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Letter to Shareholders

The year 2016 recorded particularly positive results, capping a two-year period that has seen excellent operating and financial performance, able to overcome the ambitious Strategic Plan forecasts that, in 2015, had envisaged the repositioning and growth of the Group. A challenging path that stems from the desire



to transform A2A into a modern multi-utility, able to meet the needs of the communities served, leader in the green economy, in intelligent networks and energy efficiency, a place of inspiring and meritocratic work, a laboratory of continuous innovations, a company sensitive to environmental and social issues, a reliable partner for all stakeholders, credible interface for institutions.

It is therefore with satisfaction and gratitude to all those involved in realizing this plan that we present the operational and financial results achieved in 2016, even more important as they were achieved in context conditions that are partly unfavourable and in the face of ever-increasing competition in all business areas and target markets.

In 2016, global economic growth (+3.1%) has been gradually strengthening since the summer, but has not resulted in a solid recovery. If the US economy grew more than expected, the downward trend of GDP growth in China now seems irreversible, which reported the lowest figure in the last 25 years (+6.7%) in 2016. Inside the Eurozone, Germany will drive growth (+1.9%), while the increase in GDP of our country in 2016 totalled about 0.9%, thanks to the recovery in domestic consumption. For the first time since 1959, the consumer price index in Italy has decreased (-0.1%). Prices on the Italian Electric Stock Exchange were the lowest recorded since it was created in 2004, with a reduction in the PUN (Single National Price) Base load of 18.3% compared to 2015.

In this scenario, A2A has reported an increase in economic results compared to the previous year. The result should be considered even more positively, considering the significant asset write-downs in 2016 (312 million euro), in particular regarding the Monfalcone Plant (202 million euro), some CCGT plants and goodwill, with respect to only one reversal regarding the San Filippo del Mela Plant.

Revenues (5,093 million euro) rose by 172 million euro (+3.5%) compared to the previous year, net of the LGH contribution (approximately 194 million euro) were in line with the previous year. The Gross Operating Margin (1,231 million euro) increased by 183 million compared to 2015 (+17.5%), due to increases recorded by all Business Units. Generation and Trading recorded a Gross Operating Margin of 404 million euro, up 56 million euro compared to 2015 (+16.1%), thanks to the contribution of the consolidation of LGH and non-recurring income, but also due to the turnaround recorded in the national electricity market in the last quarter of 2016, with the decline in imports from the French nuclear power plants shut down for maintenance and the related growth in domestic demand and prices. In particular, the margins of CCGT have benefited after years of negative profitability.

There was an increase compared to 2015 (+41.2%) in the margins of the Commercial Business Unit (144 million euro), partly thanks to the increase in the regulated components of the electricity trading costs, partly thanks to the commercial development on the free market (+100,000 customers) in line with the strategic plan.

The Gross Operating Margin of the Environment Business Unit equalled 240 million euro, up 14.3% compared to 2015. Net of the LGH contribution and non-recurring items, the growth is due to the expansion in collection services, the good performance of the waste-to-energy segment and the start of transfers to the Giussago landfill.

The growth (+12.5%) in the Gross Operating Margin of the Networks and Heat Business Unit (397 million euro) is mainly due to positive non-recurring items, net of which the margin would have declined by about 5 million euro compared to 2015, in relation to the reduction in regulated components in the distribution of electricity and gas and the decrease in prices of heat sales.

The Gross Operating Margin of the Foreign Business Unit, entirely attributable to the subsidiary EPCG, reached 69 million euro, an increase of 16 million euro compared to the previous year, thanks to operational efficiencies and the growth in exports.

In 2016, the Group reported Net Operating Income of 456 million euro, an increase of 241 million euro compared to the previous year. After deducting the result attributable to minorities, the Group net result of the year amounted to 224 million euro, up compared to 73 million euro in 2015.

The Net Debt stood at 3,136 million euro, up by about 239 million euro compared to December 31, 2015. The generation of positive cash amounting to 230 million euro partially offset

the effects of the acquisition and first-time consolidation of LGH (469 million euro). The NFP/EBITDA ratio at December 31, 2016 improved from 2.76x to 2.55x.

Investments amounted to 386 million euro, up (+12%) compared to 2015, especially in the Environment and Networks and Heat Business Units. Dividends were distributed for 126 million euro, an increase of 11% over the previous year.

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 1, 2016, which has more than 1,500 employees and turnover of 600 million euro. The new structure will produce positive effects on operating costs and investment capacity, along with greater ease of business development, both in terms of gas tenders and possible acquisitions.

In August 2016, based on the industrial partnership contract signed in March by A2A with AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema, shareholders of Linea Group Holding, the actual implementation of the model of “Multi-utility of Territories” was initiated, which aims to give rise to an integrated operator in Lombardy. LGH is the second Lombard multi-utility after A2A, with 550 million euro in revenues in 2015 and is primarily active in environmental services, distribution and sale of gas and electricity.

The development plan of the Environment Business Unit continued with some significant transactions, which broaden and diversify the operating perimeter, through the acquisition of: LA BI.CO. DUE S.r.l. (64%), active in waste management services in the province of Brescia; RI.ECO-RESMAL (100%), operating in the collection, sorting and recovery of non-hazardous special waste, with 5 production plants in the hinterland of Milan; the business unit of Sanitaria Group S.r.l., dedicated to a composting plant in Bedizzole (BS).

Also with a view to the development and enrichment of technological expertise, in October, A2A Calore & Servizi S.r.l., ESCo (Energy Service Company) certified of the Group, acquired 75% of the shares of Consul System S.p.A., the leading independent Italian ESCo. The transaction will allow creating operational synergies and offer new products and services to customers of both companies.

With respect to the Foreign Business Unit, it is recalled that, in 2016, A2A and the Montenegrin Government signed the new Shareholders' Agreements, which provide for the maintenance of the current management rights of A2A in EPCG and the possibility for A2A S.p.A. to exercise by September 30, 2017 an option to sell the entire shares to the Montenegrin State for 250 million euro.

Continuing the process started in 2015, the A2A Board of Directors approved the 2017-2021 Strategic Plan in April, confirming or improving all industrial targets already defined previously, defining the new strategic priority, no longer in the restructuring of the thermoelectric sector (already realized in the two-year period 2015-2016), but in the “relaunch” of the environment, energy networks and services areas, through a further acceleration in investments.

The implementation of the new Plan will help to significantly redefine the portfolio of industrial assets, allowing A2A to seize even more effectively the growing market opportunities and to propose on an industrial scale some of the projects already launched and in the experimental stage, in the fields of innovation, digitization and energy efficiency.

In the five years 2017-2021, total investments of around 2.75 billion euro are envisaged, an increase of 500 million euro compared to the previous five-year Plan. Almost 80% of investments will concern networks and environment. In 2021, the aim is to achieve a Gross Operating Margin of 1.38 billion euro and a net profit of 0.47 billion euro, reducing the Net Debt by 0.6 billion euro.

Also confirmed were the targets of the 2016-2020 Sustainability Plan approved last year, following the definition of the Sustainability Policy, which sees A2A committed to the attainment of UN sustainable development goals by 2030 to improve the quality of life of people with a leading role in the creation of a circular economy, low carbon and based on networks and smart services. Among the objectives of the 4 areas of intervention, we recall:

- in the circular economy, the achievement of 99% of municipal waste collected sent for recovery of matter or energy, 67% on average of separate collection in the municipalities served and 80% incidence of the capacity of recovery of matter at Group plants on municipal waste collected;
- in the path towards decarbonisation, the 10% reduction in the carbon intensity of electricity generation (CO_2/kWh) compared to the average levels of the 2008-2012 period; the avoidance of 234,000 tonnes per year of CO_2 emissions thanks to district heating and 100% increase in the sale of green energy (renewable) to the mass market segment (compared to 2015);
- in the area of networks and smart services, the investment of 10 million euro in services for the smart city; maintaining performance in the “Customer Satisfaction multi-client” reference survey always above 90% and to reach 400,000 customers with on-line tools;
- for people innovation: the realization of 15 territorial listening workshops; the conduct of 4,000 inspections on job sites and the involvement of 20% of employees in the smartWorking project.

In conclusion, the year 2016 has returned a more solid, innovative and sustainable company to shareholders.

We had approved the new business plan in 2015 with an ambitious summary of our goals: A2A, present in the future.

Today, we can say with satisfaction that we were able to bring a little future in the present of your company.

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
Onofrio Contu
Paolo Prandi

INDEPENDENT AUDITORS

EY S.p.A.



QUESTIONS
ARE
GRAND



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.

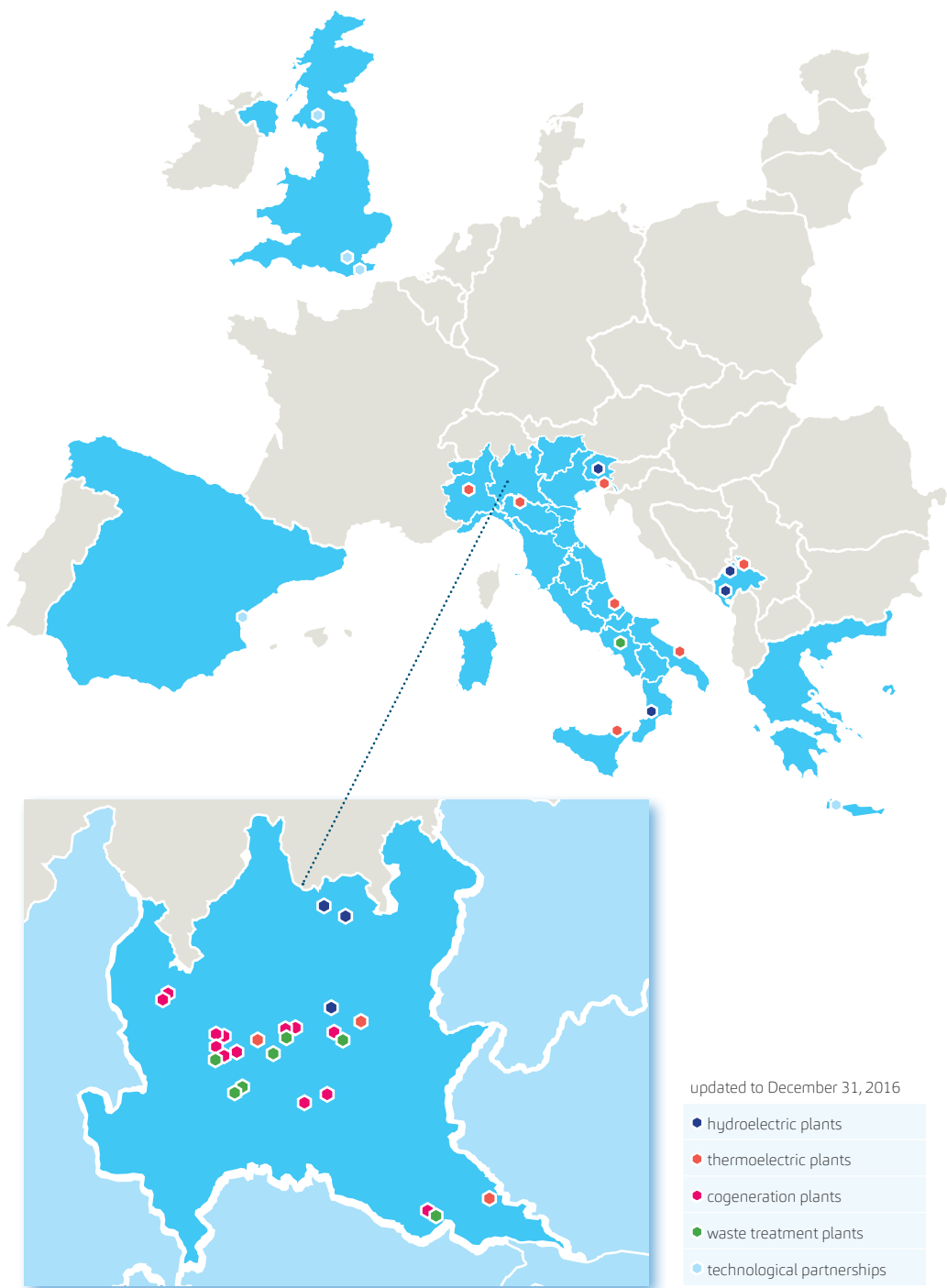
These sectors are in turn attributable to the “Business Units” specified in the following diagram identified as a result of the reorganization carried out by the management:

Business Units of the A2A Group

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

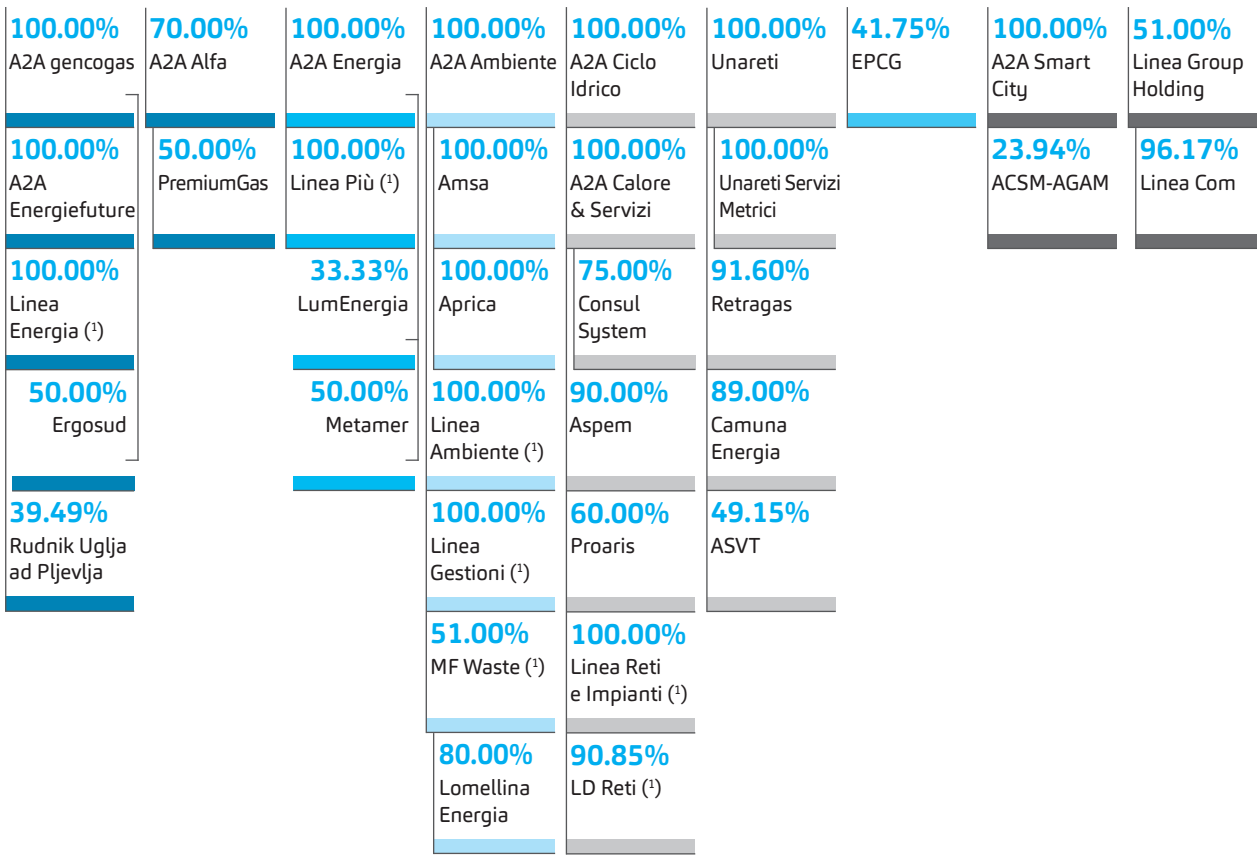
This breakdown into Business Units reflects the organization of financial reports regularly analyzed by management and the Board of Directors in order to manage and plan the Group’s business.

Geographical areas of activity



Group structure

A2A S.p.A.



Business Units

- Generation and Trading
- Commercial
- Environment
- Networks and Heat
- Foreign
- Other companies

(1) Shareholdings held through Linea Group Holding S.p.A.
This chart shows the most significant shareholdings of the A2A Group.
Reference is made to annexes 3, 4 and 5 of the file of the Consolidated Financial Statements for a complete detail of shareholdings.

Financial highlights at December 31, 2016 (**)

Revenues _____	5,093 millions of euro
Gross operating income _____	1,231 millions of euro
Result of the year _____	224 millions of euro
Dividend _____	0.0492 euro per share

Income statement figures

Millions of euro

	01 01 2016 12 31 2016	01 01 2015 12 31 2015
Revenues	5,093	4,921
Operating expenses	(3,221)	(3,244)
Labour costs	(641)	(629)
Gross operating income - EBITDA	1,231	1,048
Depreciation, amortization, provisions and write-downs	(775)	(833)
Net operating income - EBIT	456	215
Result from non-recurring transactions	56	(1)
Financial balance	(158)	(138)
Result before taxes	354	76
Losses for income taxes	(117)	(133)
Net result from discontinued operations	2	-
Minorities	(15)	130
Group result of the year	224	73
Gross operating income/Revenues	24.2%	21.3%

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

Balance sheet figures

Millions of euro

	12 31 2016	12 31 2015
Net capital employed	6,407	6,156
Equity attributable to the Group and minorities	3,271	3,259
Consolidated net financial position	(3,136)	(2,897)
Consolidated net financial position/Equity attributable to the Group and minorities	0.96	0.89
Consolidated net financial position / EBITDA	2.55	2.76

Financial data

Millions of euro

	01 01 2016 12 31 2016	01 01 2015 12 31 2015
Net cash flows from operating activities	802	896
Net cash used in investing activities	(502)	(336)
Free cash flow (Cash Flow Statement figure)	300	560

Key indicators

	12 31 2016	12 31 2015
Average 6-month Euribor	(0.165%)	0.053%
Average price of Brent (US\$/bbl)	45.1	53.7
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	42.7	52.3
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	48.2	58.7
Average price of coal (Euro/tonne)	54.2	51.2
Average price of gas to the PSV (*) (Euro/MWh)	15.6	22.0
Average price of emission certificates EU ETS (**) (Euro/tonne)	5.4	7.7

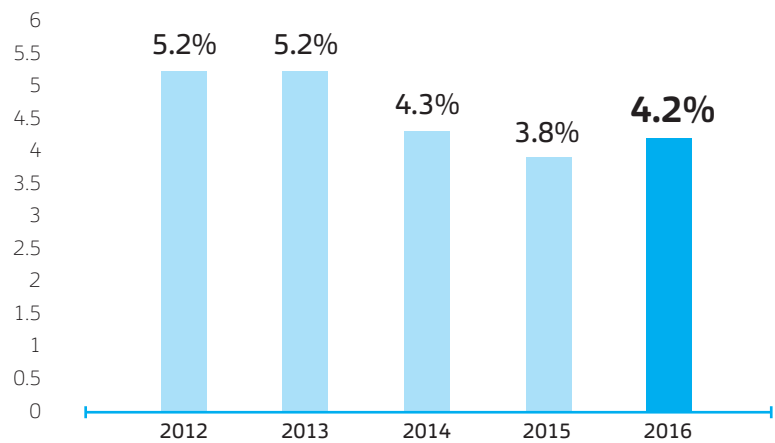
(*) Price of gas of reference for the Italian market

(**) EU Emissions Trading System

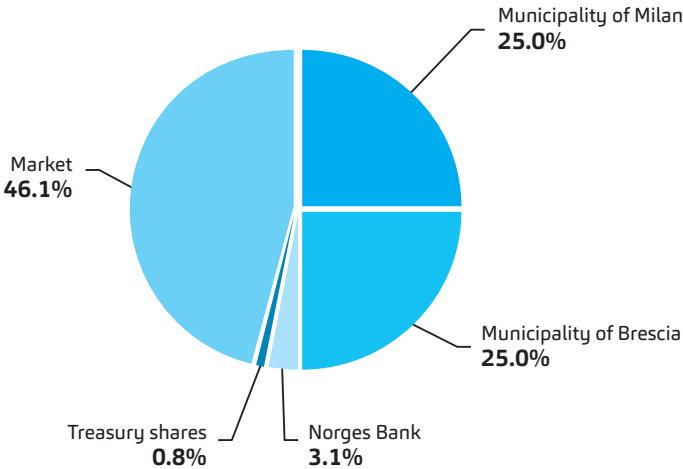
Group’s key operational indicators

	12 31 2016	12 31 2015
Thermoelectric production (GWh)	8,826	8,429
Hydroelectric production (GWh)	4,279	4,471
Electricity sold to wholesale customers (GWh)	9,300	8,463
Electricity sold on the Power Exchange (GWh)	12,048	12,272
Electricity sold to retail customers (GWh)	8,284	7,548
POD Electricity (#/1000)	1,033	954
Gas sold to retail customers (Mcm)	1,372	1,121
PDR Gas (#/1000)	1,309	1,099
Waste collected (Kton)	1,453	1,270
Residents served (#/1000)	3,379	2,800
Waste disposed of (Kton)	2,800	2,558
Electricity sold by WTE (GWh)	1,714	1,593
Electricity distributed (GWh)	11,204	11,178
Gas distributed (Mcm)	2,096	1,832
Water distributed (Mcm)	62	63
RAB Electricity (M€)	608	586
RAB Gas (M€)	1,137	970
Heat sales (GWht)	2,412	2,297
Cogeneration production (GWh)	231	235
Thermoelectric production (GWh) - EPCG	1,216	1,412
Hydroelectric production (GWh) - EPCG	1,757	1,434
Electricity sold by EPCG (domestic market) (GWh)	2,321	2,802

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



Shareholdings (*)



(*) Source CONSOB for Stakes higher than 3% (update at December 31, 2016).

Key figures of A2A S.p.A.	12 31 2016	12 31 2015
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)	23,721,421	26,917,609

A2A S.p.A. on the Stock Exchange

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

Market capitalisation at December 31, 2016 (millions of euro)	3,853
Average capitalisation in 2016 (millions of euro)	3,685
Average volumes in 2016 (shares)	11,140,269
Average price in 2016 (euro per share)	1.176
Maximum price in 2016 (euro per share)	1.287
Minimum price in 2016 (euro per share)	0.956
Number of shares	3,132,905,277

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 22, 2016 A2A S.p.A. distributed a dividend equal to 0.041 euro per share.

A2A forms part of the following indices

FTSE MIB
STOXX Europe
EURO STOXX
MSCI Europe Small Cap
WisdomTree Utilities
S&P Developed Ex-US

Ethical Indices

Ethibel Sustainability Index Excellence Europe
Euronext Vigeo Europe 120
Solactive Climate Change Index
Standard Ethics Italian Index

Source: Bloomberg

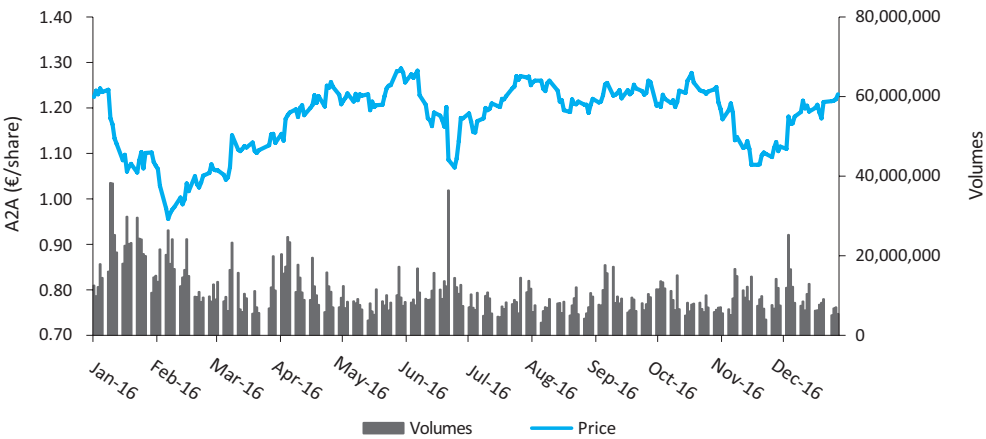
Moreover, A2A has been included in the Ethibel Excellence Investment Register and in the Ethibel Pioneer Investment Register.

Rating

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

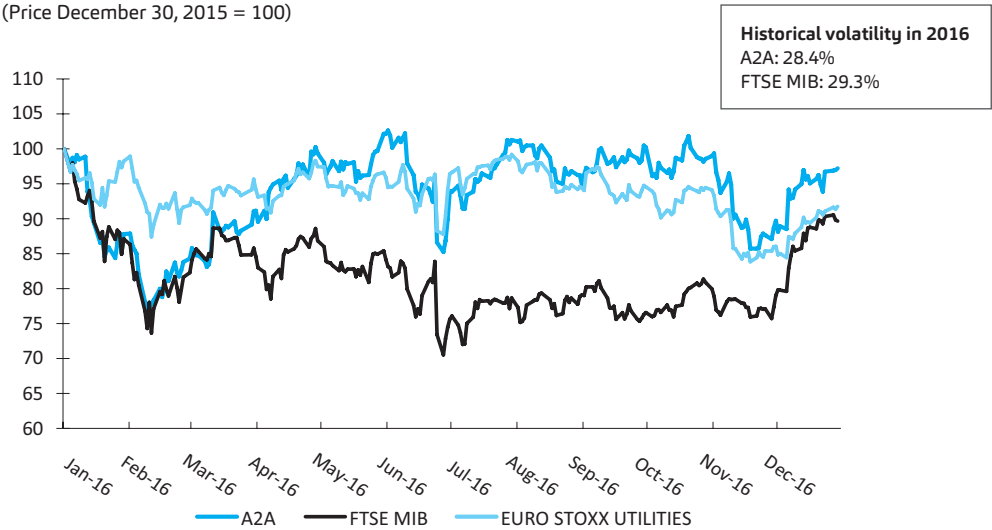
Source: Rating agencies

A2A in 2016



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price December 30, 2015 = 100)



Source: Bloomberg

Alternative Performance Indicators (APM)

In this Report on Operations, a number of alternative performance indicators (APM) have been used that are different from the financial indicators expressly provided for by the international accounting standards IFRS-EU adopted by the Group.

