the Fed). If these challenges are not successfully managed, global growth could “derail”.

Regarding estimates, the IMF expects the world economy will grow respectively by 3.4% in 2016 and 3.6% the following year, advanced economies will instead be at a pace of 2.1% in both 2016 and 2017. As for the United States, +2.6% is expected in both years conditioned by the strengthening of the dollar. Growth estimates are confirmed for China: +6.3% in 2016 and +6.0% in 2017. As for the emerging economies, Russia’s gross domestic product will decline more than expected this year (down 1.0%), to return to growth in 2017. The IMF sharply revised downwards its already bad economic forecasts on Brazil: a recession is expected this year of 3.5% of GDP after the heavy -3.8% already experienced in 2015. For 2017 however,

the institution expects stagnation, with no change in GDP. Instead, estimates for India are confirmed and in contrast, with growth expected at +7.5% in both 2016 and 2017.

With reference to the Eurozone, the IMF has prepared a growth forecast in 2016 of 1.7%, as well as for 2017. Going into the details of the major European economies, Germany is expected to grow by 1.7% both in 2016 and in 2017, while France is expected to record +1.3% and +1.5% respectively. Recovery continues in Spain: after +3.2% in 2015, GDP will mark +2.7% in 2016 and +2.3% in 2017.

Figures for Italy have been confirmed, for which the IMF predicts a GDP increase of 1.3% in 2016 and 1.2% in 2017. These figures are lower than the estimates made by the Government which, in the update note of the Document of Economics and Finance (DEF), has forecast 1.6% growth for this year. According to the IMF, the growth driver is represented by the stronger domestic demand than in previous years; however, large uncertainty remains regarding investments, which in Italy and Europe could be delayed if fears increase regarding the possible outbreak of a “housing bubble” in China, and crude oil prices continue to fall.

The persistent weakness of energy and commodity prices raises important risks to the downward inflation forecast in the main advanced economies for the years 2016-2017. With regard to emerging countries, deflationary pressures will continue in China and India while Brazil and Russia will record high inflation rates due to the devaluation of their local currencies.

As regards the Eurozone, the experts of the ECB revised downwards the inflation estimates for both this year and for the following year. For 2016, the inflation estimate was cut to 0.7% from the previous 1% and for 2017, it is limited to 1.4% from 1.5%. In 2018, the rate is expected to reach 1.6%.

With regard to Italy, the ECB expects growth of 1.0% in consumer prices in 2016 thanks to a gradual recovery in household and business consumption.

According to the Bank of Italy, Italian unemployment will amount to 11.1% this year and 10.7% in 2016 due to the improved demand outlook and, in part, the measures to reduce labour costs introduced by the government.

The EUR/USD exchange rate maintains a bearish trend reaching, in the first 20 days of January 2016, an average value of 1.09 dollars, after the Federal Reserve (FED) initiated the rate hike in December after years of zero-cost money. The program launched by the FED in December involves four hikes of a quarter of a point in 2016. At the meeting held at the end of January, the Federal Reserve kept rates stable, postponing the discussion on how and how much to raise them to the meeting in March. Currently, the forecast is for a EUR/USD exchange rate at 1.09-1.10 for the 2016-2017 two-year period.

The European Central Bank (ECB), during the meeting held January 21, 2016, decided to keep rates unchanged at 0.05%, confirming its intention to leave them for a long period of time to support a rise in European rates. Bank deposit rates remain negative at -0.3% and marginal rates at 0.3%. The objective of the ECB's action is to bring inflation close to 2% and it has therefore scheduled a meeting in March for the possible introduction of new monetary stimulus and for the revision of the securities purchase program (Quantitative Easing) launched last year; a review with details still undefined.

Energy market trends

In 2015, prices of energy commodities were significantly affected by the uncertainties in the world macroeconomic situation and the weakness of the basics of supply and demand on the reference markets.

The average price of Brent in 2015 stood at 53.7 \$/bbl, a decrease of about 46% over the figure reported last year (99.5 \$/bbl). The downward trend has seen a gradual acceleration from early summer with a peak in December when Brent reached the lowest level since June 2004, with an average value of 38.9 \$/bbl. Crude oil prices also continued to fall in early 2016, falling below 30 \$/bbl before recovering significantly.

The US Energy Information Administration (EIA) agency predicts that Brent will average about 40 \$/bbl in 2016 and about 50 in 2017. Prices are being kept down by an offer that even in 2016 will continue to outpace demand, thereby increasing stocks. In 2015, the United States were especially the main source of the increase in production. In 2016 and 2017, however, growth will be due to the OPEC countries, especially thanks to the recovery of Iran's exports. The Middle Eastern power in fact, with the suspension of sanctions, should resume crude oil extraction at full capacity. In 2016, the production of non-OPEC countries, according to the EIA, will decrease by 0.6 mb/d, which is the first reduction since 2008. About two-thirds of this decrease will be attributable to the US and especially the production of tight oil will collapse, non-conventional oil; to be economically sustainable, this type of crude oil would require barrel price higher than the current ones and those provided for in the short term, and is also characterized by very high decline rates. The EIA expects the consumption of oil and liquid fuels will grow by 1.4 mb/d in both 2016 and in 2017.

On the European carbon market, there was no recovery in 2015. Prices are maintained, with the exception of February and March, on values significantly lower than 60 \$/tonne with a slightly decreasing trend that, in December, reached the lowest level recorded for the last eleven years equal to 47.9 \$/tonne. The average price of coal with delivery to the Amsterdam-Rotterdam-Antwerp ports (Coal CIF ARA) was 56.5 \$/tonne in the 2015, a fall of around 25% over 2014.

Electricity

As far as the national electricity scenario is concerned, in 2015, there was a net requirement of 315,234 GWh (source: Terna), up 1.5% over 2014 (310,535 GWh). On a seasonally adjusted basis, the change amounted to +1.3%.

Net electricity production amounted to 270,703 GWh in 2015, up 0.6% over 2014. The normalization of hydraulicity led to a sharp fall in production from hydroelectric sources, which stood at 44,751 GWh, recording a decrease of 24.9% compared to 2014. The production of thermoelectric energy benefited from this decline, which increased by 8.3% over 2014 reaching 180,871 GWh. Production from photovoltaic and geothermal sources also increased, respectively by +13.0% and +4.5%. There was a steep decline in wind power production, which recorded a decrease of 3.3% compared to 2014. Average hours of operation estimated at national level for all thermoelectric technologies for the year 2015 were up 8% compared to the previous year. National production, excluding pumping, accounted for 85% of the demand for electricity, while net imports satisfied the remainder.

In 2015, Base Load PUN (Single National Price), recorded a slight increase (+0.5%) over the previous year amounting to 52.3 €/MWh against 52.1 €/MWh in 2014. The price in peak hours decreased by 0.3% over the previous year (PUN Peak Load at 58.7 €/MWh vs. 58.9 €/MWh), while the price in low load hours recorded an increase of 1.0% compared to the corresponding period of the previous year (PUN Off-Peak at 48.73 €/MWh vs. 48.26 €/MWh).

The peak/base load price ratio remains in line with 2014 levels with a 2015 differential of about 6.4 €/MWh.

Natural gas

In 2015, the demand for natural gas increased by 9.0% compared to 2014, amounting to 66,944 Mcm (source: Snam Rete Gas). The climatic factor remains the main driver: in the summer months, there were substantial increases in demand due primarily to energy production from thermoelectric sources, while in the last quarter of the year, the increase is due to significantly lower temperatures compared to the previous year.

In 2015, growth was supported by the residential and commercial segment, which recorded an increase of 9.8% compared to 2014, as well as the thermoelectric sector which, with an increase of 15.3%, amounted to 20,495 Mcm. In contrast, the industrial sector continues to show signs of weakness resulting in the only segment that, in 2015, recorded a negative mark (-2.8%) compared to 2014.

Imports accounted for approximately 90.4% of demand, net of the storage trend, while domestic production covered the remainder, amounting to 6,446 Mcm (-6.4% over 2014) with values falling to lows. The major import volumes are mainly from North Europe with a significant increase in incoming gas contribution to Passo Gries.

The gas price on the PSV (the benchmark spot market for gas in Italy) for 2015 was 22.0 €/MWh, a decrease of 4.8% over 2014, while the gas price on the TTF (the benchmark spot market for gas in northern Europe) was 19.8 €/MWh, a decrease of 5.1% over the previous year. The similar amount of declines resulted in a 2015 PSV-TTF differential of 2.21 €/MWh, in line with the 2014 differential of 2.27 €/MWh.





0.3

Changes
in legislation

Generation and Trading Business Unit

Recent changes in legislation in the electricity sector

Production

Legislative Decree no. 79/1999 (hereinafter the Bersani decree) liberalized energy production: with the objective of encouraging competition in the market it prescribed that from January 2003 no producer may generate or directly or indirectly import more than 50% of the total electricity produced and imported in Italy.

Incentives for the production of renewables

In addition, the Bersani Decree set the requirement to give priority to the use (dispatch priority), at the same price offered, of electricity produced from renewable energy sources (in addition to that produced by cogeneration) when transmitting and dispatching electricity.

With effect from 2001, importers and entities in charge of plants which in any one year import or produce more than 100 GWh of electricity from non-renewable sources are required to put into the national electricity grid, in the following year, a proportion of electricity produced by renewable source plants, excluding cogeneration, self-consumption at the plant and exports, initially equal to 2% of the total produced/imported. These entities may also meet this requirement, wholly or in part, by buying the equivalent proportion or the relative allowances (Green Certificates, which attest the production of a specific quantity of electricity certified as produced from renewables) from other producers or from the GRTN (now the GSE).

By way of Legislative Decree no. 387/03, implementing Directive 2001/77/EC and relating to the encouragement of electricity produced from renewable energy sources in the internal electricity market, additional requirements on the matter were subsequently set out, including:

- regulation by the Electricity, Gas and Water Authority of local exchange services for plants fuelled by renewable sources having a power not exceeding 20 kW (the right to the service was subsequently extended by Law no. 244/07 to plants having a power not exceeding 200 kW) and of dedicated services for the withdrawal (by the GSE) of the electricity produced

by plants fuelled by renewable sources having a power less than 10 MVA and by plants having any power fuelled by renewable wind, solar, geothermal, wave power, tidal power and hydraulic power sources, limited in the latter case to flowing water plants;

- the introduction of specific measures to encourage the use of solar power (in the form of an incentive tariff of decreasing amount having a duration such as to ensure a fair remuneration of the investment and usage costs), which then led to the Energy Account.

In addition, by way of Law no. 244/07 (the 2008 Finance Law), an All-Inclusive Tariff was introduced which acts as an incentive mechanism, an alternative to Green Certificates, reserved for IAFR qualified plants (plants fuelled by renewable sources), having an average annual nominal power not exceeding 1 MW or 0.2 MW for wind plants. This law also revised a number of provisions regarding Green Certificates.

Implementing the requirements of Directive 2009/28/EC, Legislative Decree no. 28/2011 governs the criteria for setting up incentive regimes designed to achieve the renewable production targets for the period up to 2020, then implemented by the Ministerial Decree of July 6, 2012. The provisions set out in the decree are applicable for electricity production plants fuelled by renewable sources other than photovoltaic plants, having a power not less than 1 kW, to which incentive tariffs are recognized for which they have direct access for power levels below the thresholds set by the law, or as the result of tender procedures for power levels above these. The decree additionally grants a net production incentive for plants which produce electricity from renewable sources which began operations by December 31, 2012 and which have acquired the right to use Green Certificates for the entitlement period remaining after 2015. Therefore, as of the year 2016, incentives due to the electricity production of plants, in line with the timing for the withdrawal of Green Certificates, will be paid by the GSE on the basis of the signing of a special agreement.

Large hydroelectric derivation concessions

Changes in legislation over the past few years have in real terms led to the continuation by the present holders of the use of existing concessions even if they have formally expired, including certain of these held by A2A S.p.A., having introduced regulations to enable tenders to be called. More specifically, article 37, paragraph 4 of Law 134/2012 converting Decree Law no. 83/2012, the “Growth Decree”, confirmed the period of 5 years before the expiry of the concession as being the time reference within which a tender must be called for reassignment and set the term of new concessions in 20 years, extendible to 30 years depending on the size of the investments granted according to the criteria established by an implementing Ministerial Decree, not yet issued. In addition, a special transitional regime (accelerating) has been provided for calling tenders for concessions which have already expired or which expire

on or before December 31, 2017 (those which were unable to comply with the 5 year period for calling the tender). These tenders should have been called within two years of the effective date of the above implementing Ministerial Decree. The new concession must start at the end of the fifth year following the original expiry date and in any case no later than December 31, 2017. The failure to issue, to date, Ministerial Decree Tenders and the expected compressibility of the related duration, constitutes an inevitable extension de facto of the management from existing concessionaires, even for these derivations that have already expired, beyond the deadline of the end of 2017, according to the provision of paragraph 8 bis article 12 of Legislative Decree 79/1999, according to which until the new contractor takes over, the concession is - automatically - continued by the proprietor under unchanged conditions, and with no need for additional administrative measures.

In terms of the pass of the concession from the outgoing to the incoming operator, the legislator (art. 37 cit., paragraphs 5 and 6) has opted for the sale of the business unit used for the concession against the payment of a price and an amount (respectively for dry and wet works), which have been previously established and agreed between the outgoing concessionaire and the granting administration and which are published in the tender offer. The task of defining the technical-economic parameters for the determination of the price and amount is entrusted to the D.M. Tenders, after consulting with the AEEGSI. If no agreement can be reached between the outgoing concessionaire and the granting administration on the size of the consideration and the amount, an arbitration procedure comes into play.

In September 2013, the European Commission sent the Italian government a default notice stating that certain of the provisions just referred to (in particular the timing of the tender and the means by which the business should be transferred) and recently introduced by the Italian legislator (by way of Law no. 134/2012 converting Decree Law no. 83/2012 the “Development Law”), as well as certain rules in the legislation of the autonomous provinces of Trento and Bolzano, are inconsistent with the principles and laws of community law (freedom of establishment; article 12 of the “Bolkestein Directive” 2006/123/EC). Despite the evaluation of pro-competitiveness made by the Constitutional Court (Sent. 28/2014) on the rules introduced by art. 37 (defined as provisions that “are designed to simplify access for economic operators to the energy market under uniform conditions across the country by regulating the relative published procedures with regard to the timing of the bids and the contents of the tenders”), the Italian Government has recently decided to report to the European Commission a future amendment to said regulations, as part of an overall regulatory reorganization of the sector.

In terms of regional regulations, the Lombardy Region, first by Law no. 19/2010 and then by Law no. 35/2014 amended Regional Law no. 26/2003, inserting article 53-bis, which governs the temporary continuation of the exercise for expired concessions, contemplating the possibility for the Region to impose, with subsequent resolutions - not taken to date - an additional fee

to be paid as of January 1, 2011. On February 20, 2015, said regulations were appealed by the Government before the Constitutional Court, thus the related verdict of the Consulta is pending. In order to overcome the foundation of this government appeal, the Region, by Regional Law 22/2015, repealed the provision of the additional fee, however replacing it with the possibility to impose on unspecified concessionaires compensatory measures. On October 5, 2015, the Government thus resolved to appeal to the Constitutional Court also against the latter regional regulations, reiterating that the matter of the financial charges imposed on concessionaires regards competition and is therefore exclusive state competence, and also the finding that the exercise of expired concessions is the responsibility of outgoing concessionaires, under unchanged conditions, pursuant to aforementioned paragraph 8-bis of art. 12 of Legislative Decree 79/1999, without it being legitimate to configure any discretion power of the Region in this regard.

Moreover, by way of executive decree 11849 of December 5, 2014, the unit amounts of regional State fees applicable to small and large derivations have been updated to 2015 (respectively 15.44 €/kW and 31.09 €/kW). A decree of November 22, 2013 then set the amount at which the additional BIM fees are to be paid by entities awarded hydroelectric derivation concessions for motive-power generation for the two-year period from January 1, 2014 to December 31, 2015. In particular, for each kW of average nominal power granted or recognized, said measure is increased:

- from 22.13 euro to 22.88 euro for concessions with an average annual output exceeding 220 kWe and up to 3000 kW;
- from 29.40 euro to 30.40 euro for concessions with an average annual output exceeding 3000 kW.

Despite the two appeals of the Government against the previous laws *ad hoc*, Lombardy has extended the award of two hydroelectric concessions expired to Edison and A2A. Specifically, the council resolved “the temporary continuation of the exercise” of the Belviso Superiore and Cancano-Premadio I plants, the concessionaires of which are, respectively, Edison and A2A. In fact, the concession of Edison expired on June 29, 2014, while the one of A2A on July 28, 2013. Both temporary continuations - that as the resolution specifies “do not involve extension of the concession” - are fixed for the term of December 31, 2017, subject to earlier (and highly unlikely) conclusion of the public award procedure.

Remuneration of plants essential for the safety of the electricity system

Law no. 116/14 of August 11, 2014, converting Decree Law no. 91/04 (Competitiveness Decree Law) “Competitiveness Decree Law”, among the other measures designed to reduce electricity bills for end customers with a low and medium voltage supply (article 23) the

legislation provided (paragraph 3-bis) that until the 380 kV “Sorgente-Rizziconi” power line connecting Sicily with the mainland becomes operational, as well as the other measures aiming to achieve a significant increase in the interconnection capacity between the Sicilian electricity network and that of the mainland, all the electricity production units having power exceeding 50 MW situated in Sicily, with the exclusion of non-programmable renewable plants, shall be considered to be essential resources for the safety of the electricity system, with the requirement for offering on the market of the previous day.

As of January 1, 2015 until the date of entry into operation of the power line (scheduled for the first half of 2016), the bid and remuneration procedures of these units were therefore defined by the AEEGSI respectively by way of Resolutions nos. 521 (defining Scheme 91/14) and 500/2014/R/eel.

In particular, for the purpose of defining scheme 91/14, the Authority proposed adopting the cost reintegration approach (article 65 Resolution no. 111/06), which allows a timely recognition of costs, including the fair return on invested capital.

Following the submission by Edipower S.p.A. of the request for the recognition of the cost reinstatement fee for the year 2014 for the plants San Filippo del Mela 150 kV and San Filippo del Mela 220 kV, with Resolution 612/2015/R/eel, the AEEGSI ordered the disbursement of an additional payment for 2014 amounting to 53 million euro.

On December 30, 2014, Terna S.p.A. published the list of plants essential for the safety of the electricity system valid for the year 2015, confirming the inclusion of the plants in San Filippo del Mela 150 and 220 kV among the units essential for the operation of the electricity market. By Resolution 453/2015/R/eel, the Authority then in fact renewed the essential framework for all plants in Sicily over 50 MW (excluding FER renewable energy sources), as required by Decree Law 91/2014, simultaneously updating the reintegration fee of generation costs.

By Resolution 663/2015/R/eel, the Authority finally recognized the essentiality of the group SFM 150 kV also for all of 2016, and the group SFM 220 kV up to the commissioning of enhancement of the cable Sorgente-Rizziconi.

Remuneration of production capacity availability

The mechanism currently in force in Italy for the remuneration of production capacity is the Capacity Payment, which was introduced by Legislative Decree no. 379 of 2003 as a transitional system and regulated by the Authority in 2004. It is an administrated mechanism the purpose of which is to ensure the adequacy of the electricity system in terms of overall national demand especially in the days, defined as critical, in which the difference between supply and demand could be at minimum levels.

The current regulation provides for the Authority to define ex ante an amount that is paid for the existing production capacity and enabled for the provision of dispatching services.

Aforementioned Legislative Decree no. 379 of 2003 establishes that the remuneration of the capacity at regime should be based on a market mechanism regulated by Resolution ARG/elt 98/11: an auction system in which operators awarded acquire the right to receive a bonus (in €/MW/year) and the obligation to offer all the capacity awarded in the energy and services markets and return to the counterparty (Terna) the difference between the benchmark prices and the strike prices.

Initially, the Capacity Market provided three-year auctions with a four-year planning horizon, the first auction was expected for 2017. By Resolution 95/2015/l/eel, the Authority however proposed to the MiSE to anticipate the first auction already at the end of 2015 with delivery period already in 2017 and with an annual contract (First implementation phase).

As part of the procedure initiated by way of Resolution 6/2014/R/eel, with Resolution 320/2014/R/eel, the AEEGSI has extended to the Ministry of Economic Development (MiSE) a proposal for the integration of the rules of the electricity production capacity remuneration transitional mechanism, in accordance with the provisions of the Stability Law, in force since January 1, 2014, related to the provision of flexibility services.

In August 2015, the Italian Government pre-notified the DG Competition of the operational mechanism, but not the current one, transient. The Commission requested some clarifications, provided by the Government at the end of November. Pending the approval by the EU, some measures of the AEEGSI have not yet been implemented (Resolution 320/2014/R/eel and Resolution 95/2015/R/eel).

Transport capacity fees

By way of Resolution 63/2015/R/eel, the Authority settled the amounts resulting from the application of the compensatory mechanism on the average 2004 CCT charge, following the sentence of the State Council no. 463/15.

In particular, it is established that Terna and GSE implement the provisions set out in Resolution 299/2012/R/eel concerning the regulation of the economic items pertaining to the application of the CCT compensatory mechanism requiring Terna, no later than March 31, 2015, to pay to the GSE the amount of 9.8 million euro in order to pay the amounts due to the operators: the group companies concerned collected a total of 1,623,564 euro.

Electrical imbalances

Resolution no. 111/06, which defines the rules and methods of calculation and valorization of electrical imbalances, has been the subject of several changes edited by the AEEGSI in order to align the regulation to the need for an efficient market configuration that drives operators to realize as best as possible production and consumption forecasts and avoid phenomena of speculation or market distortion. Resolutions no. 342/2012, no. 239/2013 and no. 285/2013 amending the aforementioned regulation have been appealed by some operators, including the A2A Group, which led to their cancellation with potential retroactive effects from July 2012.

In order to implement the indications of the State Council, the Authority published, in 2015, two consultation documents, no. 445 and no. 623 in order to implement the indications of the State Council but also the need of dispatching service users which, in the period of application of the aforementioned regulation, had adopted the regulation of the imbalances - which is the one cancelled - consistent with the purposes and functions of the dispatching service. In the first months of 2016, the final publication of the discipline is expected, followed by the definition of the economic items.

Market Coupling

By way of Resolutions 45/2015/R/eel and 52/2015/R/eel, the Authority introduced provisions for the management of market coupling with reference to the borders with France, Austria and Slovenia for 2015, initiated on February 24, 2015.

Efficient Utility Systems

Efficient Utility Systems (SEU and SEESEU) are Simple Production and Consumption Systems consisting of at least one production plant and one consumption unit directly connected through a private link without obligation of connection to third parties, and connected directly or indirectly, through at least one point, to the public network.

Attainment of qualification as SEU or SEESEU, issued by the GSE, involves the recognition of facilitated tariff conditions on the electricity consumed and not withdrawn from the network, limited to the variable parts of the general system costs, as required by Legislative Decree no. 115/08 and article 25-bis of Decree Law no. 91/14 converted into Law no. 116/14.

By clarification of June 12, 2015, the Authority specified that the generation auxiliary services must consider the ancillary services as per the definition of the Unipede (now Eurelectric) and therefore also plants subservient to production such as, for example, fuel handling, heating, lighting and office systems directly related to the exercise of the power plant.

Breakdown of the relevant electricity grid into areas

By Resolution 511/2015/R/eel, the AEEGSI extended, for the year 2016, the breakdown of the relevant electricity network into areas following the new EU Regulation no. 2015/1222 of July 24, 2015 laying down guidelines for Capacity Allocation and Congestion Management (CACM) in terms of market areas. This extension follows the preceding one introduced by Resolution 424/2014/R/eel, which had extended, for the year 2015, the validity of the breakdown of the relevant network into areas in force for the three-year period 2012-2014.

Emission Trading Scheme

The Emission Trading Scheme (ETS) is the main European greenhouse gas emission control system in order to achieve the environmental objectives for 2020 and 2030. This mechanism was introduced by Directive 2003/87/EC (Directive EU ETS), which requires large plants (both for thermoelectric production and industrial) to limit emissions of greenhouse gases within a maximum established “cap”. The EU ETS Directive was amended by Directive 2008/101/EC of November 19, 2008 and by Directive 2009/29/EC of April 23, 2009, with the aim of refining the EU ETS system and extending it to both additional and different activities with respect to those considered initially, and to gases other than carbon dioxide.

The mechanism is cap and trade and provides for the establishment of a cap on CO₂ emissions in Europe and the obligation, for all plants within the scope outlined in the legislation, to have every year a certain number of emission permits (share of CO₂) equal to the tonnes emitted into the atmosphere. As of 2013, the Third Phase entered into operation (Phase I: 2005/2007, Phase II: 2008/2012).

In order to allow the ETS mechanism to adapt to the changing economic and industrial conditions of recent years, and to maintain effectiveness in relation to the reduction of emissions, the European Parliament (on July 7, 2015) and the European Commission (on October 6, 2015) introduced the Market Stability Reserve (MSR), through which the offer of permits becomes flexible and can be adjusted to keep prices of permits stable within a desired range. The MSR will become operational in 2019.

In December 2015, as part of the 2016 Stability Law, a rule was introduced that provides for an extension until the complete liquidation of the time period for reimbursement by the State of an amount equal to the value, including interest, of “CO₂ quotas” unassigned during Phase II because of depletion of the Reserve dedicated to new plants.

Recent changes in legislation in the natural gas sector

Upstream gas market

Natural gas balancing market

By Resolution 470/2015/R/gas, the Authority approved the proposed amendment to the Network Code of Snam Rete Gas regarding balancing, in order to implement the principles of European Regulation 312/2014. By the same resolution, the Authority also approved the request of the company to postpone the start of the new balancing regime provided for by the Regulation to October 1, 2015. The definition of the term for the start of the new regime will be fixed in a subsequent provision, no earlier than three months after completion of the activities necessary for implementation of the new system, taking into account the preference expressed by operators for start in the summer, but no later than the last limit set by the Regulation of October 1, 2016.

Criteria for the allocation of gas storage

By way of Decree of February 6, 2015, the Ministry of Economic Development defined the quantities and criteria for the allocation of storage capacity with reference to the period from April 2014 to March 2016, confirming the competitive auction as procedure for the allocation of said capacity.

By way of Resolution 49/2015/R/gas, the Authority, following the provisions of the aforementioned Decree, defined the relative criteria for conducting the auctions for the awarding of the storage capacity and the procedures for determining the fees applied to the services pursuant to Legislative Decree 130/10.

Said capacity was fully conferred (the last uniform modulation capacity available was allocated as part of the auction procedure on June 16).

Lastly, the Ministry confirmed, even for the period April 2015 - March 2016, the level of strategic storage equal to 4.62 billion cubic meters.

Gas exchange

By Resolution 436/2015/R/gas, the Energy Authority approved the amendments to the agreement between GME and Snam Rete Gas and the conditions of access to the PSV, allowing to make operational the access of the 'third-party Exchanges' of other European countries to the Italian domestic market, thus expanding the offer of forward products with physical delivery of gas. The new rules introduce the possibility to offer said forward products by the entities ('third-party Exchanges') that manage platforms on which products are traded with physical delivery to the main hubs of the continent.

Provisions common to both sectors

REMIT - Regulation on the integrity and transparency of wholesale energy markets

Following the approval in December 2014 by the EU Commission, in January 2015, Execution Regulation no. 1348/2014 entered into force concerning the integrity and transparency of the market.

The Regulation establishes the rules governing the transmission of data to the Agency for the Cooperation of European energy regulators (Acer) and defines the detailed information to be reported in relation to wholesale energy products and basic data. It also indicates the channels for data reporting and timing and frequency of their reporting. These obligations were effective from October 7, 2015 with respect to information related to the contracts concluded on organized markets, and from April 7, 2016 in relation to other types of transactions considered (OTC, basic technical data concerning infrastructure).

Instead, the following are currently excluded from the present reporting requirements: intra-group contracts, contracts for physical delivery of electricity produced by production units with capacity equal to or less than 10 MW, contracts for the physical supply of gas produced by a single production plant with capacity equal to or less than 20 MW and contracts for balancing services.