These alternative indicators are used by the A2A Group in order to more effectively submit information on the profitability of the business in which it operates as well as on the financial situation, useful to improve the overall capacity to assess financial and equity performance.

In the file of the Report on Operations, these indicators are shown in the “Summary of results and financial position of the A2A Group”. For the income statement and balance sheet, the comparative figures refer to December 31, 2016.

With reference to alternative indicators, on December 3, 2015, Consob issued Communication no. 92543/15, which transposes the Guidelines on the use and presentation of alternative performance indicators as part of regulated financial information, issued on October 3, 2015 by the European Securities and Markets Authority (ESMA). These Guidelines - which have updated the CESR Recommendation on alternative performance indicators (CESR/05 - 178b) - are intended to promote the usefulness and transparency of alternative indicators to improve their comparability, reliability and understanding.

In accordance with the Guidelines, the descriptions, content and bases of calculation used for the construction of the alternative performance indicators adopted by the Group are described below.

Gross operating income (EBITDA)

Gross operating income is an alternative indicator of operating performance, calculated as the sum of “Net operating income” plus “Depreciation, amortization, provisions and write-downs”.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents a useful measure to assess the operating performance of the Group (both as a whole and in terms of individual Business Unit), also through a comparison between the operating results of the reporting period with those relating to previous periods or years. This indicator also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

Result from non-recurring transactions

The **Result from non-recurring transactions** is an alternative performance indicator designed to highlight the capital gains/losses arising from the valuation at fair value (less costs to sell) or from the disposal of Non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, the results from the sale of equity investments in unconsolidated subsidiaries and associated companies and other non-operating income/expenses.

In the file of the Report on Operations, this indicator is placed between net operating income and the financial balance. In this way net operating income is not affected by non-recurring operations, making it easier to measure the effective performance of the Group’s ordinary operating activities.

This APM is used by the A2A Group as a measure for valuation of the Group’s performance associated with non-current assets and liabilities (or disposal groups) held for sale as part of presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors).

Net fixed capital

Net fixed capital is determined as the algebraic sum of:

- tangible assets;
- intangible assets;
- shareholdings and other non-current financial assets;
- other non-current assets and liabilities;

- deferred tax assets and deferred tax liabilities;
- provisions for risks, charges and liabilities for landfills;
- employee benefits.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents a useful measure of the net fixed assets of the Group as a whole, also through the comparison between the reporting period with those relating to previous periods or years.

This indicator also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

Working capital

Working capital is determined as the algebraic sum of:

- inventories;
- trade receivables and other current assets;
- trade payables and other current liabilities;
- current tax assets/tax liabilities.

This APM is used by the A2A Group as financial objective in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors); it represents a useful measure of the ability to generate cash flow from operations within a period of 12 months, also through the comparison between the reporting period with those relating to previous periods or years.

This indicator also allows conducting analyses on operational trends and measure performance in terms of operational efficiency over time.

Capital employed/Net capital employed

Capital employed/Net capital employed is calculated as the sum of Net fixed capital, Working capital and Assets/Liabilities held for sale.

This APM is used by the A2A Group as the financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors); it represents a useful measure for the evaluation of total net assets, both current and fixed.

Sources of funds

Sources of funds are calculated by adding “Equity” and “Total Net Financial Position”.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and represents the various sources by means of which the A2A Group is financed and the degree of autonomy that the A2A Group has in comparison with third party capital. This indicator also allows measuring the financial strength of the A2A Group.

Net debt

The **Net debt** is an indicator of the financial structure, calculated as the sum of net debt and current net debt. Specifically, total non-current net debt is obtained from the algebraic sum of:

- Total medium and long-term debt: the item includes the non-current portion of Bonds, Bank loans, Financial leases and other non-current liabilities;
- Total medium and long-term financial receivables: this item includes non-current financial assets (including those with related parties) and other non-current assets.

Total current net debt is derived from the algebraic sum of:

- Total short-term debt: this item includes the current portion due within twelve months of Bonds, Bank loans, Financial leases, current financial liabilities to related parties and other current liabilities;
- Total short-term financial receivables: this item includes other current financial assets (including to related parties) and other current assets;
- Cash and cash equivalents and Cash and cash equivalents included in assets held for sale.

This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and is useful for the purposes of measuring the Group’s financial debt, also through the comparison between the reporting period with those relating to previous periods or years.

The net financial position of the A2A Group is calculated in accordance with Consob communication no. DEM/6064293 of July 28, 2006 and in accordance with Recommendation ESMA/2013/319.

Investments in tangible and intangible assets

Investments in tangible and intangible assets are extrapolated from the information contained in the Notes of the Balance Sheet.

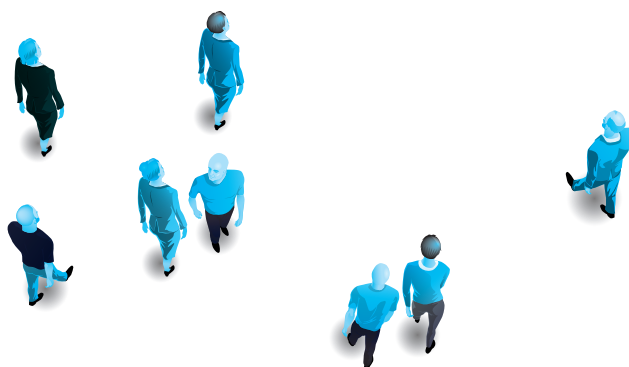
This APM is used by the A2A Group as financial target in presentations both within the Group (Business Plans) and external (presentations to financial analysts and investors) and is a useful measure of the resources used in the maintenance and development of the investments of the A2A Group (as a whole and in terms of individual Business Unit), also through the comparison between the reporting period with those relating to previous periods or years. This allows the A2A Group to conduct analyses on investment trends and measure performance in terms of operational efficiency over time.

Investors should not place undue reliance on these APM and should not consider all APM as: (i) an alternative to operating or net profit as calculated in accordance with IFRS; (ii) an assessment of the Group's ability to meet cash needs alternative to as deduced from the cash flow from operating, investing or financing activities (as determined in accordance with IFRS); or (iii) an alternative to any other performance indicator provided by IFRS.

These alternative performance indicators derive from the historical financial information of the A2A Group and are not intended to provide indications relating to future financial performance, financial position or cash flow of the Group. Moreover, these APM were calculated uniformly for all periods.



REPORT





Scenario and market

Macroeconomic scenario

2016 Figures

Global economic growth has been gradually strengthening since the summer, but has not resulted, as expected, in a solid recovery. According to estimates of the International Monetary Fund (IMF) in the year 2016, world output increased by 3.1%. Compared to October, estimates were revised upwards slightly for almost all the major advanced economies and marginally downwards for the average of the emerging countries, for which acceleration is still expected in the next two years.

In the third quarter of 2016, gross domestic product (GDP) in the US has accelerated more than expected (3.5% yoy) mainly thanks to the expansion of private consumption, the contribution of net exports and changes in inventories. In Japan, GDP slowed to 1.3% in the third quarter of 2016 (1.8%), reflecting the continued weakness in consumption and investments (source: Bank of Italy).

China grew by 6.7% in 2016 against 6.9% in the previous year; the lowest result in the last twenty-five years. Although representing the world's second largest economy, the decline in the growth of its gross domestic product seems unstoppable, and this trend could have global repercussions. China represents the world's biggest energy consumer and the first country in terms of value of goods traded in the world.

In India, GDP in the third quarter of 2016 continued to expand at a fast pace (+7.3% compared to the same period the previous year) against a very moderate dynamic of industrial production. In Brazil, the recession remains severe (-2.9% in the third quarter) and the economic outlook remains very uncertain even for the still confusing political situation. In Russia, following the recovery in oil prices, the decline in GDP has mitigated (-0.4%), consolidating the prospect of a return to growth.

According to the preliminary estimate of the IMF, Eurozone GDP is expected to reach 1.7% in 2016 thanks to the recovery of private and public consumption. Within the Eurozone, Germany is expected to drive the recovery marking an increase of 1.9%, the highest rate since 2011. The

excellent performance is mainly due to domestic demand, driven by household consumption (+2%) and especially in the public sector (+4.2%).

With regard to Italy, the IMF and the Bank of Italy indicate that on average, GDP is expected to reach 0.9% in 2016 due to the recovery of domestic demand.

Consumer price inflation has increased in advanced economies thanks to the attenuation of the fall in energy prices. In December, inflation in the US rose to 2.1%, fell marginally in China (to 2.1%), after recording three consecutive rises; it decreased again in India (to 3.4%), Brazil (to 6.3%) and Russia (to 5.4%). In Japan, inflation rose slightly in November, but remained at low levels (+0.5%).

The latest data published by the Eurostat showed a recovery in inflation in the Eurozone in December: +1.1% against +0.6% in November, and an annual average of +0.2%. However, the rise in inflation was not homogeneous between the various Eurozone countries: the most significant increases came from Germany, Spain and France. German inflation rose by 1.7% on an annual basis; Spanish by 1.5% and French by 0.8%.

Italian inflation, by contrast, recorded a decrease in 2016 for the first time since 1959. According to data from ISTAT, the consumer price index fell 0.1% compared to +0.1% of 2015. It is noted that in December, the index recorded an increase of 0.4% on a cyclical basis and 0.5% over the same period the previous year, the highest in two and a half years, driven by upward pressures mainly derived from the acceleration in food prices and transportation services and attenuation of the decline in energy prices.

At the meeting held December 8, 2016, the ECB Governing Council decided to keep the benchmark rate at the record low of 0.00% and to extend the Quantitative Easing beyond the deadline of the end of March, or until the end of 2017 and in any case until the rate of inflation returns to being consistent with the objective of price stability.

The monetary policy committee of the Federal Reserve (FOMC), at its meeting on December 14 raised by 25 basis points the target range for the federal funds rate (to 0.50-0.75%), particularly in light of the additional progress in the labour market.

The average EUR/USD exchange rate stood at 1.11 dollars in 2016, in line with the 2015 average.

Outlook

In the latest forecasts on the economy's overall health, the main organizations detect growth prospects in the process of strengthening, albeit at a slower pace than in the pre-crisis period and subject to various uncertainties, including the adverse effects of low commodity prices on exporting countries, the slowdown of the Chinese economy and the risk of protectionist trade policies of the United States.

The International Monetary Fund (IMF) confirms the global growth estimates for 2017 and 2018: global GDP will grow this year by 3.4%, to accelerate in 2018 to +3.6%.

The IMF revised its estimates for advanced economies upwards, that will grow this year by 1.9%, and in 2018 by 2.0%. Specifically, the US economy will expand this year by 2.3% and 2.5% in 2018. On the one hand, the IMF underlines the uncertainty of the Trump rescue plan, on the other hand, the fact that any trade wars would impact current forecasts. With regard to China, the advanced estimates by the World Bank indicate a gradual slowdown by 2019. In 2017, Chinese GDP is in fact expected to reach 6.5% and 6.3% both in 2018 and in 2019. The International Monetary Fund is more pessimistic; for 2018, it expects a slowdown to 6% (in line with the World Bank estimates for 2017).

The growth prospects for 2017, according to the World Bank, have improved for emerging countries for which a turnaround is expected, with Brazil reaching +0.5%, Russia +1.5% (from -0.6% in 2016) and an acceleration for India to 7.6%.

With reference to the Eurozone, the IMF has prepared a growth forecast in 2017 of 1.6%, as well as for 2018. The same improvement is also expected for Germany and Spain. The UK economy is resisting the Brexit and the IMF revised growth forecasts for 2017 upwards to 1.5% and those for 2018 downwards to 1.4%.

The macroeconomic projections formulated by the Bank of Italy indicate that on average, Italian GDP is expected to grow to around 0.9% in 2017 and 1.1% both in 2018 and in 2019. A boost to growth will come from domestic demand and, already in 2017, from the gradual strengthening of foreign demand. By contrast, the IMF has revised growth estimates for Italy for 2017 and 2018, the only major Eurozone economy to suffer a cut in forecasts. GDP will grow this year by 0.7% (0.2 percentage points less than October estimates) and 0.8% in 2018. The main factors that may affect growth in Italy are attributable to a possible banking and financial crisis, a rise in spreads as well as a slowdown of the reform process initiated in recent years.

Inflation in the Eurozone, in the December projections by elaborated by Eurosystem central banks, is expected to increase in 2017 to 1.3% (from 0.2% in 2016) and in 2018, the rate is expected to reach 1.6%.

With regard to Italy, according to the estimate contained in the “Macroeconomic projections of the Bank of Italy”, inflation will rise (compared to the state of deflation of 2016) to 1.3% both this year and next due to the rise in prices of imported energy products, and then reach 1.5% in 2019.

The trends in the levels of interest rate and therefore the roles of central banks will be decisive for the exchange rates of the single currency. The divergence between the monetary policies of the FED and the ECB and the widening of their growth gap in 2017 and 2018 may push the strengthening of the dollar.

The European Central Bank (ECB), in its meeting of January 19, 2017 decided to keep rates unchanged and also confirmed the decisions on the Quantitative Easing made on December 8 (prolongation of the purchases plan throughout 2017, but at a pace of 60 billion euro per month instead of 80 billion) stating to be willing to increase the purchases plan, both in terms of duration and entity, based on the trend in inflation.

The anticipation is rising for the next moves of the Federal Reserve for the approach of economic and monetary policy of the new US administration. The main market analysts expect at least two increases in interest rates and the FED itself, at its meeting on February 1, 2017, maintained the rate unchanged but confirmed its intention for further increases.

Energy market trends

In 2016, 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 2016 stood at 45.1 \$/bbl, a decrease of about 16% over the figure reported the previous year (53.7 \$/bbl). The year 2016 was critical for oil prices both in terms of level and volatility. In January, Brent prices plummeted below 30 \$/bbl and then began a recovery that more than doubled their value up to 55.0 \$/bbl in December. The achievement of this level was due to a reduction in supply; on December 10, in fact, OPEC members entered into an agreement to cut production of the cartel by 1.8 million barrels a day for six months. Non-OPEC countries, led by Russia, subsequently committed to reduce their production capacity by 558,000 barrels per day. In the meeting in Vienna on January 21, 2017, the Control Committee for evaluation of production agreements, consisting of five OPEC and non-OPEC countries, confirmed that the oil production cuts are proceeding as planned. The US agency Energy Information Administration (EIA) expects the price of Brent oil and WTI will be maintained at an average of 50 dollars per barrel in the first half of 2017 and 55 dollars per barrel in the second half of the year. There remains uncertainty about the maintenance of these production cuts once the oil price has started to rise.

As regards coal, there was a first period of the year characterized by prices stably below 50 \$/tonne. Starting in July, despite a continuing weak demand, there has been a significant increase in prices, with the price of coal delivery in the ports of Amsterdam-Rotterdam-Antwerp (Coal Cif Ara) in December, which reached 86.9 \$/tonne. The average price of coal in 2016 stood at 59.7 \$/tonne, a decrease of 6% over the figure reported the previous year (56.5 \$/tonne).

Electricity

As far as the national electricity market is concerned, in Italy in 2016 there was a net requirement of 310,251 GWh (source: Terna), with a decrease of 2.1% compared to 2015.

Net production of electricity reached 275,649 GWh, up 1.2% on an annual basis. The normalization of water availability led to a significant decrease in production from hydroelectric sources, which stood at 42,323 GWh, a decrease of 8.9% compared to 2015. Thermoelectric production increased and during the period considered, marked +2.5% compared to 2015 amounting to 187,461 GWh benefiting from reduced levels of water availability as well as extremely cold temperatures.

The performance of thermoelectric production levels and the import of electricity from abroad (with a relapse on the PUN prices) were influenced, in the last part of the year, by the stoppage of some French nuclear plants. These stoppages, related to a verification program on the safe operation and performance of the related technical work, led to a significant reduction in the volume of energy available across borders resulting in a decrease in imports and driving national thermoelectric production upwards in order to meet the levels of demand.

As for renewable sources, there has been a discordant trend: wind power was up by 18.7% compared to 2015; on the other hand, both photovoltaic (-0.2%) and geothermal production (+0.7%) were substantially stable.

National production, excluding pumping, accounted for 88.2% of the demand for electricity, while net imports satisfied the remainder.

In terms of prices, the Base Load PUN (Single National Price) in 2016 fell by 18.3%, amounting to 42.7 €/MWh against 52.3 €/MWh in 2015. This is the energy purchase price (PUN), registered on the Power Exchange, the lowest in its history, which began in April 2004. Downward trend also for the price in high load time slots (-18% for the Peak Load PUN reaching 48.3 €/MWh). The price in low load time slots recorded a decrease in 2016 compared to the same period the previous year (-18.4% for the Off-Peak PUN reaching 39.8 €/MWh). For 2017, forward curves indicate an increase in prices with values around 50.0 €/MWh.

Natural Gas

In 2016, the demand for natural gas increased by 5.2% compared to 2015, amounting to 70,400 Mcm (source: Snam Rete Gas) confirming the trend reversal that had interrupted a long downward trend in 2015.

The recovery has mainly affected consumption in the thermoelectric sector, which rose by 13.7% compared to 2015, benefiting from the decline in renewable energy production and the decrease in imports of electricity from abroad. Industrial sector consumption interrupted a

long regressive phase and rose to 13,383 Mcm, with an increase of 4.8% compared to the year 2015. Instead, consumption was stable in the residential and commercial sector, amounting to 31,501 Mcm (-0.5%).

On the supply side, domestic production fell to record lows, amounting to 5,570 Mcm (-13.3% compared to 2015). Imports represented around 92% of requirements net of changes in stocks while national production covered the remainder.

Also on the supply side, imports of Algerian gas in Mazara increased, with volumes more than doubled compared to 2015 (18,872 Mcm, +159.8%). Instead, imports from other points of entry including those from Russia in Tarvisio were down (28,235 Mcm, -5.9%), which however remain the most important.

Regarding prices, the price of gas to the TTF for 2016 amounted to 14.0 €/MWh, down 29.5% over the previous year. The price of gas to the PSV showed an upward trend which, starting from the lows in February (to coincide with the start of exports of US shale gas via LNG), reached a peak in July. There was then a decrease followed by a further increase that brought the price to reach the highest values of the year in the last quarter. Specifically, the average price of gas to the PSV for 2016 amounted to 15.6 €/MWh, down 29.0% compared to 2015. In December, the prices amounted to a value of 19.5 €/MWh. For 2017, forward curves indicate an increase in prices with average values close to 20 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 1.7 €/MWh for the reporting period, significantly lower than the 2015 differential (2.2 €/MWh). The main factors that will characterize the value of the spread will be linked to the performance of gas supplies from the South (expected to increase for the renewed availability of Algeria) and to the portfolio optimization logic adopted by the leading Italian importers and related to expectations on price differentials for the coming months (source: Ref).



EVOLUTION



Evolution of the regulation and impacts
on the *Business Units* of the A2A Group

Generation and Trading Business Unit

Remuneration of production capacity availability

The mechanism in force in Italy for the remuneration of production capacity is the Capacity Payment introduced in 2003 by Legislative Decree no. 379 as an administered, transitional system the purpose of which is to ensure the adequacy of the electricity system especially in the days, identified by Terna and defined as critical, where the difference between supply and demand could be at minimum levels.

Since 2004, the Authority's regulation provides for the ex ante establishment of revenue collected from electricity bills and disbursed via two payments (called CAP1 and S) to plants authorized to provide dispatching services.

Legislative Decree no. 379 stated that, under regime, the capacity remuneration shall be based on a market mechanism (capacity market), which was subsequently defined by Resolution ARG/elt 98/11.

The final design involves an auction in which operators awarded acquire the right to receive a bonus (in €/MW/year) and the obligation to offer the capacity awarded in the energy and services markets, returning to the counterparty Terna the difference between the benchmark prices and a strike price (in €/MWh). Initially, the Capacity Market involved three-year auctions with a four-year planning horizon. By way of Resolution 95/2015/I/eel, the Authority proposed to the Ministry of Economic Development (MiSE) to reduce to 1 year the period between the conduct of the auction and delivery, also introducing contracts with one-year duration (first implementation phase).

In August 2015, the Government pre-notified to the DG Competition the Italian capacity market mechanism for verification as to its compatibility with the guidelines on state aid.

In April 2016, the European Commission published an interim report following the survey initiated by the latter in 2015 on the capacity remuneration mechanisms in 11 Member States. The discussion in Brussels revealed the need to integrate the current market design, based exclusively on spot markets, with instruments that also allow providing term signals: the model of the Italian regulator (which has profiles that are more competitive than the English

one already approved by the Commission) meets these requirements and could be taken as best practice also by other countries. The A2A Group has also submitted its views on the interim report in respect of which a consultation was opened.

At the end of 2016, the completion process of the discipline of reference for the capacity market has accelerated. In fact, the two consultations have been concluded:

- of Terna by means of which the rules of operation were further refined on the basis of ministry guidelines;
- of the Authority that has focused on some punctual aspects (in particular by proposing the value of the cap to the premium offered in the auction of 75,000 €/MW/year in line with the fixed costs of a hypothetical open cycle gas turbine plant powered by natural gas, leading technology on the basis of a Terna study).

With the approval of the rules by the Authority and the enactment of a ministerial decree, therefore, the formal notification to the European Commission may be initiated regarding both the mechanism of first implementation and regime.

The following are the main characteristics of both mechanisms according to the proposals consulted by Terna and by the Authority:

- these are contracts for differences where the remuneration will be through the premium resulting from the auction and setting a strike price on market prices (currently estimated at around 80 €/MWh);
- active participation of demand, renewable sources and distributed generation with the exclusion of plants that receive incentives from the GSE. The participation is envisaged of cross-border resources only in the regime mechanism;
- term of contracts: annual for both the first implementation and regime mechanism;
- planning: less than 4 years for the first implementation mechanism and 4 years for the regime mechanism;
- delivery of products: 2018 for the first implementation mechanism and probably from 2021 for the regime mechanism with conduct of both auctions in 2017.

Operators have requested solutions to increase both the premium cap and the strike price on the market price (which implicitly acts as a price cap) and revealed the non-valuation of the characteristics of flexibility of the plants.

The contribution of the capacity payment for 2016 is estimated at around 19 million euro.

Finally, it should be noted that:

- by means of Resolution 134/2016/R/eel, the Authority imposed on Terna the recalculation, by April 30, 2016, of the S amount for the years 2010 and 2011. The net balance of these adjustments amounted to about 2.1 million euro to be paid in 12 monthly instalments of the same amount as of April 29, 2016;

- Terna liquidated at June 30, 2016 12 million euro referred to the CAP1 2015 component, while liquidation is still pending for the S 2015 component.

Remuneration of plants essential for the safety of the electricity system

Law no. 116/14, converting Decree Law no. 91/04 provided, among the other measures designed to reduce electricity bills for end customers with a low and medium voltage supply that until the 380 kV “Sorgente-Rizziconi” power line connecting Sicily with the mainland becomes operational, all the production units having power exceeding 50 MW situated in Sicily, with the exclusion of non-programmable renewable plants, shall be considered to be “essential” for the safety of the electricity system, with the requirement for offering on the market of the previous day.

From January 1, 2015, the bid and remuneration procedures of said units were therefore defined by the Authority.

Referring to the plant in San Filippo del Mela (Messina), Resolution 663/2015/R/eel recognized the essentiality of group 1 (150 kV) for all of 2016 and groups 2, 5 and 6 (220 kV) until the entry into operation of the Sorgente-Rizziconi cable on May 28, 2016 as per Terna communication and pursuant to Resolution 274/2016/R/eel.

By way of Resolution 803/2016/R/eel, the 220 kV plant (groups 2, 5 and 6) has been contracted by Terna in essentiality regime with reinstatement costs for the five-year period from 2017 to 2021: the Resolution also provides that 150 kV group 1 acts as back up in the event of unavailability of group 2. The new Sorgente-Rizziconi cable could, in fact, not always be available (e.g. during maintenance) and the market of the Sicily area is still short at the moment in terms of supply.

Also envisaged is the commitment by A2A Energiefuture S.p.A. to contain the requests reinstatement of costs below a certain cap proposed by the company that ensures at the same time the coverage of fixed costs, variable costs of management and equitable remuneration, as well as a saving for the system as the highest level of reinstatement is lower with respect to the calculation provided by the standard essentiality regime (referred to in Resolution 111/06).

The long-term contractualization of San Filippo del Mela will therefore allow the company to manage the plant cost-efficiently ensuring to the system the maintenance of safety with a benefit in terms of overall cost savings.

At December 31, 2016 receivables to be collected amounted to 78 million euro.

Conferment of gas capacity for thermoelectric plants (CCGT)

The conferment of the gas transport capacity, today allocated on an annual basis for each thermal year, represents one of the most significant fixed costs that the CCGTs shall incur (in 2016, said cost was around 6,000 €/MW).

By means of Consultation 409/2015/R/gas and 613/2015/R/gas, the Authority initiated a pilot project for revision of the conferment criteria, initially only for electricity generation plants and, if necessary, at a later stage, also for other types of customers. Said intervention was deemed necessary to meet the increased demands for flexibility of thermoelectric plants linked to the strong development of renewables.

Resolution 336/2016/R/gas has opted for the following methods:

- ex-ante conferment mechanism, however with the possibility of access to various products such as those now available at interconnection points with other countries;
- introduction of a daily conferment at a cost equal to the amount of annual capacity re-proportioned on a daily basis multiplied by a coefficient k equal to 10. The daily product will be available from January 2017;
- maintenance of the “distance discount” only for the annual product;
- from October 1, 2016, the penalties were re-proportioned applying a fee of 1.1 times the daily unit price of capacity multiplied by the deviation recorded in the day.

The reform started from October 1, 2016. The impacts for the Group are being evaluated but in any case, there has already been a reduction in excess penalties compared to previous years.

Valuation of electrical imbalances

Period July 2012-August 2014 (excluding June 2014)

Resolution no. 111/06 defines the rules for the calculation of imbalance prices to be applied to the differences between the feed-in and consumption plans and the actual production and withdrawals.

The containment of these imbalances is desirable because it favours the reduction in costs that fall on the bill of end customers as Terna - in the face of more accurate forecasts by dispatching users - uses fewer resources for balancing the system in real time. For this reason, the discipline of these imbalances has been the subject of several amendments by the Authority in order to align the regulation to the need for an efficient market configuration so as to push operators to always make the best forecasts of production and consumption, avoiding arbitrage between prices on different markets.

By way of the appeal filed by some operators, Resolutions no. 342/2012/R/eel, no. 239/2013/R/eel and no. 285/2013/R/eel amending the above discipline were annulled by the administrative judge for the period July 2012 - August 2014 (excluding June 2014) for non-justification on the urgency and for non-consultation.

Terna made recalculations of imbalance prices according to the discipline in force before the resolutions annulled and the adjustment invoices - despite the objections by the A2A Group companies - were directly compensated at June 30, 2015 (for a gross amount of approximately 6.8 million euro).

In response to the solicitations of some dispatching users, the Authority initiated a process for the valorization of the actual imbalances between 2012 and 2014, by means of Resolution 333/2015/R/eel. A2A Trading S.r.l. and Edipower S.p.A. (now A2A S.p.A.) and A2A Energia S.p.A. appealed to the Lazio Regional Administrative Court against Terna as it did not take into account this proceeding in the calculation of the adjustments.

After about a year of consultations, Resolution 333/2016/R/eel has completed the valuation process of imbalances for the period 2012-2014 and ordering no later than November 1, 2016, repayment by Terna to the A2A Group companies of the amount compensated in June 2015.

Definition of the new regulations as of August 1, 2016

With Resolution 444/2016/R/eel, subsequently amended by Resolution 800/2016/R/eel, the regulatory framework on the actual imbalances has been amended as of August 1, 2016.

The measures introduce mechanisms aimed at providing more effective incentives to plan with diligence, skill, prudence and foresight, and, at the same time, to enable the Authority to systematically detect possible violations of this obligation (also for the adoption of prescriptive and/or punitive) measures.

In particular, the resolutions envisage amendments regarding:

- (i) methodology of zonal sign calculation in order to make it less predictable as of May 1, 2017 (or a later date if Terna has failed to develop an algorithm for the publication of the zonal sign with timing similar to the current situation);
 - (ii) valuation of the imbalances.
- For consumption units there is mixed single-dual price valuation which includes:
 - a standard band equal to $\pm 15\%$ of the modified and correct binding program (overall standard band of 30%) for the period of first implementation (August 1, 2016 - December 31, 2016) which, starting from the change in the zonal sign calculation method, will be widened to $\pm 30\%$ (Resolution 444/2016/R/eel defined a band of $\pm 7.5\%$ from January 1, 2017);

- the application, within the band, of the valorization in force today with an imbalance price independent of the direction of the imbalance of the single unit (single price);
- the application, outside the band, of the zonal price of the Day-Ahead Market (MGP) in the event of imbalance discordant with respect to the performance of the macro-zone, and the average price of accepted offers in the Balancing Market (MB) in the case of dual imbalance (dual price);
- the introduction of final verifications as monitoring tool of the proper functioning of the market, providing automatic reporting from Terna to the Authority of entities that recorded monthly aggregate imbalances of considerable amount, higher than a tolerance threshold of 30% (equal to twice the overall standard band that will be in force as of January 2017);
- for significant production units powered by non-programmable renewable sources monitoring activities are strengthened and it is envisaged to leave unaltered the current regulation or the possibility of opting for the valorization at the single price for the entire volume imbalanced, or to adhere to the alternative scheme provided for by Resolution 522/2014/R/eel, based on bands, differentiated by source, within which the imbalance is valued at the MGP price with the application of an equalization component that takes into account the overall imbalance of all units that adhered to said scheme, and outside of which the imbalance is valued at the single price;
- for production units not activated different from those powered by renewable energy sources there is the same regimen of consumption units until the change in the calculation of the zonal sign, subsequently the single price will be applied;
- for production units not relevant powered by non-programmable renewable sources there is the discipline in force today (see previous point) strengthening the monitoring activities of the conduct of operators.

With reference to the valorization of secondary reserve resources in the calculation of imbalances, the Resolution has eliminated, since August 2016, the value of the activation of the secondary imbalance price. Said exclusion is expected to be accompanied by an update by Terna of the price for non-respect of dispatching orders to avoid that dispatching users may benefit from the non-provision of the secondary regulation service for which they were selected.

The new legislation has already had a positive impact on the electricity system: in particular, the balance between the income and expenses of the imbalance fees⁽¹⁾ fell by more than 5 €/MWh reached in April 2016 to about 0.60 €/MWh in July and just over 0.35 €/MWh in August 2016.

(1) Component a) of the fee for the procurement of resources in the market for the dispatching service referred to in article 44 of Resolution 111/06. The final data of the various components are published monthly by Terna.

In terms of impacts for the A2A Group, a potential reduction is expected in the unit cost of unbalancing with reference to the thermoelectric production units, while it is not expected to result in any additional charges for the relevant renewable sources.

Incentives to production from renewables and conversion of the Green Certificate into tariff

In implementation of Directive 2009/28/EC with Legislative Decree no. 28/2011, the incentive schemes have been defined aimed at achieving the production targets from renewable sources by 2020, then implemented by Ministerial Decree of July 6, 2012, which applies in respect of electricity plants powered by renewable sources other than photovoltaic plants.

The aforementioned decree establishes that for plants below a certain power threshold, tariffs shall be recognized (feed-in premium) with direct access or through subscription to records, while for those with higher powers, an auction procedure is envisaged.

The decree also provides, in relation to plants from renewable energy that began operating before December 31, 2012 and that have gained the right to use the Green Certificates (GC), the recognition of an incentive paid by the Energy Services Manager (GSE) on net production for the entire remaining period of the right to GCs after 2015 and that is added to the production sales revenues on the market. Said incentive (I) is equal to:

- $I = k \times (180 - Re) \times 0.78$;
- k = technological coefficient of 1 for plants that entered into operation by December 31, 2007 and for subsequent ones, it assumes the values defined by Law no. 244/2007;
- Re = is the sale price of electricity on the market, recorded in the previous year and communicated by the Authority.

In 2016, the incentive value was equal to 100.08 €/MWh, while for 2017, it was 107.34 €/MWh.

A similar method applies to plants that benefit from GC District Heating.

As of January 1, 2016, incentives are paid quarterly by the GSE by the second quarter following the reference one and on the basis of the signing of an Agreement and upon registration and validation of the plants on the GSE portal. To date, the A2A Group has signed agreements with the GSE for all 10 plants incentivized with a collection, at December 31, 2016, of approximately 67.4 million euro.

On March 25, 2016, GSE published a disclosure on the expiries of 2014 GCs and 2015 GCs in respect of which a request may be made to GSE for withdrawal, respectively, by March 31, 2017 and March 31, 2018. This clarification, strongly supported by operators, allows confirming the storing of certificates and the possibility of using the GC warehouse until their expiry.

To date, the Group has a stock of 1,094,166 including GC and GC TLR.

Certificates Physical Warehouse	Total GC
GC 2014	441,369
GC 2015	581,484
GC DISTRICT HEATING 2014	34,313
GC DISTRICT HEATING 2015	37,000
Total	1,094,166

Large hydroelectric derivation concessions

Changes in legislation over the past few years, despite having introduced rules to allow the conduct of tenders, have in real terms led to the continuation by the present holders of the exercise of existing large derivation hydroelectric concessions even if they have formally expired, including certain of these held by A2A S.p.A. ⁽²⁾.

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 limit 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 according to the criteria established by an implementing Ministerial Decree, not yet issued. In addition, a special transitional regime (accelerating) is established 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 years for calling the tender). These tenders must be called within 2 years of the effective date of the above Ministerial Decree.

The non-issue, to date, of the “Tender Ministerial Decree” inevitably results in an actual extension of the management by the current concessionaires also of these derivations due to expire beyond 2017.

The Government, as part of the formal default notice received from the European Commission affirming the opposition of Italian legislation with the principles and rules of EU law, decided to report to the Commission a future amendment to said rules, as part of an overall 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

(2) The concessions of Grosotto, Lovero and Stazzona expired 12/31/2010 while the one of Premadio 1 at 07/28/2013 (Premadio 2 has validity until 12/31/2043). The concession of Grosio expired 11/16/2016 while the other concessions A2A S.p.A. (Calabria Unit) and Edipower S.p.A. now A2A S.p.A. (Friuli and Valchiavenna Unit) will expire 12/31/2029 (pursuant to Legislative Decree no. 79/1999).

the temporary continuation of the exercise for expired concessions and the imposition of an additional fee.

Following the entry into force of the aforementioned regional laws, Lombardy extended, by means of DGR, the duration of the “temporary continuation of the exercise” of large derivation concessions that have already expired, including those of A2A (Grosotto, Lovero, Stazzona and Cancano-Premadio 1) until December 31, 2017, subject to earlier (and highly unlikely) conclusion of the public assignment procedure.

It is noted that for the concession of Cancano-Premadio 1, the Lombardy Region expects to cancel, with effect as of the expiry of July 28, 2013, the partial exemption from the state fee from which said concession benefits. The relative DGRs were therefore challenged in an appeal that is still pending before the Superior Court of Public Waters (TSAP).

Lastly, by means of art. 62 of the Law no. 221/2015 (“Collegato Ambientale”), the legislator equalized upward the unit value of the BIM supra-fee due from concessionaires of small derivations above 220 kW of nominal power, making it identical to the one due by the holders of large derivations above 3 MW.

The 2016 Stability Law provided, in art. 1, paragraph 671, the reimbursement of additional hydroelectric concession fees paid to the State in 2006-2007, for renewal of concessions. This provision was, in fact, declared unconstitutional by the Constitutional Court.

Additional fees paid by A2A S.p.A. and Edipower S.p.A. (now A2A S.p.A.) in 2006 and 2007 amounted to about 11.5 million euro including payments to the State (9.6 million euro including interest) and municipal administrations (1.9 million euro). In November 2016, MED paid to A2A S.p.A. and Edipower S.p.A. (now A2A S.p.A.) the amounts of the State using the proceeds of the CO2 portion auctions to make repayments.

By Regional Council Resolution no. 5130/2016 of May 9, 2016, the Lombardy Region provisionally quantified the “additional fee” for hydroelectric concessions of major derivations expired, introduced by Regional Law 19/2010 but never implemented up to now, to the extent of 20 €/kW of average nominal concession power, with reserve of subsequent increase (and related adjustment) if it emerges from the studies that the Region is conducting that the “return” of the expired concessions was higher.

A2A S.p.A. appealed to Regional Council Resolution no. 5130/2016 in July 2016.

This D.G.R. (Regional Council Resolution) was adopted despite the pending appeal filed by the National Government to the Constitutional Court to the Regional Law no. 22/2015. The arguments put forward by the Government are identical to those of the operators and A2A, which appealed the previous regional resolutions of “temporary continuation of exercise” of its

concessions under the principle of homogeneity of fees on the national territory as a condition relating to competition (art. 37, paragraph 7, Law 134/2012), and since the “Bersani Decree” (Legislative Decree no. 79/99, art. 12, paragraph 8-bis) is clear in determining that the exercise of the expired concessions continued, until the new assignment, from the outgoing concession at unchanged conditions, without requiring any regional measure.

Instead, the Region bases the additional fee on the assumption that it already owns the works and hydroelectric plants in question, applying the former art. 25, paragraph 1, of the Consolidated Act 1775/33, superseded by art. 37 of Law no. 134/2012. The additional fee would represent the consideration for the benefit of said goods by the “former concessionaires”, however regarding which they continue to pay IMU (property tax) and other charges.

It is noted that the Constitutional Court ruled in favour of the fees imposed by the Piedmont Region (Sentence no. 158, May 3, 2016) with its own Regional Law no. 22/2014, considered legitimate in the absence of Ministerial Decree provided by art. 37, paragraph 7, of Law 134/2012, which shall set out the general criteria for determining, according to the principles of cost-effectiveness and reasonableness, on the part of the regions, the maximum values of the fees of the concessions for hydroelectric use.

With Council Resolution no. 13993 of December 28, 2016, the Lombardy Region has finally determined for the period January 1, 2011 - December 31, 2016, the amounts due by way of additional fees relating to major hydroelectric derivations expired and authorized for the temporary continuation, quantifying the amounts on the basis of the unit amount of the additional charge to the extent of 20 euro/kilowatts of average annual nominal power, previously defined by way of recognition in aforementioned Regional Council Resolution no. 5130 of May 9, 2016.

The surcharges that hydroelectric producers will have to pay for the temporary continuation of 16 large concessions in Lombardy amount to more than 23 million euro, of which 8.9 are due by A2A S.p.A..

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, allows 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.

Decree Law no. 91/14, Law no. 116/14 and the Authority's Resolution 578/2013/R/eel define the legislative and regulatory framework of the SEUs that can be referred to a scheme in which there is a single unit Consumption Unit and Production Unit which, if recognized as such, allow for the payment of general expenses equal to 5%.

To be eligible for this benefit as of January 1, 2014, the SEUs that began operating before December 31, 2014 were required to be qualified by GSE according to one of the possible types by September 30, 2015. It is also possible to qualify the system after said date; however, the benefits will be calculated starting from the month following the qualification. For systems that became operational after January 1, 2015, it will be necessary to request qualification after the entry into operation.

By clarification of June 12, 2015, the Authority specified that the generation auxiliary services refer to the ancillary services as per the Unipede definition (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. The value of the SEUs and the Authority's clarification on auxiliary services is twofold because it allows:

- the plants of the A2A Group to benefit on self-consumption from the exemption from the payment of 95% of the system costs on self-produced and consumed energy;
- formulating investment proposals, within the Group or to third-party customers, aimed at realizing, at industrial users of electricity, production plants from renewable sources.

However, it is noted that the legislative and regulatory framework is evolving:

- with DCO 255/2016/R/eel, the Authority, pursuant to art. 3 of Decree Law no. 210/2015 (so-called Milleproroghe 2015), proposed with effect from January 1, 2016, a reform of the general charges of the electricity system applied to non-domestic customers according to three different options for the allocation of the same between the fixed component (€/year), capacity component (€/kW), and variable component (€/kWh);
- Decree Law no. 244/2016 (so-called Milleproroghe 2016) established the deferral to January 1, 2018 of the aforementioned reform of general charges and established that *"the variable parts of the general charges of the system are applied to the electricity withdrawn from public networks with obligation of connection of third parties"*.

The effects of these reforms, if combined with the future modifications of general charges that do not significantly worsen the fixed component, may have an impact on distributed generation also offering the A2A Group the possibility of new investments in the sector.

REMIT - European Regulation on the integrity and transparency of wholesale energy markets and initiation of procedures for potential market abuse

Regulation (EU) no. 1227/2011 of the European Parliament and of the Council of October 25, 2011 (REMIT) on the integrity and transparency of the wholesale energy market, has established common rules to prevent abusive practices in electricity and natural gas wholesale markets. This regulation imposes an obligation on market operators to:

- a. publish privileged information pertaining to them;
- b. send to ACER (Agency for Cooperation among National Energy Regulators), directly or through third parties, the data concerning the operations carried out on wholesale energy products both sale and purchase orders and transactions concluded (reporting obligation).

Regarding privileged information already since 2011, A2A Trading S.r.l. and Edipower S.p.A. (now A2A S.p.A.) have published the unavailability of power plants larger than 100 MW on the websites. Companies have now adhered to the PIP platform implemented by Gestore dei Mercati Energetici (GME - Energy Markets Operator) for the centralization of inside information.

In terms of reporting, the Commission, in implementation of the REMIT, adopted Implementing Regulation no. 1348/2014 (Implementing Acts), which established procedures and timing for fulfilment. The data to be reported concern standard contracts concluded on organized markets and non-standard ones concluded bilaterally, contracts relating to the transport of electricity and gas and the fundamental data related to storage systems. The market operators involved must send the data to ACER through the organized markets where the operation was performed (ex. GME) or through brokerage the platforms that include trade of electricity and gas.

As of October 2015, companies with reporting obligations to ACER of standard contracts concluded on organized markets and non-standard contracts must register with the National Register of market operators set up by the Authority (REMIT Register). The Group companies registered in the REMIT Register are A2A Trading S.r.l. and Edipower S.p.A. (now A2A S.p.A.), A2A Energia S.p.A., A2A S.p.A., A2A Calore & Servizi S.r.l., A2A Ambiente S.p.A., Aspem Energia S.r.l. (now A2A Energia S.p.A.), Metamer S.r.l., PremiumGas S.p.A. and Retragas S.r.l..

There will be a pecuniary administrative sanction from 10,000 to 200,000 euro for each operator acting in wholesale energy markets subject to the obligation without being registered. Article 22 of Law no. 61/2014 also attributes to the Authority ample powers of investigation and sanction on the application of the REMIT.

With Resolutions 342/16/E/eel and 459/2016/E/eel, the Authority initiated two proceedings for the adoption of measures to promote competition and ensure the proper functioning of

markets, through the adoption of prescriptive measures or also through asymmetric regulation measures against certain conduct by dispatching users in the wholesale electricity market, which could have negative effects on energy markets and potentially configurable as market abuse pursuant to the REMIT.

The conduct of users might include:

- potential market abuses, in accordance with article 5 of the REMIT, because of the effects or signals sent (or likely to be sent) on the offer, demand or price of wholesale energy products;
- possible violations of article 14, paragraph 6, of Resolution 111/06, limited to programming strategies inconsistent with the principles of diligence, prudence, appraisal and security that are expected to characterize the conduct of an operator in the context as part of the dispatching service.

For the A2A Group, the proceedings concerned:

- A2A Energia S.p.A. and A2A Trading S.r.l. (now A2A S.p.A.), which was notified Resolution 342/2016;
- A2A Energiefuture S.p.A., which was notified Resolution 459/2016.

By way of Resolution no. 813/2016/R/eel, the Authority intervened by proceeding with the first filings of individual proceedings initiated pursuant to Resolution 342/2016/R/eel. In particular, it:

- filed the proceeding against A2A Energia S.p.A., which was notified Annex A to the Resolution, as there were no conditions for the adoption of prescriptive measures nor to initiate sanctioning proceedings;
- communicated, in relation to A2A Trading S.r.l. (now A2A S.p.A.), that although there were no conditions for the adoption of prescriptive measures nor, a fortiori, of temporary measures of asymmetric regulation, it is not possible to exclude the possible initiation of sanctioning proceedings;
- communicated, in relation to subjects not included in Annex A or B of the Resolution, that the necessary investigations are still in progress related to the position of each for the purpose of applying a prescriptive measure or filing of the proceeding.

The Authority, imposing the subjection of the San Filippo del Mela plant to the essentiality regime with reinstatement of costs, in accordance with Resolution 803/2016/R/eel, filed the proceeding initiated against A2A Energiefuture S.p.A. pursuant to Resolution 459/2016/R/eel.

Redetermination of the sanction imposed on Plurigas S.p.A.

By way of Resolution 755/2016/S/gas, the Authority redetermined in the amount of 980,000 euro the amount of the administrative fine initially equal to 1.5 million euro imposed on Plurigas S.p.A. for alleged failure to comply with some of the requests for information of the Authority with Resolution October 27, 2004, no. 188/04, regarding the natural gas procurement contracts in its ownership.

With Sentence of February 27, 2012, no. 1084, the Council of State had, in fact, annulled Resolution no. 229/06 with which the Authority required the imposition of the sanction in the part relating to the quantification of the same and in particular of the reference economic magnitudes considered to quantify the amount. The decision of the State Council therefore required the redetermination of the sanction by the Authority taking into account the company's actual economic capacity.

Commercial Business Unit

Competition Bill SIMILE Protection: termination of price protections

At the hearing of October 7, 2015, the Chamber approved the annual Bill for the market and competition (Competition Bill), which is still being discussed at the Senate as part of the process of conversion into Law.

The “Energy” part includes about ten articles (from 28 to 38) that decreed the end of the gas protection and greater electricity protection from July 1, 2018 and include provisions on comparability of offers, promotion of buying groups, monitoring by the Authority on the degree of liberalization of the two sectors, establishment of a suppliers list, etc.

There were many amendments proposed in 2016 on electric customer treatment modalities (domestic and BT Other Uses) that, as of July 1, 2018, will still be served by the established supplier. Under the current formulation of art. 29 of the Competition Bill, customers left “without supplier” or “that did not choose” will be in safeguard regime supplied by operators selected through competitive procedures by areas and under conditions that encourage the transition to the free market according to provisions defined by the Authority.

In parallel, the Authority has carried out its own reform process in order to promote the superseding of the greater electricity protection regime through greater capacitation of customers.

After a long process of consultation (DCO 421/2015 and DCO 75/2016), Resolution 369/2016/R/eel introduced the transitional mechanism of the SIMILE Protection (TS - *Similar to a supply of Italian Market Free of Electricity*) offered by suppliers selected by the Sole Buyer and which can be adhered to voluntarily by customers still under greater protection.

The TS portal has been active since January 1, 2017 and is the only tool to access the offers. Currently, there are about thirty suppliers selected by the Sole Buyer, also including A2A Energia S.p.A.. The maximum cap for each supplier was set at 500,000 customers served in TS.

The mechanism is characterized by contractual and economic conditions defined by the Authority less the application of a *one-time bonus* (€/POD) freely defined by operators.

The standard contract is of one-year duration without renewal and without offering of additional services or promotions. Upon expiry of the contract, the customer may adhere to a free market offer with the supplier of the TS or another supplier freely chosen or return to the protected market.

Functional Unbundling and Brand Unbundling

By means of Resolution 296/2015/R/com, the Authority has adopted provisions on brand unbundling for free market vendors also exercising the greater protection service by providing:

- by June 30, 2016, date later extended to January 1, 2017 in accordance with Resolution 327/2016/R/eel: the use of different communication policies and trademarks for the conduct of each of the two activities, while always respecting the uniqueness of the trademarks of the company;
- by January 1, 2017: that the respective commercial activities are carried out through the use of information channels, physical spaces and separate staff.

A2A Energia S.p.A. appealed art. 17.9 of Resolution 296/2015/R/com that introduces an obligation for sellers to use information channels, physical and personal spaces separated between sale on the free market and greater protection service without providing coverage of the costs. A postponement of the hearing was requested (previously scheduled for May 12), considering that Resolution 659/2015/R/eel provided that, under the first annual update of the RCV (from 2017), account will be taken of the costs relating to debranding between free market and greater protection. In implementation of said provision, the Authority, through data collection, requested to provide details on any costs incurred in 2015 by the companies exercising the greater protection service for the fulfilment of the obligations of brand unbundling.

A2A Energia S.p.A. has since followed up the requirements of the measure. Among the measures adopted, it is noted that steps were taken to review the physical spaces that include the desks for contact with customers and separation of channels for the communication of information to customers (in particular by reviewing its website and setting up a page in the network dedicated to end users served under greater protection; expanding the call center service with additional reference numbers for customers served under protection; taking care of the layout of billing documents so as not to create any confusion for customers served in this market segment with the company's activities on the free market).

On May 17, a request was submitted to the Authority, limited to Aspem Energy S.p.A., for a derogation with regard to brand forecasts unbundling provisions between distribution and sales considering the fact that by the end of 2016 (with retroactive accounting effect from January 1, 2016), the company was incorporated into A2A Energia S.p.A.. Said request was

accepted by the Authority by means of communication of June 27. The merger was carried out as expected.

Lastly, it is noted that Enel, Enel Distribuzione and Enel Servizio Elettrico, with three separate requests, had appealed against Resolution 296/2015/R/com, contesting the Authority's competence regarding brand unbundling. At the end of April, the Lombardy Regional Administrative Court rejected said appeals both regarding brand unbundling between distribution and sales and between free market and greater protection service, recognizing the competence of the Authority to legislate in regard, power conferred by Legislative Decree no. 193/11 in line with EU regulations.

Charge of the RAI fee in the electricity bill

Law no. 208/2015 on *"Measures for the preparation of the annual and multi-annual financial statements of the State"* (2016 Stability Law), in paragraphs 152-164 of article 1 regulated the charging of the RAI fee by means of the invoices issued by the electricity companies to their customers.

For the implementation of the above, the MiSE, in consultation with the Ministry of Finance, issued the Decree laying down the *"Regulations implementing article 1, paragraph 154, of Law December 28, 2015, no. 208 (RAI fee in the bill)"*.

The companies impacted by the activity of fee collection will be recognized the costs to the extent of 14 million euro for 2016 and another 14 million euro for 2017. These costs will be reimbursed by the Revenue Agency and will be shared among operators on the basis of criteria being defined by the Authority, which has already initiated an investigation on the nature of these costs (they are both capital and operational costs mostly related to the development of information systems).

Economic conditions of the electricity sales service in:

a) Greater Protection

With Resolution 354/2016/R/eel, the Authority updated the economic conditions of the greater protection service for the third quarter of 2016, providing an increase of 4.3% following the implementation in the tariff of the so-called dispatching extra costs incurred by Terna and already the subject of initiation of proceedings to verify any misconduct of operators (pursuant to Resolutions 342/2016/E/eel and 459/2016/E/eel).