In compliance with the provisions of the Regulation, the Authority by way of Resolution 86/2015/E/com set up the National Register of market operators (REMIT Register). The recording obligation is required to be fulfilled by all subjects concluding transactions on wholesale energy markets (or entities acting on their behalf), the TSO and production infrastructure managers (>10 MW), transport, storage, LNG, as well as consumption units above 600 GWh/year (or entities acting on their behalf).

Commercial Business Unit

Economic conditions for the protected categories service

By Resolution 659/2015/R/eel, the AEEGSI updated the level of components to cover commercialization costs (RCV for the enhanced protection service and PCV for the free market) for the year 2016, with an upward revision of both.

The Authority also confirmed for 2015 the application of the transitional mechanism of compensation of expenses related to non-payment of final customers. The mechanism may be accessed, upon request to the CCSE (now CSEA), by operators for which there has been a significant divergence in the value of the actual unpaid ratio with respect to that assumed for the calculation of the RCV component applied during the year, and which demonstrate to have put in place efficient actions for credit management and recovery. Simultaneously with the aforementioned mechanism, an additional adjustment mechanism was also introduced for operating costs for the years 2015 and 2014.

Economic conditions for the protected service

By way of Resolution 133/2015/R/gas, the Authority defined procedures for calculating the components to cover the costs of wholesale procurement (Cmem) and related activities (CCR) with effect from thermal year 2015-2016.

With reference to the Cmem component, related to the coverage of procurement costs of natural gas of wholesale markets, the Authority extended to thermal year 2015-2016 the current calculation methods. Instead, with reference to the component to cover the costs related to activities for wholesale procurement and the coverage of certain risks (CCR), the Authority updated the value and remodulated the level of coverage of certain risks.

By Resolution 575/2015/R/gas, the AEEGSI updated the QVD component for the year 2016, reviewing the values upward.

By way of Resolution 556/2015/R/gas, the Authority updated and confirmed the mechanism parameters related to the mechanism for encouraging the renegotiation of long-term natural gas supply contracts, pursuant to Resolution 447/2013/R/gas and updated the K and q indexes for calculation of the index P_{top15} .

In this regard, and with respect to the ongoing dispute, in September, the Regional Administrative Court had rejected the appeals filed by some operators, including A2A Energia S.p.A., confirming the full legitimacy of said mechanism.

Provisions common to both sectors

At the hearing of October 7, the Chamber approved the annual Bill for the market and competition (Competition Bill), which includes a series of laws also related to the energy sector. In detail, the Bill, currently under discussion at the Senate as part of the process of conversion into Law, supersedes the protection and greater protection regime with effect from January 1, 2018, subject to the contextual occurrence of certain conditions, which if not attained, would result in the deferral of 6 months in 6 months *sine die* of the above expiry, as well as regulations concerning the separation of brand communication policies between vertically integrated companies brand unbundling).

In this regard, the Authority, by Resolution 296/2015/R/com of June 23, ordered:

- the requirement of separation of brand and communication policies between the distribution companies and the sales companies (including the company name, the company, mark and other distinguishing feature);
- that the commercial activities related to the distribution, in particular those of interface with end customers, shall be carried out through the use of information channels, physical spaces and staff separate from those relating to sales activities;
- the mandatory use of communication policies and separate brands for the conduct of the protection/greater protection service with respect to the free market, while respecting the uniqueness of the marks of the company;
- that the commercial activities related to the sale of electricity in the free market and the exercise of the greater protection service shall be carried out through the use of information channels, physical spaces and separate staff.

Environment Business Unit

Recent changes in legislation in the environment sector

Regulation of local public services and expiry of concessions

Local public services are now regulated not only by the relevant industry regulations (such as, as far as concerned, Legislative Decree 152/06) but also by article 34, paragraphs 20-26 of Decree Law no. 179 of October 18, 2012 on “Further urgent measures for the country’s growth” (“Growth Decree 2.0”), converted by Law no. 221 of December 17, 2012 and amended by Law no. 9/2014 and Law no. 15/14. In particular, this legislation requires that direct assignments agreed at October 1, 2003 for publicly held companies already listed at that date and for subsidiaries of these pursuant to article 2359 of the Italian civil code should cease at the expiry date specified in the service agreement or other documents governing the relationship. On the other hand assignments not having an expiry date terminate on December 31, 2020, without the possibility for any extension and without the need for the body to adopt a specific resolution.

By Law July 29, 2015, no. 115, art. 8, paragraph 1, paragraph 22 was amended setting new rules for companies that have become subsidiaries of listed companies after December 31, 2004 - case not applicable to Aprica S.p.A. - in execution of corporate transactions carried out in the absence of procedures consistent with the principles and provisions of the EU applicable to the assignment, providing termination of the assignment at December 31, 2018 or at the deadline specified in the service contract or in the deeds that regulate the relation if signed before. It is also noted that Law August 7, 2015 no. 124 in articles 18 and 19 establishes delegation criteria respectively to revise the discipline on equity investments and public administrations and to revise the discipline regulating local public services of general economic interest; once said legislative decrees have been issued, they will be evaluated by the Company for definition of the related impacts.

Consolidated Environment Law

Legislative Decree no. 152 of April 3, 2006 (“Regulations on environmental matters”) as subsequently amended, most recently by Legislative Decree no. 205/10 which dictates measures implementing Directive 2008/98/EC on waste, acts as the reference legislation for the environment sector. The most recent substantial amendment to parts II, III, IV and V of Legislative Decree 152/2006 was made by Legislative Decree March 4, 2014, no. 46 laying down provisions on industrial emissions in implementation of Directive 2010/75/EU and Integrated Pollution Prevention and Control (IPPC). In particular, AIA activities have been extended and the decree envisages, as specified in Ministerial Decree no. 272 of November 13, 2014, the obligation, if the preliminary Subsistence Verification requires so, to prepare a report with reference to any request for new activity or any substantial authorization changes, that depict the situation of the impacts on the environment and health of the activity, in order to assess the status of the production site before, during and at the end of activities. It is noted that in this regard, the Note was recently published of the Ministry of Environment of June 17, 2015, no. 12422 - Integrated Environmental Authorization (AIA) - “Additional criteria on application of the guidelines in light of the amendments to Legislative Decree 46/2014”.

In Official Journal January 18, 2016, no. 13, Law December 28, 2015, no. 221 was published regarding “Environmental provisions to promote green economy measures and for containment of the excessive use of natural resources” (*Collegato Ambientale* - Environmental Connection). Regarding in particular the management of waste, conferment to landfills is discouraged and separate collection is awarded, also through “returnable” and the reduction of non-recycled waste is promoted.

TARES and TARI

As of January 1, 2014, based on article 14 of Decree Law 201 of 2011 (Save Italy), TARES has been replaced by TARI, a part of the IUC, the Single Municipal Tax introduced by the Letta government in the 2014 Finance Law (Law no. 147 of December 27, 2013 on “Provisions for the formation of the State’s annual and long-term budget”).

Industrial emissions

Legislative Decree March 4, 2014 no. 46 on provisions on industrial emissions implementing Directive 2010/75/EU (also referred to as IED – Industrial Emission Directive) introduced new regulations having an effect on all industrial plants, with new limits on atmospheric emissions and increased and tighter controls. By way of implementing this provision, starting in 2016,

also the regulations to be followed by waste-to-energy plants, currently dictated by Legislative Decree no. 133/05, will be introduced by Legislative Decree no. 152/06 in the text dictated by Legislative Decree 46/14.

With reference to proceedings initiated by managers of existing plants which, following the introduction of the amendments introduced by the Decree, were within the scope of the AIA discipline and therefore had to submit the request *ex novo*, Decree Law 92/2015 amended article 29 of Legislative Decree 46/2014 providing that *“The competent authority concludes the proceedings initiated in response to the requests referred to in paragraph 2, by July 7, 2015. In any case, pending the conclusion of proceedings, plants can continue operation in accordance with the existing authorizations, if appropriate duly updated by the authorities that granted them, under the condition of fully implementing, in accordance with the timing envisaged in the requests referred to in paragraph 2, the adjustments proposed in the aforementioned requests, as necessary to ensure compliance of plant operation with Title III-bis, of the second part of legislative decree of April 3, 2006, no. 152”*.

Other measures of interest

In December 2014, two EU regulatory acts relating to waste classification were issued: Regulation 2014/1357/EU (in force since June 1, 2015) and Decision 2014/955/EU.

It is also noted that Ministerial Decree June 24, 2015, which amends the previous Ministerial Decree September 27, 2010, concerning the definition of the criteria for admissibility of waste in landfills, which introduces new criteria for the management of hazardous waste, as well as further regulations on the applicability of certain parameters (TOC, DOC, TSD).

Lastly, Decree Law June 19, 2015, no. 78, containing urgent measures concerning local authorities, converted into Law no. 125 on August 6, 2015, article 7, paragraph 9-ter has provisionally set the criteria for the attribution of the eco-toxic hazardous characteristic to waste and confirmed the adoption of the criteria set out in the ADR.

In Official Journal no. 302 of December 30, 2015, Decree Law December 30, 2015, no. 210 was published regarding “Extension of terms set by laws”. Regarding the environment, the main updates and deferrals relate to the Sistri, the postponement to January 1, 2017 of the adaptation term for large combustion plants for which requests were submitted for exemption and lastly, the postponement to February 29, 2016 of the prohibition of conferment of municipal waste, with calorific power of less than 13,000 kJ/kg, to landfills.

The “Unblock Italy” Decree Law – provisions on waste-to-energy

The Official Journal no. 212 of September 12, 2014 published Decree Law no. 133/2014 (the “Unblock Italy” Decree) on “*Urgent measures for the opening of worksites, the construction of public works, the digitalization of the country, bureaucratic simplification, the emergency of hydro-geological instability and a pick-up in industrial activities*”) Among the provisions of interest is article 35 regarding waste-to-energy plants, related to which the Prime Minister’s Decree is pending, which identifies the plants for the recovery of energy and the disposal of urban and special waste and some categories of special waste, already existing or yet to be constructed, which are needed to implement a modern integrated system for managing this waste which can achieve national security in self-sufficiency, in order to supersede the infringement procedures for the failure to implement European legislation for the sector.

These plants will constitute infrastructure of pre-eminent national interest. For existing plants the legislation provides that it will be necessary to plan to work at thermal load saturation, with the resulting amendment of the authorizing provisions where this is not already prescribed. The new plants must be constructed to comply with the classification of energy recovery plants (energy efficiency formula for R1 activities).

Finally, since there are no catchment area restrictions, priority will be given as far as energy recovery plants are concerned to the processing of urban waste for the specific region, while urban waste produced in other regions will only be processed up to the authorized residual availability.

Law May 22, 2015, no. 68 (Crimes against the environment)

Law May 22, 2015, no. 68 introduces new offences in environmental matters. In summary, the measure includes in the Penal Code the new Title VI-bis “Provisions on crimes against the environment”, which includes, among other things, the following new offences: environmental pollution, environmental disaster, traffic and abandonment of high radioactivity material, control impediment, non-reclamation.

Other new additions include environmental aggravating, applicable to all the facts already included as offences and the so-called active repentance, which involves a reduction of the sentence for one who takes action concretely for the safety, reclamation and where possible, restoration of the condition of the premises.

Overview of the regulation of the CIP 6/92 conventions

By way of Provision no. 6 of 1992 the Interministerial Price Committee introduced incentives for the production of electricity from plants fuelled by renewable and similar sources. The provision guaranteed that ENEL would buy electricity (then the GRTN and now the GSE) at a price made up of the following two components:

- the incentive component (recognized only for the first eight years): based on an estimate of the additional costs for each individual technology;
- the avoided cost component (recognized for the whole term of the purchase agreement, up to 15 years): plant, usage and maintenance costs plus the cost of the purchase of fuel.

As is known under the 2007 Finance Law access to the incentive was restricted to plants fuelled by renewable sources, without prejudice to the existing situation. Law no. 310 of December 30, 2008 moreover returned to the subject, admitting the recognition of the incentive to plants fuelled by similar sources allowed access to such for reasons connected with a waste emergency declared by the Prime Minister.

Following the expiry of the Snam/Confindustria “Long-term agreement for the supply of gas for the production of electricity for sale to third parties”, the reference point for updating the withdrawal price for the component covering avoided costs (the CEC), the Electricity, Gas and Water Authority, as permitted by the legislator by article 2, paragraph 141 of Law no. 244/07 and article 30, paragraph 15 of Law no. 99/09, intervened with provisions no. 249/06 and ARG/elt no. 158/04 (the subject of litigation which continued for so long that at the end of 2013 the Authority made a proposal to operators to review the means of calculating the Avoided Fuel Cost component applicable for the electricity withdrawn in 2008), and finally with the publication of opinions sent to the Ministry concerning the most suitable means of updating the reference formula.

Changes in laws and regulations regarding the CIP 6/92 incentives

By way of Decree Law no. 69 of June 21, 2013 (the “Decreto del Fare”), converted by Law no. 98 of August 9, 2013, the government set the value of the CEC for 2013 and following years.

From 2014, the value of the CEC – as far as the gas CEC is concerned – must be updated quarterly on the basis of the procurement cost of natural gas on the wholesale markets, as determined in Deliberation no. 196/2013/R/GAS as amended.

As far as the waste management cycle is concerned, for waste-to-energy plants situated in emergency areas the value of the CEC must on the other hand be calculated on the basis of the basket as per Law no. 99/2009, with oil products having a weight of 60% until the completion of the eighth year of activities.

By way of Opinion no. 503/13/l/eel, the Authority reported to the Ministry of Economic Development the guidelines used to calculate the CEC for 2013 and subsequent years, implementing the provisions of the decree.

In compliance with the proposed decisions, the balance due for CEC in 2013 and the advance for the first quarter of 2014 were established by means of the Decree of January 31, 2014.

Specifically, the decisions were found to be:

- for 2013, more favorable for plants not located in waste crisis areas;
- for the first quarter of 2014, more favorable for plants located in waste crisis areas (Acerra for the A2A Group) which were able to continue to benefit from an indexing applied to the PTOF.

The Ministry has also provided for the simplification of the procedure for establishing the relevant advance and settlement values for the operators included in the convention, leaving the Authority the task of calculating and publishing them on its website, subject to prior notification to the MiSE, starting from the second quarter of 2014.

Pursuant to the provisions of the decree, in communications of May 5, 2014 and July 30, 2014 and lastly October 24, 2014, the Electricity, Gas and Water Authority subsequently published the quantification of the values of the CEC as per Section II point 2 of provision no. 6/92 of the CIP on account (respectively) for the second, third and fourth quarters of 2014 for waste-to-energy plants that have been in service for not more than eight years and for plants situated in waste emergency areas, as well as for plants not falling in these categories, with reference to the relative period of entry into service. In February 2015, the GSE provided the update of CIP6 sale prices for 2014 (balance) and for the first quarter (advance payment), specifying that for plants commissioned in the two-year period 2001-2002 and subsequent (which are subject to the provisions of article 5, paragraph 5 of Decree Law 69/2013) the CEC value to be paid amounts to 7.01 €/kWh for 2014 and 6.46 €/kWh for the first quarter of 2015.

Auxiliary services

On the completion of inspections carried out by the AEEGSI at some of the Group's subsidized plants a request was made for the return of a part of the subsidies received, a portion considered unduly credited in the years in which the relative withdrawal conventions were in force.

The companies concerned appealed against the demand for repayment, but the Regional Administrative Court and the State Council rejected these appeals and upheld the obligation for A2A to return part of the CIP 6 incentives disbursed to the subsidiaries Ecodeco S.r.l.

now AzA Ambiente S.p.A., and Ecolombardia 4 S.p.A., related to the method of calculation of consumption for plant auxiliary services.

Current regulations concerning other important incentives for the Business Unit's plants

In addition to the above, reference should also be made to the framework of laws and regulations set out in the introduction to the information provided for the Generation and Trading Business Unit for matters concerning the production of electricity by biogas fuelled plants, and more specifically the provisions on Green Certificates.

Connection of biomethane plants to distribution networks and gas transportation

In accordance with the Decree of the Ministry of Economic Development of December 5, 2013 on “Incentives for biomethane injected into the natural gas grid,” by Resolution 46/2015/R/gas, the Authority approved the guidelines for the connection of biomethane plants to the natural gas networks, to which network operators shall be required to adapt their network codes, and the provisions on determining the amount of biomethane eligible for the incentive.

Subsequently, by Resolution 210/2015/R/gas, the AEEGSI then approved the first directives on market processes relating to the placing of biomethane in networks for transport and distribution of natural gas, regulating the allocation of injections and withdrawals of biomethane as well as those for dedicated withdrawal of the same by the GSE as an alternative to the direct sale on the market and limited to plants with a production capacity of up to 500 Scm/h.

Heat and Services Business Unit

District heating, district cooling and cogeneration

Regulation of the service

At the end of June 2014, the Italian cabinet approved on a final basis the legislative decree implementing European Directive 2012/27/EU on energy efficiency which amends Directives 2009/125/EC and 2010/30/EU and repeals Directives 2004/8/EC and 2006/32/EC.

Among the provisions adopted which have importance for the Heat and Services Business Unit are a series of measures regulating the district heating service which require the AEEGSI to establish:

- service quality, continuity and safety standards;
- criteria for calculating user connection charges and the way in which users can exercise their disconnection rights;
- the way in which prices for the supply of heat, connection, disconnection and accessory equipment should be publicized and disseminated;
- reference conditions for connection to the networks;
- heat cessation charges exclusively in the cases of new networks and if there is a connection requirement ratified by municipal or regional administrations.

By way of Resolution 411/2014/R/com, the Authority accordingly initiated a proceeding for the implementation of the legislator's provisions falling under its responsibility regarding the regulation and control of the sector consisting of district heating, district cooling and hot water for domestic use, focusing the priority action areas with subsequent resolution 19/2015/R/tlr.

In order to remedy the restrictive definition of efficient district heating contained in the aforementioned Legislative Decree Energy Efficiency, with Law no. 164/2014 converting Decree Law no. 133/2014 ("Unblock Italy" Decree Law) the legislator amended this definition, thus resolving the inconsistency with as mentioned in the same EU Directive of reference.

By Decree of the Ministry of Economic Development of December 22, 2015 indicating “Revocation and update of the technical data sheets of the white certificates incentive mechanism”, the MiSE revoked sheets 40E, 47E, 36E and 21T, excluding certain interventions from the incentive mechanism for energy efficiency. The ministry also changed technical sheet 22T on district heating to adapt it to Resolution of the Energy Authority no. 9/10, as amended by Resolutions EEN EEN 14/10 and 9/11, incorporating the indications referred to in the aforementioned Decree no. 102/2014.

Networks Business Unit

Transportation of natural gas

Transportation tariffs

By way of Resolution 514/2013/R/gas, the Authority approved the regulation for the tariff of the transportation service for the IV Regulatory Period (2014-2017). The most important points to be found in the new regulatory framework include the determination of the remuneration rate for fixed capital, set at 6.3% (with a regulatory lag of +1% for future investments), the reformulation of incentivized investments and the maintenance of a capacity and commodity tariff articulation, but with the addition of an equalization mechanism for the variable part. Lastly, it provided for the phasing out of the regional fee reduction applied to points located within 15 km of the national network, introduced pursuant to Resolution ARG/gas no. 184/09.

In July, the State Council, validating the sentence of the Lombardy Regional Administrative Court no. 1729/2014, confirmed the annulment of said regulation, and therefore the transport tariffs for the period 2014-2017, in the part in which the provisions of article 38, paragraph 2-bis of Decree Law 83/2012 were not complied with, which required the Authority to “adapt the system of transport tariffs of natural gas in accordance with criteria that make the transport service more flexible and cost-efficient for the benefit of those with higher consumption of natural gas”.

In this regard, it is recalled that in June, the State Council, accepting an appeal by Enel Trade, had previously stated the unconstitutionality of transport tariffs for the previous 2010-2013 period, as penalizing for some importers, and therefore annulling at the same Resolutions ARG/gas 184/09, 192/09, 198/09 and 218/10.

By consultation document 607/2015/R/gas, the AEEGSI, in compliance with the aforementioned sentence of the State Council of June 2015, confirmed its orientation in relation to the method for determination of said tariffs, and in particular criteria the allocation of revenues between capacity and commodity components to the extent respectively of 90% and 10%, considering said allocation aligned to the costs actually incurred by the transport company to provide the service.

Distribution of natural gas

Allocation and performance of the distribution service

Following the reform of the means of allocating the natural gas distribution service, 177 “Minimum Territorial Ambits” were defined (the Ministerial Decree of January 19, 2011 and the Ministerial Decree of October 18, 2011), for which tenders will be called for the allocation of the service in accordance with the requirements of the Tender regulation (Ministerial Decree November 12, 2011 no. 226, as subsequently integrated and amended). Regulations have also been adopted to protect the jobs of the employees of the operators involved in the restructuring of the sector (the Ministerial Decree of April 21, 2011). In recent years, several provisions have intervened amending Legislative Decree 164/2000 and Ministerial Decree 226/2011 with particular reference to the procedures for determining the reimbursement to be paid to the outgoing manager and calling tenders. In particular, by way of the Ministerial Decree of May 22, 2014 guidelines have been approved regarding the criteria and means of application for determining the reimbursement value of the natural gas distribution plants, while Ministerial Decree May 20, 2015, no. 106 has modified Ministerial Decree 226/11 in order to implement the new regulations with regard to the calculation of the redemption value of the plants, especially with regard to the treatment of contributions and the application of the guidelines, the economic offer, and in particular with regard to fees and offers relating to investments in energy efficiency, as well as procedural additions concerning the management of tenders by the Contracting Stations. Lastly, by means of Decree Law 210/2015 (Milleproroghe 2016), a further extension was granted regarding deadlines for the publication of tender notices by Contracting Stations and the penalizations previously envisaged of the defaulting Contracting Stations were eliminated.

As part of the tasks entrusted by the legislator to the regulator, the Authority, by Resolution 571/2014/R/gas amended the service contract scheme for the distribution of natural gas, and lastly, by Resolution 407/2015/R/gas, amended the provisions adopted by Resolution 310/2014/R/gas in the determination of the redemption value of the distribution networks of natural gas, particularly in relation to the methodological aspects for identifying cases with discrepancy between VIR and RAB greater than 10%.

Area tenders

At the end of 2015, the first tenders were published for the concession of the natural gas distribution service on the basis of areas. Among these, some are related to areas in which A2A is the current manager, in particular, the area Milan 1 - City and Plant of Milan, published in the EU Official Journal on December 26.

The contract amount for the entire period of the assignment indicated in the tender amounted to 1,369 million euro. The tender includes the disagreement between the Contracting Station and the company A2A Reti Gas S.p.A. regarding the amount of the indemnity value of the plants related to the premises it manages.

The deadline for receipt of tenders by the Contracting Station is set for June 13, 2016, while the opening of tenders will take place on July 12, 2016. The offer submitted will be valid for 360 days.

Tenders will be assessed in accordance with the criteria laid down by Ministerial Decree 226/11, as amended: the economic tender will have a weight of 28 points out of 100, while the technical tender 72 points out of 100.

Distribution and metering tariffs and regulating gas quality

By way of Resolutions 573/2013/R/gas and 574/2013/R/gas the Authority approved the regulation of the tariff for municipal and supra-municipal management and the quality of the service for the distribution and metering of gas for the IV regulatory period (2014-2019). Subsequently, by way of Resolution 367/2014/R/gas, the Authority integrated the tariff regulation introducing the provisions applicable to the management of scope, while by Resolution 396/2015/R/gas, the timing was changed of the equalization mechanisms. The provisional values of the 2015 tariffs were approved by way of Resolution 147/2015/R/gas.

As in previous regulatory periods, the tariff system for the IV period also provides for tariff decoupling between the reference tariff, in order to determine the allowed revenues of the individual operator, and the mandatory tariff, actually applied to end users at a macro-area tariff level. The differences arising between the revenues admitted and those actually obtained are then eliminated through appropriate equalization mechanisms. The reference tariff is calculated in such a way as to ensure: 1) that net invested capital is remunerated; 2) that depreciation is covered, calculated on the basis of the useful lives valid for regulatory purposes; and 3) that operating costs are covered, calculated on a parametric basis and updated through a price-cap method using an X-factor depending on the size of the company. Furthermore, to minimize the time lag with which remuneration of the investments is recognized the tariffs have been determined also bearing in mind the pre-closing value of the investments for the year t-1. Unlike the previous regulatory period the incentives for certain types of investment are recognized as part of the regulation of quality.

The rate of return on capital invested recognized for the years 2014-2015 was 6.9% for the distribution service and 7.2% for the metering service, while for the 2016-2018 three-year period, according to provisions of the new integrated text WACC (Annex A to Resolution 583/2015/R/com), it will amount to 6.1% for distribution and 6.6% for metering.

Finally, the Authority, by Resolution 20/2016/R/gas established the premiums/penalties related to safety recoveries of the gas distribution service for 2013. In particular, A2A Reti Gas obtained a premium of approximately 2.3 million euro, while ASVT obtained a premium of about 157,000 euro and Aspem of 80,000 euro.

Reform of the regulation of measuring the delivery points of the distribution network and Smart meter gas obligations

By Resolution 117/2015/R/gas and in accordance with Legislative Decree 102/2014 (Energy Efficiency), the Authority has taken steps to reform the regulation of the measure of the delivery points of the distribution network. New provisions were introduced on recognition and management of remote meter reading and new methods and timing for detection and provision of switching readings. The Authority allowed - within precise limits - the possibility for operators to submit improvement plans for the detection of readings that combine the objectives of the reform and the efficiency of the activity of operators.

Lastly, by way of Resolution 631/2013/R/gas as amended by Resolution 651/2014/R/gas and as last amended by Resolution 554/2015/R/gas, the Authority updated the obligations regarding installation and commissioning previously established by Resolution 28/2012/R/gas of the smart gas meter, introduced some additional specifications regarding methods for the recognition tariffs of these assets and amended the previous provisions on sanctions for non-compliance with installation and commissioning requirements for the year 2014.

Electricity distribution

Distribution and metering service tariff framework

By way of Resolution ARG/elt 199/11, the AEEGSI adopted the Consolidated Text of provisions to regulate the transmission and distribution of electricity (TIT) and the Consolidated Text of provisions regulating the supply of the Electricity Metering Service (TIME) for the IV regulatory period (2012-2015).

With reference to the distribution service, many of the tariff regulation schemes already in force during the previous regulatory period were maintained, in particular:

- the adoption of tariff decoupling, which requires a mandatory tariff to be applied to end users and a reference tariff for the definition of revenue restrictions, specific by operator calculated on the basis of the number of users (PoD);
- the application of the profit-sharing method for the definition of initial operating cost levels to be recognized in the tariff;

- the updating of the tariff quota covering operating costs through the price-cap method, setting the annual objective for increased productivity (X-factor) at 2.8% for distribution activities;
- the evaluation of invested capital using the revalued historical cost method;
- the definition of the rate of return on capital through the WACC equal to 6.4% (+1% for investments after 2012 to hedge the regulatory lag);
- the calculation of depreciation on the basis of the useful lives valid for regulatory purposes.

As of 2014, the treatment of grants (in particular lump sum grants) was amended which, unlike the past, are deducted from the invested capital and not from the recognized operating costs.

By Resolutions 583/2015/R/com and 654/2015/R/eel, the AEEGSI defined the tariff regulation of electricity transmission, distribution and metering services for the fifth regulatory period (2016-2020). The rate of return on invested capital relating to the distribution and metering service was 5.6% for the three-year period 2016-2018. The effect of the reduction of the rate of return will be partially offset by some changes to the method for recognition of capital costs and a reduction in the X-factor applied to the operating costs recognized.

By Resolution 268/2015/R/eel, the Authority approved the Network Code for the electricity transport service with reference to issues of contractual guarantees and the administrative aspects of billing and payment of fees associated with the transport service and provision of measurement data.

Lastly, the Authority published Resolution 377/2015/R/eel by which it has approved the new mechanism for calculating the equalization between standard and actual losses, as well as the update of loss factors for medium voltage supplies. This resolution substantially confirms the value recognized by the transitional mechanism.