On the basis of the appeal to the Lombardy Regional Administrative Court (TAR) filed by the consumers' associations Codacons and Comitas against Resolution 354/2016/R/eel, by means of a monocratic precautionary decree on July 19, the Judge suspended the Resolution updating the tariff pending the hearing of the Council Chamber on September 15. The Authority immediately filed a request for revocation with respect to the monocratic precautionary decree, which was however rejected by the Regional Administrative Court (TAR), which upheld the rejection of increases in electricity tariffs on July 1.

In the hearing on September 15, the Regional Administrative Court, however, confirmed the updates pursuant to Resolution 354/2016 until the hearing on February 16, 2017. At the same time, it ordered to the Authority to adopt a measure to pre-determine the arrangements for the liquidation and automatic payment, without the need for a specific request by final customers, of the repayments due in the event of a favourable outcome of the dispute.

With Resolution 575/2016/R/eel, the Authority established an automatic return mechanism to users of the amounts recovered by Terna under:

- any prescriptive measures towards certain dispatching users in withdrawal and feed-in (units not enabled) that already foreshadow a recovery path and whose outcomes will also derive from the contradictory between each operator and Terna;
- asymmetric regulation measures for dispatching users in feed-in (enabled units) that will be adopted.

The return mechanism envisages including the amounts recovered in the determination of the uplift of the first quarter available, allowing the immediate recognition to dispatching users, and through them to the customers of the free and protected market (without distinction).

Pending closing of the proceeding process, entities exercising greater protection have applied in certain periods (until July 19) the economic conditions of the second quarter, in other period (from September 15) the economic conditions of the third quarter.

By Resolution 369/2016/R/eel, the Authority, among other things, modified the mechanism for definition of the economic conditions for the sale of electricity under greater protection. This reform, detailed by the subsequent Resolution 633/2016/R/eel, has established the Reformed Greater Protection Service (MTR) from January 1, 2017, characterized as follows:

- the PE fee of the PED to cover the costs of purchasing electricity for customers under greater protection will be determined ex-ante on the basis of the quarterly average of the prices determined in the spot energy market (MGP and MPI), appropriately weighted with the level of usage of different types of customers in the quarter, the estimate of the cost of operation of the Sole Buyer, and taking into account the estimate of financial expenses related to the purchase and sale of electricity. The PE fee will be subject to a mechanism for equalization of procurement costs, as already provided currently;

- the PD fee of the PED will be determined as a quarterly average of dispatching fees applicable under the TIS, weighted with the profile of the customers belonging to each type of contract (except for non-domestic customers, for which the methodology of the monthly estimate is confirmed).

Resolution 782/2016/R/eel - in implementation of the provisions of Resolution 582/2015/R/eel - follows up on the second step of the reform of network tariffs and tariff components to cover general system charges for domestic electricity customers. Therefore, as of January 1, 2017, the tariff fees for network services (transmission, distribution and metering) will take on a trinomial structure, called TD, for all domestic customers, regardless of legal residence, thus eliminating any progressivity, according to a principle of adherence to costs. The conditions of legal residence will only be considered for the application of system charges and the DISPBT component. The fees to cover the general expenses of the system will lastly be redefined in order to dampen the effect of progressive consumption and to limit the number of rates diversified among bands of annual consumption, introducing only for the A3 component a fixed fee (€/year) only charged to non-resident customers.

With Resolution 816/2016/R/eel, the components to cover commercialization costs (RCV) have been updated until June 30, 2018 (consistent with the current formulation of the Competition Bill), providing a slight increase compared to 2016 (+7.7% for domestic customers and +9.4% for BT other uses for the centre-north geographical area) due to the higher level of unpaid ratio recognized to operators. The Resolution also updates the values of the DISPBT component, not only in order to adapt it to the new tariff structure above, but also to take into account the needs of revenue resulting from the compensation mechanisms provided for in the TIV.

b) Free Market

The aforementioned Resolution 816/2016/R/eel also updated up to June 30, 2018, the PCV component to cover the commercialization costs, providing an increase of 2.92 euro for domestic customers (+5.3% i.e. from 54.87 euro/POD to 57.79 euro/POD) and 2.51 euro for BT customers other uses (+2.2%, i.e. from 115.87 euro/POD to 118.38 euro/POD).

Economic conditions of the gas protected service:

a) revision of the economic conditions

Resolution 166/2016/R/gas has established the procedures for determination of the economic conditions of the gas protection service for the period October 2016 - December 2017:

- the component covering wholesale procurement costs (C_{mem}) will remain defined under the current formula for updating, i.e. on the basis of quarterly OTC forward prices recorded at

- the TTF hub, maintaining the current procedures for the recognition of logistics costs;
- the CCR component to cover the costs for activities related to the wholesale procurement and coverage of certain risks was revised upward;
- the application of the GRAD component is extended to December 31, 2017, reformulated in order to maintain the expected revenue unchanged.

With Resolution 817/2016/R/gas, the component to cover commercialization costs (QVD) was lastly updated, with a slight increase compared to 2016 (+1.4% of the fixed component alone), due to the higher level of unpaid ratio recognized to operators.

b) A_{PR} incentive mechanism for the renegotiation of long-term gas contracts

By resolution 447/2013/R/gas, the Authority had introduced a mechanism to promote the renegotiation of long-term contracts for the procurement of natural gas under which the vendors admitted to the mechanism acquired the right to the recognition of a “compensatory” amount that was quantified at the end of 2016, and recognized on the volumes delivered to customers under protection served with long-term contracts over the thermal years 2010-2011 and 2011-2012.

The initial value of the element for the promotion of the renegotiation of long-term procurement contracts (A_{PR}) was initially quantified equal to 0.856801 €/GJ; it was updated annually by the Authority on the basis of the trend in thermal years 2013/2014, 2014/2015 and 2015/2016 of the spread between P_{top} (procurement cost from long-term contracts) and C_{mem} (spot price).

A2A Energia S.p.A. and Aspem Energia S.p.A. (now A2A Energia S.p.A.) were admitted to the mechanism for a total maximum of 26.4 million euro.

With Resolution 649/2016/R/ gas, the Authority updated the coefficients of the mechanism for the last year of validity, confirming the values entitled to both companies: for A2A Energia S.p.A., the amount of 24.6 million euro is confirmed, while for Aspem Energia S.p.A. (now A2A Energia S.p.A.) equal to 1.8 million euro. These amounts were entered in the 2016 Financial Statements.

Due to the incapacity of the account specially opened with CSEA to cover the mechanism and updated by the C_{PR} component paid by end users, the disbursements of the amounts to operators have suffered long delays. In fact, for March 31, 2017 the payment is expected by CSEA of the fourth (and last) payment for the second tranche of the mechanism that should have been paid in December 2015. The timing for payment of the third and final tranche of the mechanism for the year 2016 is not known to date.

c) application of a reduction coefficient to the QE component

With Resolution ARG/gas 89/10, with respect to a scenario of reduction in consumption and excess supply as well as in the presence of renegotiation downwards of the top gas contracts, had intended to transfer these benefits to end users under protection introducing, for thermal year 2010-2011, a reductive coefficient k applied to the indexed component of the QE (variable fee to cover the cost of procurement). The subsequent Resolution ARG/gas 77/11 extended this mechanism until September 30, 2012, revising upwards the value of k (from 0.925 to 0.935).

A2A Energia S.p.A. (including former ASMEA S.p.A. and former BAS Omniservizi S.p.A.) and Plurigas S.p.A. filed an appeal against Resolution ARG/gas 89/10 contesting the arbitrariness of the value of the coefficient k . The appeal was also extended to Resolution ARG/gas 77/11.

In March 2013, the Lombardy Regional Administrative Court ruled in favour of the requesting companies, cancelling the provisions of resolution ARG/gas 89/10 and related subsequent (233/10, 77/11, 84/11 and 132/11), judgement then appealed before the Council of State by the Authority.

With Sentence n. 4825 of November 18, 2016, the State Council confirmed the decision of the TAR however, changing the reasons: the “cut” imposed by the regulator to the QE component is considered illegitimate not by virtue of the methodology adopted, forecast rather than on the basis of actual costs incurred, but rather for the practical result determined, depressing the profit margins achieved by the operators.

It is awaiting the Authority’s determination of compliance with the provision of the State Council.

Environment Business Unit

Consolidated Act on Local Public Services of General Economic Interest

On January 20, the Council of Ministers adopted the Legislative Decree scheme laying down *“Consolidated act on local public services of general economic interest”* (TUSPL).

The Constitutional Affairs Committee of the Chamber and the Constitutional Affairs Committee of the Senate concluded on October 19, 2016 the examination, in an advisory capacity, of the Legislative Decree scheme, in view of the issue by the Government of a final decree in which article 16 attributes powers of regulation, control and sanctioning to the Authority on the urban and assimilated waste cycle, also differentiated. Instead, the integrated water service was excluded from the TUSPL.

Following said new attribution, the name of the Authority was expected to change to Regulation Authority for Energy, Networks and Environment (ARERA). To this end, by Resolution 78/16/A, the Authority has initiated proceedings for the reorganization following the recognition of the new functions in the environment sector.

However, with Sentence no. 251 of November 25, the Constitutional Court declared unconstitutional the reform of the Madia Law, in the part in which the delegation had provided only the “opinion” and not the “understanding” with the regions for five implementing legislative decrees (including TUSPL containing the initiation of ARERA that was no longer adopted by the Government).

The State Council, in its meeting of January 9, 2017 adopted an opinion in which it points out the importance of intervening also for the sectors for which the delegation has expired, i.e. public management and local public services, by means of a new delegation or a different regulatory vehicle.

Biomethane

Biomethane is a gas that contains at least 95% of methane and is produced from renewable sources: it can, in fact, arise from the biogas produced by the anaerobic digestion of biomass in a controlled environment (digester) or in a landfill, following the decomposition of waste, or gas from biomass gasification. Subjected to a process of purification and upgrading, it reaches the quality of natural gas and, respecting the physical-chemical characteristics specified in the Authority's directives, it is suitable to the subsequent phase of use.

For the Group A2A, issues related to the uses of biomethane are divided into two categories:

- A. technical standards that discipline: (a) connection to the grid of production plants (i.e. pressure, measurement); (b) quality of biomethane that producers must respect in order not to cause damage to the grid and users; (c) equal treatment and responsibilities with respect to the design of the market (i.e. rules on the handling of the feed-in points of the grid, the calorific value, etc.). In this regard, the transport network code is being updated by the Authority. The CIG (Italian Gas Committee) has published the technical standards prepared under the European Mandate M/475, which specifies the requirements for biomethane to be fed into natural gas networks;
- B. Incentive system that depends on the use of biomethane:
 - 1) cogeneration;
 - 2) feed-in;
 - 3) automotive use.

The Ministerial Decree of December 5, 2013 on biomethane (so-called Ministerial Decree Bio-methane) is being revised and was the subject of public consultation by the MED. The new draft redesigns the incentive procedures for biomethane fed into the natural gas network favouring use in the transport sector, in order to achieve the objectives by 2020 of renewable energy consumption in transport. For this purpose, the Ministerial Decree scheme introduces an incentive based on the system of the Consumption Feed-in Certificates (CIC), issued to the biomethane producer for a period of 20 years and that can be used by the parties obliged in the transport sector (fuel distributors) to fulfil the obligation of feed-in for consumption of renewable fuels. The producer of biomethane will independently provide for the sale of biomethane to owners of "plants for distribution of road or highway fuel" or to brokers/shippers.

The Ministerial Decree draft also introduces the definition of advanced biomethane (i.e. biogas obtained from the organic fraction of municipal solid waste - OFMSW) for which a regime of "dedicated withdrawal" is recognized for a period of 10 years by the GSE. The biomethane producer is entitled to the physical withdrawal of advanced biomethane produced at the natural gas market price (average price at PSV) reduced by 5% and to the recognition of the CIC

with a fixed value of 375 euro. This incentive scheme applies up to a maximum annual quantity that can be withdrawn by the GSE, published annually, and equal to approximately the annual obligation of feed-in of advanced biofuels in the transport sector, as of 2018.

A2A Ambiente S.p.A. is interested in the definition of a certain regulatory framework on advanced biomethane for some investment projects that are about to be initiated in relation to the conversion of biogas into biomethane, which can be used for transport. Biogas, in turn, obtained from the decomposition of waste, thereby “closing the circle” of differentiated collection that sees the company already engaged in the collection of OFMSW.

Energy for auxiliary services for waste-to-energy plants in CIP 6/92 convention

By means of Resolution 414/2016/E/efr, the administrative recovery was ordered by CSEA also of the sums unduly received by A2A Ambiente S.p.A. with reference to the waste-to-energy plant in Goltara (Bergamo) under the CIP 6/92 scheme until June 2015. However, because the method of calculation of the amounts to be returned expected by the measure was not consistent as determining a valuation of the return not commensurate with the undue enrichment of the operator, it was decided to highlight the inconsistency and with Resolution 600/2016/E/efr, the Authority partially modified Resolution 414/2016/E/efr with the effect that the sum to be returned to the CSEA currently amounts to about 919 thousand euro.

Extension CIP 6/92 agreement with the GSE for the waste-to-energy plant in Acerra (NA)

The Acerra waste-to-energy plant, managed by A2A Ambiente S.p.A., is the subject of CIP 6/92 agreement for an 8-year period, which began on January 1, 2010 and will expire on December 31, 2017.

Ministerial Decree August 4, 1994 provides that the manufacturer may request an extension of the agreement for a period calculated based on the energy not produced in the first year of the agreement due to the fact that the plant had been commissioned.

On December 13, 2016 the GSE announced the extension of the agreement related to the Acerra waste-to-energy plant until July 6, 2018 in order to recognize the lack of initial production.

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 Gazette 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 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.

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 January 1, 2016, also the regulations to be followed by waste-to-energy plants, currently dictated by Legislative Decree 133/05, will be introduced by Legislative Decree 152/06 in the text dictated by Legislative Decree 46/14.

As of January 10, 2016, the provisions shall apply of Title III-bis of Part IV of Legislative Decree 152/2006, as amended by Legislative Decree 46/2014, for the incineration and co-incineration of waste.

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

The Official Journal no. 212 of September 12, 2014 published Decree Law 133/2014 (“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.

Ministerial Decree March 30, 2015 Environmental Impact Assessment (EIA)

In Official Gazette April 11, 2015, no. 84 Ministerial Decree March 30, 2015 was published concerning the “Guidelines for the verification of subjection to environmental impact assessment of the projects of competence of the autonomous regions and provinces, provided for in article 15 of Decree Law June 24, 2014, no. 91, converted with amendments by Law August 11, 2014, no. 116”.

These guidelines provide instructions and criteria for the execution of the procedure for verification of subjection to EIA (art. 20 of Legislative Decree no. 152/2006) of projects, related to works or new realization interventions, listed in annex IV to part two of legislative decree no. 152/2006, in order to ensure uniform and correct application throughout the national territory of the provisions laid down in Directive 2011/92/EC.

Resolution Register of Environmental Managers September 16, 2015 no. 2 - Changes to category criteria

The Resolution of the Register of Environmental Managers of September 16, 2015, no. 2 “Criteria for the application of article 8, paragraph 2 of the Decree of June 3, 2014, no. 120, of the Minister of Environment and Protection of Land and Sea, jointly with the Ministers for Economic Development and Infrastructure and transport” establishes criteria for the application of the provisions of art. 8, paragraph 2 of Ministerial Decree June 3, 2014, no. 120.

Directive December 16, 2015 no. 274 – New AIA Directive

On December 29, 2015 on the website of the Ministry of the Environment, Directive December 16, 2015, no. 274 was published on “Guidelines to regulate the conduct of procedures for granting, review and updating of the measures of integrated environmental authorization of competence of the Ministry of the Environment and protection of land and sea”.

Law February 25, 2016 no. 21 – Extension SISTRI

In Official Journal no. 47 of February 26, 2016, the Law of February 25, 2016, no. 21 was published on “Conversion into law, with amendments, of Decree Law December 30, 2015 no. 210, introducing an extension of the terms set by legislative provisions”.

By means of this law, the terms of the application of the SISTRI were confirmed as established by Laws 122/2012, 6/2014 and 11/2015. As a result, from January 1, 2016, the obligation remains of registration with the SISTRI (with the consequent sanctions for non-fulfilment) while the terms for the application of sanctions relating to the failure to use the SISTRI is extended to December 31, 2016.

However, with the conversion into law of Decree Law 210/2015, the sanctions for failure to register with the SISTRI are reduced by 50%.

D.G.R. (Regional Council Resolution) Lombardy Region April 18, 2016, no. X/5065 - AIA: reference report

The Lombardy Region, in order to ensure uniform application in the area of the legislation on AIA and allow proper organization and planning of work, provided information regarding transmission methods, timing of presentation of the results of the verification and application of the obligations related to the Reference Report.

D.G.R. (Regional Council Resolution) Lombardy Region May 6, 2016, no. X/5105 - Guidelines for the drafting of municipal regulations for management of municipal waste and special waste assimilation

Lombardy Region, starting from as regulated by art.196 of Legislative Decree 152/06 laying down in paragraph 1, letter b) that the regions are responsible for “the regulation of waste management activities, including the differentiated collection of municipal waste, including

hazardous waste, according to a general principle of separation of food waste and waste of plant and animal products or in any case with high humidity from the remaining waste” issued some guidelines to be proposed to the Municipalities for the drafting of municipal waste management regulations and for the assimilation of special waste.

Council of Ministers Presidential Decree March 7, 2016 – Measures for the realization of an adequate and integrated system for the management of the organic fraction of municipal waste

The standard analyzes the situation of composting plants in Italy, identifying the plants already in operation and ensuring balance between current capacity, region by region, and the theoretical requirements (on ISPRA data). The hypothesis is that of the achievement of the objectives of 65% of differentiated collection and subsequent collection of organic waste, estimated on the basis of the municipalities that are already in line with the objectives. The regions may further legislate on the matter by identifying exactly the remaining requirements and the location of the plants.

D.G.R. (Regional Council Resolution) Lombardy Region June 6, 2016, no. X/5269 - Use of sewage sludge in agriculture

Following the partial annulment of the preceding Guidelines approved with D.G.R. no. 2031/2014 (operated by the Lombardy Regional Administrative Court Sentences no. 2434 of November 19, 2015 and no. 195 of January 29, 2016), with D.G.R. no. 5269/2016, a technical document was approved as integration to D.G.R. 2031/2014 in order to ensure efficient use of sludge under the agronomic aspect according to criterion of “good agricultural practice”. It also establishes the parameters that must be obligatorily communicated to the user of the sludge for correct preparation of agronomic use plans.

Ministerial Decree May 26, 2016 - Guidelines for the calculation of the percentage of differentiated collection of municipal waste

As provided by art. 205, paragraph 3-quater of the Environmental Consolidated Act, issue of “Guidelines on the calculation of the percentage of differentiated collection of municipal and assimilated solid waste” with Ministerial Decree May 26, 2016. These guidelines are intended to provide guidance and criteria for the calculation of the differentiated percentage of municipal and assimilated waste reached in each municipality, in order to standardize, throughout the

country, the method of calculating the same. It also states that *“the contents of the guidelines are intended as provisions to which the individual regions shall abide in the formulation of their own method to calculate and check the percentages of differentiated collection for the achievement of the objectives set by the national legislation in force”*.

Ministerial Decree May 19, 2016, no. 134 - Regulation concerning the application of the climate factor (CCF) to the formula for the efficiency of energy recovery of waste in waste-to-energy plants

The measure intervenes on note 4 in Annex C of Part IV of Legislative Decree 152/06 relating to the recovery item R1 “Use principally as fuel or other means to produce energy”, in order to implement the provisions of EU Directive 2015/1127, effectively replacing the KC factor, introduced by Ministerial Decree August 7, 2013, with the climate correction factor (CCF, ahead of the EU legislation). The Decree will come into force and shall apply as of July 21, 2016.

Law of June 28, 2016, no. 132 - Establishment of the Grid National System for environmental protection and discipline of the Higher Institute for environmental protection and research

With this law, Ispra (article 4, paragraph 1) and Arpa (article 7, paragraph 1) have formally become legal entities of public law, with technical-scientific, administration and accounting autonomy. Ispra will ensure guidance and coordination of Arpa (article 6) and define tools, operating methods and criteria of periodicity and homogeneity for the execution of control activities; it will also issue binding technical standards for the National System of Agencies (article 4). Also established are the essential levels of technical environmental performance (LEPTA), equal throughout the national territory, with the objective of eliminating disparities currently present among the various Arpa, which often translate into different levels of control and attention.

The measure will enter into force January 14, 2017. The regions will be required to transpose the provisions by the same date.

Ministerial Decree July 6, 2016 - Implementation of Directive 2014/80/EU of the Commission of June 20, 2014 amending Annex II of Directive 2006/118/EC of the European Parliament and of the Council on the protection of groundwater against pollution and deterioration

In implementing Directive 2014/80/EU, the Environment Ministry updated the quality standards of groundwater by introducing perfluoro-alkyl substances (PFAS). In addition, with the decree in question, the Ministry updated letter B, Part A of Annex 1 to Part III of Legislative Decree 152/06, intervening on the definition of the “good chemical state” of the groundwater and on quality standards.

Law July 28, 2016, no. 154 - Delegation to the Government and further provisions regarding the simplification, rationalization and competitiveness of the agricultural and agri-food sectors, as well as penalties for illegal fishing

The regulation will amend article 185 of Legislative Decree 152/06 in order to exclude from the scope of application of the discipline on waste including straw, cuttings and pruning:

- from green areas such as gardens, parks and cemeteries, classified today as municipal waste;
- from agriculture and agro-industrial activities, classified today as special waste.

In particular, these materials, together with any other “natural, non-hazardous agricultural or forestry material”, are no longer classified as waste if they are “intended for normal agricultural and zoo-technical practice or used in agriculture, in forestry or for the production of energy from such biomass, even outside the place of production, or with sale to third parties, by means of processes or methods that do not harm the environment or endanger human health”.

Lombardy Region Council Resolution September 12, 2016, no. X/5565 - Approval of the “Guidelines for the assessment and protection of the environmental component of biodiversity in the drafting of environmental impact studies and preliminary environmental studies and in support of environmental assessment procedures”

The guidelines set out the content for the chapters of environmental studies, for both environmental impact studies and for environmental preliminary studies relating to the biodiversity component. A check-list is also approved regarding characterization of the

environmental context that must be included in both the Environmental Impact Studies (for EIA proceedings) and for environmental preliminary studies (for EIA verification proceedings or EIA Screening).

Prime Ministerial Decree August 10, 2016 - Identification of the overall treatment capacity of waste-to-energy plants of municipal and assimilated waste in operation or authorized at national level, as well as identification of the residual requirement to be covered by means of the construction of waste-to-energy plants with recovery of municipal and assimilated waste

The purpose of the regulation, pursuant to art. 35, paragraph 1 of Decree Law September 12, 2014 no. 133 is to:

- identify the current national treatment capacity of waste-to-energy plants of municipal and assimilated waste in operation as of November 2015;
- identify the potential national treatment capacity of authorized and unauthorized waste-to-energy plants of municipal and assimilated waste in operation as of November 2015;
- identify, by macro-areas and regions, the waste-to-energy plants with energy recovery of municipal and assimilated waste to be realized or enhanced in order to cover the national residual treatment requirement of said waste.

The regions and autonomous provinces may, no later than June 30 of each year, submit to the Ministry of Environment and Protection of Land and Sea a request to update the regional residual requirement of waste-to-energy of municipal and assimilated waste identified in Annex II of this Presidential Decree.

Ministerial Decree October 17, 2016, no. 228 – Regulation concerning the definition of the minimum content and formats of notices of assessment, dispute and notification relating to proceedings under article 29-quattordecies of Legislative Decree April 3, 2006, no. 152

This standard defines in Annex I the minimum content of the notices of assessment, dispute and notification of proceedings referred to in article 29-quattordecies of Legislative Decree 152/2006, while Annex II contains a Scheme of notice of assessment and dispute. This decree entered into force on December 30, 2016.

Resolution (nat.) November 3, 2016, no. 05/ALBO/CN - Criteria and requirements for registration in the Register with ordinary procedure, in categories 1, 4 and 5

This standard, applicable from February 1, 2017, sets the minimum provision of vehicles and personnel for registration in categories 1, 4 and 5 (article 1).

Registrations in categories 1, 4 and 5 at the date of entry into force of this resolution shall remain valid and effective until expiry. Requests for registration submitted until the date of entry into force of this resolution shall also remain valid and shall be processed and approved under the previous regulations (article 3).

Ministerial Note November 14, 2016, no. 27569 - Criteria on application methods of the discipline on integrated pollution prevention and reduction in light of the amendments introduced by Legislative Decree March 4, 2014, no. 46.

In application of article 29-quinquies of Legislative Decree April 3, 2006, no. 152, criteria are issued on the application methods of the discipline on integrated pollution prevention and reduction in light of the amendments introduced by Legislative Decree March 4, 2014, no. 46.

In particular, said new criteria provide indications on ten different issues:

1. identification of the production capacity of the facility;
2. terminology clarification of Annex VIII to Part II of the Legislative Decree 152/06;
3. installation parts managed separately;
4. successive stages to final cessation of activities;
5. sites not subject to presentation of the reference report;
6. non-compliance emerging from the self-monitoring of the operator;
7. start of review procedures for adaptation to the BAT conclusions;
8. production of meal for animal feed;
9. various obligations ("tabular" limits, record keeping, signage affixing, entry in registers,...)
for plants equipped with IEA;
10. clarification on experimentation activities.

Among the explanations provided, it is useful to cite the case of IEA companies engaged in waste treatment that can make use of the simplified regime pursuant to art. 216 of Legislative Decree 152/06. In this case, for IEA released and updated, activities are subject to explicit authorization, and no longer "simplified" regime, and are therefore not subject to payment of the registration fee and provision of the financial guarantee provided for the simplified regime.

These conditions are therefore required only transiently if, after the issue of the IEA, the operator shall make changes in the waste treatment activities that benefit temporarily from the simplified regime, until the next update of the IEA.

Lombardy Regional Law November 17, 2016, no. 28 - Reorganization of the Lombard system for management and protection of regional protected areas and other forms of protection in the area

Article 11, paragraph 5 states prohibition in national parks, nature reserves, natural monuments, Natura 2000 network sites and primary ecological corridors of the Regional Ecological Network, of the construction of plants that carry out recovery activities or even waste disposal referred to in R1 or D10 operations, belonging to the categories of industrial activities referred to in point 5.2 of Annex VIII, part II of Legislative Decree 152/2006 (except in the case in which such operations are already authorized within the perimeter identified by the authorization in force at November 18, 2016). This prohibition shall apply mutatis mutandis for authorization requests in progress at November 18, 2016.

Regional Council Resolution Emilia Romagna November 21, 2016, no. 1795 - Approval of the directive for the performance of functions relating to the SAV, EIA, IEA and SEA in implementation of Regional Law no. 13 of 2005. Replacement of the Directive approved by Regional Council Resolution no. 2170/2015

The standard defines the process of submitting new requests of EIA, IEA or SEA of regional or provincial competence in Emilia Romagna, also indicating the contents of the deeds that the entity must produce.

ARPAE is attributed the direct responsibility for the conduct of the processes and for the convening and conduct of Services Conferences.

For the above EIA, IEA, SEA processes underway, the provinces are expected to pass to ARPAE the list of procedures and documentation for the transfer of powers.

Legislative Decree November 25, 2016, no. 222 – Identification of procedures subject to authorization, certified reporting of start of activities (SCIA), tacit consent and communication and definition of the administrative regimes applicable to certain activities and procedures, in accordance with article 5 of Law August 7, 2015, no. 124

This standard provides for the precise identification of the activities subject of processes, also electronic, of communication or certified reporting of start of activities (SCIA) or tacit consent, as well as those that require the title expressed and introduces the consequent regulatory provisions of coordination.

Table A of the measure in question identifies, for each of the activities listed, the administrative regime, namely whether the intervention is free or it requires some form of communication, the eventual concentration of the regimes and normative references.

The activities are divided into 3 sections, of which Section III - Environment - encompasses:

- IEA - Integrated Environmental Authorization
- EIA - Environmental Impact Assessment
- SEA - Single Environmental Authorization
- Atmospheric emissions
- Waste management
- Noise pollution
- Waste water
- Dams
- Other procedures relating to the protection of water bodies

This Legislative Decree entered into force on December 11, 2016.

Directive (EU) 2016/2284 of the European Parliament and of the Council of December 14, 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC

This Directive, in order to tend to achieve levels of air quality that do not give rise to significant negative impacts and significant risks to human health and the environment, establishes commitments for reduction of emissions for the anthropogenic atmospheric emissions of Member States of sulfur dioxide (SO₂), nitrogen oxides (NO_x), non-methane volatile organic compounds (NMVOC), ammonia (NH₃), and fine particulate matter (PM_{2.5}) and imposes the development, adoption and implementation of national programs for the control of atmospheric

pollution and monitoring and reporting on the above pollutants and other pollutants. This standard applies to emissions of polluting substances in Annex I and coming from all sources in the territory of Member States, in their exclusive economic zones and pollution control zones.

This Directive repeals, with effect from July 1, 2018, the Directive 2001/81/EC of the European Parliament and of the Council of October 23, 2001 on national emission limits for certain atmospheric pollutants.

Decree Law December 30, 2016, no. 244 – Extension and definition of terms

According to the provisions of paragraph 1 of article 12 of the decree, the terms related to the SISTRI are modified.

In particular, the 50% reduction of penalties for failure to register with SISTRI and the non-application of penalties for failure to use the SISTRI, which was due to expire December 31, 2016, shall remain in force until the date of taking over the management of the service by the new concessionaire, and no later than December 31, 2017.

Networks and Heat Business Unit

2016 provisional reference tariffs for the distribution and metering of natural gas

By means of Resolution 173/2016/R/gas, the Authority approved the provisional reference tariffs for the distribution and metering of natural gas relative to 2016 based on the pre-final investments made until 2015, divestments in 2014 and estimating contributions in 2015.

The new tariffs have been affected by the reduction of the WACC in force since 2016 (Resolution 583/2015/R/com-TIWACC) equal to 6.1% (6.9% in 2015) for distribution and 6.6% (7.2% in 2015) for metering.

RAB value Unareti S.p.A. pursuant to Resolution 173/2016/R/gas (Millions of euro)	
Cap. Centralized	48
RAB Distribution	805
RAB Metering	94
Total	947

By February 2017, the 2016 final reference tariffs will be published (which will take account of the final balance of investments in 2015, of disposals in 2015 and actual contributions in 2015), while by March, the 2017 provisional reference tariffs will be published (calculated according to the pre-final balance of investments made until 2016, disposals in 2015 and estimating the contributions in 2016).

2017 reference tariffs for the transport and metering of natural gas

With Resolution 669/2016/R/gas, the Authority approved the proposals for reference revenues for the natural gas transport and metering service presented for 2017 by the operators, including Retragas S.p.A..

Infra-period update of the tariff regulation of gas distribution and metering services for the three-year period 2017-2019

With Resolution 775/2016/R/gas, the Authority defined the criteria for the infra-period update for the three-year period 2017-2019, of the tariff regulation for gas distribution and metering services, consequently updating the Regulation of tariffs of gas distribution and metering services for the 2014-2019 regulatory period (RTDG), effective January 1, 2017.

The measure follows DCO 629/2016 and has updated some elements of the gas tariff regulation including:

- the unit cost for the metrological verifications set equal to 50 euro for meter group greater than active electronic G6 class (compared to 60.33 euro previously recognized);
- the 2017 standard cost per unit for the smart meter gas of class G4 or G6 set equal, respectively, to 135 euro and 170 euro (compared to the previous 120 and 160 euro);
- the extension to investments relating to smart meter gas class G4 or G6 in 2016 of their full recognition up to 150% of the standard cost;
- the postponement of the introduction of parametric components to cover the costs of remote management / concentrators and confirmation of the accurate recognition - albeit within a certain limit - of the investments made.

The values are confirmed of the recovery rates of efficiency (so-called *X-Factor*) valid for the updating of operating costs recognized for distribution (1.7% for operators with more than 300,000 PDR and 2.5% for other operators), metering (0%) and commercialization (0%).

In addition, with the same Resolution, the Authority has updated to 2017 the amount of the unitary components of the parametric reference tariffs for distribution, metering and commercialization activities, increasing the latter in particular from 1.2 euro/PDR to 2 euro/PDR.

Natural gas distribution and metering service: Integrated Quality Text

The Authority, by Resolution 686/2016/R/gas determined the premiums and penalties related to safety recoveries of the natural gas distribution service for 2014. Unareti S.p.A. obtained premiums totalling about 4.2 million euro.

Functional Unbundling and Brand Unbundling

By means of resolution 296/2015/R/com, the Authority confirmed its guidance on brand unbundling by attributing to the Independent Operator the responsibility for the proper

implementation of regulation in regard including the obligation of separation of the brand and communication policies (including the company name, the company, sign and any other distinguishing element) with respect to the sale company (avoiding the risk of confusion in the end customer) and the use of information channels, physical and personal spaces separate from those of the sales activity.

In accordance with the provisions of art. 8, paragraph 1 of Resolution 296/2015/R/com that allows the shared management by the vertically integrated company of infrastructure activities carried out under monopoly or assignment, Unareti S.p.A. was established, operative since April 1, 2016, which now manages the distribution and metering of electricity and gas, as well as the activities previously carried out by A2A Servizi alla Distribuzione S.p.A. and A2A Logistica S.p.A..

The Authority, with Resolution 775/2016/R/gas, finally defined the general criteria (complete fulfilment of the obligations, orientation to efficiency, separate reporting) for the recognition of costs incurred for the separation of the trademark and related communication policies, also providing further information - also on the regulatory mechanism to be applied in respect of operators - to be carried out, if necessary, also through subsequent consultations.

Assignment and performance of the natural gas distribution service

Following the reform of the means of allocating the natural gas distribution service, 177 “Minimum Territorial Ambits” were defined (Ministerial Decree January 19, 2011 and Ministerial Decree 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 (Ministerial Decree April 21, 2011).

In recent years, several provisions have intervened amending Legislative Decree no. 164/2000 and Ministerial Decree 226/2011 with particular reference to the procedures for determining the reimbursement to be paid to the outgoing manager (VIR) and calling tenders.

Ministerial Decree May 22, 2014 approved the Guidelines regarding the criteria and means of application for determining the VIR, while Ministerial Decree May 20, 2015, no. 106 amended Ministerial Decree 226/2011 so as to implement the regulatory amendments on the calculation of the VIR calculation (especially as regards the treatment of contributions), the application of the guidelines, the maximum percentage of the fee, the recognition of the underlying costs of the energy efficiency projects to be realized in the context and offered during tenders.

Decree Law 210/2015 (Milleproroghe 2016), granted a further extension of deadlines for the publication of tender notices by Contracting Stations and the penalizations previously envisaged of the defaulting ones 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 (however, said amendment was not implemented by the MED in the type of contract currently in force), and lastly, by Resolution 407/2015/R/gas, amended the provisions adopted by Resolution 310/2014/R/gas in the determination of the VIR, in relation to the methodological aspects for identifying cases with discrepancy between VIR and RAB greater than 10%.

A Ministerial Decree is anticipated on white certificates, which should take account of the objectives resulting from gas tenders, a condition that would allow increasing to 100% the value of the fee contribution received by the awarded parties for the realization of efficiency measures as part of the tender.

A2A Reti Gas S.p.A. (now Unareti S.p.A.) had challenged the Guidelines and Ministerial Decree May 20, 2015, no. 106 (TAR Lazio) and all the acts of the Contracting Authority of the ATEM Milano 1 related to the definition of the VIR (TAR Lombardy).

However, with Sentence no. 10286 of October 14, 2016, the Lazio Regional Administrative Court (TAR) rejected said appeal as it deemed as unfounded the pleas raised by the company in relation to non-compliance with the provisions established by the free will of the parties, the criteria for the definition of price lists, the deduction of contributions and the reduction of the useful life of meters up to G6. Instead, the complaints concerning the right granted to the municipalities to sell the grid and on the scores for investments in energy efficiency were deemed inadmissible for lack of current interest. In January 2017, Unareti S.p.A. appealed against this sentence before the Council of State.

Area tenders for the natural gas distribution service

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 Unareti S.p.A. is the current manager, i.e. 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 above tender amounted to 1,369 million euro for 12 years. The tender notice outlines the disagreement between the Contracting Authority and Unareti S.p.A. (formerly A2A Reti Gas S.p.A.) regarding the amount of the VIR of the plants because of the treatment of contributions regarding which the aforementioned dispute is pending.

The deadline for receipt of tenders by the Contracting Station was set for June 13, 2016, then extended to October 17, 2016 and subsequently extended to January 16, 2017. The offer submitted will be valid for 360 days.

Unareti S.p.A., in compliance with the deadline, proceeded to present its offer to the Contracting Authority; by the same date, moreover, the offer of 2i Reti Gas S.p.A. was also received that, to date, manages a single location of the ATEM (Cinisello Balsamo equal to about 4% of PDR in the tender). The public session for the opening of the envelopes containing the bids was March 27, 2017. Tenders will be assessed in accordance with the criteria laid down by Ministerial Decree 226/2011, as amended: the economic tender will have a weight of 28 points out of 100, while the technical tender 72 points out of 100. The award process of the tenders will probably be completed by June 30.

2016 provisional reference tariffs for the distribution of electricity

By means of Resolution 233/2016/R/eel, the Authority approved the 2016 provisional reference tariffs for electricity distribution, while those for low voltage metering were defined by Resolution 606/2016/R/eel.

Tariffs are defined considering the WACC in force since 2016 (Resolution 583/2015/R/com-TIWACC) equal to 5.6% (6.4% in 2015), and also according to the additions of Resolution 654/2015/R/eel (TIT 2016 - 2019). In particular, they consider: investments until 2015 (including those related to commercialization of the service, the costs of which were previously recognized on a pre-final parametric basis), divestments in 2014 and an estimate of the amount of contributions in 2015.

Value of RAB Unareti S.p.A. (Millions of euro) (*)	
RAB Distribution	531
RAB Metering	77
Total	608

(*) Company estimate.

By February 2017, the 2016 final reference tariffs will be published (which will take account of the final balance of investments in 2015, of disposals in 2015 and actual contributions in 2015), while by March, the 2017 provisional reference tariffs will be published (according to the pre-final balance of investments made until 2016, disposals in 2015 and estimating the contributions in 2016).

With Resolution 734/2016/R/eel, the Authority also defined the 2016 provisional tariffs for electricity distribution and metering services for companies that serve up to 100,000 withdrawal points.

Electricity distribution and metering service Integrated Electric Quality Text 2016-2023

Resolution 646/2015/R/eel (TIQE 2016 - 2023) contains numerous provisions aimed at selective promotion of investments in distribution networks. However, almost all the mechanisms envisaged are present in terms of general objectives and guidelines regarding their operation shall be developed through appropriate work tables attended by distributors, the Authority and Terna (including the one on resiliency of the electrical system, initiated on April 1, 2016).

Articles 129, 130, 131, 132 of the TIQE provide the innovative features of the medium-voltage distribution networks in areas with high penetration of distributed generation from renewable sources: “Observability of power flows and the state of resources disseminated on MV networks, voltage regulation of distribution networks”.

Art. 134 of the TIQE introduces the essential principles to be performed to prepare the plans for the modernization of the obsolete risers in urban areas with plants designed according to a “future proof” logic capable of supporting any increases of the contemporary use of power following the change of the domestic tariff. The Authority also identified a possible premium/penalty mechanism applicable to this type of initiatives. Unareti S.p.A. has adhered to this opportunity and has prepared some analyses concerning the geographical context in which the company operates, shared with the Authority, together with a proposal for an incentive plan.

Regarding the smart city experimentations (art. 135) with innovative features on the LV networks, distributors in urban areas with minimum 300,000 inhabitants will have access to the town scale pilot projects with innovative management logic of the LV network, possibly multi-service (smart water grid, integration with advanced mobility systems, etc.). Each distributor selected will be granted a contribution for the cost incurred.

The Authority, with Resolution 781/2016/R/eel, has seen fit to analyse these last two issues through appropriate consultation (to be held in the course of 2017), so as to take appropriate account of some of the issues raised by operators, as well as explore in more detail the possible synergies between the plans for entry into service of the second-generation meters and smart city experiments.

Lastly, with Resolution 685/2016/R/eel, the Authority determined the premiums and penalties relating to the year 2015 for the quality of the electricity distribution service. Unareti S.p.A. obtained premiums totalling about 1.5 million euro.

LV electricity 2.0 meters and related smart metering systems

By Resolution 87/2016/R/eel, the Authority defined the:

- a. functional requirements or specifications enabling the immediately available version of electricity meters in LV (or version 2.0);
- b. expected levels of performance of the related second-generation smart metering systems (2G metering systems),

in view of the replacement of first-generation meters (1G) that have completed their expected useful life for regulatory purposes.

In collaboration with the AGCOM, the Authority will assess the actual availability of standardized technological solutions that allow defining incremental functionalities with reference to communication and innovative aspects relating to the power limiter (Annex C).

The measure constitutes the implementation of Legislative Decree July 4, 2014, no. 102, and follows DCO 416/2015/R/eel.

The A2A Group believes that the meter is a tool not only useful in order to promote greater awareness among users on their energy consumption but also to enable the development of new services (Demand Response) as well as for better network management.

The installation process of the current approximately 37 million 1G meters started in 2001 by Enel Distribuzione (now e-distribuzione) and involved distributors with different timing. In compliance with the provisions of Resolution 292/2006/R/eel, A2A Reti Elettriche S.p.A. (now Unareti S.p.A.) realized the installation plan of approximately 1.2 million meters in the period 2004-2014 and has a park with an average remaining useful life of approximately 6 years.

With Resolution 646/2016/R/eel, the Authority established the means of recognition of the costs incurred for the replacement of the current 1G smart meters. In particular:

- a deadline has not been defined, at least initially, for the presentation of the plan for the commissioning of 2G smart meters and for an obligation to start the replacement thereof;
- it clarified the administrative path to be followed and documents to be submitted to the Authority if a distributor intends to initiate a plan for entry into service of 2G smart meters;
- it identified the method of access to a fast track type of valuation procedure (duration of 90 days) as an alternative to the ordinary evaluation (duration of 180 days) if certain limits are complied with for the difference in cost between 2G and 1G meters (otherwise, the plans for entry into service will be subjected to a careful cost/benefit analysis);
- it confirmed the methodology of Total Expenditure (TOTEX)⁽³⁾ for the recognition of costs, even if limited - in the initial phase - only to capital costs;

(3) The Authority intends to develop, with effect from 2020, i.e. the second part of the V electricity regulatory period, a methodology for cost recognition based on total expenditure.

- defined the mechanisms for the optimization of plans for the commissioning of 2G smart meters, regarding which the tariff recognition of both existing meters and 2G is by means of standard vectors developed by assuming that no 1G meter installed today is disposed of before the end of its useful life (and, therefore, that the 2G meters are only installed in replacement of fully depreciated 1G meters). This way, taking into account the difference between standard costs and actual/market costs of 2G meters, as well as the possible economies of scale that can be activated, it might be possible to anticipate/postpone the installation plan so as to minimize stranded costs; If the operators consider as insufficient the incentive for early replacement, there would be the risk to have a country with “2 speeds” with the major cities (Milan and Brescia, Rome, Turin) excluded from the possibility of benefiting from advantages - also commercial - offered by the new meters.

Integrated Billing Law (TIF)

By Resolution 463/2016/R/com and s.m.i., the Authority approved:

- a. the Integrated Billing Law (TIF), which defines the provisions on billing of the period of the retail service to final customers of electricity and gas, integrating them with the provisions on closing billing (already defined by Resolution 100/2016/R/com);
- b. specific interventions, related to both metering and the discipline of payment in instalments, and intended to make the current regulatory provisions coherence to the new discipline of the TIF.

With reference to the obligations imposed on the distributors, TIF introduces indemnities in favour of final customers, recognized by means of the sales company, in case of delay in the provision of metering data by providing a specific compensation of 10 euro in case of non-provision on the part of the distributor, for two consecutive months (three consecutive months only for 2017), of the actual metering data in the case of withdrawal points by bands. Compensation will not be applied if non-compliance with the discipline is due to force majeure or causes attributable to third parties.

The TIF will enter into force on January 1, 2017.

Integrated Water Service (SII):

a) Duration of assignments

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 art. 34 of Decree Law 179/12 converted into Law no. 221/12 and supplemented by Law July 29, 2015, no. 115, art. 8 paragraph 1, assignments of services to listed companies and subsidiaries of listed companies, such as those relating to the assignments to A2A, will remain active until natural expiry, and however until 2036.

Also in execution of the innovations to Legislative Decree no. 152 of 2006 introduced by art. 7 Decree Law no. 133/14 and s.m.i., at the meeting of September 17, 2015, the Board of Directors of the Ambit Government Entity (EGA) of Brescia, by Resolution no. 14, chose as form of single management of the SII in the Province of Brescia, the mixed company, with the consequent elimination (subject to the safeguards of law) of the other various forms of management present on the territory of competence.

With Resolution no. 23 of September 30, 2016, the EGA subsequently assigned the SII to Acque Bresciane S.r.l., total public capital company that has all the subjective and objective conditions to ensure full compliance with the so-called in house providing model. Moreover, it is established that the Ambit management, so-called aggregated to A2A Ciclo Idrico S.p.A., entrusted to Acque Bresciane S.r.l. will be taken over by the company only following the recognition to the outgoing operator of the residual value of takeover, determined by the EGA, under the Convention for the management of the SII, which must be completed no later than the end of the current regulatory period (2016-2019).

b) Tariff regime

By means of Resolution 664/2015/R/idr, the Authority defined the criteria for the regulatory period 2016-2019 (MTI-2) confirming the asymmetric regulation in force in the previous period (MTI-1):

- tariff multipliers (theta) are determined according to a matrix of 6 schemes based on the value of the OPEX (109 €/inhabitant average) and the investment requirement (discriminating value of 0.5 confirmed for the ratio between the new investments and the value of assets managed);
- the multipliers apply to the fixed and variable portions of the 2015 tariff; however, the mechanism of the “maximum annual increase limit” (cap) is confirmed. The values of the cap with respect to the MTI-1 were reduced although the possibility remains for the EGA to submit over-cap requests to the Authority;
- update every two years of the RAB value and OPEX components qualified upgradeable;
- update every two years for the changes relating to the calculation of the components of financial expenses: the component covering financial and tax expenses decreased from 6.01% to 5.33% and for financial expenses, in line with the electricity and gas services, the WRP parameter (Water Utility Risk Premium) was introduced.

On February 29, 2016, A2A Ciclo Idrico S.p.A. appealed to the Lombardy Regional Administrative Court against Resolution 664/2015/R/idr developing the following reasons of law:

- 1) in the formula of “financial expenses”, a lower value of the Equity Risk Premium was defined with respect to that of other infrastructure sectors in violation of the principle of full cost recovery;
- 2) the adjustments are recognized, by means of inclusion in the tariff, only the second year following that in which the costs they have to cover were incurred. In relation to this time lag, the mechanism does not take account of inflation, nor the financial expense;
- 3) the adjustments recognized to the Manager also come as a component of the Constraint to Revenues (VRG) contributing to the quantification of the annual tariff increase due.

By means of Resolution no. 16 of July 5, 2016, the Board of Directors of the EGA of Brescia approved the payment of previous tariff items to A2A Ciclo Idrico S.p.A. pursuant to Resolution no. 643/2013/R/idr of the Authority for an amount of approximately 51.4 million euro. Said items:

- are attributable to the non-recognition of the capital employed in the period 2007-2011;
- they are subject only to the approval of the EGA;
- they are not included in the VRG;
- are invoiced through a specific component in the bill.

Given this recognition, A2A Ciclo Idrico S.p.A. shall:

- in a significant investment plan agreed with the EGA (about 160 million euro in the period 2016-2020) for the improvement of the water network, quality of services and overcoming of European infringement proceedings underway in the province;
- the instalment payment of the amounts in 5 years (2017-2021) on 4 annual bills;
- activation of the water bonus on a voluntary basis for users in unfavourable economic conditions;
- the establishment of an investment monitoring committee at the EGA in order to avoid the application of penalties for failure to complete the planned infrastructure.

By means of Resolution no. 24 of September 30, 2016, the EGA Board approved the tariff arrangement for the periods 2012-2015 and 2016-2019 for A2A Ciclo Idrico S.p.A. and ASVT S.p.A.; the Resolution was approved by the Provincial Council on October 28, 2016.

By Resolution 807/2016/R/idr, the Authority approved the tariff arrangements proposed for the 2016-2019 period by the Ambit Office of Brescia for A2A Ciclo Idrico S.p.A., ASVT S.p.A. and for the other operators of the Brescia Ambit.

For A2A Ciclo Idrico S.p.A., the values of the parameter theta already applied for the years 2012-2015 are confirmed, while for the period 2016-2019, the Resolution established a 8.5%

annual increase and a maximum amount of balances to be reported in years subsequent to 2019 of 11.4 million euro.

c) Contractual quality

By means of Resolution 655/2015/R/idr, the Authority, as is already provided for in the electricity and gas sectors, introduced with effect from July 1, 2016 the provisions concerning the contractual quality to users of the SII.

For each service, quality levels were defined (improvement compared to the Charter of Services) in terms of general and specific standards, in addition to the related monitoring and verification systems. Communication channels (physical counters, website, e-mail, call center, fax, etc.) are also provided through which users can make requests to the Operator for services.

By means of Resolution 361/2016/R/idr, the Authority approved the request for derogation from the opening on Saturday morning of the counters in Brescia and Gardone Valrompia submitted by the EGA at the request of A2A Ciclo Idrico S.p.A. and ASVT S.p.A. together with consumer associations. The request was submitted in order to avoid the higher costs arising from staff overtime and office management that could burden citizens.

d) Convention types

Resolution 656/2015/R/idr provides the minimum essential content of the “standard agreement” for the regulation of relations between awarding entities and Operators.

As to the scope of application, the Authority states that *“with regard to Municipalities and service segments where managers are operating - different from area managers - and that exercise the service under an assignment acquiesced in accordance with regulations currently in force and undeclared ceased by law, the standard agreement provisions apply as compatible”*.

The signing of the standard agreement is an essential prerequisite for the approval of the 2016-2019 tariffs.

e) Accounting Unbundling Integrated Text

Resolution 137/2016/R/com integrates the current system of accounting separation required by TIUC (Accounting Unbundling Integrated Text) for the electric and gas sector with the introduction of accounting separation obligations on operators of the SII, or of each of the individual services that make it up and the related reporting requirements.

In particular, the following accounting separation regimes are envisaged:

- ordinary regime that applies to companies operating in the electricity and gas sectors and the SII operators that serve more than 50,000 inhabitants;
- simplified regime that applies to the SII operators that serve fewer than 50,000 inhabitants and smaller entities.

The regulation provides that the SII operators are required to draw up Separate Annual Accounts (CAS) articulating the accounting separation for each EGA in the activities identified (Aqueduct, Sewerage, Purification, Other water activities, Various activities) and in the related sectors.

At the beginning of May, the schemes were published and the first data communication will be in 2017 on the year 2016.

f) Metering activities

By means of Resolution 218/2016/R/idr, the Authority approved the Integrated Text for regulation of the metering service as part of the SII at national level (TIMSII).