Smart metering 2G Obligations

By consultation document 416/2015/R/eel, the AEEGSI presented its guidelines on the definition of the functional specifications of smart second-generation meters of low voltage electricity, in compliance with Legislative Decree no. 102/2014. In this regard, the Authority shall identify functional specifications for “second generation” (2G) meters and some general criteria to be followed for the design of smart metering 2G systems (future-proof design). In 2016, the activities will continue aimed at establishing the minimum criteria of the new meters to allow the start of the replacement by the operators concerned.

Provisions common to both sectors

Functional Unbundling

By Resolution 296/2015/R/com of June 23, the Authority approved the new provisions on functional separation (TIUF).

With respect to the previous provisions of the TIU (annex to Resolution no. 11/07), the most significant amendment is the introduction of brand unbundling (for which reference is made to the specific paragraph in the section dedicated to the Commercial Business Unit).

Energy saving and efficiency

Legislative Decree transposing the European Directive on energy efficiency

Among the measures adopted by the Legislative Decree implementing European Directive 2012/27/EU on energy efficiency, in addition to the provisions adopted on district heating the following matters are noted, being of particular importance for the Networks Business Unit:

- the requirement to ensure that entities carrying out metering activities provide users with individual meters that accurately measure their actual consumption and provide information on actual time of use (“smart meters”);
- provisions for superseding the electricity tariff structure using a sliding scale based on consumption and adjusting components to the cost of the actual service.

Energy Diagnosis

Legislative Decree of July 4, 2014, no. 102 transposing Directive 2012/27 (Energy Efficiency Directive) introduces into Italian law, among other things, the obligation for all large companies operating in Italy and for all Electricity users (“companies registered in the annual list established at the CCSE, now CSEA, under inter-ministerial decree April 5, 2013”) to carry out by December 5, 2015 an energy diagnosis compliant with the requirements set out in Annex 2 and industry best practices defined by the UNI CEI EN 16247 standard. The energy diagnosis allows elaborating the company energy report, analyzing energy consumption methods and identifying opportunities to improve efficiency. The A2A Group has fulfilled this obligation as falling within the Large Enterprise category and, as part of the promotion of energy efficiency measures at third parties, it has performed energy diagnoses at industrial sites performing in total over 100 diagnoses and identifying numerous investment opportunities.

Integrated water service

Duration of existing allocations

Following the referendum, which took place on June 12 and 13, 2011 the legislative provisions referred to in the questions involved were repealed, including article 23-bis of Decree Law no. 112/2008 on the assignment of local public services of economic importance.

Regarding existing management, as enshrined in article 34 of Decree Law 179/12 converted into Law 221/12 and supplemented by Law July 29, 2015, no. 115, art. 8 paragraph 1, entrustment of services to companies listed and subsidiaries of listed companies, such as those relating to the entrustments to A2A, will remain active until natural expiry.

Also in execution of the amendments of Legislative Decree 152/06 made by art. 7 Decree Law 133/14 as amended, at the meeting of September 17, 2015, the Board of Directors of the Ambit Government Entity, by Resolution no. 14, chose as form of single management of the Integrated Water Service in the Optimal Territorial Ambit of the Province of Brescia, the mixed company, with the consequent elimination, subject to the safeguards of law including thus the entrustments to the company, of all the other various forms of management in the meantime identified by the Ambit Authority on the territory of competence. On October 9, the Conference of Commons expressed binding opinion and on October 19, the Provincial Council adopted Resolution no. 38 on the form of management, thus completing the approval process.

Tariff regime

By way of Resolution 643/2013/R/idr, in fulfillment of the provisions previously adopted for the first regulatory period 2012-2015, the Authority determined the Water Tariff Method (MTI) for 2014 and 2015 and established the means and timing of the approval of the tariffs for 2012 and 2013, with reference to operators for which approval has not yet been formally resolved (which include the companies of the A2A Group) due to non-fulfillment on the part of the territorial entities.

To calculate the costs recognized in the tariff, a specific scheme (“regulatory scheme”) is included in the MTI which provides for four alternative methods of calculation (quadrants):

- based on the ratio, for each operator, between investment needs for the period 2014 -2017 and the value of the existing infrastructures (in particular, “financial amortization” is recognized in the case where that ratio is less than the reference value (equal to 0.5));
- depending on whether or not changes are made to the operator’s objectives or activities (higher coverage levels are recognized in case of changes in the scope of the activities managed);

- in application of Resolution AEEGSI 643/2013, the Board of Directors determined, with Resolution no. 12/2014, the “theta” tariff multipliers within the cap for the years 2014 and 2015. Consequently, on January 21, the Ambit Entity sent to Managers the value of the “theta” tariff multiplier for the year 2015 and the new tariff structure as from January 1st, 2015. The Province of Brescia, Government Entity of the ATO, has approved the proposal of the Board of Directors of the Area Office no. 12/2014 with Resolution of the Provincial Council no. 13/2015, passed on March 30, 2015.
- the Government Entity carried out the necessary assessments, approved during the meeting of the Board of Directors of the Ambit of the Province of Brescia of September 17, aimed at the formulation to the AEEGSI of the reasoned request for the manager A2A Ciclo Idrico S.p.A. for recognition of a sopra-cap tariff multiplier;
- in December, the AEEGSI, by Resolution 664/2015/R/idr, defined the tariff criteria for the regulatory period 2016-2019, confirming the regulatory matrix structure of the MTI and application of the maximum limit of annual increase (cap);
- tariff multipliers (theta) are determined according to a matrix of 6 regulatory schemes based on the value of operating costs per inhabitant (€ 109 average value) and the investment requirement (discriminating value of 0.5 confirmed). The multipliers are applied to the fixed and variable portions of the 2015 tariff. However, the possibility continues to be envisaged for the Ambit Entities to submit reasoned sopra-cap requests. The recognition of financial and tax expenses decreased from 6.01% in the preceding regulatory period to 5.33%;
- lastly, by Resolution no. 12 of September 17, 2015, the Board of Directors of the Ambit Entity approved the amounts of adjustments and equalization among operators related to previous items accrued in periods prior to the transfer of the amounts to the AEEGSI. Against said provision, appeal was submitted to the Lombardy Regional Administrative Court by the Manager Garda One.

EPCG Business Unit

Production

One of the energy policy objectives of the Montenegro government is an increase in the use of renewable energy by the country.

More specifically, in September 2011 the government introduced an incentivizing tariff (by way of the “Decree on the Tariff System for the Establishment of Preferential Prices of Electricity from Renewable Sources of Energy and Efficient Co-generations”) to support the production of energy from renewable energy sources (FER). Power Purchase Agreements with the market operator CGES having a 12 year term are envisaged for purchasing the energy produced, at prices annually adjusted for inflation. In October 2012, with the approval of provisions designed to implement Directive 2009/28/EC by the Energy Community, Montenegro also accepted the setting of a binding objective of 33% for the production of energy from renewable sources as a percentage of total consumption.

Transmission and distribution tariffs/sales prices

At the end of 2011, the Energy Regulatory Agency (RAE), the autonomous and independent body having the function of regulating the energy sector, approved the method to be used for calculating electricity transmission and distribution tariffs, together with the means for establishing energy prices for sales to end customers.

The new method introduces regulatory elements into Montenegro law that are similar to those in force in the principal European countries, such as the establishment of multi-year regulatory periods, the introduction of capital valuation methods and a remuneration rate and the means of making the sector more efficient through the use of price caps.

The first regulatory period started on August 1, 2012 and has a three-year term. For the first year, a WACC (weighted average cost of capital) of 6.8% is applied to net invested capital (meaning the value of the assets in use at the end of year t-1, stated less of any grants received and revalued for inflation). Capital is updated annually on the basis of investment plans

approved by the Agency, while depreciation is charged over the useful lives included in the documents sent to the Agency on making the request for approval of the tariffs. Operating costs are calculated by applying a profit-sharing logic, starting from the figures sent by the company to the Agency.

At the present moment, the tariffs calculated for the third year of the new regulatory period, which began on August 1, 2014 and was originally to have ended on July 31, 2015, are in force. The duration of this final year of the new regulatory period (as well as the regulatory period itself) has however been extended to the end of 2015 in order to align the new period beginning on January 1, 2016 to the calendar year.

Finally, at the end of December 2013 the RAE unexpectedly approved a provision to amend the current tariff methodology, impacting the method of calculating the fees for using the electricity transmission grid borne exclusively by the generation operators, with effect originally planned for the period between January 1, 2014 and July 31, 2015 but recently extended to December 31, 2015 (as seen for the term of the third year of the tariff regulatory period as well as the regulatory period itself). EPCG has filed an appeal for the annulment of this decision, which it believes is based on premises which are not in line with the principles of transparency and non-discrimination that should form the basis of the regulation, and which appear to be extremely detrimental to the economic and financial balance of the company. This appeal was upheld in the first instance, although the RAE has opposed this judgment. A final ruling by the courts is currently awaited in this respect.

At the end of 2015, the RAE determined the tariffs for a new transitional period lasting only 1 year, starting from January 1, 2016 until December 31, 2016, which essentially leave unchanged the level of regulated tariffs for domestic customers. Subsequently, the tariff methodologies will be redefined for a three-year regulatory period (2017-2019).





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Condoliated results
and report
on operation
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Summary of results, assets and liabilities and financial position

Results

The results of the A2A Group at December 31, 2015 are set out below together with comparative figures for the previous year:

<i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes
Revenues	4,921	4,984	(63)
of which:			
- Revenues from the sale of goods and services	4,732	4,761	(29)
- Other operating income	189	223	(34)
Operating expenses	(3,244)	(3,311)	67
Labour costs	(629)	(649)	20
Gross operating income - EBITDA	1,048	1,024	24
Depreciation, amortization and write-downs	(754)	(605)	(149)
Provisions	(79)	(57)	(22)
Net operating income - EBIT	215	362	(147)
Result from non-recurring transactions	(1)	9	(10)
Net financial charges	(134)	(165)	31
Affiliates	(4)	(45)	41
Result from disposal of other shareholdings	-	-	-
Result before taxes	76	161	(85)
Income taxes	(133)	(179)	46
Result after taxes from operating activities	(57)	(18)	(39)
Net result from discontinued operations	-	-	-
Minorities	130	(19)	149
Group result of the year	73	(37)	110

In 2015, “**Revenues**” of the A2A Group amounted to 4,921 million euro, substantially in line with the previous year (4,984 million euro).

Key quantitative data for the year 2015 contributing to the formation of Group revenues, compared to the previous year, are as follows:

	12 31 2015	12 31 2014
Electricity sold to wholesale customers (GWh)	10,667	9,260
Electricity sold to retail customers (GWh)	7,026	7,537
Electricity sold on the Power Exchange (GWh)	9,903	12,672
Electricity sold domestic and foreign market (GWh) - EPCG	3,307	3,357
Gas sold to wholesale customers (Mcm)	435	310
Gas sold to retail customers (Mcm)	1,118	1,100
Heat sold (GWht)	2,297	1,951
Electricity distributed (GWh)	11,178	10,782
Electricity distributed (GWh) - EPCG	2,161	2,016
Gas distributed (Mcm)	1,832	1,739
Water distributed (Mcm)	63	60
Water purified (Mcm)	36	34
Waste disposed of (Kton)	2,555	2,668

Production Details	12 31 2015	12 31 2014
Thermoelectric production (GWh)	8,429	5,540
Thermoelectric production (GWh) - EPCG	1,412	1,322
Hydroelectric production (GWh)	4,471	6,090
Hydroelectric production (GWh) - EPCG	1,459	1,716
Heat production (GWht)	2,340	2,044
Electricity produced by cogeneration (GWh)	235	233

The “**Gross Operating Margin**” equalled 1,048 million euro, an increase of 24 million euro compared to 2014.

The following table highlights the composition by Business Unit:

<i>Millions of euro</i>	12 31 2015	12 31 2014	Delta	Delta %
Generation and Trading	348	328	20	6.1%
Commercial	102	87	15	17.2%
Environment	210	222	(12)	(5.4%)
Heat and Services	74	61	13	21.3%
Networks	279	281	(2)	(0.7%)
EPCG	53	66	(13)	(19.7%)
Other Services and Corporate	(18)	(21)	3	n.s.
Total	1,048	1,024	24	2.3%

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 348 million euro, up by 20 million euro compared to 2014.

Compared to the previous year, the 2015 result benefited from lower non-recurring mobility costs for around 14 million euro, while it was affected, for around 33 million euro, by the non-recurrent positive elements of income recorded mainly in 2014, of which 8 million euro were intercompany.

Net of these effects, Gross Operating Margin of the Generation and Trading Business Unit was up by around 39 million euro: the excellent performance recorded in the thermoelectric sector, due to the effect of an improvement of the spreads on gas and coal and the greater quantities from combined gas cycles traded on the secondary markets (even following the high temperatures recorded in the third quarter of 2015), greater sales of environmental certificates, as well as the savings deriving from the plan to improve operational efficiency, more than offset the reduction of the margin in the hydroelectric sector due to the exceptional hydraulicity recorded in 2014 (1,618 GWh less; 87 million euro less).

The Gross Operating Margin of the Commercial Business Unit amounted to 102 million euro, up by 15 million euro compared to the previous year.

The 2014 result however included negative non-recurring elements of income for an amount equal to 7 million euro (mainly attributable to the intercompany items mentioned above), while on the contrary the year 2015 recorded non-recurrent positive elements of income equal to 12 million euro. Net of these items, Gross Operating Margin of the Business Unit showed a reduction of 4 million euro mainly due to the review of the electricity and gas sales prices of the contracts indexed to the oil price, for now completely settled, which were strongly penalized by the trend of the Brent prices and negatively affected the margin of the Business Unit. This reduction was almost entirely offset by the commercial development of the electricity and gas sales business, consistent with the development on the free market (mass market) provided for in the 2015-2019 business plan.

The Gross Operating Margin of the Environment Business Unit equalled 210 million euro (222 million euro at December 31, 2014).

Net of the change in the two years of the non-recurring items – i.e. around 3 million euro, in 2015 the Gross Operating Margin recorded a reduction of 15 million euro, essentially due to the lower revenues from the sale of electricity from the waste-to-energy plant in Acerra (following the reduction of the CIP 6 payment caused by the drop in prices of the reference fuels) and the Group's other waste-to-energy plants (due to the drop in electricity prices) as well as lower margins due to a reduction in the quantities disposed of at the inert waste landfill in Cortelona due to the interruption of contributions by ARPA for environmental analyzes of the water table.

This trend was partially offset by the increased margin in the collection sector, mainly due to the greater services offered for EXPO 2015 and to the Municipality of Como (urban cleaning service which started on July 1, 2013 and became fully operational in the second half of 2014), as well as a higher number of residents served following the awarding of some new concessions during 2015 (over 100 thousand new residents served).

The Gross Operating Margin of the Heat and Services Business Unit, amounting to 74 million euro, was up by 13 million euro compared to 2014: the increase, resulting from more favourable climatic conditions compared to the same period of the previous year as well as the continued and effective commercial development action (in particular in the city of Milan), was partially offset by the lower results achieved on the environmental certificates markets.

The Gross Operating Margin of the Networks Business Unit equalled 279 million euro, a decrease of 2 million euro compared to 2014. The comparison with the previous year was affected for around 18 million euro by the effect of the non-recurrent positive elements of income recorded mainly in 2014 relative to the higher revenues from electricity distribution activities for the years 2012 and 2013 (AEEGSI Resolution 258/14/R/eel).

Net of these items, the Gross Operating Margin of the Networks Business Unit was up by 16 million euro. This trend was mainly attributable to the integrated water service which, in the year in question, benefited from the tariff increases approved by AEEGSI and the greater quantities sold following greater summer consumption, as well as the public lighting sector due to the effect of the start, in July 2014, of the project to replace the lighting equipment in the Municipality of Milan with new low energy consumption LED lamps. The electricity and gas distribution sectors on the other hand recorded a margin essentially in line with 2014.

The Gross Operating Margin of the EPCG Business Unit equalled 53 million euro, a reduction of 13 million euro compared to the previous year. This performance, entirely attributable to the energy sector, was mainly due to the increase in the quantity of electricity imported following the reduction in hydroelectric production.

The **“Amortization and depreciation, provisions and write-downs”** amounted to a total of 833 million euro (662 million euro at December 31, 2014) and include amortization, depreciation and write-downs of intangible and tangible assets for 395 million euro (446 million euro at December 31, 2014), write-downs of tangible assets for 359 million euro (159 million euro at December 31, 2014) and net provisions for 79 million euro (57 million euro at December 31, 2014).

“Amortization, depreciation and write-downs” amounting to 754 million euro (605 million euro at December 31, 2014) recorded an increase of 149 million euro mainly deriving from higher write-downs amounted to 197 million euro, following the results of the 2015

Impairment Test at December 31, 2015, compared to those resulting from the Impairment Test at December 31, 2014. These write-downs concerned 246 million euro, for plants of the EPCG Cash Generating Unit, (whose impact on the consolidated economic results of the A2A Group, net of the portion allocated to the minority shareholders of 143 million euro, was 103 million euro) and 104 million euro for the plants related to the “Electricity” Cash Generating Unit. Depreciation of tangible assets decreased by 44 million euro compared to December 31, 2014 as a result of lower depreciation, for 30 million euro, related to the write-downs made in the previous year, to lower depreciation, for 19 million euro, referred to the review of the remaining useful lives of the thermoelectric plants (in the previous year) and the completion of the depreciation process of some plants as well as the increase in depreciation of 5 million euro related to investments entered into production during the year. The amortization of intangible assets decreased by 7 million euro mainly due to the adjustment of the amortization of the gas distribution networks following publication of the tender notice by the Municipality of Milan for the assignment in concession of the service gas distribution at local level.

“Provisions for risks and charges” amounted to 57 million euro (30 million euro at December 31, 2014) and relate to provisions made in the year for disputes in course and pending litigation. Provisions for the year in question were primarily affected by the provision relating to the dispute linked to the district heating project for the city of Novara. The “Bad debt provision” amounted to 22 million euro (27 million euro at December 31, 2014).

As a result of these changes, “**Net Operating Income**” reached 215 million euro (362 million euro at December 31, 2014), a decrease of 147 million euro over the previous year.

“**Net financial charges**” equalled 134 million euro (165 million euro at December 31, 2014). The reduction compared to the previous year, equal to 31 million euro, is mainly attributable to lower net payable financial interest on the debt for 23 million euro related to lower average debt and the effects of the financial strategy implemented by the Group, as well as to lower actualization charges for 6 million euro following the increase in rates. The performance of contracts on financial derivatives substantially unchanged over the previous year.

The “**Share of results of companies consolidated at equity**” was negative for 4 million euro (negative for 45 million euro at December 31, 2014) and is attributable to the write-down, for 7 million euro, of the shareholding that A2A S.p.A. holds in Rudnik Uglja Ad Pljevlja in order to adjust the book value of the shareholding with the value resulting from the Impairment Test process at December 31, 2015 and the positive evaluation of other shareholdings for 3 million euro.

The previous year was affected by the write-down of the Impairment Test of the shareholding held in Ergosud S.p.A. for 54 million euro.

“Income taxes” for the year amounted to 133 million euro (179 million euro at December 31, 2014).

Following the provision of art. 1, paragraph 20, of Law December 23, 2014, no. 190 (“2015 Stability Law”), from the current tax period, the entire labour costs relating to employees with permanent contracts with consequent benefits, are deducted from IRAP with respect to the previous year, both on current taxes and on deferred tax assets recorded for the Employee benefits provision. Also with reference to IRAP, taxes for previous years and the year implement the new method of calculation, based on the application of art. 6, par. 9 of Legislative Decree December 15, 1997 no. 446 (method of “industrial holdings”), introduced following the positive confirmation, by the Inland Revenue, to the specific request for clarification filed by A2A.

In addition, pursuant to the provision of art. 1, paragraph 61 of Law 208/2015, which ordered the reduction of 3.50% of the IRES rate from January 1, 2017, effective for tax periods following the current year at December 31, 2016, in these financial statements, the amount of deferred tax assets and liabilities has been adjusted to the new rate (24%).

The **“Group result for the period”**, after the minorities were deducted, was positive and amounted to 73 million euro (negative for 37 million euro at December 31, 2014).

Balance sheet and financial position

Consolidated **“Capital employed”** at December 31, 2015 amounted to 6,156 million euro and is covered by the net equity for 3,259 million euro and the financial position for 2,897 million euro. The Capital employed includes assets/liabilities held for sale for 147 million euro.

“Working capital” amounted to 180 million euro, a decrease of 168 million euro compared to December 31, 2014 mainly as a result of the reduction of gas inventories and the decrease in current tax assets.

“Net fixed capital” amounted to 5,829 million euro, a decrease of 365 million euro compared to December 31, 2014 mainly due to the decrease in tangible assets following write-downs and depreciation for the year and the reclassification, for 166 million euro of tangible assets held for sale.

The **“Net financial position”**, amounting to 2,897 million euro, compared to December 31, 2014 benefited from the generation of net cash flow of 466 million euro, which allowed financing investments in tangible and intangible assets for 341 million euro and the payment of dividends for 113 million euro.

<i>Millions of euro</i>	12 31 2015	12 31 2014	Changes
CAPITAL EMPLOYED			
Net fixed capital	5,829	6,194	(365)
- Tangible assets	5,067	5,625	(558)
- Intangible assets	1,348	1,318	30
- Shareholdings and other non-current financial assets (*)	80	82	(2)
- Other non-current assets/liabilities (*)	(66)	(287)	221
- Deferred tax assets/liabilities	308	323	(15)
- Provisions for risks, charges and liabilities for landfills	(576)	(498)	(78)
- Employee benefits	(332)	(369)	37
<i>of which with counter-entry to equity</i>	<i>(143)</i>	<i>(383)</i>	
Working capital	180	348	(168)
- Inventories	184	284	(100)
- Trade receivables and other current assets (*)	1,652	1,846	(194)
- Trade payables and other current liabilities (*)	(1,684)	(1,865)	181
- Current tax assets/tax liabilities	28	83	(55)
<i>of which with counter-entry to equity</i>	<i>(37)</i>	<i>(28)</i>	
Assets/liabilities held for sale (*)	147	-	147
<i>of which with counter-entry to equity</i>	<i>-</i>	<i>-</i>	
TOTAL CAPITAL EMPLOYED	6,156	6,542	(386)
SOURCES OF FUNDS			
Equity	3,259	3,179	80
Total financial position beyond one year	3,059	3,856	(797)
Total financial position within one year	(162)	(493)	331
Total net financial position	2,897	3,363	(466)
<i>of which with counter-entry to equity</i>	<i>27</i>	<i>51</i>	
TOTAL SOURCES	6,156	6,542	(386)

(*) Excluding balances included in the net financial position.

<i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014
NET FINANCIAL POSITION AT THE BEGINNING OF THE YEAR	(3,363)	(3,874)
Net result (**)	(57)	(30)
Depreciation and amortization	395	446
Write-downs/disposals of tangible and intangible assets	364	169
Affiliates	4	45
Net taxes paid	(59)	(133)
Change in assets and liabilities (*)	249	443
Cash flows from operating activities	896	940
Investments in tangible and intangible assets	(341)	(307)
Investments in shareholdings and securities	(4)	-
Disposal of fixed assets and shareholdings	7	-
Dividends received from shareholdings	2	4
Cash flow from investment activities	(336)	(303)
Free cash flow	560	637
Dividends paid by the parent company	(113)	(102)
Dividends paid by the subsidiaries	(5)	(4)
Cash flow from the distribution of dividends	(118)	(106)
Changes in financial assets/liabilities with counter-entry to equity	24	(20)
NET FINANCIAL POSITION AT THE END OF THE YEAR	(2,897)	(3,363)

(*) Excluding balances with counter-entry to equity.

(**) The net result is stated excluding gains on the disposal of shareholdings.

Significant events during the year

A2A S.p.A. and the Repower Group sign agreement for electric mobility

On January 13, 2015 A2A S.p.A. and the Repower Group, one of the leading Swiss providers in the management of renewable resources, concluded an agreement to make available to a larger number of users the charging infrastructure for electric vehicles. Thanks to this new partnership, Repower customers have been provided with a card with which they could access, in 2015, the service offered by the charging points of the A2A Group. It is a real advantage that simplifies the use of electric vehicles.

This agreement stems from the interest of electric mobility, thanks to the common intention to actively support this new sector, relaunching it with new services.

The public infrastructure for charging of electric cars realized in Brescia and Milan, with a total of 50 columns for 100 charging points, is now fully operational and, since July 2013, has allowed fast charging up to 22 kW in three-phase, allowing the latest generation cars to recharge to 80% in about 50 minutes. In parallel, the installation of private charging points is ongoing for car-sharing companies and owners of electric vehicles for the benefit of urban air quality.

A2A Ciclo Idrico S.p.A.: excellent results on water quality in Brescia

Thanks to the actions undertaken by A2A Ciclo Idrico S.p.A. in 2014, the quality of drinking water in Brescia improved further.

In December 2014, the value of hexavalent chromium, recorded in 75% of the water supplied to the city aqueduct, was less than 2 micrograms/litre, concentration below the detection limit of the analytical methods currently used.

An amount of 100% of the water has a value of less than 3 micrograms/litre, which is far below the best global regulatory standards.

It is worth remembering that a current limit of 50 micrograms/litre is set by legislation for total chromium (consisting of trivalent chromium and hexavalent chromium), a level also confirmed

in the latest edition of the Guidelines for Drinking-water Quality issued by the World Health Organization. The plants realized allow the transformation of hexavalent chromium (soluble in water) into trivalent chromium (insoluble in water), through the addition of ferrous sulphate (FeSO₄). The trivalent chromium is then removed by filtering the water through a bed of activated carbon.

A2A Ciclo Idrico S.p.A. started installation of the system for reducing hexavalent chromium in wells that had a greater presence (Serenò 2, San Donino, Grazzano and San Bartolomeo).

The A2A Group will incur expenditure of more than 4 million euro over a two-year period in order to achieve an improvement in the quality of the water distributed in the city of Brescia.

The Brescia aqueduct, managed by A2A Ciclo Idrico S.p.A., is subject to rigorous controls based on a protocol of analyses agreed with the local health authority. This protocol requires water samples to be taken on a monthly basis both from the control points (26 situated throughout the city), which are representative of the distribution network, and from the treatment plants; for the sources of procurement controls are annual or with lower frequency, depending on the quality of the untreated water sampled.

In addition to the above controls, since April 2014, the concentration of hexavalent chromium and total chromium has been measured weekly at all 26 control points of the network and the results are regularly published on the website of A2A Ciclo Idrico S.p.A..

In 2014, in the city of Brescia alone, A2A Ciclo Idrico S.p.A. carried out 4,600 tests (3,968 to check chemical and physical parameters and 632 to check microbiological parameters) and analyzed a total of 50,430 chemical, physical and microbiological parameters. These analyses confirmed that the water distributed from the civic aqueduct complies fully with Legislative Decree no. 31/01.

Each year a copy of all the analyses is sent to the local health authority which carries out its own sampling and analyses as a means of ensuring the utmost independence and efficiency of the checks with respect to the operator.

Bergamo and Brescia with LED: new public lighting project

In the city of Bergamo, by July 2016, 15 thousand light points (out of a total of 18 thousand) will use the LED equipment and, thanks to the replacement plan realized by the A2A Group, an innovative choice that will guarantee equal efficiency and equal light output, a saving of almost 50% of total consumption and 3.15 million euro in nine years on the “bill” of the Municipality of Bergamo.

With the new lighting, annual consumption per lamp will be almost halved. Overall, it went from 8.8 million kWh per year to 5 million kWh.

The amount of investments borne by the A2A Group to replace all the light fixtures in the city is about 3.6 million euro.

By 2016, all the light points of Brescia, about 43 thousand, will use LED fixtures thanks to a replacement plan commissioned by the Municipality of Brescia and realized by the A2A Group, an innovative choice that will guarantee equal efficiency and equal light output, a saving of 39% of consumption and 8 million euro in 10 years on the “bill” of the Municipality of Brescia.

A 39% reduction of electricity corresponds to an annual saving of more than 1,300 TOE (tonnes of oil equivalent), equivalent to the annual consumption of about 1,500 cars, and will allow avoiding the emission into the atmosphere of 2,700 tons of CO₂.

As a result of this new lighting annual consumption per head will be almost halved, falling from the present 92 kWh to 56 kWh.