The measure, confirming the general approach of the DCO 42/2016/R/idr, introduces, with effect from January 1, 2017, a first set of provisions concerning utility metering, deferring to subsequent rulings the discipline relating to the metering of industrial users authorized to discharge into the public sewer, the theme of the water balance and definition of levels of performance of the metering service.

In particular, the regulation imposes on the operators of the water service the responsibility for the metering service, involving obligations of installation of meters and periodic collection (based on consumption) of metering.

Obligations are also introduced for the collection of self-reading of meters and archiving (5 years) and provision of consumption by the parties concerned.

On December 23, 2016, the EGA of Brescia submitted to the Authority, on behalf of A2A Ciclo Idrico S.p.A., a request for derogation from the application of Resolution 218/2016/R/idr relatively to art. 7.4, letter i) of Annex A. The derogation is related to the procedure of preliminary information to be submitted to end users regarding the read attempts.

Prime Ministerial Decree August 29, 2016 on “Measures for the containment of default in the integrated water service”

Prime Ministerial Decree of August 29, 2016, implementing articles 60 and 61 of the Collegato Ambientale (Environmental Connection), published in the Official Gazette on October 14, entrusts to the Authority the definition of forms of containment of default, access to the vital minimum quantity of water (instead of 50 litres/day per capita) to all resident home users at a facilitated tariff (amount to be guaranteed even in case of default) and the definition of customers that cannot be disconnected.

Prime Ministerial Decree of October 13, 2016 on “Social tariff of the integrated water service”

The measure, published in the Official Gazette of November 18, 2016, set at 50 litres/capita/day the minimum vital quantity necessary to meet the essential needs, which correspond to an annual consumption band facilitated for all resident domestic users to be determined by the Authority along with the related facilitated tariff.

To facilitate access to water for domestic users or households in proven conditions of economic-social disadvantage, the Authority will also be required to provide a “water bonus” equal to the annual fee for the supply of the vital minimum quantity at facilitated tariff. The same Authority will regulate the requirements for access to the bonus based on the ISEE indicator *“in consistency with the other sectors regulated by the same”*, as well as the methods of access, recognition and payment of the bonus. The latter will be recognized in the bill from the date of verification of the prescribed requirements.

In December 2016, A2A Ciclo Idrico S.p.A. already activated its Water Bonus - as required by Resolution no. 16 of July 5, 2016 of the EGA of Brescia - which will allow families in economic difficulty to reduce spending on integrated water services (aqueduct, sewerage, purification) serving a sum equivalent to the cost of 55 litres per day, equivalent to 20 cubic meters per year. The amounts discounted by the company will be excluded from recognition of costs for tariff purposes.

The initiative is a real opportunity to meet the growing demands of families residing in the area served and affected by economic hardship, especially in this time of great crisis in the production system.

Data collections by the Authority in district heating/cooling

Legislative Decree no. 102/2014 implementing Directive 2012/27/EC on energy efficiency attributed to the Authority functions also in the district heating / cooling sector for the provision of measures on: ways in which managers make public the prices applied to the provision of heat, connection, disconnection, as well as regarding safety, continuity, commercial quality, billing of consumption, also by sending reports to the competent authorities.

After an initial recognition in 2014 (Resolution 411/2014/R/tlr), the Authority proceeded with 2 data collections in 2015 relating to:

1. district heating and cooling infrastructure with the establishment of a Registry of operators active in the sector (Resolution 339/2015/R/tlr);
2. methods for determining and updating prices charged to users in the district heating and cooling sector (Resolution 578/2015/R/tlr).

In February 2016, A2A Calore & Servizi S.r.l. received a further request for information on the costs of heat metering and accounting systems.

Article 9 of Legislative Decree no. 102/2014 entrusted to the Authority the task of implementing the provisions on metering, direct accounting of individual consumption (by meters or allocators), billing and information on billing, access to consumer data for buildings connected to district heating and cooling networks in order to increase customer awareness and change consumer behaviour.

In DCO 252/16/R/tlr, the Authority addressed these issues by considering:

- the regulatory, European and national reference framework, with regard to the installation requirements of supply meters, individual meters and distributors;
- the classification of metering systems for thermal energy and domestic hot water and the technical requirements and minimum performance of supply and individual meters to be installed (with eventual remote reading), also after December 31, 2016;
- the criteria for the evaluation of the technical and economic feasibility of the installation of individual meters for heat and domestic hot water, the installation of which is always obligatory in the case of new connections in new buildings and in the case of major renovations (with hydronic systems and horizontal configuration). In other cases, instead, the installation must be preceded by an evaluation of the technical and economic feasibility according to criteria the definition of which is entrusted to the Authority by Legislative Decree no. 102/2014.

In a statement on September 23, the Authority ruled that due to the amendments introduced to article 9, paragraph 1, of aforementioned Legislative Decree no. 102/2014, the definition of the technical and performance requirements of individual meters (renamed sub-meters

by Legislative Decree no. 102/2014 no. 141 of July 18, 2016) and the criteria to evaluate the technical and economic feasibility of their installation in buildings with several property units and in multi-purpose units served by district heating and district cooling networks no longer falls under the Authority's responsibilities.

As for supply meters, considering the regulatory amendments - that have prevented a conclusion with an appropriate term - and considering the imminence of December 31, 2016, the date by which entities exercising metering activities must install them, the Authority considered it appropriate not to adopt regulation measures on the minimum requirements of the meters to be installed by operators of district heating and cooling networks by December 31, 2016, already the subject of the same DCO 252/2016/R/tlr, postponing to a new consultation on the minimum requirements for meters that must be installed also in replacement of existing ones (including the definition of remote reading).

In the last quarter of 2016, the Authority arranged two data collections initiated under two recognition surveys of which, respectively, Resolution 562/2016/R/tlr inherent data on methods and contributions for the connection of users to district heating and cooling networks and for disconnection of users from the same networks, and Resolution 574/2016/E/tlr inherent data on metering systems and quality of distribution, metering and sales activities.

In addition, with Resolution 617/2016/R/tlr, the Authority initiated a procedure for the definition of the costs associated with the division of heating and cooling costs in buildings with several housing units in accordance with the provisions of Legislative Decree no. 102/2014 as supplemented by Legislative Decree July 18, 2016, no. 141. The scope of application of the procedure includes both the buildings connected to district heating and district cooling networks, and the buildings served by other centralized systems for air conditioning and hygienic and sanitary water. With Resolution 768/2016/E/tlr, the deadline for conclusion of the proceedings was extended to April 30, 2017.

The so-called "Milleproroghe 2017" decree postponed by a further 6 months the deadline for the installation of the thermo-valves for condominiums and apartment owners in order to adjust the centralized heating in their homes to the requirements of the European Directive on energy efficiency, i.e. from December 31, 2016 to June 30, 2017.

White Certificates and district heating incentives

Unareti S.p.A. is the third-party distributor responsible in Italy for the achievement of energy savings under the mechanism of White Certificates (WC) with an obligation of annulment 2016 equal to 565,231 WC (484,895 WC + 80,336 WC of recovery).

With Resolution June 16, 2016 of the Markets Management of the Authority, the following were published:

- the final tariff contribution for 2015 equal to 114.83 €/WC;
- the estimate tariff contribution for 2016 equal to 118.37 €/WC.

In 2016, some problems with the GSE have been solved with respect to energy efficiency projects relating to the developments of the district heating network of Milan (powered by the heat of the waste-to-energy plant in Silla) in the 2009-2011 period with a total release of about 250,000 WC upon closure of projects.

At the moment, following Ministerial Decree December 22, 2015 (which revoked Form 22T indicating the methodology for calculation of incentives for the development of district heating networks), it is no longer possible to obtain incentives on a district heating network if it is powered by a plant having combined production of electricity and heat.

Part of the WC issued was used by May 30, 2016 to fulfil the obligation of Unareti S.p.A., while the remaining part will be accounted for in the income statement when the WC will be sold to third parties.

At December 31, 2016, the A2A Group has a WC warehouse as detailed below:

	Expiry	Total WC
WC	Without maturity	375,405

Lastly, we note the forthcoming adoption of a Ministerial Decree MED establishing the *New Guidelines on White Certificates* containing the obligations for distributors of electricity and gas for the years 2017-2020 as well as new criteria for the recognition of WC from energy efficiency projects.

Foreign Business Unit

The A2A Group is present internationally on the main electricity and gas markets, with the production and distribution of electricity in the Balkans.

In January 2016, the Foreign Business Unit was established, which is responsible for identifying and developing cross business development initiatives for the Group and coordinating the initiatives managed by the Organizational Structures that deal with foreign activities at the Companies. The Foreign Business Unit coordinates the activities carried out by the investee company EPCG in relation to the production and sale of electricity in Montenegro and the operational technical management of the related electricity distribution networks.

EPCG

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 issued a regulatory deed (“Decree on the Tariff System for the Establishment of Preferential Prices of Electricity from Renewable Sources of Energy and Efficient Co-generations”), by means of which it determined incentivizing tariffs for the purchase of electricity to support the production of energy from renewable energy sources (FER). To purchase the energy produced by plants of privileged producers, particular incentivizing measures are provided, required by the Energy Act of 2010 and 2016, and which are particularly realized with the Power Purchase Agreements, stipulated between the privileged producers and the market operator. The incentivizing measures consist of guaranteed prices, guaranteed purchase and exemption from the dispatching cost of privileged producers with validity of 12 years, at prices corrected annual for the amount of inflation.

In October 2012, according to Directive 2009/28/EC, the Energy Community of Montenegro set a binding target for 2020. This objective defines that production from renewable sources in 2020 will be equal to 33% of total final energy consumption in Montenegro.

Transmission and distribution tariffs/sales prices

The first regulatory three-year period started on August 1, 2012 and ended in late 2015, while the new regulatory period started on January 1, 2016, with effect from the calendar year.

In the middle of the first three-year regulatory period, at the end of December 2013, the RAE (Regulation Agency) unexpectedly issued the change in the current method of determination of the regulatory revenue of the manager of the transmission system. The methodology mentioned above introduced the fee paid by producers connected to the transmission system. The first decision of the RAE, by which the related fee was determined according to the modified methodology, was issued on December 30, 2013, with application from January 1, 2014 to July 31, 2015, and which was subsequently extended until the end of 2015.

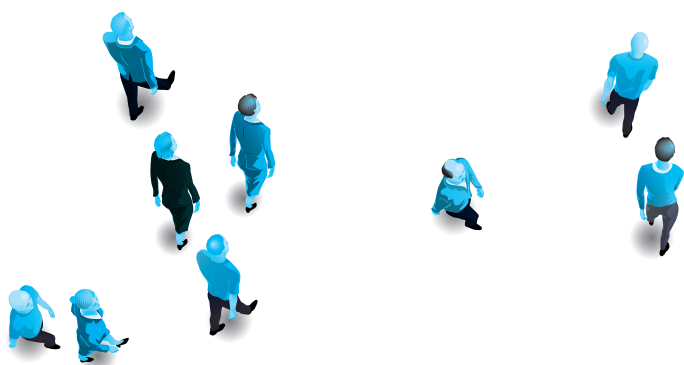
EPCG has filed an appeal for the annulment of this decision, which it believes is based on premises which are not in line with the principles of transparency and non-discrimination that should form the basis of the regulation, and which appear to be extremely detrimental to the economic and financial balance of the company. The appeal was accepted in the first instance, and then the operator of the transmission system (CGES), in a new proceeding, issued a new decision comprising the same amounts of the fees, which was approved by the RAE at the beginning of August 2014. The new decision was challenged by the EPCG at the competent authorities. The Administrative Court dismissed the appeal of the EPCG, while the decision is pending on the appeal of EPCG by the Constitutional Court of Montenegro.

At the end of 2015, the RAE determined the tariffs for a new transitional regulatory period lasting one year, starting from January 1, 2016 until December 31, 2016. The level of regulated tariffs for domestic customers provided for a reduction of about 1%.

It is noted that in January 2016, the new Energy Act came into force, which established the tariffs for 2017 and a regulatory framework for the three-year period 2017-2019. The legislative amendments with respect to the previous Energy Act have a significant impact on the operation of EPCG - FU Supply and a positive impact on the revenues of EPCG, as the tariffs for distribution, although down 5% in 2017 compared to the 2016 value, are expected to increase by about 3% per year in the period 2017-2019. This increase was already approved by the competent authority (Regulatornoj agenciji za energetiku – “RAE”) and the regulatory framework provides for any tariff increases up to 7%. This decision of the RAE allows the management of EPCG to have visibility of long-term tariff trends.

The new law abolishes, from January 1, 2017, the role of the public supplier and therefore, EPCG becomes market supplier. In addition, the price of electricity for industrial users is established according to market conditions, while for domestic and small users, annual cap were established relating to the increase in electricity prices at least in force until greater competition will develop in the sector and no later than 2019.

COVID-19





Consolidated results
and report on operations

Summary of results, assets and liabilities and financial position

Results

The results of the A2A Group for the year ended December 31, 2016 are set out below together with comparative figures for the previous year.

It is noted that the figures reported include the contribution from the consolidation of the LGH Group as from August 1, 2016. The two comparison periods are therefore not homogeneous.

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes
Revenues	5,093	4,921	172
of which:			
- Revenues from the sale of goods and services	4,813	4,732	81
- Other operating income	280	189	91
Operating expenses	(3,221)	(3,244)	23
Labour costs	(641)	(629)	(12)
Gross operating income - EBITDA	1,231	1,048	183
Depreciation, amortization and write-downs	(690)	(754)	64
Provisions	(85)	(79)	(6)
Net operating income - EBIT	456	215	241
Result from non-recurring transactions	56	(1)	57
Net financial charges	(154)	(134)	(20)
Affiliates	(4)	(4)	-
Result from disposal of other shareholdings	-	-	-
Result before taxes	354	76	278
Income taxes	(117)	(133)	16
Result after taxes from operating activities	237	(57)	294
Net result from discontinued operations	2	-	2
Minorities	(15)	130	(145)
Group result of the year	224	73	151

In 2016, the “**Revenues**” of the A2A Group amounted to 5,093 million euro, up by 172 million euro compared to the previous year (+3.5%). Net of the LGH contribution (which amounts to

approximately 194 million euro), the consolidated revenues in 2016 are substantially in line with the previous year.

The “**Gross Operating Margin**” equalled 1,231 million euro, an increase of 183 million euro compared to 2015.

The following table highlights the composition by Business Unit:

<i>Millions of euro</i>	12 31 2016	12 31 2015	Delta	Delta %
Generation and Trading	404	348	56	16.1%
Commercial	144	102	42	41.2%
Environment	240	210	30	14.3%
Networks and Heat	397	353	44	12.5%
Foreign	69	53	16	30.2%
Other Services and Corporate	(23)	(18)	(5)	n.s.
Total	1,231	1,048	183	17.5%

The Gross Operating Margin of the Generation and Trading Business Unit equalled 404 million euro, an increase of 56 million euro compared to the year 2015.

The following contributed to this growth:

- the consolidation of the LGH Group’s Generation and Trading Business Unit (approximately 4 million euro);
- the change in the scope resulting from the allocation of the hydroelectric plants of the Udine unit (except for Ampezzo and Somplago) – known as “Cellina Branch” – to Cellina Energy S.r.l. (approximately -7 million euro);
- the impact of non-recurring income of 52 million euro (8 million euro in 2015).

Net of the non-recurring effects and changes in the scope, the Gross Operating Margin of the Generation and Trading Business Unit grew by 15 million euro (+4.5%), despite the San Filippo del Mela thermoelectric plant being pulled out of the must-run regime at the end of May 2016 (-32 million euro). The energy scenario, which was negative in the first nine months of 2016 compared to the same period of the previous year, recorded a significant turnaround in the last quarter, partly due to the stoppage of some French nuclear power plants, which resulted in a significant reduction in quantities imported and a consequent increase in demand (and price) on the domestic market, both day-ahead (MPG) and ancillary services. This scenario was especially beneficial for gas - CCGT - plants which, after years of negative or in any case limited profitability, recorded a strong growth in margins. The excellent performance of environmental certificates, combined with the operational efficiency plan, also contributed to the ordinary growth in the margin. The lower margin achieved in Trading portfolio however contributed negatively to the performance of the Business Unit.

The Gross Operating Margin of the Commercial Business reached 144 million euro, an increase of 42 million euro compared to the year 2015.

Net of non-recurring items (24 million euro in 2016; 12 million euro in 2015) and of the contribution from the consolidation of the LGH Group (7 million euro), the Gross Operating Margin of the Business Unit was up by 26% (23 million euro). The greatest growth was recorded in the electricity sales sector, particularly thanks to the effects of AEEGSI Resolution no. 659/2015, which updated the regulated components to cover the marketing costs of both the protected and free markets. Net of the regulatory components, the Business Unit benefited from the positive contribution resulting from the commercial development on the free market, which led to an increase in the number of customers served of over 100,000 units, in line with the objectives of the strategic plan.

The Gross Operating Margin of the Environment Business Unit amounted to 240 million euro, up by 30 million euro compared to the same period of the previous year.

The result includes the positive contribution of around 11 million euro deriving from the consolidation of the LGH environment business unit.

Net of the non-recurring positive items, which grew by 5 million euro compared to the previous year, the industrial operating margin of the Business Unit grew by 14 million euro (+6.8%) compared to 2015. The following contributed to the growth in results for the year:

- the increased margins of the collection segment following greater quantities collected (despite more services being offered throughout the previous year for EXPO 2015), the higher number of inhabitants served, as well as greater proceeds deriving from the sale of after-treatment paper;
- the good performance of the Group's waste-to-energy plants, mainly deriving from greater electricity production, higher sales of heat (following greater demand in the district heating sector), the reduction of costs for the disposal of slag from the waste-to-energy plants, the reduction in the cost of electricity to activate the Efficient System for Users (SEU) at the waste-to-energy plant in Bergamo, as well as the positive dynamic of prices for disposing of waste deemed similar to urban waste;
- the start of disposal processes at the new landfill in Giussago from January 2016.

This trend was partially offset by a negative price effect (albeit mitigated by forward sales to the Generation and Trading Business Unit) due to the sale of electricity and heat produced by the Group's waste-to-energy plants, and the reduction in the amounts disposed.

The Gross Operating Margin of the Networks and Heat Business Unit amounted to 397 million euro, an increase of 44 million euro compared to the year 2015.

Net of the positive non-recurring items of 43 million euro (+49 million compared to 2015), the operating margin of the Business Unit was down by approximately 5 million euro (-1.4%) compared to the previous year.

This performance is mainly due to:

- lower revenues allowed for the distribution of electricity and gas and other regulated items of around 21 million euro overall mainly attributable, in the distribution of gas, to the updating of the WACC (Weighted Average Cost of Capital) by AEEGSI from 2016 and, in the distribution of electricity, to the general change of the regulatory period, as well as the updating of the aforementioned WACC. Moreover, in the electrical sector, there were lower revenues for connections and services of around 5 million euro, while in the gas sector, there were higher premiums relating to the gas distribution service safety improvements;
- lower margins relating to district heating and heat management activities for around 11 million euro, predominately attributable to the reduction of unitary sales prices of heat, linked to the decreasing price of gas, as well as lower revenues recorded in the environmental certificates market;
- greater revenues pertaining to the year 2016 relating to the aqueduct, purification and sewage service for approximately 2 million euro, following the tariff increases acknowledged by AEEGSI;
- lower fixed costs for the entire Networks and Heat Business Unit for approximately 18 million euro deriving partly from the Group's current operative efficiency plan and partly from higher capitalization.

The margins relating to public lighting activities were instead down by 2 million euro with respect to those of 2015.

Lastly, the consolidation of the LGH group Networks and Heat sector led to a growth in the profit margins of the Business Unit of approximately 12 million euro in 2016.

The Gross Operating Margin of the Foreign Business Unit, entirely attributable to the subsidiary EPCG, equalled 69 million euro, an increase of 16 million euro compared to the previous year. The lower margins deriving from lower electricity sales to the customer Montenegro Bonus was more than offset by lower costs for thermoelectric production, the greater quantities exported and lower operating costs.

“Depreciation, amortization, provisions and write-downs” amounted to a total of 775 million euro (833 million euro at December 31, 2015), of which 43 million euro from the first-time consolidation of the companies acquired in the second half of the year (20 million euro of depreciation and amortization, 16 million euro of write-downs and 7 million euro of provisions) and include amortization and depreciation of intangible and tangible assets for 429 million

euro (395 million euro at December 31, 2015), net write-downs of tangible and intangible assets for 261 million euro (359 million euro at December 31, 2015) and net provisions for 85 million euro (79 million euro at December 31, 2015).

“Depreciation, amortization and write-downs” totalled 690 million euro (754 million euro at December 31, 2015), of which 36 million euro related to the first-time consolidation of the newly acquired companies and recorded an overall decrease of 64 million euro.

Amortization of intangible assets shows an increase of 1 million euro and refers to:

- higher amortization of 9 million euro, of which 6 million euro relating to the first-time consolidation of newly acquired companies and 3 million euro for the implementation of information systems;
- lower amortization of 8 million euro mainly attributable 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.

Depreciation of tangible assets show an increase of 33 million euro compared to December 31, 2015 and includes:

- higher depreciation of 18 million euro, mainly relating to the investments which went into production after December 31, 2015;
- higher depreciation of 8 million euro, relating to the increase in assets related to the recognition, at the end of the previous year, of the decommissioning fund for the safety of the plants;
- higher depreciation, for 9 million euro related to the greater number of hours of operation of CCGT of the Plants in Sermide, Chivasso, Cassano and Piacenza;
- higher depreciation, for 14 million euro, related to the first-time consolidation of newly acquired companies;
- lower depreciation of 8 million euro, resulting in write-downs of assets at December 31, 2015;
- lower depreciation of 8 million euro, resulting from the demerger of the “Cellina Unit” of Edipower S.p.A. in favour of Cellina Energy S.r.l., which was effective from January 1, 2016.

Net write-downs of fixed assets amounted to 261 million euro and refer for 312 million euro, to write-downs of tangible and intangible assets, of which 16 million euro relating to the first-time consolidation of the newly acquired companies and 51 million euro to the write-back of tangible assets. Write-downs of tangible and intangible assets mainly include, for 202 million euro, the write-down of the thermoelectric plant in Monfalcone as a result of the findings of the appraisal carried out by an independent external expert; the plants in Gissi and Piacenza were written down for 68 million euro; the goodwill relating to the “A2A Reti Elettriche” CGU was

written down for 21 million euro and there was the partial write-down of the goodwill of the LGH Group for 16 million euro, while the “Reversal of fixed assets” of 51 million euro is related to the plant in San Filippo del Mela.

The write-downs were made on tangible and intangible assets following the results emerged during the Impairment Test, performed on them by an independent external expert appointed by the Group; said write-downs are aimed at adjusting their book value to lower income prospects as reflected by the activity conducted for the purposes of the Impairment Test.

“Provisions for risks” amount to 61 million euro (57 million euro at December 31, 2015) and were made to cover ongoing disputes and pending lawsuits, for 93 million euro (of which 7 million euro related to the first-time consolidation of the newly acquired companies, the effect of which was partially offset by the release of risk provisions set aside in previous years for 32 million euro, of which 5 million euro from the first-time consolidation of the newly acquired companies. The “Bad debt provision” amounted to 24 million euro (22 million euro at December 31, 2015), consisting of the provisions of the newly acquired companies for 5 million euro.

As a result of these changes, “**Net Operating Income**” reached 456 million euro (215 million euro at December 31, 2015), an increase of 241 million euro over the previous year.

The “**Result from non-recurring transactions**” was positive for 56 million euro (negative for 1 million euro at December 31, 2015) and is mainly related to the assignment to Cellina Energy S.r.l. of the “Cellina Unit” due to the partial, non-proportional demerger of Edipower S.p.A., which came into effect January 1, 2016.

“**Net financial charges**” amounted to 154 million euro (134 million euro at December 31, 2015), of which 9 million euro related to the first-time consolidation of the newly acquired companies. The increase compared to the previous year of about 20 million euro is mainly due to the recognition of higher charges for 36 million euro related to the partial repurchase of bonds maturing in 2019 and 2021 for an amount respectively of 182 million euro and 70 million euro. This expense is determined by the difference between the buyback price and the carrying value in the financial statements of the related bonds.

The portion of results of “**Affiliates**” was a negative for 4 million euro (unchanged compared to December 31, 2015) and is mainly attributable to write-downs of shareholdings related to the companies Rudnik Uglja Ad Pljevlja and Premiumgas S.p.A. and the positive valuations of the shareholding in ACSM-AGAM SpA and other minor shareholdings.

“**Income taxes**” for the year amounted to 117 million euro (133 million euro at December 31, 2015).

The “**Net result from discontinued operations**” was 2 million euro (no value at December 31, 2015) and is related to assets held for sale of the LGH Group.

The “**Group result of the year**”, after the minorities were deducted, was positive and amounted to 224 million euro (positive for 73 million euro at December 31, 2015).

Balance sheet and financial position

Net fixed capital

The “**Net fixed capital**” amounted to 6,129 million euro, up by 300 million euro compared to December 31, 2015. The main changes at December 31, 2016 are detailed below:

- Tangible Assets show a change of 13 million euro following:
 - the first-time consolidation of the newly acquired companies for 340 million euro;
 - of investments amounting to 259 million euro, mainly in the Networks and Heat Business Unit for 111 million euro, in the Environment Business Unit for 75 million euro and the Generation and Trading Business Unit for 32 million euro;
 - of increases for 18 million euro mainly related to the increase in the decommissioning provision and the landfill closure and post-closure expense provisions mainly due to changes in discounting rates;
 - of net write-downs of 221 million euro mainly as a result of the write-down of the thermoelectric plant in Monfalcone for 202 million euro in relation to the results emerged from the appraisal performed by an independent external expert; the plants in Gissi and Piacenza were written down for 68 million euro, while there was the “Reversal of fixed assets” for 51 million euro related to the plant in San Filippo Del Mela in light of the profitability prospects linked to Resolution 803/2016, which recognizes the essentiality of the plants for the 2017-2021 five-year period;
 - disposals for 9 million euro, net of accumulated depreciation;
 - decrease of 374 million euro for the depreciation for the year;
- Intangible assets show an increase of 376 million euro compared to December 31, 2015 attributable:
 - for 339 million euro, the effect of the first-time consolidation of newly acquired companies;
 - for 123 million euro to investments made during the year related primarily to the Networks and Heat Business Unit and in particular to the development and maintenance of gas distribution plants, works on the water transport and distribution networks and sewerage networks, and implementation of information systems;
 - increase of 12 million euro mainly due to the change of environmental certificates of the industrial portfolio;

- to the write-downs made for 40 million euro related for 37 million euro to the outcomes of the Impairment Tests carried out at year-end that resulted in a write-down of the goodwill for the “A2A Reti Elettriche” CGU for 21 million euro and for 16 million euro to the partial write-down of the goodwill of the LGH Group;
- decrease of 3 million euro for disposals in the year;
- decrease of 55 million euro for the depreciation for the year;
- Shareholdings and other non-current Financial Assets amounted to 80 million euro and are unchanged compared to December 31, 2015 due to the increase of 9 million euro of the newly acquired companies offset by the decrease of 5 million euro of shareholdings in associates for the write-downs carried out during the year and the decrease of 4 million euro in other financial assets;
- Other non-current Assets and Liabilities recorded a decrease of 19 million euro attributable for 7 million euro to the first-time consolidation of newly acquired companies and 12 million euro mainly to the increase in other non-current liabilities as a result of the recognition of earn-out clauses envisaged in the contracts signed for the acquisition of the new shareholdings during the year;
- the increase in deferred tax Assets/Liabilities of 55 million euro is attributable to the increase of 9 million euro resulting from the first-time consolidation of the acquisitions during the year, the increase in deferred tax assets for IRES and IRAP purposes on changes and provisions made solely for tax purposes;
- Provisions for risks, charges and liabilities for landfills recorded an increase of 92 million euro: this increase was due, in addition to the first-time consolidation effects of the companies acquired in 2016 of 74 million euro, net provisions of 61 million euro primarily related to provisions for contractual charges, tax disputes, hydroelectric fees and landfill closure and post-closure expenses, partly offset by uses and other changes during the year for a total of -43 million euro;
- Employee benefits show an increase of 33 million euro, including the first-time consolidation of the 2016 acquisitions for 22 million euro and the effect of changes in discounting rates.

Working capital

“Working capital” amounted to 277 million euro, an increase of 97 million euro over December 31, 2015. The main changes at are detailed below:

- Inventories show a decrease of 25 million euro due to the first-time consolidation of acquisitions in 2016, positive for 20 million euro, and the overall decrease of 45 million euro mainly due to the decrease in fuel stocks and inventories of environmental certificates of the trading portfolio;
- Trade receivables amounted to 1,821 million euro (1,485 million euro at December 31, 2015), with an increase of 83 million euro, net of the first-time consolidation effect of

acquisitions in 2016 for 253 million euro. The increase is primarily related to the increase in receivables related to the recognition (as of January 1, 2016) of the incentives on net production from renewable sources that replaced the right to green certificates, the increase in receivables for recognition of non-recurring revenues (related to the subsidiary A2A Ciclo Idrico S.p.A.) for the recognition of previous tariff items referring to 2007-2011, and a decrease in the last quarter of the year, compared to the same period of the previous year, of the transfer of receivables without recourse. The Bad debts provision amounted to 353 million euro and, excluding the first-time consolidation effect of acquisitions in 2016, amounted to 44 million euro, a decrease of 6 million euro compared to December 31, 2015.

- Other current assets show a balance of 388 million euro from 167 million euro at December 31, 2015, net of the effect of the first-time consolidation of acquisitions in 2016 of 27 million euro, an increase of 194 million euro mainly related to the increase of 225 million euro in commodity derivatives for the fair value measurements made at year-end offset by the decrease in receivables from Cassa per i Servizi Energetici e Ambientali and other receivables;
- Trade payables amounted to 1,384 million euro, an increase of 51 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions finalized in 2016 equal to 163 million euro;
- Other current liabilities amounted to 744 million euro, and net of the first-time consolidation of acquisitions in 2016 amounted to 62 million euro, an increase of 168 million euro compared to the previous year primarily related to the increase in current derivative instruments equal to 208 million euro, relating to the fair value measurement of commodity derivatives outstanding at year-end. This increase was partially offset by the decrease in payables to Cassa per i Servizi Energetici e Ambientali for 28 million euro compared to December 31, 2015 concerning the liability relating to the billed rate components and not yet paid, and the liability for equalization payable related to both prior years and the year under review, and the decrease in payables to the tax authorities for excise duties and withholding taxes of 21 million euro;
- Assets and liabilities for current taxes amounted to 37 million euro and, not considering the effects of the first-time consolidation of the newly acquired companies of 2 million euro, show an increase of 7 million euro compared to December 31, 2015 as a result of the recognition of income taxes for the year.

“Assets/Liabilities held for sale” amounted to 1 million euro, down by 146 million euro as a result of the effectiveness from January 1, 2016 of the partial non-proportional demerger of Edipower S.p.A. related the so-called “Cellina Unit” in favour of Cellina Energy S.r.l..

At December 31, 2016, consolidated **“Capital employed”** amounted to 6,407 million euro and is covered by shareholders’ equity per 3,271 million euro, of which 120 million euro related

to the interests of minority shareholders from the newly acquired companies, and Net Debt for 3,136 million euro, of which 382 million euro resulting from the first-time consolidation of newly acquired companies.

Shareholders' equity

The overall changes in **"Shareholders' equity"** were positive for a total of 12 million euro. The result of the year had a positive effect of 224 million euro offset by the dividend distribution for 126 million euro, the decrease in minority interests of 59 million euro and assessments in accordance with IAS 32 and 39 of the Cash flow hedge derivatives and the effects of the adoption of IAS 19 Revised – Employee benefits. "Minority interests" amounted to 554 million euro (613 million euro at December 31, 2015) and include the portion of capital, reserves and result pertaining to minority shareholders of the LGH Group for 120 million euro.

The **"Net Debt"** amounted to 3,136 million euro (2,897 million euro at December 31, 2015). The cash flow generated in the year was positive and amounted to 230 million euro, after the payment of dividends for 126 million euro, investments in the year for 424 million euro, and the payment of 38.5 million euro in favour Cellina Energy S.r.l. (following the partial non-proportional demerger of Edipower S.p.A.). This cash generation partially offset the effect of the first-time consolidation of LGH (net debt negative for 379 million euro at July 31, 2016) and the disbursement related to the acquisition (a total of 90 million euro).

It is noted that, net of these effects, the Net Debt would have amounted to 2,667 million euro.

<i>Millions of euro</i>	12 31 2016	12 31 2015	Changes
CAPITAL EMPLOYED			
Net fixed capital	6,129	5,829	300
- Tangible assets	5,080	5,067	13
- Intangible assets	1,724	1,348	376
- Shareholdings and other non-current financial assets (*)	80	80	-
- Other non-current assets/liabilities (*)	(85)	(66)	(19)
- Deferred tax assets/liabilities	363	308	55
- Provisions for risks, charges and liabilities for landfills	(668)	(576)	(92)
- Employee benefits	(365)	(332)	(33)
<i>of which with counter-entry to equity</i>	<i>(168)</i>	<i>(143)</i>	
Working capital	277	180	97
- Inventories	159	184	(25)
- Trade receivables and other current assets (*)	2,209	1,652	557
- Trade payables and other current liabilities (*)	(2,128)	(1,684)	(444)
- Current tax assets/tax liabilities	37	28	9
<i>of which with counter-entry to equity</i>	<i>(38)</i>	<i>(37)</i>	
Assets/liabilities held for sale (*)	1	147	(146)
<i>of which with counter-entry to equity</i>	<i>-</i>	<i>-</i>	
TOTAL CAPITAL EMPLOYED	6,407	6,156	251
SOURCES OF FUNDS			
Shareholders' equity	3,271	3,259	12
Total net debt beyond one year	3,395	3,059	336
Total net debt within one year	(259)	(162)	(97)
Total net debt	3,136	2,897	239
<i>of which with counter-entry to equity</i>	<i>15</i>	<i>27</i>	
TOTAL SOURCES	6,407	6,156	251

(*) Excluding balances included in the net debt.

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015
NET DEBT AT THE BEGINNING OF THE YEAR	(2,897)	(3,363)
Contribution first consolidation LGH and other acquisitions	(382)	-
Edipower demerger in favour of Cellina Energy	(38)	-
Net result (**)	181	(57)
Amortization	429	395
Write-downs/disposals of tangible and intangible assets	267	364
Result from shareholdings measured at equity	4	4
Net taxes paid	(168)	(59)
Changes in assets and liabilities (*)	89	249
Net cash flows from operating activities	802	896
Investments in tangible and intangible assets	(386)	(341)
Investments in shareholdings and securities	(123)	(4)
Disposal of fixed assets and shareholdings	6	7
Dividends received from shareholdings	1	2
Purchase of treasury shares	-	-
Net cash flows from investment activities	(502)	(336)
Free cash flow	300	560
Dividends paid by the parent company	(126)	(113)
Dividends paid by the subsidiaries	(5)	(5)
Cash flow from the distribution of dividends	(131)	(118)
Changes in financial assets/liabilities with counter-entry to equity	12	24
NET DEBT AT THE END OF THE YEAR	(3,136)	(2,897)

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

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

Significant events during the year

Edipower S.p.A.: Deed of non-proportional demerger of Edipower S.p.A. in favour of Cellina Energy S.r.l.

On January 1, 2016, the partial non-proportional demerger of Edipower S.p.A. came into effect in favour of Cellina Energy S.r.l. on the basis of the demerger deed stipulated between the parties on December 28, 2015.

As a result of this transaction, Cellina Energy S.r.l., a company wholly owned by SEL - Società Elettrica Altoatesina - S.p.A., was 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.

This operation led to a capital gain of 52 million euro for the Group.

Following this transaction, the share capital of Edipower S.p.A. is entirely held by A2A S.p.A.. The transaction is consistent with the objectives of the Business Plan of A2A as part of thermoelectric generation, which envisage simplified ownership, streamlining and reduction in operating costs and consolidation opportunities.

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 fostering 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 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 is 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 are collected door to door, while organic and non-differentiated waste is collected in swing-top bins with a personal electronic card.

A2A S.p.A.: purchase program of treasury shares

On March 31, 2016, the purchase program of treasury shares was concluded, approved by the Board of Directors on February 16, 2016 pursuant to the resolution of the Shareholders' Meetings of June 11, 2015.

The transaction took 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. The maximum number of shares that could be purchased was set at 35 million, equal to about 1% of the share capital of A2A S.p.A..

At the end of the program, A2A S.p.A. held a total of 61,917,609 ordinary shares, representing 1.976% of the share capital, of which 26,917,609 already in the portfolio at the end of 2015.

The purchases of treasury shares were made at an average unit price of 1.06 euro, for a total amount of 37,177,740 euro.

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 1, 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.

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 provided 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.

The transaction did not result in changes in the scope of consolidation or impacts on the economic and asset values of the consolidated financial statements.

A2A Group, Nissan and the Municipality of Milan: developed the urban plan of public infrastructure for quick charge of electric vehicles

On March 23, 2016, the Municipality of Milan approved the project launched by Nissan in partnership with the A2A Group for the development of electric mobility in the Municipality of Milan; based on this project, Nissan will provide a fleet of over one hundred zero-emission

electric vehicles that will remain free of charge to the Municipality of Milan. The new charging stations will enhance the current infrastructure managed by the A2A Group, which in Milan consists of 32 charging stations accessible to the public thanks to the E-moving project, which brought important developments in terms of electric mobility in Milan.

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

On April 5, 2016, the Board of Directors of A2A S.p.A. examined and approved the A2A Group's 2016-2020 Strategic Plan. The main objective of the new Business Plan, which does not yet include the additional benefits resulting from ongoing local aggregations plan, is to confirm the strategic plan announced last year in light of a worsened energy scenario: transform A2A into a 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, Smart Cities and Smart Grids.

The 2016-2020 Strategic Plan of the A2A Group confirms all industrial targets already defined in 2015 and envisages, in addition, new initiatives to counter the adverse market conditions that occurred in the energy market as well as some negative exogenous factors (delayed start of the Capacity Market; reduction of remuneration in the networks sector; reduction of tariffs in Montenegro). Among the major new initiatives that have helped to offset the above scenario, at least partially, we note in particular:

- the identification of additional operational efficiency initiatives - through the implementation of the "EN&A Project" - as a result of higher savings and margins;
- the strengthening of growth through incremental investments focused especially on the integrated water cycle, smart electrical distribution system, commercial development and smart gas meters also in Montenegro and external growth operations (M&A and development initiatives);
- the identification of further paths of territorial aggregation and industrial partnership in addition to those already finalized in the previous Plan.

The main development lines of the Plan continue to be characterized by three main areas of intervention: 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 A2A's mission to seize the opportunities arising from the future technological and industrial evolution of some of the Group's businesses.

Aprica S.p.A.: acquired the majority of LA BI.CO DUE S.r.l.

The A2A Group, through its subsidiary Aprica S.p.A., signed the deed of purchase on April 20, 2016 of a majority shareholding of 64% of the company LA BI.CO DUE S.r.l., with an option exercisable in 2020 to purchase the remaining portion of 36%. LA BI.CO DUE S.r.l. operates in the urban hygiene sector through the collection, transport and disposal of waste, and through environmental hygiene activities in various Municipalities of the Province of Brescia, for a catchment area of around 100,000 inhabitants served and a turnover of around 10 million euro per year.

The company also manages a waste storage, treatment and recovery facility (mainly paper and plastic) in the Municipality of Lograto. The operation is in line with the strategic objectives of the Business Plan of the A2A Group related to margin growth of A2A Ambiente S.p.A., the development of waste collection activities in the areas served and valorization of products from differentiated collection.

This acquisition will also allow creating operational and logistical synergies for urban hygiene activities currently managed by the companies of the Environment Business Unit in the municipalities of the Brescia area, in view of the traditional closeness of the A2A Group to the needs of the territory.

Investigation related to EPCG service contracts

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 S.p.A., 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, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. 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, 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, 2015 and 2016, 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 Italian 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 Attorney. Investigative measures are still covered by investigation confidentiality. Based on as currently known, the former CFO is accused - along with two previous EPCG Italian managers appointed by A2A, and three Montenegrin officials of EPCG - of abuse of office in the management of service contracts stipulated by EPCG. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 7, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest and a possible extension of the investigation to A2A S.p.A. cannot be excluded.

Based on the assessments made, the foregoing and the information available to date, and also considering the fact that A2A and other Group companies are currently not recipients of any measure, A2A believes that the risk 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.

District heating in the Municipality of Brescia: exceeded 42 million cubic meters served

The Municipality of Brescia has achieved national leadership in district heating distribution, with an overall extension of more than 650 kilometres of double piping and a volume of connected buildings that has exceeded 42 million cubic meters, covering the needs of 70% of the city. In addition to the heat recovered from the waste-to-energy plant and the Lamarmora cogeneration plant, as well as the disbursement in case of back-up by the North plant, since October 2015, thanks to the “Calore in rete” project, is the heat recovered from the steel mill Ori Martin, which would otherwise be released into the environment.

The district heating system avoids annually the emission of over 400 thousand tonnes of carbon dioxide and consumption of over 150 thousand tons of oil equivalent.

Municipality Brescia: “Smart Living” project

Smart Living is a research and innovation project with high-technological content, promoted by A2A with the Municipality of Brescia and Università degli Studi of Brescia and is designed to test an innovative model for the management of energy and services aimed at all citizens with special attention to the weaker ones.

The project is currently being tested at a thousand families residing in the city of Brescia and, if it confirms expectations, in the coming years, it will become a model through which to improve the city of Brescia in key sectors such as energy consumption, intelligent public lighting, the analysis of air and noise quality and waste collection.

A2A S.p.A.: resolutions of the ordinary and extraordinary Shareholders' Meeting

The ordinary and extraordinary Shareholders' Meeting A2A S.p.A. met on June 7, 2016 and:

- approved the company's financial statements for the year 2015;
- approved the proposal formulated by the Board of Directors to cover the loss for the year at December 31, 2015, amounting to 73,487,107 euro by withdrawing the same amount of available reserves in “moderate” tax suspension as per Law no. 342/2000 and to permanently reduce said reserves from 198,270,129 euro to 124,783,022 euro;
- approved the proposal formulated by the Board of Directors for distribution of a dividend of 0.041 euro per ordinary share - withdrawing the amount from Other Reserves available - to be paid June 22, 2016 (ex-dividend no. 19 on June 20, 2016) and record date June 21, 2016;
- approved the 2015 Sustainability Report;
- approved the draft merger by incorporation of the subsidiaries A2A Trading S.r.l. and Edipower S.p.A. in A2A S.p.A.;
- voted in favour of the first part of the 2016 Remuneration Report;
- approved the proposal formulated by the Board of Directors to adjust the remuneration of the Board of Auditors with the provision of an additional 10,000 euro per year for each Statutory Auditor and additional 30,000 euro per year for the Chair of the Board of Auditors;
- authorized – subject to revocation of the resolution authorizing the purchase and disposal of treasury shares adopted by the ordinary Meeting of June 11, 2015, to the extent not already used – the Administrative Body to carry out transactions for the purchase and disposal of treasury shares, according to the purposes, procedures and terms indicated below:
 1. the maximum number of treasury shares that may be held is 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;

2. transactions involving the purchase and sale of treasury shares will be carried out 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;
3. the purchase and sale of shares shall be made in accordance with art. 132 of Legislative Decree 58/1998 as amended, art. 144-bis of the Issuers' Regulation and any other EU and national provision applicable in the Stock Exchange - including the Regulation and Instructions of the Italian Stock Exchange - according to the operating procedures indicated by current legislation and therefore, pursuant to article 144-bis, paragraph 1, lett. b) of the Issuers' Regulation, on regulated markets according to operating procedures established in the organization and management regulations of the markets. Said operating procedures may not allow the direct matching of purchasing negotiation proposals with predetermined selling negotiation proposals and purchases shall be made at a price not exceeding 5% and not less than 5% of the reference price recorded by the security in the stock exchange session preceding each individual transaction. These parameters are considered adequate to identify the range of values within which the purchase is of interest for the company.

A2A Ambiente S.p.A.: start of the urban restyling program “Puliamo Brescia”

The Municipality of Brescia, through A2A Ambiente S.p.A., initiated “Puliamo Brescia”, a program to improve the façades of some public buildings. The interventions will ensure the restoration of the original conditions of the buildings involved, helping to improve the visual perception of the city.

The service, using the most advanced technologies in the sector, is able to solve any kind of problem with environmentally friendly solutions, thanks to anti-smog materials, while offering the city a valuable tool for the aesthetic recovery of the defaced surfaces. Subsequently, the electrical substations of the A2A Group, particularly impacted by illegal billboards and often defaced by graffiti will be repainted. “Puliamo Brescia” is ideally continuing the “Pronto graffiti” service, activated by Aprica S.p.A. in 2010, which led to 30 interventions on public spaces, 75 on private buildings, which have resulted in the complete clean-up of 12 thousand square meters of marble surfaces, 14 thousand square meters of plastered surfaces and 1,500 square meters of other surfaces.

A2A S.p.A. and Gruppo Brescia Mobilità: agreement on environmental sustainability

On June 24, 2016, A2A S.p.A. and the Brescia Mobilità Group signed a memorandum of understanding that will involve actions and projects resulting from joint collaboration regarding the Municipality of Brescia, the quality of life of its citizens, the sustainable development of its territory.

The first four common areas of action have already been identified and have created working groups called to translate them into concrete actions in favour of the community: the school and educational projects for young people; the environment and mobility; initiatives of listening, dialogue and discussion with stakeholders; the smart city.

A2A S.p.A.: start of the “Smart Working” project

On June 27, 2016, the Smart Working project was initiated at the A2A Group; it is the innovative way of working that allows, for one day a week, to work from home or from a place other than the office using the business tools necessary to carry out the work.

Thanks to a union agreement signed recently, the perimeter of the Group companies and the number of people involved in the pilot project were defined; the project is reserved for employees that have had a permanent employment contract for at least one year.

Under this initiative, around 300 employees of A2A S.p.A. and A2A Energia S.p.A., located in 18 of the Group's offices, may experience for six months this new work system that combines flexibility and innovation. The first months of the Smart Working project will be fundamental to enable the Group to assess the positive aspects and possible areas for improvement, and to consider the possibility of extending this way of working also to other areas in the future.

The A2A Group and the Magaldi Group have inaugurated in Sicily the first thermodynamic solar plant “STEM” in the world

On June 30, 2016, at the Integrated Energy Centre of A2A in San Filippo del Mela, was the inauguration of the first thermodynamic solar plant built in the world - STEM - Magaldi.

STEM is an innovative, thermodynamic solar technology patented and produced by the Magaldi Group; a qualifying element of the state-of-the-art system is the use of sand, as means of accumulation of thermal energy generated by solar radiation, with the technology of fluidized

beds, which guarantees the continuous operation of the plant in the absence of irradiation, at night or in the presence of a cloudy sky in accordance with the required load curve.

The innovative STEM technology is characterized by the echo compatibility of materials used such glass for the mirrors, steel for structures and sand and does not provide for the use of diathermic oils or molten salts.

The Integrated Energy Centre envisages, in addition to the STEM, a photovoltaic plant, an anaerobic digestion plant with production of biomethane, and a plant for the production of energy from Secondary Solid Fuel (CSS), for which the authorization process has been initiated at the competent entities. Efficient structures, designed with innovative technologies, which allow producing energy from renewable sources, with positive results also on the quality of life of the community.

Ciclo idrico: approval of adjustment tariff items of previous years

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With Resolution no. 16/2016, the Board of Directors of the Ambit Government Entity for Brescia approved the adjustment tariff items for A2A Ciclo Idrico S.p.A., pursuant to Resolution no. 643/2013/R/IDR of the Authority for Electricity, Gas and the Water System.

The recovery of these adjustment items relates to the period 2007-2011 and amounts to 10 million euro/year for 5 years. Therefore, the year 2016 benefits from 51.4 million euro of revenues that were invoiced to customers as of July 2016.

In compliance with the Business Plan of the A2A Group, these amounts will be reinvested in the creation of infrastructure for the integrated water service in the province of Brescia.

A2A Ambiente S.p.A.: acquisition of the R.IECO-RESMAL Group

On July 20, 2016, A2A Ambiente S.p.A. finalized the acquisition of 100% of the R.IECO-RESMAL Group, operating in the collection, selection and treatment of special, non-hazardous waste such as plastic, biomass and, in particular, waste paper, with 5 production facilities in the Milan area and a treatment capacity of around 400 thousand tonnes/year. The operation will also enable industrial synergies by means of the integration of treatment capacity (+30% increase in capacity in the business segment) and the diversification of the customer base.

R.IECO-RESMAL Group 2015 consolidated revenues totalled approximately 37 million euro, with an EBITDA of approximately 5 million euro. The Enterprise Value of the transaction is approximately 25 million euro.

New Shareholders' Agreements approved between the State of Montenegro and the A2A Group

The A2A Group and the State of Montenegro reached an agreement for the signing of the new Shareholders' Agreements for the management of the Montenegrin company EPCG.

On July 29, 2016, the Parliament of Montenegro approved the new Shareholders' Agreements between the State of Montenegro and A2A for the management of the energy company EPCG, with duration until December 31, 2016 extended on March 29, 2017 to June 30, 2017.

The main points of these new agreements are maintaining the current management rights of A2A in EPCG, with the appointment of the key managerial figures by A2A and the definition of some reserved matters on important topics for the corporate life of EPCG, the possibility to exercise an option to sell the entire shareholding of A2A to the State of Montenegro, for a value of 250 million euro, upon expiration of the agreements and exercisable by September 30, 2017, and no opposition by A2A to the construction project of the new thermoelectric plant in Pljevlja.

The negotiations that led to the definition of these new agreements were conducted transparently in order to reach consensus and protecting the interests of all parties involved.

A2A S.p.A.: acquisition of 51% of Linea Group Holding (LGH)

On August 4 and 5, 2016, A2A S.p.A., based on the provisions of the industrial partnership contract signed March 4, 2016 with AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema, finalized the acquisition of a share of 51% of the share capital of LGH.

The price paid for the acquisition was 112.8 million euro, part of which will be paid three years from today's date, based on the actual implementation of some development projects in progress.

The agreement was finalized following the fulfilment of all conditions precedent, including, in particular, the authorization of the Competition and Market Protection Authority obtained on July 28, 2016 subject to respect of some structural or para-structural measures:

- sale of a biological mechanical treatment plant (MBT), in Montanaso Lombardo (LO), with a treatment capacity of 75,000 tonnes;
- provision to third parties, for five years, of processing capacity for 125,000 tonnes of non-differentiated municipal waste, under favourable economic conditions, at one or more of the plants that A2A will have post-merger in the provinces of Pavia, Milan and possibly Brescia;

and behavioural:

- provision of the treatment capacity of its plants to successful bidders of tenders for the management of municipal waste, applying to said bidders – if said tenders shall involve the participation also of a company of the A2A Group – the same tariffs charged to its subsidiaries;
- application by A2A of contribution fees to the two treatment plants of Parona and Corteolona not exceeding the tariff established by the Province in 2015.

The behavioural measures imposed on A2A were effective immediately after the closing of the transaction, while the structural measures will be implemented according to a predefined schedule, which will be subject to close monitoring by the Authority.