The amount of investments borne by the A2A Group in the city of Brescia to replace all the light fixtures is 12 million euro. In December 2015, the transformation to led of public lighting reached 60%.

A2A Ambiente S.p.A.: agreement signed with Apindustria Brescia for integrated waste management of companies

On January 30, 2015, A2A Ambiente S.p.A. and Apindustria Brescia signed an agreement for the integrated management of waste from associated companies.

The agreement represents a real opportunity for associated companies that can thus take advantage of the favourable and simplified service conditions through A2A Ambiente S.p.A.; the latter acts as a single interface that ensures prompt qualified service to handle any issue relating to waste management and the resulting regulatory requirements, with particular attention to the activities of final treatment realized with high standards of quality and safety at plants mostly owned by the A2A Group, or accredited by it, authorized and certified by the most authoritative national Entities.

The collection and treatment of industrial waste, in fact, is a complex activity, regulated by a multitude of standards, which requires expertise and constant updating.

By partnering with A2A Ambiente S.p.A., a leading Italian company in the environmental sector, companies in Brescia may also benefit from a direct relation with the final operator, avoiding

the need for intermediaries. This will facilitate the transparency of the whole process of waste tracking, with a precise identification of the responsibilities of the players involved.

The agreement is aimed at more than 1,000 potentially interested companies, with an estimated production of 10,000 tons of industrial waste per year.

Under the agreement, in the next few months Apindustria Brescia will manage the dissemination and promotion of the contents of the agreement as well as any update meetings dedicated to associated companies. A2A Ambiente S.p.A. will deal with the activities of customer contact reported by Apindustria Brescia, the formulation of the offers, the conclusion of contracts, the organization and management of logistics for waste collection and transportation and the transfer to the treatment or recovery plants.

A2A S.p.A.: bond issue for 300 million euro successfully completed

On February 18, 2015, A2A S.p.A. issued a 10-year bond for 300 million euro as part of its Euro Medium Term Notes program. The renewal and increase to a total of 4 billion euro was approved by the Board of Directors on November 6, 2014.

The issue, aimed at institutional investors, recorded orders corresponding to twelve times the amount offered. The bonds have an annual coupon of 1.75%, which is at the minimum levels for the A2A Group, and were placed at an issue price of 99.221%, with a spread of 110 basis points compared to the midswap reference rate. The bonds are governed by English law and admission to trading on the regulated market of the Luxembourg Stock Exchange was requested on February 25, 2015, subject to the signing of the relevant contract documents. The issue, intended for the reimbursement of a portion of existing debt, will allow reducing the average rate of the debt of the A2A Group and, in line with the financial strategy, extending the average maturity of debt and optimizing the timing of maturities.

As previously announced, the A2A Group has also launched an offer for the partial repurchase of bonds maturing in 2016, whose outstanding nominal amount is 762 million euro. The conditions for repurchase are described in the Tender Offer Memorandum dated February 18, 2015.

The placement was handled by Banca IMI, Barclays, BNP Paribas and UniCredit as Joint Bookrunners. The Tender Offer is handled by Barclays and BNP Paribas.

Survey Databank-Cerved: A2A Energia S.p.A. even before customer satisfaction

For the third consecutive year, the Cerved Energy Observatory Databank confirmed A2A Energia S.p.A., a company active in the sale of electricity and natural gas of the A2A Group, as the leading market operator in terms of customer satisfaction. The survey conducted by the Cerved Databank Area, now in its seventh edition and which was conducted between September and December 2014, concerned 8,200 customers submitted to a structured questionnaire by phone, allowing the “clear” comparison of the performances of the main market operators (including Eni, Enel, A2A, Hera, Iren, Acea, Edison) with reference to certain factors of quality of commercial service, such as:

- the variety of channels made available to be able to easily communicate with the company;
- the ability to choose solutions and tariffs that meet the needs of each customer;
- the ability to solve problems and requests of customers in the shortest possible time;
- the quality/price ratio of the service;
- the clarity and simplicity of reading bills, the regularity of their issue and the correctness of the amounts indicated;
- the period of time between the sending of the bill and the payment term.

The overall level of satisfaction reported by customers of A2A Energia S.p.A., in particular on the segment of domestic customers, is the highest among the main players operating in the national energy market.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. filed a lawsuit in civil court against A2A S.p.A. and the French giant EDF for “very heavy damages to the value of its shareholding in Edison”, in the reorganization of the energy group dating back to 2012.

For further details of the lawsuit, refer to the specific paragraph in “Other information” of the file of the consolidated financial statements.

Municipalities of Milano and Brescia: sale of shareholding of A2A S.p.A.

It shall be noted that in the first two months of 2015 the Municipalities of Milan and Brescia sold a shareholding of 4.5% of A2A S.p.A..

This transaction was realized to integrate the sale of a block of shares of A2A S.p.A. of 0.51% in December 2014.

At the date of approval of the financial statements at December 31, 2015, the two shareholders held a shareholding of 50% plus two shares that allows the two municipalities to maintain control over the company.

Acerra waste-to-energy plant: regional environmental observatory established

The Regional Council of Campania established the environmental observatory of the Acerra waste-to-energy plant. The regional environmental observatory of the Acerra waste-to-energy plant is an independent interface body between citizens (represented also through their associations), institutions and the plant manager that has the task of permanently overseeing the correct operation of the waste-to-energy plant.

The observatory acquires analyses and summaries of technical and scientific data concerning the characteristics and operation of the plant and the results of the monitoring of emissions of the waste-to-energy plant provided by the management company and control entities, the modelling study of pollutant fallout on the territories surrounding the plant prepared by a third party identified in conjunction with the Campania region and the Municipality of Acerra, the report on the quality of soil and groundwater, and proposes technical solutions aimed at the further reduction of pollutants.

The observatory is composed as follows: representative of the department of health and natural resources as Chairman; representative of the Directorate General for health Protection and the coordination of the regional health system; representative of the Directorate General for the environment and the ecosystem; representative of the Directorate General for agriculture, food and forestry policies; representative of the metropolitan city of Naples; mayor of the municipality of Acerra or deputy; mayor of the Municipality of San Felice a Cancellor or deputy; representative of ASL (local health authority) Naples 2 North; representative of ARPAC (Regional Agency for Environmental Protection) provincial district of Naples; representatives of maximum two main environmental associations identified by the Municipality of Acerra and San Felice a Cancellor; epidemiologist appointed by the University of Naples Federico II; industrial chemical engineer appointed by the University of Naples Federico II.

A2A S.p.A.: 2015-2019 Strategic Plan approved

On April 9, 2015, the Board of Directors of A2A S.p.A. examined and approved the Group's 2015-2019 Strategic Plan. It is the first strategic plan prepared by the new governance of the Company, led by Chairman Giovanni Valotti and the CEO Luca Valerio Camerano, both appointed in June 2014.

The main objective of the Plan is to relaunch and redesign the A2A Group, initiating a process of strategic repositioning that in 2020, will result in more modern multi-utility, leader in the environment, smart grids and new energy models, more balanced and profitable, able to seize the opportunities that will open up in the Green Economy and Smart Cities.

The main development lines of the Plan can be divided into three main areas, characterized by different missions:

1. Restructuring and reduction of exposure in the thermoelectric sector;
2. Relaunch of investments in key areas of the environment, networks and free energy market;
3. Redesign of the mission of the A2A Group to seize the opportunities of the future.

With reference to the first area of action, the current context of the thermoelectric sector imposes decisive decisions and actions. The Group will start an articulated path to for exposure reduction and simultaneous modernization of its thermoelectric generation. In particular, the following are expected: decrease of thermoelectric capacity by 40%, significant reduction in operating costs (about 21 million euro per year), the reconversion of obsolete plants and about 35 million euro of investments in the flexibility of the existing Combined Cycles in order to play a leading role in the new electricity market. The restructuring activities of traditional generation are expected to contribute to the creation of about 148 million euro of incremental Gross Operating Margin by 2019.

In terms of investment, it was planned to relaunch the investments aimed at development (1.4 billion euro out of a total of 2.1 billion euro of overall investments including Group maintenance investments) with the aim of strengthening its leadership in sectors characterized by excellent development prospects and profitability growth. In particular:

- in the environmental sector, it is planned to strengthen the presence in the treatment of the residual fraction sector downstream of differentiated collection - about 1 million tonnes - both through organic growth and through targeted acquisitions, and a renewed commitment to engineering and EPC, in Italy and abroad. Even waste collection will record an increase in residents served by 2019 of 20% compared to 2014. The relaunch of the environment will contribute to an increase in Gross Operating Margin of approximately 54 million euro;

- in the natural gas distribution sector, investments are planned to consolidate and strengthen the Group's presence in areas covered as a result of participation in tenders being finalized for the entrustment of services (+13% of gas delivery points at the end of the plan compared to 2014 and an additional 19 million euro);
- district heating will be further developed, generating an increase of 18% by 2019 of volumes distributed and around 28 million euro in Gross Operating Margin compared to 2014, through the optimization of the existing network, the enhancement of the most competitive heat sources and exploitation of the consolidated presence the A2A Group in the major urban centres of Lombardy, many of which still characterized by low levels of penetration;
- the retail sector of the energy business will be characterized by an important expansion phase, in continuity of the strategic lines already outlined, with significant investments to strengthen sales channels to triple customers served both in the gas and electricity markets in the period 2015-2019. The contribution to the growth of the Gross Operating Margin is approximately 53 million euro;
- also EPCG income, Montenegrin subsidiary of the Group, shows an increase over the time frame of the Plan (approximately +60 million euro by 2019) determined by increased production and operational efficiency and expected tariff developments as of 2016.

The third area of action is aimed, through gradual and scalable investments, at laying the foundations to allow the A2A Group to seize the growing options arising from the Smart Cities and the Green Economy. It is expected to initiate the activities necessary to successfully face the paradigm shift of the electricity system, laying the foundations for the creation of new industrial solutions, developed from projects that are already operationally in progress (ex. LED project in the Municipalities of Milan and Brescia and energy efficiency business line), to achieve increasingly innovative services also in energy conservation, energy community and smart grids. The contribution to the overall growth of the Gross Operating Margin of these activities is approximately 33 million euro.

The achievement of these objectives will be pursued in accordance with and through three additional guidelines.

Operational discipline and in the capital structure, divided according to the following guidelines:

- implementation of an effective organization, oriented to achieving results, with dedicated Business Units, efficient staff, simplified governance and greater delegation to management;
- operational efficiency: in addition to continuing with the process of identification and implementation of operational efficiency initiatives (savings of around 130 million euro of operating costs expected over the plan), an ambitious "En&A" project has been

initiated (not yet valued in the figures of the plan) to review the Group's Corporate and Business processes with a view to continuous improvement. The objective of the project is to increase the efficiency and effectiveness of business processes, at the same time improving flexibility and ensuring accurate operational monitoring;

- policy of growing dividends in line with the development plan, however compatible with the strengthening of the Group's financial and equity solidity. The Strategic Plan provides for the confirmation for the years 2015 and 2016 (DPS of around 3.6 euro cents) of the 2014 dividend, which in turn increased by 10% compared to 2013. Significant growth is expected in the following years of the plan in line with the development of the industrial results and with the simultaneous strengthening of financial solvency indexes in order to maintain a debt risk profile that is consistent with a solid "Investment Grade" rating;
- dialogue aimed at the valorization of employees and the quality of life in the territories. In this context, in order to develop active participation and merit, several major projects have been launched, including the Gulliver Project, dedicated to the rotation of skills and work experience within the company, the Futuraza Project, aimed at the development of young talents, their retention and the development of innovation;
- transversal project management with the use of PMO chosen among the young employees of the Group;
- launch of territorial Sustainability Reports accompanied by precise commitments undertaken at stakeholder forums;
- initiatives to improve the quality of reporting of the Company's projects, activities and results;
- technological digitization and transformation: 8 projects for the digital and technological transformation of the A2A Group, through a broader and more modern use of digital channels and a new positioning of the Company's brand, with the aim of acquiring new customers, developing cross-selling, expanding the offer of services and preserving the level of service quality, currently at the top of the sector.

As part of the implementation phases of the 2015-2019 Business Plan, which has put at the center of corporate strategy the strengthening of relations with the territories, values of economic and social environmental sustainability, on November 12, the A2A S.p.A. Board of Directors resolved to implement a challenging development program of Corporate Social Responsibility activities, in line with international best practices.

The interventions will focus on four areas:

- extension to 7 territorial areas of the stakeholder engagement model, based on territorial forums and sustainability reports, experimented in recent months in Brescia;
- approval of the 2015 Sustainability Report during the Shareholders' Meeting and subsequent evolution in an Integrated Report according to the standards of the framework of the International Integrated Reporting Council (IIRC);

- definition of a new 2016-2019 Sustainability Plan and introduction of environmental and social sustainability objectives in the management incentive system;
- development of in-house training programs to consolidate a shared approach to sustainability.

The same Board of Directors resolved to extend the competence of the Committee for the Territory to sustainability issues changing its name to “Committee for the Territory and Sustainability” and its composition as follows: Stefano Pareglio - Chairman, Elisabetta Ceretti, Luigi De Paoli and Giovanni Valotti - Members.

A2A S.p.A.: resolutions of the Board of Directors

On April 9, 2015, the Board of Directors appointed, in accordance with articles 18 of the current By-Laws and 2386 Civil Code, Giambattista Brivio as non-executive Director of the Company in replacement of Mario Cocchi, who resigned on March 27, 2015. The new Director will remain in office until the next Shareholders’ Meeting.

On April 29, 2015, the Independent Director Stefano Cao resigned from the Board of Directors, following further work assignments that do not allow him to ensure the commitment and concrete operational presence required by the role.

Consequently, Mr. Cao also resigned from the office of member of the Remuneration and Appointments Committee.

The Board of Directors, taking into account the imminent Shareholders’ Meeting deadline, decided not to co-opt any member of the Board until the date of the Shareholders’ Meeting, including the appointment on the agenda.

A2A Reti Gas S.p.A.: compliance with the requirements of Resolution 651/2014/R/gas

In compliance with the obligations introduced by Resolution 651/2014/R/gas “Provisions concerning the commissioning obligations of gas smart meters” introduced in December 2014, between 2015 and 2019, A2A Reti Gas S.p.A. will replace approximately 120,000 meters with new electronic standard ones.

For this purpose, A2A Reti Gas S.p.A. has adopted its own organizational model with a specific project team dedicated full time to the development and implementation of all necessary activities.

In 2015, the actions took place in two phases, and in particular:

- until October 2015, 75,000 meters were replaced and 10,000 meters will be experimented in radio frequency in specific areas of Milan and Brescia;
- from October to December 2015, there was the second phase involving the replacement of the remaining amount needed to reach the target set by the resolution.

This project is part of the vast program, defined and regulated by the European Union to achieve the minimum objectives in terms of environmental sustainability, security, energy balance and, above all, to make end users aware of their energy use.

The increased flexibility in the technologies used will offer concrete advantages and benefits and in the future, will allow faster achievement of *ad hoc* tariffs by range or customized for customers, with the possibility of introducing innovative systems such as home automation.

A2A S.p.A.: inaugurated in Varese first solar plant for district heating

On May 19, 2015, A2A S.p.A. inaugurated in Varese the first solar thermal power plant for district heating in southern Europe. The plant will produce 450 megawatts/hour of energy per year from completely renewable source, equivalent to the needs of domestic hot water of 150 apartments, saving 43 tons of oil equivalent and avoiding the release into the environment of 108 tons of CO₂ a year.

The solar district heating technology is widespread and well established in Denmark, with some examples in Sweden, Germany and Austria as well. The plant in Varese will allow providing heat through the city's district heating network. The Varese project is particularly significant for A2A because, along with other projects such as LED street lighting in Brescia, Milan and other cities in Lombardy, or pilot projects on smart grids, it is part of the beginning of the path envisaged by the new business plan.

A2A S.p.A.: Shareholders' Meeting

The Shareholders' Meeting of A2A S.p.A., held in Brescia on June 11, 2015:

- approved the appointment as directors of the company Giambattista Brivio and Maria Elena Costanza Bruna Cappello, who will hold office until the expiry of the current Board of Directors, i.e. until the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2016.
- approved the financial statements of the Company for year 2014, together with the proposal of the Board of Directors for the distribution of a dividend of 0.0363 euro per ordinary share;

- voted in favour of the first part of the 2015 Remuneration Report;
- authorized - subject to revocation of the resolution authorizing the purchase and disposal of treasury shares adopted by the Ordinary Shareholders' Meeting of June 13, 2014, to the extent not already used - the Administrative Body to carry out transactions for the purchase and disposal of treasury shares within the maximum limit of treasury shares that may be held of 313,290,527, taking into account the shares already held by A2A S.p.A. and its subsidiaries, being one tenth of the shares making up the share capital, to pursue, in the interests of the Company and in accordance with the principle of equal treatment of shareholders and the relevant regulations, development purposes such as the transactions related to business projects in accordance with the strategic lines that the Company intends to pursue, in relation to which the opportunity of stock exchange is realized. The purchase of shares shall be made on regulated markets according to operating procedures established in the organization and management regulations of the markets. Measures and orders, and in particular for sales of the treasury shares purchased under the Shareholders' Meeting authorization, or however already in the Company portfolio may be performed through the trade, exchange, transfer or other measure as part of business projects or extraordinary financial transactions, and in this case without price limits. The Administrative Body has been granted the most ample powers for the execution of the above resolutions for a period not exceeding eighteen months from the date of the resolution.

The Shareholders' Meeting has conferred the statutory audit assignment for the years 2016-2024 to Reconta Ernst & Young S.p.A. and has also approved the adoption of the new meeting regulation in adaptation to the "traditional" administration and control system adopted by the Company.

A2A S.p.A.: resolutions of the Board of Directors

On June 22, 2015 the Board of Directors of A2A S.p.A. assessed the fulfilment, on the part of the Directors Giambattista Brivio and Maria Elena Cappello, of the independence requirements pursuant to article 148, paragraph 3, of the CFA and the fulfilment of the independence requirements under article 3 of the Corporate Governance Code of Listed Companies.

At the meeting, the Board also approved the following composition for:

- Control and Risks Committee: Michaela Castelli – Chairwoman, Giambattista Brivio and Fausto Di Mezza;
- Appointments and Remuneration Committee: Giovanni Comboni – Chairman, Antonio Bonomo and Dina Ravera.

EPCG Montenegro: approved the financial statements for year 2014 and resolved return of capital shares

On June 30, 2015, the Shareholders' Meeting of EPCG approved the financial statements for year 2014, appointed the new members of the Board of Directors (with 3 out of 7 directors designated by A2A) and approved the extraordinary capital restructuring, with coverage of accumulated losses carried forward, a precondition for the distribution of dividends in the coming years.

At the same time, the Shareholders' Meeting approved the return of a share of the capital to shareholders for an amount corresponding to the profit for the fiscal year 2014, amounting to approximately 35 million euro, of which 14.6 million euro attributable to A2A S.p.A..

This return is still in the approval phase at the Securities Commission of Montenegro. This approval constitutes a necessary condition for the finalization of the capital repayment.

Arbitration Asm Novara S.p.A.

The case, prior to the establishment of the current Board of Directors, originated in 2004 and is related to the district heating project of the Piedmont city that was planned to be realized by ASM Novara S.p.A., now in liquidation and jointly controlled by A2A S.p.A. and Pessina Costruzioni. The project was never started due to the absence of the conditions of economic efficiency and the interest of the Municipality of Novara in the realization.

For A2A S.p.A., the decision on the arbitration proceedings between A2A S.p.A. and Pessina Costruzioni for the dispute related to the district heating project in the city of Novara was unexpected in terms of negative results and quantification of the sentence.

A2A S.p.A. appealed against the Award and requested and obtained suspension of its execution, which indicated 37.9 million euro in damages to be compensated to Pessina Costruzioni.

A2A S.p.A. underlines that the arbitration board reached this decision without the issuance of interim orders, without proposal by the parties of preliminary requests and without any technical advice, which is usual and certainly necessary in proceedings of such complexity and scope.

A2A S.p.A. informed the market of the matter as from the Consolidated Annual Financial Report at December 31, 2012 and the specific paragraph "Other information" of the file of the Consolidated Financial Statements provides all the elements and updates on the litigation underway.

A2A S.p.A.: Standard & Poor’s has confirmed the long and short-term BBB/A-2 rating and improved the outlook of the rating from “negative” to “stable”

On July 20, 2015, Standard & Poor’s improved the rating outlook of A2A S.p.A., from “negative” to “stable”, confirming the long and short-term BBB/A-2 rating. The improvement of the outlook reflects the company’s positive financial policy and the commitment to continue with debt reduction despite difficult market conditions. Standard & Poor’s also positively it considered the planned strategic repositioning of the company’s business mix, associated with the improved financial structure.

A2A S.p.A.: the European Investment Bank (EIB) has financed investments of the Group for 200 million euro

On July 23, 2015, the European Investment Bank (EIB) and A2A S.p.A. entered into an agreement for a 15-year loan of 200 million euro to carry out investments related to electricity distribution, gas distribution and public lighting.

The investment program is intended to expand and upgrade the networks that primarily serve the cities of Milan, Bergamo and Brescia. In electricity and gas distribution, the main purpose of the program is to build and modernize substations, improve the security and reliability of the supply of electricity and gas, upgrade the hardware and continue to meet the quality standards set by the national legislature.

EPCG Montenegro: extension of the agreements that regulate the management

A2A S.p.A. and the Government of Montenegro had agreed to extend the management rights of A2A S.p.A. in EPCG, as governed by the agreements in place since 2009, until September 30, 2015, to allow the continuation of the negotiations already under way for the continuation of the partnership in terms of profitability and investment decisions, definition and stability of a new regulatory plan, and lastly autonomy and management efficiency.

On October 15, 2015, A2A S.p.A. and the Government of Montenegro have agreed a term sheet to adjust the drafting of the new arrangements for the management of the Montenegro company; in this regard, the parties agreed to extend until the agreements in effect since 2009 December 15, 2015.

In this last period, A2A S.p.A. and the Government of Montenegro have started the discussion on the new Shareholders' Agreements, and have shared some major issues that will be a fundamental part of these new agreements, such as the continuation of A2A's management rights through the appointment of main managers and the definition of possible way-out options for A2A from EPCG.

A2A and Sorgenia sign agreements for the use of two combined cycle plants

In November 2015, the five-year agreements became operational, between A2A and Sorgenia for the use of the production capacity of two CCGT (combined cycle gas turbine) plants. Based on said arrangements, Sorgenia will use, as of November 1, 2015, the 800 MW plant owned by A2A located in Gissi, Chieti, and similarly, A2A S.p.A. will use the 800 MW plant in Lodi owned by Sorgenia. The contracts provide that the plants remain in their properties, without any impact on employment. The purchase of gas and sale of energy produced are instead managed by Sorgenia for the Gissi plant and by A2A S.p.A. for the Lodi plant.

The objective of the operation by A2A is to create synergies deriving from the efficient management of several plant located within the same area. In fact, A2A holds other similar production plants (combined cycle plants) and located in the area in question (North). Through the management of several nearby plants, in fact, it is possible to optimize the management structures and profiles. The advantages that A2A believes the operation can generate are the following in particular:

- optimization of natural gas logistics costs: through joint management of several plants located in the same area of the electricity market and in the same area of the gas network, it will be possible to optimize the maximum daily capacity reserved with the same overall production;
- more efficient operation of the production units: the synergistic management of several plants will allow A2A to plan more efficient structures for each of them, avoiding production of a high number at low load factors (which are characterized by lower output, higher emission coefficients and higher maintenance unit costs) and reducing on and off operations, with a consequent benefit for the system in terms of transformation efficiency;
- more efficient management of available capacity: through the unified planning of maintenance, it allows avoiding simultaneous unavailability of the various units and thus avoiding losing market opportunities, also guaranteeing to the system greater security for the network.

A2A Group and Municipality of Milan: public intervention plan to renew the city's electricity grid

In early July 2015, there were exceptional climatic conditions of heat, both in terms of intensity and duration, which concerned the city of Milan: there was a significant increase in the electrical load of the grid, which reached the historical record of 1,625 MW (+30% compared to the average) and which resulted in an increase in the number of failures.

The A2A Group therefore agreed, with the Municipality of Milan, on the plan to renew within 3 years the electrical joints of the entire electricity grid in the city with a total investment estimated at 13 million euro. It is expected that about 300 excavation interventions will be carried out per month to replace the electrical grid joints no longer suitable to support the exceptional electrical loads.

A2A Group: extension of the district heating network

In December 2015, district heating also reached the Duomo of Milan and the Veneranda Fabbrica del Duomo. The heat necessary for their heating is taken from the geo-cogeneration plant of Canavese, an innovative plant for the production of heat that exploits the geothermal energy of the subsoil. It is new thermal energy produced from renewable sources and cogeneration plants.

The dissemination of district heating in the city center will avoid the emission into the atmosphere of polluting dust due to the combustion of diesel for about 500 thousand litres per year, and methane gas for about 700 thousand cubic meters per year.

At the end of 2015, the only district heating network of the A2A Group placed in the metropolitan area of the city of Milan provides thermal energy equivalent to more than 185 thousand apartments equivalent, with an increase of the volume served of 6% over the previous year, leading to about 45 million cubic meters heated by the network.

A2A S.p.A.: purchase of 2% of the share capital of Acsm-Agam S.p.A.

Following the award of the Public Auction called by the Municipality of Monza for the sale in a single solution of 2% of the share capital of the company Acsm-Agam S.p.A., equal to 1,532,382 ordinary shares held by the Municipality of Monza, A2A S.p.A. and the Municipality of Monza signed the contract for the trade of shares at a price of 2,451,811.20 euro, equivalent to 1.60 euro per share.

With the completion of the acquisition, which occurred on December 23, 2015, A2A S.p.A. holds 23.9% of the share capital of Acsm-Agam S.p.A..

The transaction took place in respect of the transfer limits of the shares envisaged by the Shareholders' Agreement in place between A2A S.p.A., the Municipality of Monza and the Municipality of Como.

Edipower S.p.A.: stipulated deed for the partial non-proportional demerger of Edipower S.p.A.

On December 28, 2015, the deed was stipulated for the non-proportional partial merger of Edipower S.p.A..

As a result of this transaction, Cellina Energy S.r.l., a company wholly owned by SEL - Società Elettrica Altoatesina - S.p.A., is assigned the compendium consisting of the hydroelectric plants owned by Edipower S.p.A. constituting the "Udine Unit", with the exception of the hydroelectric plants of Ampezzo and Somplago, along with all the active and passive legal relations functional to them and a cash outlay for a total of 38.5 million euro. SEL S.p.A., owner of a shareholding in Edipower S.p.A. of 8.54%, in turn acquired the shareholdings held by the Financial Shareholders Banca Popolare di Milano S.c.a.r.l., Fondazione Cassa di Risparmio di Torino and Mediobanca - Banca di Credito Finanziario S.p.A., equal to 11.96% of the share capital of Edipower S.p.A..

The demerger will be effective as of January 1st, 2016 and an adjustment mechanism is envisaged in relation to the financial position of the compendium demerged on December 31, 2015. Following this transaction, the share capital of Edipower S.p.A. will be entirely held by A2A S.p.A..

The partial non-proportional demerger of Edipower S.p.A., which is part of the agreements signed on the occasion of the acquisition of Edipower S.p.A. on May 24, 2012, had been approved on October 26, 2015 by the extraordinary shareholders' meetings of Edipower S.p.A. and Cellina Energy S.r.l..

Significant events after December 31, 2015

A2A S.p.A.: resolutions of the Board of Directors

On January 25, 2016, the Board of Directors evaluated the existence of the independence requirements provided for in article 3 of the Corporate Governance Code for Listed Companies of the Directors Antonio Bonomo, Giambattista Brivio, Maria Elena Cappello, Michaela Castelli, Elisabetta Ceretti, Luigi de Paoli, Stefano Pareglio and Dina Ravera and took note of the evaluation made by the Board of Auditors on the existence of the aforementioned independence requirements of all its members. At the meeting, the Board also approved the following composition for the Appointments and Remuneration Committee: Antonio Bonomo - Chairman, Giovanni Comboni and Dina Ravera.

A2A S.p.A. and Università di Brescia: agreement on energy-environmental innovation and sustainability

On February 12, 2016, A2A S.p.A. signed a collaboration agreement with Università Cattolica and Università degli Studi di Brescia, with the aim of promoting dissemination initiatives on innovation and eco-sustainability and promote the development of a widespread culture regarding energy and the environment.

Specifically, the collaboration with Università Cattolica di Brescia and Università degli Studi di Brescia Health & Wealth Study is aimed at conducting a thorough survey on the population in the Brescia area to identify environmental needs and expectations. Specifically, researchers will be asked to explore and document the best practices of the technologies and processes related to the transformation of waste materials and systems for the management and treatment of municipal waste, comparing them with the solutions adopted by the A2A Group.

The survey will also have to identify the territory's perception of the A2A Ambiente brand, and the quality of its operations in terms of both the services provided and the quality, effectiveness, efficiency and innovation level of the built and operated plants.

Brescia: new system for differentiated waste collection

With effect from April 2016, a new system will be operational in Brescia for differentiated waste collection, which will be gradually extended to the various areas of the city up to reaching full coverage in 2017. It is a combined domestic collection system: paper and cardboard, glass and metal and plastic packaging will be collected door to door, while organic and non-differentiated waste will be collected in swing-top bins with a personal electronic card.

A2A S.p.A.: initiated the buy back program

Under the resolution of the Shareholders' Meeting of June 11, 2015, A2A S.p.A. initiated a treasury share buy back program.

The buy back plan aims to pursue development objectives, among which the operations related to business projects for which the opportunity for share exchanges is provided.

The operation takes place in accordance with the provisions of art. 132 of Legislative Decree 58/1998 and subsequent amendments and art. 144-*bis* of the Issuers' Regulation, and the maximum number of shares that can be purchased was set at 35 million, equal to about 1% of the share capital of A2A S.p.A..

A2A S.p.A., between February 16, 2016 and March 31, 2016, repurchased 35,000,000 treasury shares, for a total value of 37,177,740 euro. Following the purchases made so far, A2A S.p.A. holds 61,917,609 treasury shares equal to 1.976% of the share capital.

Unareti S.p.A.: single company for network services

As part of the integration process between subsidiaries and in line with the Group's corporate structure simplification objective defined by the 2015-2019 Business Plan, A2A S.p.A. established Unareti S.p.A.. The company will manage the gas and electricity distribution services.

Unareti S.p.A., operational as of April 1st, 2016, integrates the subsidiaries 100% owned by A2A S.p.A. operating in the network services sector, with the advantage to shorten the decision-making chain and facilitate intra-group synergies, with positive effects on the operating costs and investment capacity of A2A and its access to financial markets.

The new company, included as part of the companies coordinated by the Networks and Heat Business Unit of the A2A Group, has more than 1,500 employees and achieves a turnover of

more than 600 million euro; the single company of the networks will make investments of around 600 million euro in the period 2016-2020; the operation will also allow greater ease of business development both in terms of gas tenders and in terms of possible acquisitions.

The operation and the new Unareti brand meet the provisions of Resolution 296/2015/R/com (art. 17.6), enacted on June 22, 2015, which provides for independent Managers by June 30, 2016, the obligation of functional separation (unbundling), separating the brand and communication policies between the sales companies and distribution companies belonging to the same group.

A2A S.p.A.: agreement signed to acquire the majority of Linea Group Holding

On March 4, 2016, A2A S.p.A. and AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema, partners of Linea Group Holding, signed a contract that provides for the entry of A2A S.p.A. in the share capital of LGH with 51%. Closing is expected by June 2016, subject to the fulfilment of certain conditions, including obtaining approval by the Competition and Market Protection Authority.

The operation is aimed at creating an industrial partnership, in view of the “Multiutility of Territories”, for the creation of an integrated operator in Lombardy. In the current macroeconomic context, characterized by growing difficulties, said industrial path is expected to generate value thanks to the enhancement of presence in the territories, upon reaching a dimensional scale capable of achieving operating efficiencies, responding to the growing sophistication of the offer, overcoming increasing commercial competition and the increasingly national dimension of some businesses, and boosting investments.

Investigation into alleged violations of the law on Public Procurement in EPCG

A2A S.p.A. acquired the shareholding - currently of 41.7% - in EPCG by means of the international tender held in 2009, and under the so-called “EPCG Agreement” dated September 3, 2009, it acquired the right to manage the company, appointing the Executive Director (CEO) and Executive Manager.

As part of the management of EPCG by A2A, also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, A2A Reti Elettriche (now Unareti S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. As regards A2A S.p.A., they primarily involve

administrative services and organizational support provided through A2A personnel who dedicated part of the time from Italy and directly at EPCG and, as regards A2A Reti Elettriche (now Unareti S.p.A.), services related to the implementation of a software for remote monitoring and management of electricity meters.

Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

In view of the synergistic importance of intra-group services requested by EPCG to A2A, EPCG applied for and obtained, by the State Commission for the Control of Public Procurement Procedures, a formal exemption - dated September 6, 2010 - by which the non-necessity is enshrined for EPCG to apply the procedures provided by law on Public Procurement in order to purchase services from A2A S.p.A., A2A Reti Elettriche and certain other (identified by name) companies controlled by A2A S.p.A..

From a different perspective, service contracts between EPCG and A2A S.p.A. - which, while benefiting from the aforementioned exemption, would have needed the approval of the EPCG Board of Directors - were not explicitly approved by the Board of Directors, which nonetheless approved the budget of each annuity that includes the aforementioned costs. Therefore, the service contracts related to the years 2010, 2011 and 2012 were signed by the CEO *pro tempore* of EPCG. Pursuant to said contracts, A2A S.p.A. invoiced with regard to the aforementioned annuities a total of 7.75 million euro to EPCG, which has only paid a portion of 4.34 million euro.

For the years 2013, 2014 and 2015, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

Also, certain consulting services are disputed, related to the period 2011 and 2012 and amounting to about 2 million euro, acquired by EPCG directly from external consulting firms of the A2A Group.

At the beginning of 2014, the local “Party of People with Disabilities and Pensioners” proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation

were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

Until said moment, therefore, EPCG had registered only requests for documentation to which it promptly replied, and EPCG as well as A2A had therefore not - until April 15, 2016 - deemed that said requests could result in actions such to configure a risk if not remote - personal or capital - at the expense of its employees and/or the companies.

On April 15, 2016, the former CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Prosecutor. Investigative measures are still covered by the confidentiality of investigations and it is therefore not yet known nor to A2A nor to EPCG, the count of indictment applied. However, based on what was published in the local press, the former CFO appointed by A2A is accused - along with two previous EPCG managers appointed by A2A, and three Montenegrin officials of EPCG - of abuse of office in the management of service contracts stipulated by EPCG, as they were stipulated without complying with the local legislation on Public Procurement.

It is also noted that, as attested by the Montenegrin lawyer, the violations of the law on Public Procurement do not have criminal relevance per se, in the absence of evidence of the harm caused or the unlawful utility procured.

Based on the assessments made, the foregoing and the limited information available to date, including the uncertainty of the counts of the charge with respect to those under investigation and the fact that A2A and other Group companies are currently not recipients of any measure, A2A believes that the risk of its possible involvement, direct or indirect, in terms of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as “possible.” Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in reliable terms the amount of said indemnities or penalties, direct or indirect.

In view of the above, the Company - in accordance with IAS 37 - considered it correct to handle the case in question providing adequate information and not allocating specific risks provision.

Outlook for operations

The year 2016 began with strong pressure on the commodities market, with declining energy prices and spreads. Only in recent weeks, there has been a turnaround in the trend of the price of Brent which, however, to date, has not yet been reflected in the price of commodities (gas and, consequently, PUN) related thereto. The Group, partially exposed to changes in commodity prices, benefits from hedges, realized in the previous year, for about 60% of its net exposure that, consequently, guarantee a good - although not full - coverage of its margins. The current year will be characterized by the realization of numerous industrial initiatives contained in the Strategic Plan, investments, cost reduction and M&A transactions (including the territorial aggregations) in the first place and, despite the tensions in the markets mentioned above, it is expected to result in good ordinary profitability.

Proposal for the allocation of net profit for the year ended December 31, 2015 and the distribution of a dividend

The Board of Directors has resolved to propose:

- that the ordinary Shareholders' Meeting approves the coverage of the loss for the year at December 31, 2015 (amounting to 73,487,107 euro) by using an equal amount from the reserves pending "moderate" taxation pursuant to Law no. 342/2000;
- that the extraordinary Shareholders' Meeting approves the definitive reduction of the reserves pending "moderate" taxation pursuant to Law no. 342/2000 from 198,270,129 euro to 124,783,022 euro, as a result of their use to cover the loss for the year at December 31, 2015;
- that the ordinary Shareholders' Meeting approves the distribution of an ordinary dividend of 0.041 euro for each ordinary share in circulation (corresponding to paid dividends of approximately 126 million euro), up by around 13% compared to the previous year), withdrawing the sum from the Other Reserves available.

The dividend will be paid from June 22, 2016 (ex-dividend date June 20, 2016 – record date June 21, 2016).

Board of Directors





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Analysis of main
sectors of activities

Summary of results sector by sector

Millions of euro	Generation and Trading		Commercial		Environment	
	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14
Revenues	2,755	2,823	1,333	1,483	809	794
- of which inter-sector	722	827	45	69	81	93
Gross operating income - EBITDA	348	328	102	87	210	222
% of revenues	12.6%	11.6%	7.7%	5.9%	26.0%	28.0%
Depreciation, amortization, provisions and write-downs	(293)	(361)	(19)	(22)	(63)	(98)
Net operating income - EBIT	55	(33)	83	65	147	124
% of revenues	2.0%	(1.2%)	6.2%	4.4%	18.2%	15.6%
Result from non-recurring transactions						
Financial balance						
Result before taxes						
Income taxes						
Result after taxes from operating activities						
Net result from discontinued operations						
Minorities						
Group result of the year						
Gross investments ⁽¹⁾	65 (a)	42	4	6	59	41

(1) See the items “Investments” in the schedules on tangible and intangible assets presented in Notes 1 and 2 to the balance sheet.

(a) Includes additional paid-in capital of 1 million euro.

It should be noted that the data from January 1 to December 31, 2014 and the balance sheet data at December 31, 2014 have been reallocated by “Business Unit” following the company reorganization carried out by the Management, as detailed in the section “Results sector by sector”.

Millions of euro	Generation and Trading		Commercial		Environment	
	12 31 15	12 31 14	12 31 15	12 31 14	12 31 15	12 31 14
Tangible assets	2,381	2,711	2	2	437	433
Intangible assets	75	90	63	64	12	12
Trade receivables and current financial assets	735	776	547	578	284	352
Trade payables and current financial liabilities	782	905	360	393	233	258

	Heat and Services		Networks		EPCG		Other Services and Corporate		Eliminations		Total Group	
	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14	01 01 15 12 31 15	01 01 14 12 31 14
	246	252	669	676	242	240	186	189	(1,319)	(1,473)	4,921	4,984
	26	37	274	273	-	-	171	174	(1,319)	(1,473)		
	74	61	279	281	53	66	(18)	(21)			1,048	1,024
	30.1%	24.2%	41.7%	41.6%	21.9%	27.5%	(9.7%)	(11.1%)			21.3%	20.5%
	(31)	(40)	(88)	(90)	(280)	(38)	(59)	(13)			(833)	(662)
	43	21	191	191	(227)	28	(77)	(34)			215	362
	17.5%	8.3%	28.6%	28.3%	(93.8%)	11.7%	(41.4%)	(18.0%)			4.4%	7.3%
											(1)	9
											(138)	(210)
											76	161
											(133)	(179)
											(57)	(18)
											-	-
											130	(19)
											73	(37)
	52	69	125	114	27	25	9	10	-	-	341	307

	Heat and Services		Networks		EPCG		Other Services and Corporate		Eliminations		Total Group	
	12 31 15	12 31 14	12 31 15	12 31 14	12 31 15	12 31 14	12 31 15	12 31 14	12 31 15	12 31 14	12 31 15	12 31 14
	582	561	1,008	990	568	818	184	209	(95)	(99)	5,067	5,625
	34	34	1,323	1,290	3	3	52	54	(214)	(229)	1,348	1,318
	99	110	248	264	237	210	72	124	(566)	(697)	1,656	1,717
	81	100	206	230	37	25	733	206	(570)	(686)	1,862	1,431

Results sector by sector

From January 1, 2015, the Group undertook a process of organizational change in order to make the organization effective and oriented to achieve results with dedicated Business Units. This resulted in a shift from an organizational structure based on sector to an organizational structure based on Business Units. In particular, the following Business Units were identified:

- Generation and Trading Business Unit
- Commercial Business Unit
- Environment Business Unit
- Heat and Services Business Unit
- Networks Business Unit
- EPCG Business Unit
- Other Services and Corporate

The reorganization resulted in, among other things, a review of reporting flows under which the Management defines and adopts the main strategic decisions by managing the businesses of reference. This reorganization was also reflected in the preparation of the 2015-2019 Strategic Plan that was approved by the Board of Directors on April 9, 2015.

The A2A Group operates in the following “Business Units”:

Generation and Trading Business Unit

The activities of the Generation and Trading Business Unit are related to the management of the generation plant portfolio⁽¹⁾ of the Group. The “Generation” sector has the specific goal of maximizing plant availability and efficiency, minimizing operating and maintenance (O&M) costs. Instead, the “Trading” sector has the task of maximizing the profit from the management of the energy portfolio through the purchase and sale of electricity, fuel (gaseous and non-gaseous) and environmental certificates on domestic and foreign wholesale markets. The Trading Business Unit also includes the activity of trading on domestic and foreign markets of all energy commodities (gas, electricity, environmental certificates).

Commercial Business Unit

The activities of the Commercial Business Unit Sales are aimed at the retail sale of electricity and natural gas to customers in the free market and sale to customers served under protection scheme.

Environment Business Unit

This Business Unit’s activity relates to the management of the integrated waste cycle, which ranges from collection and street sweeping to the treatment, disposal and recovery of materials and energy.

In particular, collection and street sweeping mainly refers to street cleaning and the collection of waste for transportation to its destination.

Instead, waste treatment is an activity that is carried out in dedicated centers to convert waste in order to make it suitable for the recovery of materials.

Lastly, disposal of urban and special waste in combustion plants or landfills ensures the possible recovery of energy through waste-to-energy or the use of biogas.

Heat and Services Business Unit

This Business Unit’s activity is mainly the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group). Cogenerated heat is sold through district heating networks. The Business Unit also ensures the operation and maintenance of cogeneration plants and district heating networks, as well as management services of heating plants owned by third parties (heat management services).

(1) Total installed capacity of 8.9 GW.

Networks Business Unit

This Business Unit's activity consists of the technical and operational management of networks for the distribution of electricity, the transport and distribution of natural gas and the management of the entire integrated water cycle (water captation, aqueduct management, water distribution, sewerage network management, purification). Also included are activities relating to public lighting, traffic regulation systems, the management of votive lights and systems design services.

EPCG Business Unit

The Business Unit includes the activities carried out by the investee company Elektroprivreda Crne Gore AD Nikšić (EPCG)⁽²⁾ in relation to the production and sale of electricity in Montenegro and the operational technical management of the related electricity distribution networks.

Other Services and Corporate

Other Services include video-surveillance, data transmission, telephony and internet access services.

Instead, Corporate services include the activities of guidance, strategic direction, coordination and control of industrial operations, as well as services to support the business and operating activities (ex. administrative and accounting services, legal services, procurement, personnel management, information technology, communications etc.) whose costs, net of amounts recovered from accrual to individual business units based on services rendered, remain the responsibility of the Corporate.

(2) Total installed capacity of 0.9 GW.

Generation and Trading Business Unit

The following is a summary of the main quantitative and economic data relating to the Generation and Trading Business Unit.

Quantitative data - electricity sector

GWh	12 31 2015	12 31 2014	Changes	% 2015/2014
SOURCES				
Net production	12,903	11,633	1,270	10.9%
- thermoelectric production	8,429	5,540	2,889	52.1%
- hydroelectric production	4,471	6,090	(1,619)	(26.6%)
- photovoltaic production	3	3	-	-
Purchases	39,288	39,619	(331)	(0.8%)
- exchange	7,516	7,097	419	5.9%
- wholesalers	5,397	8,826	(3,429)	(38.9%)
- Trading/Service portfolio	26,375	23,696	2,679	11.3%
TOTAL SOURCES	52,191	51,252	939	1.8%
USES				
Sales to Group Retailers	5,246	5,624	(378)	(6.7%)
Sales to other wholesalers	10,667	9,260	1,407	15.2%
Sales on the exchange	9,903	12,672	(2,769)	(21.9%)
Trading/Service portfolio	26,375	23,696	2,679	11.3%
TOTALE USES	52,191	51,252	939	1.8%

Note: the sales figures are stated gross of any losses.

In the reporting period, the Group's electricity output totaled 12,903 GWh, to which should be added purchases of 39,288 GWh for a total availability of 52,191 GWh.

Production grew by 10.9% over the previous year. In particular, the reduction in hydroelectric production (-26.6%) due to the extraordinary hydraulicity recorded in the year 2014 was more than offset by an increase in thermoelectric production (+52.1%) determined by higher intermediation on the dispatching services market, also following the high temperatures recorded in the third quarter of 2015 and the resumption of the Chivasso plant.

Purchases of electricity amounted to 39,288 GWh (39,619 GWh at December 31, 2014): fewer purchases on the wholesale markets were partly offset by higher volumes traded as part of trading activities.

In the same period, sales growth on wholesale markets (+15.2%) more than offset the reduction in sales to the Commercial Business Unit (-6.7%), resulting in less exposure on the spot markets (-21.9%).

The amount of electricity traded in the trading context recorded an increase of 11.3%.

Overall in 2015, electricity sales of the Generation and Trading Business Unit reached a total of 52,191 GWh (51,252 GWh at December 31, 2014).

Quantitative data - gas sector

<i>Millions of cubic metres</i>	12 31 2015	12 31 2014	Changes	% 2015/2014
SOURCES				
Procurement	2,570	2,127	443	20.8%
Withdrawals from stock	-	(71)	71	(100.0%)
Internal consumption/GNC	(12)	(10)	(2)	20.0%
Trading/Service Portfolio	1,001	1,653	(652)	(39.4%)
TOTAL SOURCES	3,559	3,699	(140)	(3.8%)
USES				
Commercial Business Unit uses	1,142	1,114	28	2.5%
Thermoelectric uses	875	523	352	67.3%
Heat and Services Business Unit uses	106	99	7	7.1%
Wholesalers	435	310	125	40.3%
Trading/Service Portfolio	1,001	1,653	(652)	(39.4%)
TOTAL USES	3,559	3,699	(140)	(3.8%)

Quantities are stated at standard cubic meters at an HCV of 38100 MJ on delivery.

The volume of gas sold in 2015 amounted to 3,559 million cubic meters, a decrease of 3.8% over 2014 (3,699 million cubic meters). There was an increase in sales volumes for thermoelectric uses (+67.3%, also due to the high temperatures recorded in the third quarter of the year) and sales volumes on wholesale markets (+40.3%), while there was a decrease in gas volumes traded as part of the Trading Portfolio (-39.4%).

Economic data

Millions of euro	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	2,755	2,823	(68)	(2.4%)
Gross operating income - EBITDA	348	328	20	6.1%
% of revenues	12.6%	11.6%		
Depreciation, amortizations, provisions and write-downs	(293)	(361)	68	(18.8%)
Net operating income - EBIT	55	(33)	88	n.s.
% of revenues	2.0%	(1.2%)		
Investments	64	42	22	52.4%
FTE	1,236	1,358	(122)	(9.0%)

In the reporting period, the Generation and Trading Business Unit recorded revenues of 2,755 million euro, down by 68 million euro compared to the previous year essentially due to lower volumes of electricity sold to the Commercial Business Unit (-24 million euro) and the drop in sales prices of gas (-57 million euro) and electricity (-47 million euro). These effects were partially offset by the greater revenues achieved on the electricity and gas wholesale markets.

Gross Operating Margin amounted to 348 million euro, an increase of 20 million euro compared to 2014 (328 million euro at December 31, 2014).

Compared to the previous year, the 2015 result benefited from lower non-recurring mobility costs for around 14 million euro, while it was affected, for around 33 million euro, by the non-recurrent positive elements of income recorded mainly in 2014.

Net of these effects, Gross Operating Margin of the Generation and Trading Business Unit was up by around 39 million euro: the excellent performance recorded in the thermoelectric sector, due to the effect of an improvement of the spreads on gas and coal and the greater quantities from combined gas cycles plants traded on the secondary markets (from 1,543 GWh to 1,914 GWh) (even following the high temperatures recorded in the third quarter of 2015), greater sales of environmental certificates, as well as the savings deriving from the plan to improve operational efficiency, more than offset the reduction of the margin in the hydroelectric sector due to the exceptional hydraulicity recorded in 2014 (1,618 GWh less; 87 million euro less).

Depreciation, amortization, provisions and write-downs totalled 293 million euro (361 million euro at December 31, 2014). The reduction of 68 million euro is due for 49 million euro to the recognition in the reporting year of lower impairment of assets resulting from the impairment analysis (104 million euro in 2015, 153 million euro in 2014) and for 43 million euro to lower amortization and depreciation, partly due to the revision of the useful life of the Group's combined cycle plants made in 2014.

As a result of the above changes the sector earned Net Operating Income of 55 million euro (-33 million euro in 2014).

In the reporting period, Investments amounted to 64 million euro and mainly involved extraordinary maintenance at the hydroelectric plants in Mese, Udine and Valtellina for 13 million euro, development interventions for 12 million euro at the hydroelectric plants in Mese, Udine and mini-hydro and photovoltaic plants, the completion of the environmental interventions (DeNOx) of the thermoelectric coal plant in Monfalcone for approximately 19 million euro and extraordinary maintenance at the plants in Monfalcone, Cassano, Piacenza, Chivasso and Sermide for 8 million euro.

Investments were also made in the combined cycle thermoelectric plant in Gissi for about 10 million euro due partly to extraordinary maintenance work carried out during the year and partly to the capitalization of expenses for interventions made by the supplier (and in any case related to extraordinary maintenance in the years 2014 and 2015) resulting from the renegotiation of the long-term maintenance contract.

Commercial Business Unit

The following is a summary of the main quantitative and economic data relating to the Commercial Business Unit.

Quantitative data

	12 31 2015	12 31 2014	Changes	% 2015/2014
Electricity sales				
Electricity sales Free Market (GWh)	5,028	5,427	(399)	(7.4%)
Electricity sales under Greater Protection Scheme (GWh)	1,998	2,110	(112)	(5.3%)
Total electricity sales (GWh)	7,026	7,537	(511)	(6.8%)

	12 31 2015	12 31 2014	Changes	% 2015/2014
Gas sales				
Gas sales Free Market (Mcm)	585	527	58	11.0%
Gas sales under Greater Protection Scheme (Mcm)	533	573	(40)	(7.2%)
Total gas sales (Mcm)	1,118	1,100	18	1.5%

The amounts of sales are stated net of losses.

In 2015, there was a reduction in electricity sales (-6.8%) and a slight increase in gas sales (+1.5%) compared to the previous year.

The reduction in the electricity sector can be attributed to the lower number of customers served under the protection scheme and to the Company's strategic choice to focus on a different mix of customers on the free market, characterized by lower consumption but higher unit margins.

The growth in the gas sector can on the other hand be mainly attributed to the particularly mild climate of the previous year.

Economic data

Millions of euro	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	1,333	1,483	(150)	(10.1%)
Gross operating income - EBITDA	102	87	15	17.2%
% of revenues	7.7%	5.9%		
Depreciation, amortizations, provisions and write-downs	(19)	(22)	3	(13.6%)
Net operating income - EBIT	83	65	18	27.7%
% of revenues	6.2%	4.4%		
Investments	4	6	(2)	(33.3%)
FTE	439	430	9	2.1%

In the year 2015, the Commercial Business Unit reported revenues of 1,333 million euro (1,483 million euro at December 31, 2014), a decrease compared to 2014 due to lower volumes of electricity sold to end customers (also following the different mix of customers served on the free market) and lower sales prices of both gas and electricity.

Gross Operating Margin amounted to 102 million euro, up by 15 million euro compared to the previous year.

The 2014 result however included negative non-recurring elements of income for an amount equal to 7 million euro, while on the contrary the year 2015 recorded non-recurrent positive elements of income equal to 12 million euro. Net of these items, Gross Operating Margin of the Business Unit showed a reduction of 4 million euro mainly due to the review of the electricity and gas sales prices of the contracts indexed to the oil price, for now completely settled, which were strongly penalized by the trend of the Brent prices and negatively affected the margin of the Business Unit. This reduction was almost entirely offset by the commercial development of the electricity and gas sales business, consistent with the development on the free market (mass market) provided for in the 2015-2019 business plan.

Depreciation, amortization, provisions and write-downs totalled 19 million euro (22 million euro in the previous year).

As a result of the above changes the sector earned Net Operating Income of 83 million euro (65 million euro in the previous year).

In the reporting period, Investments of the Commercial Business Unit amounted to approximately 4 million euro and mainly concerned development and evolution maintenance on hardware and software platforms to support marketing and invoicing activities.

Environment Business Unit

The following is a summary of the main quantitative and economic data relating to the Environment Business Unit.

Quantitative data

	12 31 2015	12 31 2014	Changes	% 2015/2014
Waste collected (Kton)	1,270	1,256	14	1.1%
Waste disposed of (Kton)	2,555	2,668	(113)	(4.2%)
Electricity sold (GWh)	979	1,095	(116)	(10.6%)
Heat sold (GWht)*	1,176	1,020	156	15.3%

(*) Quantities at the plant entrance.

In 2015, the quantity of waste collected, amounting to 1,270 thousand tonnes, was slightly up compared to 2014 (+1.1%). The quantities of waste disposed of instead decreased (-113 thousand tonnes) compared to 2014 mainly attributable to the lower amounts of waste disposed of at the inert waste landfill in Cortelona due to the interruption of contributions, by ARPA, for environmental analyses of the water table and the lower amounts disposed of at the waste-to-energy plant in Brescia, caused by more stoppage days compared to the previous year and operation at 80% of line 3 in the early months of the year.

This decrease was partly offset by the glass treatment plant in Asti coming into operation (from July 2014) and the greater contributions made at the landfill in Montichiari.

The quantities of electricity sold were lower by 116 GWh compared to 2014 mainly due to lower electricity production of the waste-to-energy plant in Brescia (following less incineration of waste mentioned above) and the Silla 2 waste-to-energy plant in Milan following the intervention carried out on the turbine in the fourth quarter of 2015, while the production of heat was up (+156 thermal GWh) due to higher quantities required by the district heating sector.

Economic data

<i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	809	794	15	1.9%
Gross operating income - EBITDA	210	222	(12)	(5.4%)
% of revenues	26.0%	28.0%		
Depreciation, amortizations, provisions and write-downs	(63)	(98)	35	(35.7%)
Net operating income - EBIT	147	124	23	18.5%
% of revenues	18.2%	15.6%		
Investments	59	41	18	43.9%
FTE	4,922	4,668	254	5.4%
<i>of which delta perimeter</i>	323	41	282	<i>n.s.</i>
FTE net of the delta perimeter	4,599	4,627	(28)	(0.6%)

In 2015, the Environment Business Unit recorded revenues of 809 million euro (794 million euro at December 31, 2014). The increase can be essentially attributed to the services offered for EXPO 2015 and the greater quantities disposed of at the glass treatment plant in Asti (operational from July 2014).

Gross Operating Margin equalled 210 million euro (222 million euro at December 31, 2014). Net of the change in the two years of the non-recurring items – i.e. around 3 million euro, in 2015 the Gross Operating Margin recorded a reduction of 15 million euro, essentially due to the lower revenues from the sale of electricity from the waste-to-energy plant in Acerra (following the reduction of the CIP 6 payment caused by the drop in prices of the reference fuels) and the Group's other waste-to-energy plants (due to the drop in electricity prices) as well as lower margins due to a reduction in the quantities disposed of at the inert waste landfill in Corteolona.

This trend was partially offset by the increased margin in the collection sector, mainly due to the greater services offered for EXPO 2015 and to the Municipality of Como (urban cleaning service which started on July 1st, 2013 and became fully operational in the second half of 2014), as well as a higher number of residents served following the awarding of some new concessions during 2015 (over 100 thousand new residents served).

Depreciation, amortization, provisions and write-downs amounted to 63 million euro (98 million euro in the previous year). The decline of about 35 million euro is attributable to lower provisions for risks related to tax and legal disputes.

As a result of these changes, Net Operating Income totalled 147 million euro (124 million euro at December 31, 2014).

Investments in the year in question equalled 59 million euro and were mainly related to maintenance and development work on waste-to-energy plants (30 million euro), treatment plants and landfills (7 million euro) and the purchase of collection vehicles and containers (20 million euro).

Heat and Services Business Unit

The following is a summary of the main quantitative and economic data relating to the Heat and Services Business Unit.

Quantitative data

<i>GWh</i>	12 31 2015	12 31 2014	Changes	% 2015/2014
SOURCES				
Plants at:	1,146	1,007	139	13.8%
- Lamarmora	465	401	64	16.0%
- Famagosta	145	142	3	2.1%
- Tecnocity	74	56	18	32.1%
- Other plants	462	408	54	13.2%
Purchases from:	1,529	1,333	196	14.7%
- Third parties	335	296	39	13.2%
- Other Business Units	1,194	1,037	157	15.1%
TOTAL SOURCES	2,675	2,340	335	14.3%
USES				
Sales to end customers	2,297	1,951	346	17.7%
Distribution losses	378	389	(11)	(2.8%)
TOTAL USES	2,675	2,340	335	14.3%

Notes:

- The figures only refer to district heating. Sales relating to heat management are not included.
- Purchases include the quantities of heat purchased from the Environment Business Unit.

In 2015, sales of heat to end customers showed an increase of 14.3% compared to the previous year, characterized by a particularly mild climate.

The production and purchase of heat grew by 139 thermal GWh and 196 thermal GWh respectively.

Economic data

Millions of euro	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	246	252	(6)	(2.4%)
Gross operating income - EBITDA	74	61	13	21.3%
% of revenues	30.1%	24.2%		
Depreciation, amortizations, provisions and write-downs	(31)	(40)	9	(22.5%)
Net operating income - EBIT	43	21	22	n.s.
% of revenues	17.5%	8.3%		
Investments	52	69	(17)	(24.6%)
FTE	350	360	(10)	(2.8%)

Revenues amounted to 246 million euro in 2015 (252 million euro at December 31, 2014).

The increased revenues deriving from the greater quantities sold in the district heating sector (29 million euro) was fully reabsorbed by the lowering of the unit sales prices of heat (-15 million euro), lower revenues linked to heat management, as well as the lower income relating to the environmental certificates markets.

Gross Operating Margin equalled 74 million euro, an increase of 13 million euro compared to 2014.

This increase, resulting from more favourable climatic conditions compared to the same period of the previous year as well as continued and effective commercial development action (in particular in the city of Milan), was partially offset by the lower results achieved on the environmental certificates markets following initiatives not accepted by the GSE.

Depreciation, amortization, provisions and write-downs amounted to 31 million euro, a decrease of 9 million over the previous year mainly due to the write-down of the cogeneration section of the Famagosta Plant in 2014.

As a result of the above changes, Net Operating Income amounted to 43 million euro (21 million euro at December 31, 2014).

Investments for the period amounted to 52 million euro and related to maintenance and development work on district heating networks (about 31 million euro, of which 22 million euro in the city of Milan) and new district heating plants (19 million euro), in the Milan, Brescia, Bergamo and Varese areas.

In the year 2015, new heat management plants were also realized for about 2 million euro.

Networks Business Unit

The following is a summary of the main quantitative and economic data relating to the Networks Business Unit.

Quantitative data

	12 31 2015	12 31 2014	Changes	% 2015/2014
Electricity distributed (GWh)	11,178	10,782	396	3.7%
Gas distributed (Mcm)	1,832	1,739	93	5.3%
Gas transported (Mcm)	358	332	26	7.8%
Water distributed (Mcm)	63	60	3	5.0%

The electricity distributed in 2015 amounted to 11,178 GWh, up (+396 GWh) compared to 2014 following the recovery of industrial consumptions and the high temperatures recorded in the summer period.

Even the quantities of gas distributed and transported were up respectively by 5.3% and 7.8% over the previous year, which had been characterized by particularly mild temperatures.

Water distributed amounted to 63 Mcm (60 Mcm at December 31, 2014).

Economic data

<i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	669	676	(7)	(1.0%)
Gross operating income - EBITDA	279	281	(2)	(0.7%)
% of revenues	41.7%	41.6%		
Depreciation, amortizations, provisions and write-downs	(88)	(90)	2	(2.2%)
Net operating income - EBIT	191	191	-	-
% of revenues	28.6%	28.3%		
Investments	125	114	11	9.6%
FTE	1,807	1,855	(48)	(2.6%)

In 2015, revenues of the Networks Business Unit amounted to 669 million euro (676 million euro at December 31, 2014).

Gross Operating Margin equalled 279 million euro, a decrease of 2 million euro compared to the previous year. The comparison with the previous year was affected for around 18 million euro by the effect of the non-recurrent positive elements of income recorded mainly in 2014 relative to the higher revenues from electricity distribution activities for the years 2012 and 2013 by the AEEGSI with Resolution 258/14/R/eel.

Net of these items, Gross Operating Margin was up by 16 million:

- the integrated water service sector recorded an increase in income of 10 million euro, due to the tariff increases recognized by the AEEGSI and greater quantities sold for higher consumption in the summer;
- the public lighting sector recorded an increase in income of about 7 million euro following the launch, in July 2014, of the project to replace lighting equipment with new energy-efficient LED lamps in the Municipality of Milan;
- the electricity and gas distribution sectors on the other hand recorded a margin essentially in line with 2014.

Depreciation, amortization, provisions and write-downs equalled 88 million euro (90 million euro at December 31, 2014).

As a result of the above changes, Net Operating Income amounted to 191 million euro, in line with the figure recorded in the previous year.

Investments for the reporting period amounted to 125 million euro and regarded:

- in the electricity distribution subsector, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (45 million euro);
- in the gas distribution sector, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (53 million euro);
- in the integrated water cycle, work carried out on the water transportation and distribution network and the sewerage networks (20 million euro);
- in the public lighting sector, work carried out to replace lighting systems with LED equipment in the Municipality of Milan (7 million euro).

EPCG Business Unit

The following is a summary of the main quantitative and economic data relating to the EPCG Business Unit.

Quantitative data - Electricity Production and Sale

GWh	12 31 2015	12 31 2014	Changes	% 2015/2014
SOURCES				
Production	2,871	3,038	(167)	(5.5%)
- thermoelectric production	1,412	1,322	90	6.8%
- hydroelectric production	1,459	1,716	(257)	(15.0%)
Imports and other sources	1,049	905	144	15.9%
- import	1,031	886	145	16.4%
- other sources	18	19	(1)	(5.3%)
TOTAL SOURCES	3,920	3,943	(23)	(0.6%)
USES				
Domestic market consumption	2,809	2,723	86	3.2%
Distribution losses	446	432	14	3.2%
Transmission losses	140	125	15	12.0%
Other uses	27	29	(2)	(6.9%)
Export	498	634	(136)	(21.5%)
TOTAL USES	3,920	3,943	(23)	(0.6%)

The total availability of the EPCG Group in 2015 was 3,920 GWh (3,943 GWh at December 31, 2014).

The EPCG Group produced a total of 2,871 GWh (-5.5% over 2014), of which 1,412 GWh from thermoelectric sources and 1,459 GWh from hydroelectric sources: thermoelectric production grew by 6.8% compared to the previous year due to less days of shutdown of the plant in Pljevlja, while the reduction in hydroelectric production (-15%) is mainly due to lower rainfall recorded in the summer months.

The drop in hydroelectric production, with respect to the increase of 3.2% in domestic demand (determined by the high temperatures recorded in particular in the third quarter of

2015), resulted in an increase in imports and other electricity purchases (+144 GWh), as well as a reduction in export volumes (-136 GWh).

The total availability of the EPCG Group was 3,920 GWh (3,943 GWh at December 31, 2014).

Quantitative data - Electricity distribution

GWh	12 31 2015	12 31 2014	Changes	% 2015/2014
Electricity distributed*	2,161	2,016	145	7.2%

(*) Data net of distribution losses

Electricity distributed in the medium and low voltage network amounted to 2,161 GWh (2,016 GWh at December 31, 2014) due to weather conditions recorded in 2015.

Economic data

Millions of euro	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	242	240	2	0.8%
Gross operating income - EBITDA	53	66	(13)	(19.7%)
% of revenues	21.9%	27.5%		
Depreciation, amortizations, provisions and write-downs	(280)	(38)	(242)	n.s.
Net operating income - EBIT	(227)	28	(255)	n.s.
% of revenues	(93.8%)	11.7%		
Investments	27	25	2	8.0%
FTE	2,490	2,619	(129)	(4.9%)

In 2015, revenues of the EPCG Business Unit amounted to 242 million euro (240 million euro at December 31, 2014).

Gross Operating Margin equalled 53 million euro, a reduction of 13 million euro over the previous year. This performance, entirely attributable to the energy sector, was mainly due to the increase in the quantity of electricity imported following the reduction in hydroelectric production.

Depreciation, amortization, provisions and write-downs equalled 280 million euro (38 million euro at December 31, 2014). The increase is mainly attributable to the recognition in the reporting year of write-downs of assets arising from the impairment analyses for a total of 246 million euro.

As a result of these changes, Net Operating Income was negative for 227 million euro, an increase of 255 million euro over 2014.

Investments amounted to about 27 million euro and mainly refer to work to replace traditional meters with remote controlled meters (approximately 15 million euro), maintenance of the primary and secondary distribution network (approximately 5 million euro), as well as maintenance work on the thermoelectric plant in Pljevlja (approximately 2 million euro) and the hydroelectric plants in Perucica and Piva (approximately 3 million euro).

Other Services and Corporate

Economic data

<i>Millions of euro</i>	01 01 2015 12 31 2015	01 01 2014 12 31 2014	Changes	% 2015/2014
Revenues	186	189	(3)	(1.6%)
Gross operating income - EBITDA	(18)	(21)	3	(14.3%)
% of revenues	(9.7%)	(11.1%)		
Depreciation, amortizations, provisions and write-downs	(59)	(13)	(46)	n.s.
Net operating income - EBIT	(77)	(34)	(43)	n.s.
% of revenues	(41.4%)	(18.0%)		
Investments	9	10	(1)	(10.0%)
FTE	986	1,010	(24)	(2.4%)

In 2015, revenues of Other Services and Corporate amounted to 186 million euro (189 million euro at December 31, 2014).

Gross Operating Margin was negative for 18 million euro (negative for 21 million euro in 2014).

Regarding the 2015 results, positive non-recurring income items were recorded for approximately 3 million euro, while the 2014 result included positive non-recurring items for approximately 1 million euro. There were also lower expenses for bank charges amounting to approximately 1 million euro.

Depreciation, amortization, provisions and write-downs equalled 59 million euro (13 million euro at December 31, 2014). This change is attributable to the allocation in 2015 of higher provisions for risks.

After depreciation, amortization, provisions and write-downs there was a negative Net Operating Income of 77 million euro (a net operating loss of 34 million euro at December 31, 2014).

Investments for the year amounted to 9 million euro and mainly related to Investments in information systems (6 million euro), telecommunication networks (2 million euro) and buildings (1 million euro).





0.6

Risks
and uncertainties

Risks and uncertainties

The A2A Group has a risk assessment and reporting process which is based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO report) and best risk management practice and is in compliance with the Corporate Governance Code as updated by Consob in 2011, which states: “...Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks....”.

This process requires a risk model to be set up that takes account of the Group’s characteristics, its multi-business vocation and the sector to which it belongs. This model, is not a static reference, it is subject to periodic revision consistent with the evolution of the Group and the context in which it operates. The methodology adopted is characterized by the regular identification of the risks to which the Group is exposed. In this context, an assessment process is carried out which, through the involvement of all its structures, allows the Group to identify the most important risks and establish the relative controls and mitigation plans. At this stage, the involvement of risk owners is essential as responsible for the identification, assessment and update of risk scenarios (specific events in which risk can materialize) related to activities of its competence. This phase is carried out with the support and coordination of the Group Risk Management structure through operating methods that allow clearly identifying risks, the related causes and management methods.

The methodology adopted is modular and leverages on the fine-tuning of the experience gained and methods of analysis used: on the one hand, it aims to develop the risk assessment further with specific reference to the consolidation of the mitigation process and on the other to develop and integrate risk management activities in business processes. This evolution is carried out consistent with the gradual increase in the awareness of management and the business structures about risk management issues, achieved among other things through the use of specific training support provided by Group Risk Management.

Set out below is a description of the main risks and uncertainties to which the Group is exposed.

It is noted that in terms of greater impact on the Group's results, the main risks are the following, in order of importance:

- regulatory changes;
- energy scenario;
- *Business Interruption*;
- climatic changes.

Legislative and regulatory risk

The A2A Group operates in highly regulated sectors whether they are managed under natural monopoly (such as infrastructure for the distribution and transport of electricity and gas, the integrated water cycle and district heating) or under free market regime (such as energy management, trading and sale of energy carriers and other services to customers).

Among the risk factors, therefore, the constant and not always predictable evolution of the legislative and regulatory framework of reference shall be considered.

For these risk factors, the Group adopts a regulatory risk monitoring and management policy in order to mitigate, to the extent possible, the effects through oversight on various levels, which primarily involves collaborative dialogue with the institutions (Ministry of Economic Development, Authority for Electricity, Gas and Water System, the Competition and Market Protection Authority, Authority for Communications Guarantees) and technical bodies of the sector (GSE Energy Services Operator, GME Energy Markets Operator, Terna) as well as active participation in category associations and working groups established at said entities.

To address these issues, in 2015, the top management set up a specific organization structure called "Regulatory Affairs and Market", reporting directly to the CEO, broadening the mandate, strengthening the link with the business and exceeding the vision for which the relationship with the regulator shall be interpreted as compliance (or litigation).

Also the view to European regulations, following the work of Brussels through participation in the tables of Eurelectric and Cedec, allows seeing "in advance" the subject of transposition into Italian law (in some cases automatic as per regulations).

Constant dialogue with Business Units is also envisaged, not only for the simulation of impacts on current activities but also for the evaluation of their requests in terms of support to new initiatives.

The Institutional and Regulatory Committee was also set up, composed of the Chairman and CEO of the Group, as well as the Institutional Relations Manager and the Regulatory Affairs and Market Manager. This committee meets periodically involving from time to time the Managers

of the Business Units concerned, and the Managers of the staff structures in order to transfer to them the new regulations, take a corporate position on evolving standards and collect the requests of the business to convey them to the stakeholders of reference.

Constantly updated monitoring and control tools have been implemented (ex. Regulatory Review produced on a quarterly basis), in order to consider the potential impacts on the regulation on the company.

The main topics involved in current changes in legislation, with major potential effects on the Group, are as follows:

- the rules governing the terms and conditions of large hydroelectric derivation concessions;
- tenders concerning the granting of concessions for the gas distribution service;
- the integrated water service reform not only from the tariff point of view but also for aspects of service quality, measurement and unbundling;
- regulation of local public services;
- the regulatory provisions concerning the abandonment of the protection regimes for customers of the electricity and gas sectors;
- the implementation of the capacity market discipline;
- the achievement of energy savings under the White Certificates mechanism;
- the payment of the RAI fee in the electricity bill.

Energy scenario risk (commodity price risk)

Given the features of the sectors in which it operates, the Group is exposed to energy scenario risk, namely the risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil) and the exchange rates connected with these. Significant, unexpected and/or structural changes in commodity prices, especially in the medium term, may result in a reduction in the Company's operating margins.

The Group has approved an Energy Risk Policy that regulates the procedures by which commodity risk are monitored and managed, or the highest level of variability to which the result is exposed with reference to the trend of prices of energy commodities.

Consistent with the provisions of the Policy, the commodity risk limits of the Group are defined and approved annually by the Board of Directors.

Market risk is managed by constantly monitoring the total net exposure of the Group's portfolio and addressing the main factors affecting the trend. Appropriate hedging strategies are defined, where necessary, designed to maintain this risk within the established limits, typically through hedging at 12 months and partially at 24 months.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is thus pursued through the management of physical contracts and derivative financial instruments, limiting to the extent possible, the volatility of the Group's economic and financial results following changes in commodity prices.

Business interruption risk

All of the Group's Business Units of activity involve managing production sites which are technologically and operationally complex (electric power stations, waste disposal plants, cogeneration plants, distribution networks, etc.), where a breakdown or accidental damage could lead to a lack of availability and in turn to financial losses and possibly harm to the Group's reputation due to the interruption of the services provided.

These risks are linked to a variety of factors which, in the case of certain plants, could what is more be accentuated by changes in the competitive context and in the reference markets. To the extent that the risk of unavailability of the plants may be considered an inherent part of the business and a risk that is impossible to eliminate entirely, the Group sets up preventive risk mitigation strategies at all of its Business Units to reduce the probability of such risks occurring and action strategies aimed at limiting any impact.

Safeguarding the Group's plants and infrastructure involves adopting and continuously updating procedures for scheduled maintenance, of both an ordinary and preventative nature, aimed at identifying and preventing potential critical situations, identified amongst other things on the basis of specific engineering analyses carried out by dedicated technical staff, all in line with best practices. It also involves periodically reviewing the plants and networks as well as providing specific training courses for technical personnel. In addition, the A2A Group makes widespread use of instruments for the control and remote control of technical parameters for the monitoring and timely detection of any anomalies as well as having a back-up of the components needed to guarantee operational continuity, where possible. The integration process between the specialist engineering teams in the A2A Group has led to a strengthening of the skills relating to plant performance analyses.

In addition, the progressive adoption of advanced software and sensors is planned at all of the Group's plants for calculating the actual yield of the plants, aimed at enabling an approach to be taken that is even more preventive compared to the past as far as the planning and performance of maintenance is concerned. The gradual adoption of the above controls is also envisaged in the case of the acquisition of new production sites, to facilitate their alignment to the Group's standards.

In view of the current context of the energy markets in which the energy production plants operate, with particular reference to thermoelectric plants, it is noted that activities and projects have been planned and undertaken to ensure operational flexibility, efficiency and availability at times when said requirements are requested of them, such as the programming of flexibilization investments of the combined cycle plants, modernization of plants and machinery or the redesign of plant parts that over time have highlighted structural problems, the renegotiation of service contracts with manufacturers of turbogas machinery, the integration and the constant recourse to specialized resources available within the Group, a program to reduce structural costs of thermoelectric plants.

Moreover, to control the risks arising from the present way in which the thermoelectric plants work, arising from trends in the energy markets, a process for revising, uniforming and fully adjusting the maintenance contracts and specific actions to rationalize the management of spare parts warehouses are currently in progress. Also regarding the production of energy from thermoelectric sources, it is noted that the Group pays particular attention, by means of stable and cooperative dialogue, through the organizational structure Institutional and Territorial Relations, with institutions, local authorities and communities, to the issues of risk regarding the manufacturing sites that use fossil fuels (Monfalcone, Brindisi, S. Filippo del Mela). Said oversight aims to promote a proper and positive perception of the plants as well as to pursue the possibility of a future realization of adaptation and conversion projects according to innovative and cutting-edge technologies, thus guaranteeing adequate employment levels and avoiding incurring potential costs for the decommissioning of sites.

In the Environment Business Unit, specific activities are in place and monitoring tools have been installed to prevent any possible risk of interruption to the waste transportation and disposal service. In particular, specific controls have been implemented to detect the presence of unsuitable substances in waste destined for incineration, as well as plants, systems and specific operating procedures for loading and output of materials deposited at storage sites and waste treatment aimed at limiting the risk of development of fire. The Business Unit is additionally introducing steps to optimize the management of certain sites in order to make the disposal process more efficient. Furthermore, it is noted that structural interventions were planned on all plants of the Group, and in particular on the large waste-to-energy plants, designed to ensure a higher reliability and perspective of operability over time, such as the realization of electrical backup lines, replacing thermomechanical components that have reached the end of their technical life, renovation of structures designed to reduce deteriorations, the adaptation of plants to recover the remaining fractions of solid waste in view of their subsequent contribution to waste-to-energy plants, extraordinary maintenance also aimed at increasing the thermal potential of these plants. To mitigate any repercussions on the Group's reputation due to a temporary impossibility to transport waste, mutual

assistance exists between the Group's plants and there is centralized coordination of planned stoppages for maintenance. Lastly, we note the emerging issue related to potential impacts on the profitability of the Acerra plant as a result of possible criticality that may arise, pending the agreement between the Campania Region and A2A Ambiente, in the definition of mechanisms to guarantee the revenues of the plant after the conclusion of the CIP 6 tariff regime.

With reference to the issue of interruption of waste collection and urban cleaning services in the municipalities served by the Group companies, there are specific management and programming procedures of the related activities, the availability of means held as reserve for situations of emergency, control and monitoring of vehicles in service in the areas served (also online through a control room equipped with cutting-edge technical equipment), spare parts warehouses managed and structured in order to deal with the statistically most recurring failures.

Within the transport and distribution networks of energy and gas, it is noted that interventions were planned and started designed to increase the reliability of services and to ensure the ongoing appropriateness of the infrastructure with the evolution and expansion of urban areas and territories served by the various Group companies, such as the implementation and expansion of automation systems and remote control of stations and cabins, the construction of new cabins for electricity and gas. As part of the operating activities of the electricity grids, the issue of continuity of service during periods of special climatic conditions with potential reputational risks arising from possible interruptions of service delivery is confirmed as particularly relevant. To deal with these situations, in addition to the usual maintenance activities, the Group has planned and started the enhancement of actions to streamline the meshing of electricity grids and extraordinary plans for reclamation of the components considered critical for the continuity of operation. There are also remote operational controls, advanced technical safety tools, emergency intervention teams as well as specific safeguards for infrastructure which, during exceptional phenomena difficult to predict in terms of location of the same and assessment of their effects, are more exposed to risks of interruption in the delivery of services.

Further potential risks for the Group are related to possible accidents in the management of traffic lights and street lighting that involve staff of the company or third parties. To mitigate this risk issue, activities have been planned for replacement of the most outdated electrical circuits, test campaigns and, if necessary, replacement of older supports, implementation of new systems for remote control of lighting points.

The Group takes an active part in projects for the development of the electricity network from a "smart grid" standpoint, meaning by this a network with which it is possible to exchange information on energy flows and manage demand peaks more efficiently, thus reducing the

risk of interruption. In particular, the Networks Business Unit is engaged in the development of new solutions for the so-called smart grids, where through the introduction of digital technology new features are realized to address the increasing complexity resulting from the deployment of distributed generation sources connected to the LV networks and to better meet the demands of the Regulator and the expectations of customers.

Operative means of regulating the customer's consumption during specific time bands have been successfully tested in the district heating sector; these are designed to avoid excessive peaks in the use of installed power with the resulting possibility of critical matters arising regarding the optimal working of the networks. Actions are being studied to upgrade supply facilities of the district heating network that are most exploited, as well as construction of new heat transport routes for the improvement of the structural organization of the network. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting interventions for repairs. Measures to be implemented over the following three years and designed to ensure the continuity of the district heating service are also underway for situations in which there is a temporary interruption of the supply of heat to the network by the waste-to-energy plants of the Group.

A risk issue that is becoming increasingly important concerns the unauthorized access of external personnel to the Group's plants and infrastructure, which could impede the smooth running of operations, with potential impact on the safety of operating personnel, unauthorized third parties, the sites and their surroundings, as well as economic impacts resulting from the need to interrupt production activities. To mitigate these possible events, development activities are ongoing of the management lines of the Group issue to regulate in a unitary manner, the operating procedures for access to the plants and supervision services, also in coordination with the police, for control of sites that are more vulnerable to intrusions or which may be potential targets of acts of sabotage. Further interventions are also being evaluated such as studies on the situation of gas plants to increase their safety level, improvement of existing passive fences, strengthening of anti-intrusion alarm system and the installation of control systems for badge access, infra-red cameras and systems.

Finally, the Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk. The contractual conditions that characterize these policies were revised to align them to the way in which the plants work and to energy market conditions.

Climate change risk

Risks related to climate change refer to the possibility that the production and consumption of products (electricity, gas for heating) and services (district heating) provided by the

Group may be negatively affected by unfavourable conditions, such as the scarcity of rainfall or particularly mild temperatures in the hot season, with consequent negative effects on expected profitability. With reference to the Generation and Trading Business Unit, low rainfall would result in a reduced availability of water resources with respect to expected values that arise from statistical evaluations; to ensure the optimal use of available water resources, there is an organizational oversight constituted by the presence of company units dedicated to the development of analyses and engineering models to support the programming of hydroelectric plants both in the medium and short term. As regards the Networks and Commercial Business Unit, milder winter temperatures than expected would result in lower demand on the part of end users, of gas and heat used for heating. The oversight consists of the presence of company units dedicated to the formulation of demand forecasts in relation to temperatures expected and the consequent management and optimization of the production/supply of heat.

Interest rate risk

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

In order to analyze and manage the risks relating to interest rate risk the Group has developed an internal model enabling the exposure to this risk to be calculated using the Montecarlo method, assessing the effect that fluctuations in interest rates may have on future cash flows. Moreover, the section “Other Information/Interest Rate Risk” of the Consolidated Annual Financial Report illustrates the effects on the change in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

Credit risk

Credit risk relates to the possibility that a counterparty, commercial or trading, may be in default, or fail to respect its commitment in the manner and timing provided by contract. This type of risk is managed by the Group through specific procedures and appropriate mitigation actions.

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management

Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities.

Specifically, with regard to trading activities and in compliance with the procedures in place (Energy Risk Policy, Risk Management, Deal Life Cycle), Group Risk Management, based on proprietary systems, assesses the Rating of Counterparties, defines the Probability of Default and attributes the Maximum Exposure to Risk, systematically verifying compliance with the limits of Counterparty Risk and Credit Risk.

A further parameter monitored, which helps to limit the risk of concentration on the individual counterparty, is represented by the Credit VaR, namely the assessment of risk in terms of potential loss, with a certain confidence level, associated to the entire loan portfolio.

In relation to commercial counterparties and in compliance with the procedures in place (Credit Risk Policy), risk is mitigated through preventive assessment, attainment of guarantees and collateral, compensation management, optimization of credit reminders and recovery processes as well as the use of monitoring and reporting tools. Group Risk Management intervenes in the management of commercial credit both directly and indirectly, through a specific proprietary model, in defining the creditworthiness and credit limit of business customers, for which derogation to guarantee release is required.

Liquidity risk

Liquidity risk regards the Group's timely ability to meet its payment commitments. To cover this risk, the Group ensures the maintenance of adequate financial resources, as well as a liquidity buffer sufficient to meet unexpected commitments. At December 31, 2015, the Group contracted revolving committed credit lines for 800 million euro, unused. It also has unused long-term bank financing for a total of 145 million euro and cash and cash equivalents totalling 674 million euro.

Liquidity risk management is also pursued by directly accessing the capital market, particularly through the Bond Issue Program (Euro Medium Term Note Programme), extended to 4 billion euro, as approved by the Board of Directors on November 6, 2014 and by programming an appropriate distribution of maturities aimed at mitigating the risk of refinancing.

Covenants compliance risk

This risk exists if the loan agreements provide for the option by the lender, upon the occurrence of certain events, to request early repayment of the loan, thus entailing a potential liquidity risk for the Group.

The section “Other Information/Covenants Compliance Risk” of the Financial Report illustrates in detail these risks related to the A2A Group.

The same section also lists the loan that contain financial covenants.

At December 31, the book value of these loans amounted to 93 million euro.

Lastly, at December 31, there was no situation of non-compliance with the covenants of the A2A Group companies.

Environmental risk

The risks associated with events that impact the environment or the health of the population living in the areas affected by the Group’s activities are the object of increasingly close attention by public regulators and ever more stringent legislation. This type of risk covers all activities of the Group, with particular reference to the disposal of production waste, emissions resulting from the production processes, the management of the collection, storage, treatment and disposal of waste, the supply of basic goods such as drinking water, waste water treatment, the management of emptying and maintenance of the reservoirs for the collection of water resources for the production of electricity.

To monitor these potential risk events, the Group has implemented various actions: procedures for design and construction of storage sites of waste materials, monitoring systems and the presence of static and dynamic barriers enabling to detect pollution phenomena attributable to the same sites, systems for continuous detection and monitoring of emissions, systems for detection and abatement of polluting concentrations, water purification plants for discharges of waste treatment plants. Further interventions are being studied for the realization of plants for the storage and subsequent treatment of the wet fraction of waste materials intended for waste-to-energy.

With reference to the issue of waste water treatment, actions are being studied for the upgrading and enhancement of existing infrastructure. With regard to the issue related to the management of the reservoirs, with specific reference to maintenance of the same and the corresponding possible negative effects on water and on the local area determined by emptying, it is noted that partial drainage of basins is being evaluated in relation to the type of interventions as well as the use of different methods for removal of the sediments.

Finally, we note the organization of Environment and safety site structures that support employees, officers and management in the management of the HSE system for specific risks, monitoring of changes in legislation on environmental issues, as well as the ongoing dialogue and transparency in relations with authorities, the communities of reference and stakeholders, also made explicit through instruments such as the Sustainability Report.

The Group is significantly involved in preventing such risks and has adopted a policy document entitled “Policy for the Quality, Environment and Safety of the A2A Group” which is the tool which now sets out the Group’s approach to such questions. This document, which is widely distributed both internally and externally, explains the values which underlie the Group’s operations and which the Environment, Health and Safety Organizational Structure is committed to disseminating and sharing as guidance for the day-to-day work of all concerned. The Environment, Health and Safety Organizational Structure also supports senior management in establishing company policy in these areas, checking that this is implemented properly in compliance with the rules applicable in all areas and internal processes. The A2A Group is constantly committed to supporting dialogue aimed at a maximum collaboration with local bodies and communities on environmental issues.

The process of updating the Organizational and Management Model as per Legislative Decree no. 231/2001 for the introduction of environmental offences is in progress, with specific emphasis on implementation at the individual Group companies. In addition, the Environment, Health and Safety Organizational Structure has been rearranged from both an organizational and procedural standpoint as the first stage in a process of revising and updating the way in which the risk issues in question are managed, and this will involve all of the Group’s employees and business processes.

The Group carries out direct control of the way in which the risk issues in question are managed through the structures of the Environment, Health and Safety Organizational Structure at the individual sites, which provide the necessary support to employees, officers and management in running the HSE (Health Safety Environment) system.

The operational implementation of the policy is carried out through the use of an Environmental Management System (EMAS) by those operating entities of the Group which are more exposed to both direct and indirect potential environmental impact. This system provides for a program of progressive extension and upgrading to the standards of ISO14001 certification for the Group’s main activities having a greater impact on the environment, as well as for obtaining EMAS certification for the Group’s main plants. In order to arrive at a single model, a revision and updating process is currently taking place which will enable all the Group’s operating companies to refer to a single integrated Quality, Environment and Safety management system.

With the aim of achieving constant improvement in control and moving in line with best practices, the Group takes part through industry associations in discussion groups held to draft BREFs (Best Available Techniques Reference Documents) for LCPs (Large Combustion Plants) and waste management.

Organizational control units have been set up which among other things carry out periodic environmental analyses together with regular audits to detect and prevent any conduct that does not comply with the environmental procedures established for all of the Group's operating companies. From the perspective of having a constant evolution of the systems controlling environmental risk, the Group has joined the ARPA (Regional Agency for the Protection of the Environment) Lombardy Project, whose purpose is to improve the efficiency of the system for controlling the more significant emissions, also in the light of technical developments in the sector, by connecting all the Emission Monitoring Systems (SMEs) to a single control center. The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, meaning against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations.

Each year, the Group publishes a Sustainability Report which reports key data and information on the environmental and social aspects connected with the Group's activities. The Sustainability Report conforms to standard GRI-G3.1 issued by the Global Reporting Initiative and since 2010 has been certified by the auditors.

Information technology risks

The activities of the A2A Group are managed through ICT systems which support the main business processes: operational, administrative and commercial. Potential risk factors include the inadequacy, fragmentation of existing platforms of such systems compared to business needs or the failure to keep these updated, possible "downtime" making the systems unavailable and the inadequate handling of the aspects linked to the integrity and confidentiality of information. These risk factors are mitigated by controls governed by the Group Information & Communication Technology (ICT) Organizational Structure.

The process within the Group of integrating and consolidating its ICT systems, determined on the basis of the changes in corporate structures which have taken place in previous years, has led to a number of important objectives being reached. Following the integration of distribution support systems on a single platform, the program for the convergence of the main systems supporting commercial activities has also been completed. In areas where there is still inadequacy fragmentation of systems and platforms used, in consequence of

which there may be inefficiencies in the implementation of business processes such as billing and credit management, it is noted that activities have been started for the definition and subsequent implementation of plans to integrate the platforms used. The Group will continue to develop its information system structure and improve its efficiency by drawing up a dedicated general architectural strategic plan.

The Group, in addition to defining outsourcing contracts for ICT services that envisage clearly defined service level agreements, has a Disaster Recovery procedure that, albeit not fully tested, in case of unavailability of one of the two CEDs (Data Processing Centre), guarantees the partial recovery of data and information relating to business activities on the alternative CED. It is also highlighted that oversights are currently present for availability of suppliers and resources within the Group to deal with logical attacks, virus attacks and system crashes. Further activities were also initiated aimed at increasing the reliability and continuity levels of provision of ICT services, such as the implementation of infrastructure improvement projects of the Brescia CED and assessments regarding the transportation of the current Data Centers. We also note the structuring of the Business Continuity Plan, which aims to be the tool through which the Group is preparing to deal with additional scenarios unavailability of services for areas considered most critical; the definition will be followed by the identification of specific implementation activities, strategies for definition of future outsourcing contracts for support to ICT services such as “Multivendor” and reinsourcing of responsibility in ICT. Considering the importance of the activities that are carried out every day on the Italian Power Exchange, particular attention is given to controlling the systems interfacing with the market. These systems have in fact been duplicated and are subject to specific management and maintenance procedures designed to protect their stability. A specific control was developed in 2012 to support trading activities.

Data confidentiality and security are subject to specific controls by the Group through the use of internal policies and by means of tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access the information handled. In order to improve the existing control further, work has begun on checking the alignment between the organizational role model and the segregation of duties technical role model implemented in the systems. Consistent with this work, it is planned to gradually adopt identity management and access control tools designed to ensure increasingly effective control over the processing of data critical for the business. A team has been set up to prevent and monitor any possible hacking into the Group’s information systems and specific applications solutions have been acquired to manage and control information security.

As a control of this specific risk issue the Group carries out annual vulnerability assessments, both internally and externally. Lastly, a multi-year master plan of safety initiatives approved

by Top Management was conducted in 2014 and updated and expanded in 2015, which defines the actions to be taken to gradually improve the maturity level of safety up to making it adequate to the business services provided by the Group. In this regard, specific policies will be prepared on the use of mobile devices, which are increasingly used today for carrying out business activities.

A centralized support plan is also being evaluated for Group ICT, of systems for monitoring, infrastructure control and industrial processes (such as SCADA systems and networks) that, because of an increasingly driven integration with “IT” (Information Technology) systems, are potentially exposed to security and integrity risks.

Health and safety risk

The Group operates in a heterogeneous business environment characterized by a strong technology element and the presence of personnel at its plants and throughout its territory.

Certain Group activities are, by their nature, more exposed to the risk of “typically work-related” accidents linked to the operational services in the territory and the performance of technical services and activities at the plants.

The prevention measures adopted aim for a “zero risk” objective through the Quality, Environment and Safety Policy (which provides for a program to upgrade the personnel safety management system to comply with ISO 14001 and OHSAS 18001 standards), encouraging a constant rise in the level of safety in the workplace. In particular, in this respect, the use of additional models for measuring the Environment, Health and Safety risk at the level of single plant is being started.

A central Prevention and Protection Service has been set up as part of the Quality, Environment and Safety Organizational Structure in order to harmonize the objectives of safety and protection in Group companies and to monitor that these standards are also being followed by contractors at both the prequalification stage and the execution stage at worksites. In this sense, the model for controlling contracts from a health and safety standpoint is currently being developed further.

A gradual enhancement of the organizational control structure is planned, which among other things carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this respect, specific training plans have been established for each business position and responsibility and a start has been made to these training courses.

A project to revise the present organizational model is ongoing based on the establishment of guidelines, methodologies, instruments and controls provided by the Environment, Health and Safety Organizational Structure and assisted by the support of specific Environment, Health and Safety functions in each company and by the active involvement of the operating structures.

Finally, with the aim of constantly improving control, a process is planned to revise the present model for managing employee health supervision carried out by a team of doctors situated locally who perform regular health personnel assessments. As part of this revision process the Group plans to develop specific analysis and reporting tools regarding the results of the health supervision process.

A plan to refine the system of analyzing and controlling accidents and injuries has begun, in order to support the process of constant improvement in safety matters. This project provides for periodic reporting, which by means of increasingly detailed specific indices and information will provide support for identifying the causes of accidents and injuries and taking corrective and mitigating action.

For information purposes, we report the injury data of the Group for the year 2015:

- frequency index – FI = 29.72 (33.74 in 2014);
- severity index – SI = 0.75 (0.87 in 2014).

The indexes, determined on the basis of national and international standards, may be subject to minor revision due to lack of recognition of injuries by INAIL or persistence beyond the year of occurrence, of injuries requiring long prognosis.

Further information on the management of health and safety in the workplace may be found in the A2A Group's annual Sustainability Report, together with performance indicators and additional details.





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Responsible
management for
sustainability
—

Human resources and industrial relations

Workforce and Labor Cost

At December 31, 2015, the Group had 12,083 employees, of whom 2,393 work for the EPCG Group (of whom 33 employed through agency), a decrease of 46 compared to 12,129 employees at December 31, 2014 (decrease of 0.4%). The 2014 figure also takes into account the 158 resources of the EPCG Group employed through agency.

These changes include the effects of certain extraordinary operations carried out during the year and in particular:

- Bellisolina S.r.l., Bergamo Servizi S.r.l. and SED S.r.l. were consolidated in the first half-year of 2015 for a total of 38 employees;
- in 2015, Amsa S.p.A. was entrusted the environmental services of Corsico and Cesate acquiring a total of 39 employees;
- for the management of activities related to post-Expo, the subsidiary Amsa S.p.A. still employs 49 temporary resources, hired for the management of the Expo Milano event.

As a result, excluding the effect of these two events, the workforce fell by 172 employees, or 1.4%, over that at December 31, 2014.

The average labor cost per employee, net of EPCG, rose by 0.4% compared to the results for 2014, confirming the reduction trend of the effect of the growth dynamics linked to automatic contractual procedures (national collective bargaining agreement renewals and seniority increases) through cost efficiency measures.

Industrial Relations

In 2015, a significant number of union agreements were signed that covered a variety of topics and that concerned all Business Units.

The main ones refer to:

- B.U. Generation and Trading
 - Industrial relations at company level were specifically addressed to the pursuit of initiatives aimed at mitigating operational costs of production facilities which, with particular reference to thermoelectric ones, continue to be affected by a particular criticality situation. In this regard, we note the agreements stipulated in the first half of 2015 related to the hydroelectric plants in Mese and the one related to Monfalcone specifically aimed at identifying operational solutions for greater efficiency, as well as the agreements related to the hydroelectric plants in Valtellina and Chivasso which, also with the aim of pursuing objectives of operational efficiency, have identified new solutions and organizational operation models.
 - Specific mention is made of the union agreement related to the thermoelectric plant in San Filippo del Mela reached on April 27, 2015 which, putting an end to a long and intense period of union mobilization, allowed to reach full agreement with the trade unions on the investment project of the site in the Technology Centre of Innovative Renewable Energy, as well as on management tools to be adopted to manage the transition phase until the industrial redevelopment of the site.
 - Lastly, we specifically highlight the trade union agreement of October 13, 2015 which, as part of a plurality of actions to be implemented within the A2A Group aimed at countering the general crisis situation of the thermoelectric sector and specific of the Edipower Plant in Brindisi (the reconversion project of which was not authorized by the local institutions delegated for its approval), has provided for the activation of a mobility procedure accompanying to retirement for both the staff of the Brindisi plant and the staff of the Group's hydroelectric plants that have the requirements for retirement within the mobility periods of law, for a total of 80 resources that will leave the Group between the end of the year 2015 and the year 2016. This will allow managing in a non-traumatic manner, the occupational surplus created at the Brindisi site that is no longer operational, both through termination of service of staff eligible for retirement, and through retraining and gradual reuse of the remaining plant staff within the Group's hydroelectric area that is less impacted by the sector crisis. At the same time, the agreement allows operating the balance of the Group's professional hydroelectric expertise, also through the targeted insertion of new staff at the plants.
- B.U. Networks and Heat

As part of intense trade union relations that involved all the companies, the following are the main agreements.

 - Agreement for mobility and employee leaving incentives: the union agreement under Law No 223/91 involved 55 workers of A2A Servizi alla Distribuzione S.p.A., A2A Reti Elettriche S.p.A. and A2A Reti Gas S.p.A., which will leave their respective companies by the end of December 2016.

- “Expo 2015”: in order to ensure better oversight of the distribution of electricity in the city of Milan on the occasion of the “Expo 2015” and related events and at the same time better support emergency response activities in case of necessity, some management institutions were exceptionally regulated, such as:
 - the establishment of an operational garrison at the Expo Area (Musocco primary cabin);
 - the activation of an on-call service only for the weekend for the staff of the OU “Milan Public Lighting and Traffic Lights”;
 - the activation of a night on-call service of the Emergency Response teams currently operating in semi-shift;
 - extension of the “Available” agreement.
- Working hours: the union agreement was signed that regulates a reformulation in two time frames of the working hours of the department “Network Adaptation” of A2A Reti Elettriche S.p.A., with the aim of increasing the efficiency and productivity of the department, increasing the number of diagnostic tests achievable over the week.
- Harmonization of treatment in terms of availability in the national collective labour agreement Gas Water: with said union agreement, the objective was reached of harmonizing the treatment related to the institute of availability for workers whose employment relationship is governed, in the various geographical areas, by the national collective labour agreement Gas Water. Through this agreement, the application was made homogeneous of availability treatments at Group level, while taking account of local peculiarities and corporate organizational needs on the various territories.
- Agreement on the redevelopment project “MT Joints”: with the signing of this important agreement, the parties intended to promote the use of the know-how of internal resources from other offices of A2A Reti Elettriche S.p.A., in order to strengthen the development plan of the medium voltage joints, with the shared objective of improving, through preventive maintenance interventions on the electricity distribution network, continuity of service provided to users.
- Revamping of the “Lamarmora” Plant of A2A Calore & Servizi S.r.l.: the agreement governs the new production and organizational structure of the District Heating Plant Operation of Brescia which, in line with the new regulatory and market scenario, is aimed at optimizing performance of the entire generative system.
- Lastly, it is noted that in December 2015, negotiations formally commenced for the renewal of the national collective labour agreement for electrical workers, valid for the three-year period 2016-2018.
- B.U. Environment
 - Company bargaining: several agreements were signed involving the main companies and the various business areas. As for Amsa S.p.A., we note for the significant importance, the agreement related to the management of the sweeping and waste collection and

disposal service at the Expo site (the Plan envisages the hiring of 420 resources both for site activities and for the enhancement of all environmental services in the city), and the agreement which defined the harmonization of health and social services between the new sector health fund (Fasda) and the social assistance company fund (Fidas). As for A2A Ambiente S.p.A., we note the agreement for reorganization of the district heating and logistics activities at the Silla 2 waste-to-energy plant and some union agreements signed at the Campania Plants (Acerra and Stir di Caivano waste-to-energy plants) intended to complete the Plan of mapping the operational roles of the site.

- National bargaining: negotiations continued in the year for the renewal of the two national collective labour agreements of the environmental sector (Utilitalia Ambiente and Assoambiente), expired on December 31, 2013. The need to innovate some institutions that regulate employment in the sector, starting from the increase in weekly working hours from 36 to 38 hours, further lengthened the time of the negotiations, which will be concluded in the 1st half of 2016. The new three-year validity of the contracts will start in any case from the signing date.

Internal Communication

In the first half-year of 2015, within the Resource Development and Internal Communications Organizational structure, there was the creation of the Internal Communications function in order to ensure the implementation of an internal Communication Plan of the Group, promoting and designing transversal and change management initiatives, to accompany the evolution of the corporate culture. In particular, an Internal Communication plan has been started, in line with the people strategy and with the purposes of the Business Plan, which aims to improve and increase the Group's internal communication, also through the improvement of the language, the creation of new internal communication instruments and enhancement of coordination with the structures that manage Institutional and Territorial Communication and with the various Business Units.

In April 2015, a Convention was organized dedicated to Management and Middle Management to disseminate content and messages of the 2015-2019 Business Plan, presented previously to shareholders, investors and company parties.

Short and medium/long term actions have also been defined that involved the realization of the following “core” instruments:

1. in the short term:
 - the non-invasive review of space (both in Milan and Brescia) with the redevelopment of the common areas for employees, through a balance between the past, present and future with 3 different paths of attention to stakeholders: employees, visitors, guests. Attention to People and Business Awareness are the pillars of the initiative;

- the New Company House Organ, realized with the objective of developing dialogue and sharing with employees over time through the improvement of communication and flow of information between offices. The new Magazine also aims to develop identity, stimulating the sense of belonging and teamwork;
- 2. in the medium/long term:
 - the construction of a new Intranet that, from the current Repository will have to become
 - through implementation of technological systems - a digital workspace.

Numerous internal communication campaigns were also realized, across all the functions and Business Units of the Group, in support of training and change management initiatives in order to involve the various targets identified with different ways of communication and thus also enhance the sense of belonging to the Group.

Education and Training

As far as Group employee training courses are concerned⁽¹⁾, at December 31, 2015, a total of over 138,000 hours of training were provided with more than 31,000 attendances.

In particular, 61% of the hours was dedicated to worker safety; technical and managerial training weighed respectively 13% and 10% of the total hours.

Language training involved over 300 people for a total of about 8,200 hours.

In a perspective of proximity to the needs of the various businesses, “ad hoc” managerial training courses were also provided for specific populations in the Group to support staff in achieving business objectives:

- Workforce ICT A2A S.p.A. and Selene S.p.A.
 - Project to support change management in the ICT A2A world: path dedicated to managers, and all the ICT workforce, to strengthen the identity and cohesion of resources through the improvement of teamwork and team spirit. The initiative involved 130 participants, for a total of 1,260 hours of training.
- Mass Market Marketing and Sales - A2A Energia S.p.A.
 - Digital marketing: the objective of the intervention is to provide the design guidelines necessary to design and evaluate web interfaces that are simple, pleasant and closer to customers’ needs. The initiative involved 8 participants, for a total of 60 hours of training.
 - Sales KPIs: familiarization with the concept of commercial control and understanding how to use KPIs in various business valuation systems, proposing and sharing priorities

(1) Figures for training do not include the EPCG Group.

and instruments to be adopted in the future. The initiative involved 11 participants, for a total of 82 hours of training.

- Change management B.U. Networks and Heat

Support project for change management, aimed at strengthening the identity and cohesion of all BU Managers by improving teamwork and team spirit. The event was also an occasion to share the challenges of the new business plan. The initiative involved 160 participants, for a total of 960 hours of training.

- Team building for per A2A Energia S.p.A.

Project to develop communication skills, define a new way of working and collaboration, create a spirit of identity and engagement to the Group and the Company. The initiative involved 56 managers, for a total of 872 hours of training.

- Environment Master

The training course dedicated to the Group HSE was started at year-end; the first session that involved 44 people for a total of 176 hours of training, addressed operational basics of environmental law: consolidated environmental act and waste management.

- Risk hunt for A2A Ambiente S.p.A.

Training initiative to induce participants to autonomously identify the risks in their working reality to create greater awareness of risks and dangers.

The initiative involved 36 participants, for a total of 192 hours of training.

- Approach to risk for A2A Calore & Servizi S.r.l.

The training initiative aims to accompany participants to a personal analysis “on site” of their job responsibilities and risks involved therein, thus giving substance to the reference documents (ex. risk sheet), and contextualizing them. Through a physical exercise of “gym climbing”, it was decided to focus on the responsibility of individuals with respect to their own safety in order to promote more aware, responsible and proactive conduct with respect to the specific risk. The initiative involved 106 participants, for a total of 636 hours of training.

Development

Regarding development activities, in line with previous years and based on the company competence model revised in 2014, the Group Performance Management process was carried out involving Executives, Managers and Employees with the aim of developing organizational conduct in line with the new business challenges and simplifying the performance assessment phase. The managers involved as appraisers received appropriate training over the years, both on the model adopted by the Group and on skill assessment and the feedback meeting.

In 2015, the search continued for internal resources, through Job Posting, to cover new positions, which resulted in a total of 62 open positions in a year, with an increase in the use of this tool with respect to previous years.

Projects continued dedicated to specific population businesses/targets. In particular, the “Skills Laboratory” project was concluded aimed at the enhancement of expertise for the resources of the distribution companies (A2A Reti Elettriche S.p.A., A2A Reti Gas S.p.A. and A2A Servizi alla Distribuzione S.p.A.).

In the second half of 2015, the project “The power of water” was initiated, aimed at the enhancement of skills and expertise in Hydroelectric Plants present in Valtellina, with the aim of preserving know-how and guaranteeing the generational mix over the years. The project will be implemented in 2016.

In 2015, the project “Futura2a” was realized, dedicated to young graduates under 35 of the Group (approximately 250), which aimed to create a virtuous circle of innovation in A2A, leveraging on collective intelligence, to generate ideas applied through the creation of an online community and the realization of “live” events.

After an initial Pilot phase of co-design of the Online Community, followed an Idea Workshop phase with a subsequent phase of evaluation of over 200 ideas posted on the platform. This evaluation phase led to the development of 12 business plans of the finalist ideas and award of the winning ideas during a final event, which was held in November.

In 2015, the project “Gulliver” was started with the aim of developing a Succession Plan to guarantee the Group planning of the coverage of positions in the organization and encourage job rotation exploiting resources creating multi skill management roles for technical managerial figures and maintaining adequate levels of retention.

At the end of the half-year 2015, an initiative was initiated dedicated to young graduates of the Group, with the aim of encouraging exchange with Top Management: meetings will therefore be held with the reference Director to promote the creation of an overall vision of the business and the context, highlighting the current activities and future challenges in line with the Business Plan.

Employer Branding and Social Policies

Within the Organizational structure Resources Development and Internal Communication, the Employer Branding and Social Policies function, established in early 2015, worked, developing in parallel, two approaches: the first, “traditional”, involving the consolidation of

partnerships with universities and greater Group presence on the territory; the second, more “innovative” involving the creation of experimental and pilot initiatives.

During the year, the partnership methods were strengthened and innovated with academic institutions (27 partnerships for internship agreements and 5 for Employer Branding initiatives), and higher secondary schools (30 institutions affiliated for internships) with the objective of attracting and retaining the best resources.

In 2015, 22 events were realized, 440% more than the previous year and that can be grouped into three main areas: open events (organized by the Universities), *ad hoc* events, and events in research/innovation.

As for the *ad hoc* events, the experimental initiative UNiVersoA2A was launched in May, to meet young graduates and recent graduates in science and economics from the Universities of Lombardy (Università Bocconi, Università degli Studi di Brescia, Università Cattolica del Sacro Cuore, Politecnico di Milano, Università degli Studi di Milano Bicocca).

Many students welcomed the opportunity to have a closer look at the A2A Group’s multi-business reality, and participated in the sessions visiting the waste-to-energy plants in Brescia and Milan.

The commitment to the development of communication activities on social networks also continued to increase the visibility of the initiatives and opportunities of the A2A Group.

We particularly highlight the path of dialogue and listening of students, started with three “focus groups” (Università Bocconi and Università Cattolica del Sacro Cuore); this path will also continue in 2016 in order to understand how students perceive A2A, to analyze the positioning and attractiveness. The findings will be used to plan with the Universities specific activities and targeted actions on the various student targets.

Regarding Social Policies, activities continue to develop, in conjunction with other Group functions, company welfare activities to the benefit of employees to improve work-life balance and increases the sense of unity, belonging to the Group as well as integration throughout the local area.

In particular, the “Melograno project” started in July dedicated to the issues of “gender balance”. The purpose of the Project is to promote the development of a corporate culture aimed at enhancing women at the company and the implementation of concrete welfare actions for the entire company.

The ambitious and challenging objectives, consistent with the guidelines of the Business Plan, start from the promotion of change through listening. Participants in the “Melograno project”, more than 40 female and male co-workers, divided into five work groups, worked

in the second half on fundamental issues for the company: “Agile Work”, “Training and Involvement”, “Corporate Wellness”, “Professional Network” and “Gender Competence”.

Information management was based on a digital and transparent approach, through the use of a blog where the work groups interacted with each other and with the project team.

To support the initiative, 5 focus groups were also organized as moments of listening, across the entire workforce. The ideas that emerged during the sessions were discussed during the group work.

In the second half, three “live” events were realized and the specific projects, after an assessment by the Steering Committee, will be realized in 2016.

In the area of Social Policies, activities continue regarding enhancement of services for work-family balance. Specifically, the agreement was renewed for the socio-psychological assistance service, which involved in 2015 the extension of the time of presence of psychologists, recording an increase of 34% in the number of consultancy services provided (1,374).

We also highlight that in 2015, A2A obtained from the Ministry of University and Research (MIUR), the recognition of equal education for the section “Scuola di Infanzia” of the Asilo Scuola di infanzia di Brescia (Nursery School); said recognition represents the guarantee of greater protection for control and evaluation of service standards by the Region with respect to the manager.

Recruitment

The 2015 Hiring Plan allowed initiating a substantial generational change in Operations, through entry in internships and/or employment contracts of young high school/university graduates, inserted in the various Group plant realities, ensuring the retention of specialist technical know-how.

Simultaneously, selections were realized for the entry of specific professionals which, with various degree of seniority and specialization, could guarantee the realization of challenging Change Management and Innovation projects in ICT, Sales and some of the main Corporate functions.

Lastly, the employment contracts necessary for the maintenance of service levels for call center activities and environmental services (ecological operators/truck drivers) were activated.

Social responsibility and stakeholder relations

In June 2015, A2A published its seventh Sustainability Report following, for the first time, the new international criteria of the Global Reporting Initiative (GRI.G4 guidelines), which place more and more emphasis on the careful reading of the expectations of the company stakeholders, as the basis for identifying the significant issues to be reported. This step engages perfectly in the line of evolution of A2A that, in April 2015, presented its new 2015-19 Strategic Plan, which aims to a radical transformation of the Group through return to its industrial vocation, rapprochement to the territory, relaunch of investments, balance of the business portfolio, technological and digital innovation, enhancement of human capital and, in particular, young people. As further confirmation of the centrality of economic, environmental and social sustainability values for the Group, on November 12, 2015, the Board of Directors resolved to commence a challenging development program for the years 2016-2017, of Corporate Social Responsibility activities, in line with international best practices and the Business Plan. The interventions will focus on four areas:

- extension to 7 territorial areas of the stakeholder engagement model, based on multi-stakeholder forums and territorial sustainability reports, experimented in June 2015 in Brescia;
- approval of the 2015 Sustainability Report during the Shareholders' Meeting and subsequent evolution in an Integrated Report according to the standards of the framework of the International Integrated Reporting Council (IIRC);
- definition of a new 2016-2020 Sustainability Plan and introduction of environmental and social sustainability objectives in the management incentive system;
- development of in-house training programs to consolidate a shared approach to sustainability.

The following are some of the projects and events in the terms of Corporate Social Responsibility, realized by A2A and Group companies in 2015:

Environment

- Work is underway in Milan, Brescia and Bergamo for the new LED lighting in the city. A2A took action, in agreement with the City Councils, to replace all lighting points with

LED fixtures by 2016. At December 31, 2015, in Milan, Brescia and Bergamo, work covered respectively 95%, 70% and 45% of the lighting network.

- In May 2015, the first thermal solar plant for district heating in southern Europe, built by Varese Risorse S.p.A., a subsidiary of the A2A Group, was inaugurated in Varese. The new plant helps to produce heat to be supplied to buildings, through the distribution network realized in the city, with completely renewable source.
- Extraordinary maintenance or optimization interventions are underway for some plants: in particular, A2A deemed it necessary and strategic to make some Combined Cycle Gas plants with gas turbines more flexible and competitive. In 2015, an agreement was signed with General Electric for installation, at the Plant in Chivasso (TO) of new burners with low NOx emission. Preliminary activities were also carried out for the intervention of extraordinary maintenance of the Silla2 waste-to-energy plant in Milan, which in 2016 will increase heat capacity for the benefit of the district heating network by 15%.
- At December 31, 2015, an important program of works was concluded on some of the aqueduct treatment plants of Brescia, aimed at reducing below the detection threshold (2 micrograms/litre) the concentration of hexavalent chromium in the water supplied. In November, work also began for adaptation of the purification plant.

Customers

- A Customer Satisfaction survey conducted within Expo, on cleaning and waste management carried out by Amsa, on a sample of 500 foreign visitors and 1,000 citizens of Milan, confirmed a high level of perceived quality. All respondents expressed a rating above 8 (on a scale of 1 to 10).
- Amsa, under the patronage of the Municipality of Milan, distributed 3,000 “Mini Ashtrays” to retail shops - made in collaboration with the Comieco and CIAL consortia - and 25,000 pocket ashtrays at metro stations, and affixed 310 posters in the city. The information campaign aims to raise awareness among citizens on the dispersion of cigarette butts in the environment.
- Thanks to the experimental project of Amsa and the Municipality of Milan, waste collection on the territory has further expanded in Milan. In November 2015, in collaboration with two mass distributors, the collection was started for used cooking oil.
- In December 2015, with a teaser ad campaign and a series of meetings with relevant stakeholders (district councils, environmental and consumer associations, category associations), the campaign of information and awareness kicked off for the new differentiated waste collection system that will start in the city of Brescia in the first months of 2016. The new combined domestic collection system involves the door-to-door collection of glass, metal, plastic and paper and the conferment of organic and non-differentiated waste in swing-top bins that open with a personalized card.

Employees

- The Group is introducing a program called “Leadership in Health and Safety (LiHS)”, to instil proper corporate safety culture. In December 2015, the first workshop was realized, which involved the top management of the Networks and Heat Business Units as part of a first pilot project.
- A2A launched the “Melograno Project”, which aims to promote the change to a new corporate culture on issues of “Gender balance”. The objectives of the Project are focused on the “enhancement” of females at the company and the creation of an action plan on “Diversity”.
- In September 2015, the new in-house magazine “SiamoA2A”, which will have a quarterly basis, was distributed to all employees.
- The “FuturA2A” project was concluded, aimed at the Group’s young graduates, with the identification of the winning idea: “From the bill to energy efficiency”, which aims to provide advice and products for energy efficiency in the homes of A2A customers. The entire project was awarded in July 2015 as part of the AIDP AWARD 2015: annual competition that awards the most challenging HR projects.

Shareholders

- Since January 29, 2015, A2A is included in the Ethibel Pioneer Investment Register, developed by Forum Ethibel for socially responsible investments. The inclusion means that the company can be qualified as a sector leader in terms of Corporate Social Responsibility.

Community

- In Brescia, six multimedia totems were installed to inform citizens daily about data related to the activities of A2A, such as: production and emissions of the waste-to-energy plant; data on water quality and the state of advancement of the project for reduction of hexavalent chromium, the plan to replace public lighting lamps with LED, differentiated waste collection.
- On June 8, the first “Multi-stakeholder Forum” of A2A was realized, which envisaged the involvement of different categories of stakeholders. The 41 participants were asked to work together and propose possible initiatives to promote the environmental, economic and social sustainability of A2A activities improving the involvement and information of the territory. Of the 19 ideas proposed, 5 will be realized in the coming months. Following the forum, the first 2015 territorial Sustainability Report was also published for the territory of Brescia, the document that for the first time provides sustainability key facts and figures of A2A related to a specific geographical area.
- The Group participated in the project “Networks and Sustainability” promoted by Adiconsum through participation in a working group, with other Italian companies. This

project had the objective of creating a discussion on issues of environmental responsibility, with the possibility to share the projects considered of particular importance, as well as to highlight and promote the national best practices.

- A2A participated in the project realized by Federconsumatori Lombardia, with partner associations Coniacut and Adusbef within the general intervention program of the Lombardy Region on Quality of services in Lombardy. Territorial meetings were organized, in which A2A participated actively. On December 21, 2015, at Palazzo della Regione Lombardia, the final results of the survey were presented. During the meetings, the Quality Charter of Environmental Services of Amsa and Aprica were indicated as best practices.
- Projects related to environmental education in schools, implemented and promoted by A2A ended with the closure of the school year: “Vesti tu la bottiglietta” (Dress the bottle), “Energia e arte” (Energy and art) and “Ecoreporter, rifiuti da prima pagina” (Ecoreported, front page waste). In the school year 2014-2015, 17,000 guided visits to plants were realized and more than 500 documents were created as part of competitions for first-degree primary and secondary schools by the more than 5,000 students who took part. A2A also granted 30 scholarships for academic merit or for the study of a foreign language abroad. In July 2015, teachers of Lombardy who had visited the A2A plants were invited to participate in a satisfaction survey on the activities of the Group’s School Project. The teachers evaluated all project initiatives (guided tours, competitions, classroom interventions, dedicated conferences) very positively (with an average vote of 8 out of 10). In December, the new project was started called “Messaggi dallo spazio” (Messages from space), digital competition to raise awareness among the younger generations on environmental issues; participation in the competition is addressed to students of the 389 municipalities, in which the Group operates.
- A2A launched the new version of the Application “PULlamo”: tool dedicated to differentiated collection and environmental services. The App of the companies Amsa, Aspem and Aprica was awarded the prize “APP Servizio Clienti” (Customer Service) (by the Club CMMC - Customer Management Multimedia Competence to Companies that operate in Customers Relations) having stood out for technical innovation and attention to customer reports.

Environmental responsibility

The Group's Environmental Management System is based on the principles set out in the Group's Quality, Environment and Safety Policy and sector Environmental Policies, and has the aim of promoting a progressive and constant improvement in business performance in terms of effectiveness and efficiency in managing the environmental aspects connected with its activities. This system is adopted and implemented in a way that is integrated with the broader business management system, which also governs the other strategic matters regarding sustainability including those concerning quality and safety.

A proper implementation of the Environmental Management System is ensured by setting up various types of measures, such as the clear identification of principles, roles and responsibilities, the identification of activities that involve environmental aspects, the assessment of areas where steps may be taken to seek improvement from an organizational or structural standpoint, the definition of objectives and related action strategies, and the determination of suitable means of working and operational control.

Regular internal audits are planned and carried out in order to check the efficiency and effectiveness of the Management Systems and their ability to ensure that improvement objectives are reached and that the adopted principles are being complied with. The adequacy of the systems is confirmed by the audits performed by independent third parties and is attested by the ISO 14001 certifications and the EMAS registration at the Group's leading companies.

At December 31, 2015, 24 plants of the A2A Group have EMAS Registration. In addition, for the site of Amsa - Via Zama, the registration process is being completed.

Following the extension of the scope of Legislative Decree 231/01 to environmental offences, the parent company has undertaken a review and revision of the Environmental Management System to align it to the new requirements. At the same time, a revision of the way, in which the activities connected with the risk that this type of offence may be committed are managed internally, has begun in the operating companies, and this is currently in progress. The alignment of the Environmental Management System with the 231 Model is therefore at an advanced stage of consolidation in several of the Group's companies.

Innovation, development and research

The A2A Group carries out research and innovation activities that are consistent with the development programs of its business sectors. The organization by Business Units favours the focus of activities by sector albeit with attention to the opportunities of transversal research programs.

In particular, the Networks Business Unit is engaged in the development of new solutions for the so-called smartgrid, where through the introduction of digital technology new features are realized to address the increasing complexity resulting from the deployment of distributed generation sources connected to the distribution network and to better meet the demands of the Regulator and the expectations of customers.

Smart DomoGrid Project

In particular, the Smart Domo Grid project, co-financed by the Ministry for Economic Development, was completed; this saw A2A Reti Elettriche S.p.A. as project leader together with the Milan Politecnico University (Faculty of Energy) and Whirlpool as partners. The project included the design and implementation of a smartgrid solution with demand/response functionality, enabling the power grid of the Distributor to regulate the load of customers in terms of cost optimization opportunities and services for the benefit of both. The solution has been successful in terms of both the interest and the willingness by users, which were available for the test, and the benefits achieved (albeit under conditions of experimentation in regulatory context still underway). In an area of Brescia, the experimentation involved twenty-one families with new appliances, tools and training for their use thus able to become aware of their consumption and make choices to optimize spending on energy.

AEEGSI 39/10 Projects

Projects for AEEGSI Resolution no. ARG/elt 39/10 are being completed as A2A Reti Elettriche S.p.A. has obtained the AEEGSI's approval to carry out two pilot projects: the first regards a

primary cabin in Milan (Lambrate) and the second a primary cabin in Brescia (Gavardo) with different characteristics in the underlying network. Both set out to overcome the present limitations of the interface protection of generators connected to the medium-voltage grid, to introduce innovative voltage regulation functionalities and, potentially, to carry out local dispatch, only reporting summarized data to Terna S.p.A. of the production put into the MV grid. This will encourage the development of distributed generation and hence the use of renewable sources for the production of electricity. The Lambrate project also involves the experimentation of logic selectivity and automatic reconfiguration of some lines of the MV network to drastically reduce recovery time in the event of failure.

WFM and IDMS Projects

The WFM and IDMS projects are underway designed to improve network operational management processes through IT solutions. WFM focuses on the integration of the management of physical assets with the mapping system, also using GPS technology for the localization of facilities and operational teams available in the area, equipped with mobile devices for more effective and efficient management of operations. IDMS is a significant step forward in the management of all operational processes of electricity grid management, both during the conduction and planning stages. Its primary objectives also include the interoperability between the multi-service room in Brescia and the electrical control room in Milan, ultimately ensuring prompt disaster recovery between the two in the event of unavailability of one of the two sites. IDMS will also oversee the management of the public lighting network, recently involved by A2A Reti Elettriche S.p.A. in the maximum renewal of the lighting fixtures (replacement of traditional incandescent lamps with LED) and the supervision and control system, with the aim of reducing energy consumption.

IDE4L Project

A2A Reti Elettriche S.p.A. is carrying out the IDE4L Project (Ideal Grid for All), co-financed by the EU as part of the FP7 research and innovation program that capitalizes on the experience gained in the previous FP7 INTEGRIS project and sets as its objective the development and demonstration of a complete system for automating the management of the complete distributed energy resource (DER) active network, both in terms of real time (RT) management and medium-long term planning. The project concentrates on functionalities that are important for planning and running networks such as for example:

- the research and automatic isolation of faulty sections for improved service quality;
- the management of network congestion and optimal guidance for priority investments;

- the integration of distributed output from renewable sources and its optimal management.

The three-year project will end in August 2016, and is therefore in the final phase. The first feedback provided by the evaluators of the European Commission has been highly positive.

In addition to the already mentioned INTEGRIS, A2A Reti Elettriche S.p.A. concluded the research project FP7 EccoFlow on the experimentation of superconducting devices to limit fault currents on the medium voltage grid.

SCUOLA Project

The implementation phase was concluded in 2015, while the tests and publication of the results will end in the first quarter of 2016. The SCUOLA (School) project, presented in 2013 to the Lombardy Region notice, obtained first place in its ranking both in terms of quality and budget (10 million euro).

The SCUOLA project - Smart Campus as Urban Open Labs - experiments a Smart Grid system evolved to intelligently integrate various energy aspects of urban areas:

- efficient energy management of end use of energy;
- interaction network-end user to contribute to the stability of the network;
- smart charging of electric vehicles;
- innovative generation from renewable and non-renewable sources;
- energy efficiency of enclosures and systems in buildings;
- advanced communication technologies to provide services to citizens.

The heart of the project is the electric network, which aims to increase its intelligence through the introduction of innovative communication, control and management system, sensors/ automation/protection, and modern implementation mechanisms to support the efficient and coordinated operation of the system and provide direct benefits to citizens.

The specific objectives of the project are:

- evolution of the electricity grid, to ensure greater continuity of service and enable the active participation of users;
- management of the charging of electric vehicles based on time and the available power, energy costs and the needs of balancing the network and the availability of production;
- new PV panel with integrated electrical energy storage and heat production, to simplify the management of non-programmable production and improve the overall efficiency;
- integration of buildings with sensors and automation to monitor comfort parameters and optimize consumption (possibly simulating positive interactions with the electric grid that can be obtained from restructuring techniques Nearly Zero Energy Building);

- demand-response extended, to enable user participation (consumer-prosumer) in the energy market (aggregator) and the needs of the electricity grid;
- sensors and smart devices in the area, to collect data in real time and provide information and services to users also in mobility, to optimize energy consumption.

Developments were realized on the following demonstrators:

- 2 buildings at Politecnico di Milano;
- 2 buildings at Università di Brescia;
- 1 domestic user in Brescia;
- some public charging points for electric vehicles.

The electricity grid, the heart of the Smart City, is the key element of the integration of devices and systems for measurement, control management of energy components, not only electrical but also thermal.

A2A is the leader of a partnership that involves the participation of Politecnico di Milano and Università di Brescia, 3 large companies (ADB, CPL, LuVe), 7 SMEs (CEL, Coster, Eclipse, GFM-net, Italdata, SIEL, Thytronic) all closely linked to the territorial fabric in which A2A mainly operates.

Brescia Smart Living Project

Brescia Smart Living, ranking first in the evaluation ranking among the project winners of the 2012 MIUR Notice (DD591/2012), is a research project co-funded by the Ministry of University and Research and started in March 2015. The term of the project is expected in February 2018.

It is a project with a total budget of about 10 million euro and involves A2A S.p.A. in the forefront in the governance of a partnership with various group companies (A2A Reti Elettriche S.p.A., Selene S.p.A., A2A Calore & Servizi S.r.l., A2A Servizi alla Distribuzione S.p.A., Aprica S.p.A., A2A Ciclo Idrico S.p.A.) and several subjects including research entities, universities, large and small and medium enterprises (Università degli Studi di Brescia, ENEA, Beretta Fabbrica D'Armi, Cavagna Group, ST Microelectronics, Cauto, Iperelle, TeamWare and FGE Elettronica).

The experimentation activities of the project relate to certain areas of the city of Brescia, on which an experimental program will be launched that will combine technologies for well-being, the environment and protection systems of fragile citizens.

The partnership aims to create a proof of concept of sustainable Smart City, liveable and with new and improved services both for municipalities, to improve the government of the city, and for citizens, to improve the quality of life.

The issues at the heart of the improvement are energy consumption, public lighting, the analysis of air quality and noise, waste collection, social interaction, protection of the weak, security, communication infrastructure, information and transparency.

The project is completing the analysis phase of the state of the art and definition of the specifications; it will soon focus on system design.

Sharing Cities Project

Sharing Cities is a research project co-funded by the EU under the program Horizon 2020, Call Smart Cities & Communities. The project started in January of 2016 and its completion is scheduled for April 2020.

The Greater London Authority is the leader of a partnership consisting of 34 subjects. A2A S.p.A. took part in the initiative with A2A Reti Elettriche S.p.A. and Selene S.p.A.. The total budget is approximately 28 million euro.

Among the various partners, the municipalities of Milan, London and Lisbon are involved (core cities) and those of Bordeaux, Burgas and Warsaw (follower cities).

The partnership, through a digital approach and guided by data collection, aims to overcome some of the key environmental challenges of a city: CO₂ emissions from buildings and transport and air quality.

The objectives are to actively engage citizens in the development of mechanisms of participation and co-design of solutions for the retrofit of buildings, the integrated management of energy systems, electric mobility and services related to smart lampposts. To achieve these objectives, IT platforms will be developed able to gather information from the site and turn it into services for citizens.

The project is in its earliest starting stages.

Summary of co-funded projects

Project Name	Dates	Co-financing Entity	Participants for A2A
Sharing Cities	2016/01 2020/12	EU-H2020 Smart Cities & Communities SCC-01-2015 innovation Action – Proposal Id: SEP-210271592	A2A S.p.A. A2A Reti Elettriche S.p.A. Selene S.p.A.
Brescia Smart Living	2015/03 2018/02	DD591/2012 Ministry of University and Research (MIUR)	A2A S.p.A. A2A Reti Elettriche S.p.A. A2A Calore e Servizi S.r.l. Selene S.p.A. A2A Servizi alla Distribuzione S.p.A. Aprica S.p.A. A2A Ciclo Idrico S.p.A.
IDE4L	2013/09 2016/08	EU-FP7 ENERGY.2013.7.1.1 grant agreement no. 608860	A2A Reti Elettriche S.p.A.
Resolution 39/10	2011/03 2015/12	Authority for Electricity, Gas and Water System	A2A Reti Elettriche S.p.A.
SCUOLA	2014/03 2015/12	Lombardy Region	A2A S.p.A. A2A Reti Elettriche S.p.A.
Smart Domo Grid	2011/08 2014/12	Ministry of Economic Development (MiSE)	A2A Reti Elettriche S.p.A.
ECCOFLOW	2010/02 2013/12	EU-FP7 ENERGY.2009.7.3.1 grant agreement no. 241285	A2A Reti Elettriche S.p.A.
INTEGRIS	2010/02 2012/12	EU-FP7 ICT-Energy-2009-1 grant agreement no. 247938	A2A Reti Elettriche S.p.A.

Other

In addition, testing continues in the field of Electrical Mobility through the E-moving project, which has enabled public recharging columns to be set up in Milan, Brescia and Sondrio, in addition to the verification of operation of electric vehicles of multiple makes. This project was completed in its present form by AEEGSI at the end of 2015 and a further extension of the agreement with municipalities was decided until the end of 2016.

A2A has also sponsored the first Digital Islands, which are home to the charging of electric quadricycles, video surveillance services, Wi-Fi, info points and LED lighting. A2A has supported the installation of these new infrastructures within the city of Milan also to promote private electric mobility and car-sharing.

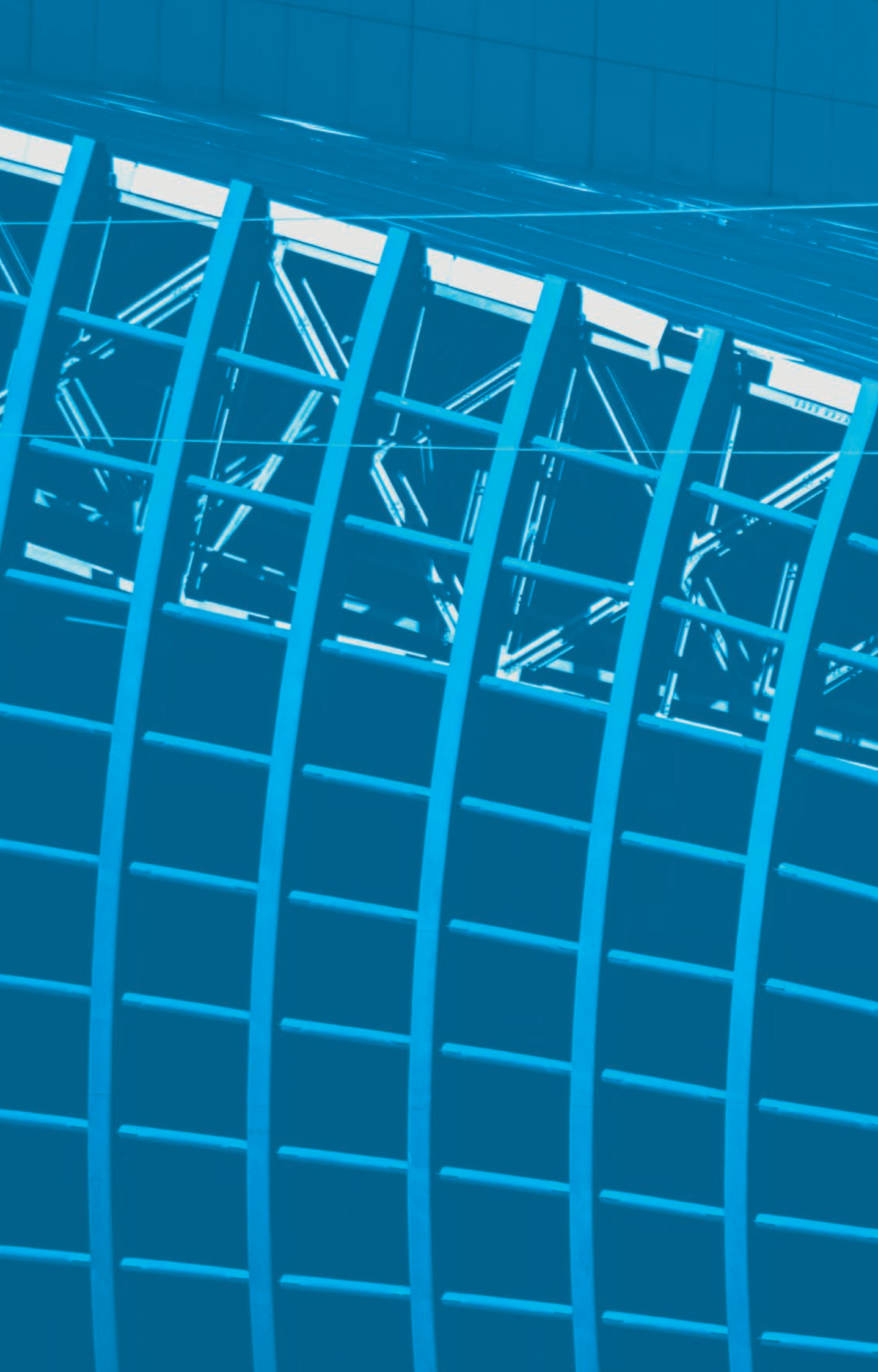
Even in the environmental sector projects continue: in 2015, Amsa S.p.A. participated in the project E-waste, partnership between the companies Tecnochimica S.r.l., RE.MEDIA, Stena Technoworld S.r.l., S.EVAL. S.r.l., Gaser San Giuliano S.r.l., the research bodies of Politecnico di Milano and Cefriel, in collaboration with the Municipality of Milan and the Municipality of San Donato Milanese. The specific objective of the project was the optimization of recycling of WEEE (Waste Electrical and Electronic Equipment) and increase of the amount of rare

earth and precious metals from the waste collected. The project involved the re-definition of logistics cycles of recovery and use and improvement of existing plants combined with the definition of new treatment technologies. Specifically, Amsa S.p.A. collaborated in the project through:

- performance evaluation and analysis of the strengths and weaknesses of the current operational solutions for collection (through the old Mobile Environmental Center - CAM, mobile collection platform);
- the development of a new collection system for small waste electrical and electronic equipment through a new Mobile Environmental Center specialized in the collection of small appliances and other Waste Electrical and Electronic Equipment (WEEE) and through the smart bin developed by CEFRIEL;
- the on-site evaluation at pilot scale of the new collection system, validated and verified through collection points at strategically selected circumscribed sites (also in terms of dissemination of information);
- the awareness of citizens that confer to the Mobile Environmental Center through a specific campaign for communication and training of contact personnel for accurate information on conferment;
- an analysis of the perception of collection services in general and in particular, of knowledge on collection and recycling of WEEE via a questionnaire to the citizens conferring to the Mobile Environmental Centre.

Simultaneously with collection services, a waste traceability platform was created, which can interface with that of Politecnico to enable monitoring of the entire chain, extended also to collection through the intelligent bin.

In all business sectors, the focus and commitment continue for the search for new solutions, both for optimizing processes and improving service quality and extending the offer. This involvement takes practical form in projects, which in some cases are funded by co-financing schemes, that are also triggered by the constant development and extension of relations with research bodies and universities and by participation in initiatives and conventions designed to gather needs and new ideas for grasping opportunities.





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Other information

Other information

Audit of the financial statements and disclosures pursuant to article 149-duodecies of the Consob Issuers' Regulations

The annual financial statements of A2A S.p.A. have been subject to a full audit by PricewaterhouseCoopers S.p.A. on the basis of their appointment for financial years 2007 to 2015 by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed within the Group during 2015, analyzed between the leading auditor PwC and other auditors.

Description - Thousands of euro	Leading Auditor PwC	Other auditors
A2A S.p.A.		
Audit of annual financial statements	179.3	
Audit of consolidated financial statements	41.4	
Periodic tests of accounting	21.4	
Limited review of half-yearly report	60.5	
Audit of the separate annual accounts for the AEEGSI	19.2	
Other testing and attestation engagements	-	
Total	321.8	-
Subsidiaries		
Audit of annual financial statements	911.6	
Audit of consolidated financial statements	-	
Periodic tests of accounting	211.0	
Audit of the information sent to shareholders for the consolidation, of which:		
- at year end (full audit)	85.3	
- at June 30 (limited review)	257.9	
Audit of the separate annual accounts for the AEEGSI	107.9	
Other testing and attestation engagements	-	
Total	1,573.7	-
Associates and Joint Ventures ⁽¹⁾		
Audit of the information sent to shareholders for the consolidation	33.1	
Total	33.1	-
TOTAL A2A GROUP	1,928.6	-

(1) Fee costs incurred directly by A2A S.p.A..

In addition to the above audit work, companies belonging to the PwC network also performed other engagements in 2015 for fees amounting in total to 228 thousand euro, which mainly related to activities as the Company's legal auditor as specified by current legislation.

Treasury shares

At December 31, 2015, A2A S.p.A. held 26,917,609 treasury shares, being 0.859% of its share capital consisting of 3,132,905,277 shares. At December 31, 2015, no treasury shares were held through subsidiaries, finance companies or nominees.

Each share has a par value of 0.52 euro.

Secondary locations

The Company has no secondary locations.

Related parties and tax consolidation

Details of related party transactions are provided in note 39 to the consolidated financial statements and note 35 to the separate financial statements as required by article 2428 of the Civil Code.

Consob Market Regulation (no. 16191/2007)

Article 2.6.2 of the Italian Stock Exchange Rules on the conditions as per articles 36 and 39 of the Consob Market Regulation (no. 16191/2007).

As far as the subsidiary EPCG is concerned, in order to comply with article 39 of the Market Regulation issued by Consob on the “Conditions for listing of shares of parent companies of companies instituted and regulated by the laws of non-European Union Member States” as per article 36 of that Regulation, A2A S.p.A. has adapted to the provisions on the adequacy of the administration and accounting systems, with respect to the size of operations, and the information flow to management and the central auditor necessary to control the consolidated financial statements of the parent company.

There have been no acquisitions during the year of companies registered in non-European Union countries which considered on their own are material for the purpose of the legislation in question.

* * *

The information on corporate governance and ownership structures required by article 123-bis of Legislative Decree no. 58/1998, as amended, is contained in a separate document “Report on Corporate Governance and Ownership Structures for the year ended December 31, 2015”, which forms an integral part of the financial statements documentation.

In compliance with the requirements of the “Regulation on provisions relating to related party transactions” adopted by Consob with Resolution no. 17221 of March 12, 2010 and subsequently amended by Resolution no. 17389 of June 23, 2010, by way of a resolution of November 11, 2010 the Management Board approved, following the favorable opinion of the Internal Control Committee, the prescribed procedure for identifying the rules and controls designed to ensure the transparency and substantial and procedural correctness of the related party transactions carried out by A2A S.p.A. directly or through its subsidiaries. This procedure, which may be found on the website www.a2a.eu, has been applied since January 1, 2011.

The Company has availed itself of the possibility permitted by article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers’ Regulations, and hence of derogating from the requirement to make an information document available to the public in the event of significant mergers, spin-offs, share capital increases by means of the contribution of assets in kind, acquisitions and disposals.

* * *

To approve the financial statements as required by article 12.1 of the Bylaws of A2A S.p.A., the shareholders’ meeting is called within 180 days after the close of the fiscal year.

The use of this term, compared to the ordinary term of 120 days after the close of the fiscal year, permitted by article 2364, paragraph 2 of the Civil Code, is justified by the fact that the company is required to prepare the consolidated financial statements.