LGH is the leading multi-utility in Lombardy after A2A S.p.A., and closed the year 2015 with revenues of over 550 million euro and an EBITDA of around 77 million euro. The company has a significant presence in environmental services and in the distribution and sale of electricity and gas. A2A and LGH shareholders agree on the strategic value of the partnership for both companies, the first concrete realization of the model of the “Multi-utility of the territories”. The transaction is significant as a positive example of a virtuous process for all stakeholders involved: the expected industrial and financial benefits are in fact accompanied by a full valorization of the company’s presence in its territories, with objectives of further industrial development, improvement in operating efficiency and increase in quality standards. The partnership between A2A and LGH forms part of the strategic guidelines of the Business Plan of A2A.

Following the finalization of agreements on the A2A-LGH industrial partnership, summarized below are the main objectives of the Business Plan of the LGH Group, which takes into account the combined post-acquisition effects at 2020:

- forecast of strong growth in EBITDA of LGH from 79 million euro in 2015 to 120 million euro in 2020;
- once fully operational, expected synergies are equal to approximately 15% of EBITDA of LGH in 2015;
- the investments of the Plan total 242 million euro, of which more than half in the Networks;
- the Net Debt in the period of the Plan is expected to decrease by about 100 million euro.

It is informed that on March 13, A2A received for information the communication of preliminary motions, PG 38120, adopted by the National Anti-corruption Authority, during the proceeding resulting from a request by some citizens, regional and parliamentary councillors of Movimento 5 Stelle by means of which the Authority was asked to verify the legality of the way in which sellers have proceeded to the sale of a portion of shareholding in the share capital of Linea Group Holding S.p.A.. The proceeding is continuing with other preliminary activities and will be completed with further Authority resolutions.

A2A S.p.A.: EIB has financed the Investment Plan of A2A in the integrated water service sector for 95 million euro

The European Investment Bank (EIB) and A2A S.p.A. have entered an agreement for a 15-year loan of 95 million euro for carrying out investments relating to the integrated water service. The investment program consists of projects included in the Ambit Plan of the province of Brescia, which aim to improve the sustainability and efficiency of services, while ensuring compliance with the relevant EU directives. In particular, investments are aimed at reducing technical losses and energy consumption, extending the coverage of the treatment of drinking water and improving water supply safety. The signed agreement will enable A2A S.p.A. to extend the average duration of its debt at extremely competitive conditions.

Shareholders' agreement between the Municipality of Milan and the Municipality of Brescia

On October 4, 2016, the Municipalities of Milan and Brescia renewed for another three years, with effect from January 1, 2017, the Shareholders' Agreement signed on December 30, 2013, concerning 1,566,452,642 ordinary shares representing 50% plus two shares of the share capital of A2A S.p.A.. On May 20, 2016, the two Municipalities had proceeded to sign an appendix to the Agreement, which envisaged reducing from six months to three months the term of the agreement, during which it is possible to terminate the same.

On October 26, 2016, the Municipality of Milan received from the Municipality of Brescia the proposal, approved by the Council of said Municipality on October 25, 2016, to partially amend the Shareholders' Agreement relating to A2A S.p.A. existing between the two Municipalities. In particular, said proposal requires the commitment of the two Municipalities to maintain syndicated and bound, in the new agreement, a number of shares held by them in equal measure, equal to 42% of the capital of A2A S.p.A.. On November 4, 2016, the Council of the Municipality of Milan, after having favourably examined the proposal of the Municipality of Brescia of a partial amendment to the Shareholders' Agreement, submitted to the Municipal Council the proposal of the new Shareholders' Agreement for the final determinations of competence.

On January 23, 2017, the Milan City Council approved the new Shareholders' Agreement between the Municipality of Milan and the Municipality of Brescia regarding the shareholding in A2A S.p.A. and has undertaken the commitment not to proceed with the disposal of any shares owned by the Municipality of Milan.

A2A Group: acquired 75% of the share capital of Consul System S.p.A.

On October 20, 2016, A2A made a further step in expanding the scope of operations and accelerated in enrichment programs of technological expertise through the purchase of 75% stake of Consul System S.p.A.. The transaction involves the acquisition of the main Italian, independent ESCo (Energy Service Company), not belonging to an industrial group, by a utility to create operational synergies and to develop new products and services on the customer base of both companies. The transaction was finalized by ESCo certified by the A2A Group (A2A Calore & Servizi S.r.l.), for a value of approximately 21 million euro (enterprise value for 100%). The agreement also provides for a put & call structure for the acquisition of the remaining 25% stake. The acquisition is consistent with the guidelines of the Business Plan of the A2A Group that provide for growth in energy services, environment and smart grids. The synergies arising from this transaction will ensure expertise and tools to improve energy efficiency, for the benefit of the territories, businesses and citizens.

A2A Ambiente S.p.A.: acquired the composting plant of Sanitaria Group S.r.l.

A2A continues its strategy of acquisitions aimed at obtaining environmental benefits and improving the services offered to the territory: through its subsidiary A2A Ambiente S.p.A., on November 9, 2016, the Group finalized the acquisition of a business unit of the company Sanitaria Group S.r.l. dedicated to the management of a composting plant.

The purchase price was 7.45 million euro, including an area worth around 1 million euro, which may be used by A2A Ambiente S.p.A. for future projects. The average annual gross operating margin attributable to the business unit of Sanitaria Group S.r.l. is about 1.1 million euro.

The composting plant, located in the Municipality of Bedizzole (BS), employs 18 workers and has a processing capacity of about 80,000 tonnes/year of green fraction from the collection of municipal solid waste (MSW), agriculture or companies operating in the field of gardening, flowers and the like.

A2A S.p.A. in collaboration with Fondazione Cariplo has created the Energy bank

A2A S.p.A., with the collaboration of Fondazione Cariplo and Fondazione AEM and Fondazione ASM, created the Energy bank in November 2016, with the aim of raising funds to support projects to support families in vulnerable social groups.

The innovative aspect of the Energy bank also lies in the fund-raising method: for the first time, in fact, the tool to collect the resources for families in difficulty will be the electricity and gas consumption bill.

The budget initially expected is 2 million euro and A2A S.p.A., in addition to bearing all the costs necessary to begin the Energy bank and fundraising, is committed to achieving an overall collection of one million euro, while another million euro will be guaranteed by Fondazione Cariplo.

A2A S.p.A.: enhanced the Verziano purifier

In early December 2016, the work of enhancing and restructuring the Verziano purifier ended. The total investment for work on the plant, which is the largest in the province and serves the city of Brescia and some of the hinterland towns, amounted to 6.2 million euro and contributed to an increase both in terms of utilities managed and purification capacity.

A2A S.p.A.: concluded the buyback offer on bonds maturing in 2019 and 2021

Consistent with the Group's financial strategy, which is aimed at extending the average debt term and optimizing the timing of the due dates, on November 25, 2016, A2A S.p.A. made an offer at the same time for the partial buy-back of bonds redeemable in 2019 and 2021 amounting to 750 and 500 million euro respectively. On December 2, 2016 A2A S.p.A. announced the final results and the pricing of the partial repurchase offer addressed to the holders of bonds falling due in 2019 and 2021. Repurchased respectively for 182 million euro and 70 million euro.

As stated in the Tender Offer Memorandum, the repurchase price for the bonds falling due in 2019 and 2021 was 113.4% and 116% respectively.

A2A S.p.A.: signed with Consumers Associations the joint negotiation protocol of disputes

On December 1, 2016, following the first agreements of 2010, for the first time in the history of Italian multi utilities, the A2A Group signed a memorandum of understanding with the Consumer Associations recognized by the National Council of Consumers and Users for the establishment of a joint Negotiation body, in order to quickly resolve disputes between

customers and A2A Group companies that engaged in the supply and provision of electricity, gas, water and district heating.

Access to the procedure is free and can be accessed only in cases where no response has been received to claims made in respect of companies belonging to the A2A Group.

A2A Group: water bonus in support of the most vulnerable social groups

In December 2016, the A2A Group proposed a new initiative for the citizens of Brescia and other 73 municipalities of the province served by A2A Ciclo Idrico S.p.A., aimed at recognition of a water bonus in support of economically disadvantaged families.

The discount on the water bill will be applied by allocating to anyone entitled a rebate of 55 litres of water per day, equivalent to an annual consumption of 20 cubic meters.

A2A Ciclo Idrico S.p.A. will entrust the management of access to the bonus to institutional entities that implement social policies in the area.

Unareti S.p.A.: sold to e-Distribuzione S.p.A. the networks in 18 municipalities of the hinterland of Milan

On December 29, 2016, Unareti S.p.A., the A2A Group that manages the distribution of electricity and gas, signed an agreement for the sale of e-Distribuzione S.p.A., Enel Group company that manages the electricity network of about 170 km of medium and low voltage electricity distribution network, which serves over 6,000 customers in 18 municipalities of the hinterland of Milan.

The agreement in question was developed in accordance with the legislation in force, which provides for the presence of a single distribution operator in each municipality.

Significant events after December 31, 2016

A2A Ambiente S.p.A.: finalized the sale of the shareholding in Bellisolina S.r.l.

On January 31, 2017 A2A Ambiente S.p.A. finalized the sale to Ladurner of the shareholding in Bellisolina S.r.l.. The transaction was made necessary in compliance with a provision of the Competition and Market Protection Authority, following the acquisition of 51% of the share capital of the LGH Group by A2A S.p.A..

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A2A S.p.A.: subscribed increase of the share capital of Azienda Servizi Valtrompia S.p.A.

On March 8, 2017, A2A S.p.A. fully subscribed the share capital increase for a fee of 5.8 million euro of the company Azienda Servizi Valtrompia S.p.A., Brescia based multi utility specialized in particular in the water, waste and gas sectors; by means of the subscription, following the waiver of exercise of option rights by all other shareholders, it has increased its shareholding from 49% to 65%.

The funds from the subscription will be allocated to work on the integrated water cycle for the expansion of purification systems.

A2A S.p.A.: bond issue

On March 9, 2017, A2A S.p.A., in line with the financial strategy of the Group to lengthen the average maturity of debt and optimize the time profile of maturities, successfully placed, in private placement with a limited number of qualified investors, a bond issue amounting to 300 million euro and a duration of seven years, maturing in March 2024, to be issued with respect to its Euro Medium Term Notes program.

The bonds, the placement of which was managed by Morgan Stanley & Co. International Plc, will be governed by English law and will have the following characteristics: annual fixed rate coupon of 1.25%, issue price equal to 99.774% and actual gross rate of return at maturity equal to 1.284%.

As of March 16, 2017, the bonds will be listed on the regulated market of the Luxembourg Stock Exchange, subject to the signing of the relevant contract documents.

Monfalcone Plant Investigation

On March 8 and 9, 2017, following orders of the Public Prosecutor of Gorizia Republic, the Monfalcone Plant of A2A Energiefuture S.p.A. was inspected during which surveys and samplings were performed (on coal in stock, on the ashes, on fume treatment residues, emissions from the chimney) and documentary acquisitions (on the servers of the emissions monitoring system, on fuel analysis forms, etc.).

During the inspection, as many guarantee notices were notified to the central leader and two collaborators related to the conduct of surveys for an alleged crime of “environmental pollution” pursuant to art. 452-bis Criminal Code (crime introduced by Law no. 68 of 2015 and constituting a “predicate crime” pursuant to Legislative Decree 231/2001).

The suspect employees appointed trusted defenders.

The proceeding is currently in the initial stage of the preliminary investigations and it shall be necessary to wait for the results of the investigations ordered by the Public Prosecutor of Gorizia.

Outlook for operations

The year 2017 started with market conditions (energy scenario, average temperatures) generally satisfactory in spite of the scarce water resources, both in Italy and in Montenegro. On April 3, the company presented the 2017-2021 Business Plan to the public that, despite the continuity of strategic direction with previous plans, has introduced important changes, most notably the acceleration of investments in the Environment and Networks Business Units aimed at transforming A2A into a multi utility oriented more to the provision of services to local communities and less to conventional electricity generation.

The execution of the Strategic Plan will be the main commitment of the company, expected during the year also upon renewal of the Board of Directors and company Top Management, whose expectations regarding the economic-financial performance for the year are good: Gross Operating Margin is expected to range between 1.12 and 1.15 billion euro (down from 2016, year however favoured by more than 120 million euro of non-recurring income) ensuring a net profit in line with or higher than as reported in 2016.

Proposal for the allocation of net profit for the year ended December 31, 2016 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2016 show a net profit of 274,049,714.00 euro.

If you are in agreement with the criteria used to prepare the financial statements, with the accounting principles and methods used in those statements and with the measurement criteria adopted, we invite you to approve:

the allocation of the net profit for the year of 274,049,714.00 euro as follows:

- 13,702,486.00 euro to the legal reserve;
- 152,971,846.00 euro as an ordinary dividend payable to shareholders to ensure a remuneration of 0.0492 euro for each outstanding ordinary share;
- 107,375,382.00 euro to the extraordinary reserve.

By way of information, we bring to your attention that the number of shares currently outstanding is equal to 3,109,183,856 shares, taking account of the 23,721,421 treasury shares in the portfolio.

The dividend will be paid from May 24, 2017, with coupon detachment on May 22, 2017 and record date May 23, 2017.

Board of Directors



SPENCER



Analysis of main sectors of activities

Summary of results sector by sector

Millions of euro	Generation and Trading		Commercial		Environment	
	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15
Revenues	2,736	2,755	1,433	1,333	852	809
- of which inter-sector	704	722	48	45	90	81
Labour costs	91	96	27	25	267	258
Gross operating income - EBITDA	404	348	144	102	240	210
% of revenues	14.8%	12.6%	10.0%	7.7%	28.2%	26.0%
Depreciation, amortization, provisions and write-downs	(438)	(293)	(24)	(19)	(75)	(63)
Net operating income - EBIT	(34)	55	120	83	165	147
% of revenues	(1.2%)	2.0%	8.4%	6.2%	19.4%	18.2%
Result from non-recurring transactions						
Financial balance						
Result before taxes						
Losses for income taxes						
Result after taxes from operating activities						
Net result from discontinued operations						
Minorities						
Group result of the year						
Gross investments ⁽¹⁾	36	65 (a)	8	4	79	59

(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 is noted that economic data from January 1 to December 31, 2015 and the balance sheet data at December 31, 2015 of the Networks Business Unit and Heat and Services Business Unit were aggregated in the new Networks and Heat Business Unit.

Millions of euro	Generation and Trading		Commercial		Environment	
	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
Tangible assets	2,090	2,381	4	2	605	437
Intangible assets	72	75	77	63	100	12
Trade receivables and current financial assets	709	735	557	547	373	284
Trade payables and current financial liabilities	752	782	302	360	296	233

	Networks and Heat		Foreign		Other Services and Corporate		Eliminations		Total Group	
	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15	01 01 16 12 31 16	01 01 15 12 31 15
	954	903	233	242	195	186	(1,310)	(1,307)	5,093	4,921
	296	288	-	-	172	171	(1,310)	(1,307)		
	112	115	45	46	99	89	-	-	641	629
	397	353	69	53	(23)	(18)			1,231	1,048
	41.6%	39.1%	29.6%	21.9%	(11.8%)	(9.7%)			24.2%	21.3%
	(170)	(119)	(39)	(280)	(29)	(59)	-	-	(775)	(833)
	227	234	30	(227)	(52)	(77)			456	215
	23.8%	25.9%	12.9%	(93.8%)	(26.7%)	(41.4%)			9.0%	4.4%
									56	(1)
									(158)	(138)
									354	76
									(117)	(133)
									237	(57)
									2	-
									(15)	130
									224	73
	213	181	27	27	23	9	-	-	386	345

	Networks and Heat		Foreign		Other Services and Corporate		Eliminations		Total Group	
	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
	1,699	1,590	568	568	197	184	(83)	(95)	5,080	5,067
	1,583	1,357	2	3	57	52	(167)	(214)	1,724	1,348
	436	347	262	237	163	72	(461)	(566)	2,039	1,656
	374	287	41	37	446	733	(468)	(570)	1,743	1,862

Results sector by sector

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

The activities of the Environment Business Unit 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.

(1) Total installed capacity of 8.8 GW.

Networks and Heat Business Unit

The activities of the Networks and Heat Business Unit mainly 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). It is also aimed at the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group), through district heating networks and ensures the operation and maintenance of cogeneration plants and district heating networks. Also included are activities relating to the management service of third-party heating plants (heat management services), public lighting, traffic regulation systems, the management of votive lights and systems design services.

Foreign Business Unit

In the reporting year, the Foreign 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

<i>GWh</i>	12 31 2016	12 31 2015	Changes	% 2016/2015
SOURCES				
Net production	13,108	12,903	205	1.6%
- thermoelectric production	8,826	8,429	397	4.7%
- hydroelectric production	4,279	4,471	(192)	(4.3%)
- photovoltaic production	3	3	-	-
Purchases	48,257	39,453	8,804	22.3%
- exchange	9,912	7,681	2,231	29.0%
- wholesalers	4,482	5,397	(915)	(17.0%)
- Trading/Service portfolio	33,863	26,375	7,488	28.4%
TOTAL SOURCES	61,365	52,356	9,009	17.2%
USES				
Sales to Group Retailers	6,154	5,246	908	17.3%
Sales to other wholesalers	9,300	8,463	837	9.9%
Sales on the exchange	12,048	12,272	(224)	(1.8%)
Trading/Service portfolio	33,863	26,375	7,488	28.4%
TOTAL USES	61,365	52,356	9,009	17.2%

The sales figures are stated gross of any losses.

The Group's electricity output in 2016 amounted to 13,108 GWh, to which should be added purchases of 48,257 GWh for a total availability of 61,365 GWh.

Production increased slightly compared to the previous year, due to the increase in thermoelectric production resulting from higher quantities produced by the combined cycle plants as a result of the stoppage of nuclear plants in France, partially offset by lower production of the San Filippo del Mela plant for the conclusion of the essentiality mechanism for groups 2, 5 and 6, starting May 28, 2016 and lower hydroelectric production, following the sale of the hydroelectric plants of the Udine unit - the so-called "Cellina Unit" - effective January 1, 2016.

Purchases of electricity amounted to 48,257 GWh (39,453 GWh at December 31, 2015): fewer purchases on the wholesale markets were more than offset by higher volumes traded on the stock exchange as part of trading activities.

During the year, higher sales were recorded on wholesale markets (+9.9%) and to the Commercial Business Unit (+17.3%).

The amount of electricity traded in the trading context recorded an increase of 28.4%.

Overall in the year under review, electricity sales of the Generation and Trading Business Unit reached a total of 61,365 GWh (52,356 GWh at December 31, 2015).

Quantitative data - gas sector

<i>Millions of cubic metres</i>	12 31 2016	12 31 2015	Changes	% 2016/2015
SOURCES				
Procurement	3,150	2,570	580	22.6%
Withdrawals from stock	40	-	40	n.s.
Internal consumption/GNC	(11)	(12)	1	(8.3%)
Trading/Service portfolio	3,990	1,001	2,989	n.s.
TOTAL SOURCES	7,169	3,559	3,610	101.4%
USES				
Commercial Business Unit uses	1,399	1,142	257	22.5%
Thermoelectric uses	1,116	875	241	27.5%
Heat and Environment Business Unit uses	91	106	(15)	(14.2%)
Wholesalers	573	435	138	31.7%
Trading/Service portfolio	3,990	1,001	2,989	n.s.
TOTALE USI	7,169	3,559	3,610	101.4%

Quantities are shown in terms of standard cubic metres with an equivalent Gross Calorific Value (GCV) of 38100 MJ on redelivery.

The volume of gas sold in 2016 amounted to 7,169 million cubic meters, an increase of more than 100% over 2015 (3,559 million cubic meters).

In particular, there was an increase in volumes of gas managed as part of the Trading Portfolio (+2,989 million cubic meters) due to an increase in related intermediation activities, volumes sold for thermoelectric uses (+27.5%), volumes sold to wholesalers (+31.7%), as well as volumes of gas sold to the Commercial Business Unit (+22.5%), while there was a reduction in sales to the other Business Units of the Group (-14.2%).

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	2,736	2,755	(19)	(0.7%)
Gross Operating Income	404	348	56	16.1%
% of Revenues	14.8%	12.6%		
Depreciation, amortizations, provisions and write-downs	(438)	(293)	(145)	49.5%
Net Operating Income	(34)	55	(89)	n.s.
% of Revenues	(1.2%)	2.0%		
Investments	36	64	(28)	(43.8%)
FTE	1,157	1,236	(79)	(6.4%)
Labour costs	91	96	(5)	(5.2%)

LGH: it is noted that the figure of FTE refers to the average of the reporting year, while labour costs are related only to the five months of consolidation (from August 2016).

Revenues stood at 2,736 million euro, slightly down (-0.7%) compared to the previous year.

The Gross Operating Margin of the Generation and Trading Business Unit equalled 404 million euro, an increase of 56 million euro compared to the year 2015. The following contributed to this growth:

- the consolidation of the LGH Group's Generation and Trading Business Unit (approximately 4 million euro);
- the change in the scope resulting from the allocation of the hydroelectric plants of the Udine unit (except for Ampezzo and Somplago) – known as "Cellina Branch" – to Cellina Energy S.r.l. (approximately -7 million euro);
- the impact of non-recurring income of 52 million euro (8 million euro in 2015).

Net of the non-recurring effects and changes in the scope, the Gross Operating Margin of the Generation and Trading Business Unit grew by 15 million euro, +4.5%, despite the San Filippo del Mela thermoelectric plant being pulled out of the must-run regime at the end of May 2016 (-32 million euro). The energy scenario, which was negative in the first nine months of 2016 compared to the same period of the previous year, recorded a significant turnaround in the last quarter, partly due to the stoppage of some French nuclear power plants, which resulted in a significant reduction in quantities imported and a consequent increase in demand (and price) on the domestic market, both day-ahead (MPG) and ancillary services. This scenario was especially beneficial for gas - CCGT - plants which, after years of negative or in any case limited profitability, recorded a strong growth in margins. The excellent performance of environmental certificates, combined with the operational efficiency plan, also contributed to the ordinary growth in the margin. The lower margin achieved in Trading portfolio however contributed negatively to the performance of the Business Unit.

Depreciation, amortization, provisions and write-downs totalled 438 million euro (293 million euro at December 31, 2015). The increase of 145 million euro is attributable for 114 million euro to the recognition of higher asset write-downs during the year under review. This dynamic is attributable for 202 million euro to the write-down of the Monfalcone plant, following the transfer at fair value of the business unit to A2A Energiefuture S.p.A. at the end of 2016, partially offset by lower write-downs of 29 million euro following the Impairment test (75 million euro in 2016, 104 million euro in 2015) and the reversal of the San Filippo del Mela plant (220kv), equal to 51 million euro, following the recent admission to the asymmetrical regime of reinstatement of costs for the 2017-2021 five-year period.

As a result of the above changes, Net Operating Income amounted to -34 million euro (55 million euro in 2015).

During the reporting period, investments amounted to around 36 million euro and mainly concerned extraordinary maintenance at the hydroelectric units in Mese, Calabria and Valtellina for approximately 11 million euro thermoelectric plants in Monfalcone, Cassano, Sermide, Chivasso and Piacenza for about 15 million euro. There were also investments for 2 million euro mainly concerning developments and interventions of evolutionary maintenance on hardware and software platforms and for 8 million euro for the acquisition of the Mazzunno hydroelectric plant by the LGH Group.

The decrease in FTE recognized in 2016 compared to 2015 is attributable for approximately -27 FTE to the sale of the "Cellina Unit" in favor of Cellina Energy S.r.l., the contribution of LGH for approximately 29 FTE, while the remaining part (-81 FTE) is instead mainly attributable to the efficiency plan of the generation sector.

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 2016	12 31 2015	Changes	% 2016/2015
Electricity Sales				
Electricity Sales Free Market (GWh)	6,271	5,342	929	17.4%
Electricity Sales under Greater Protection Scheme (GWh)	2,013	2,206	(193)	(8.7%)
Total Electricity Sales (GWh)	8,284	7,548	736	9.8%

	12 31 2016	12 31 2015	Changes	% 2016/2015
POD Electricity				
POD Electricity Free Market (#/1000)	313	211	102	48.3%
POD Electricity under Greater Protection Scheme (#/1000)	720	743	(23)	(3.1%)
Total POD Electricity (#/1000)	1,033	954	79	8.3%

	12 31 2016	12 31 2015	Changes	% 2016/2015
Gas Sales				
Gas Sales Free Market (Mcm)	818	587	231	39.4%
Gas Sales under Greater Protection Scheme (Mcm)	554	534	20	3.7%
Total Gas Sales (Mcm)	1,372	1,121	251	22.4%

	12 31 2016	12 31 2015	Changes	% 2016/2015
PDR Gas				
PDR Gas Free Market (#/1000)	324	181	143	79.0%
PDR Gas under Greater Protection Scheme (#/1000)	985	918	67	7.3%
Total PDR Gas (#/1000)	1,309	1,099	210	19.1%

The amounts of sales are stated gross of losses.

In 2016, there was an increase in electricity sales (+9.8%) and gas sales (+22.4%) compared to the previous year.

The growth in the electricity sector is due to the higher sales made on the free market (+12.7% net of the contribution of LGH) with regards to large customers and, to a lesser extent, to the mass market consumers, partly offset by the drop in quantities sold to customers served under the protected regime.

Growth in the gas sector, on the other hand, is mainly due to a greater number of redelivery points served on the free market (+33% net of the LGH contribution) and larger volumes sold to major customers.

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	1,433	1,333	100	7.5%
Gross Operating Income	144	102	42	41.2%
% of Revenues	10.0%	7.7%		
Depreciation, amortizations, provisions and write-downs	(24)	(19)	(5)	26.3%
Net Operating Income	120	83	37	44.6%
% of Revenues	8.4%	6.2%		
Investments	8	4	4	100.0%
FTE	566	439	127	28.9%
Labour costs	27	25	2	8.0%

LGH: it is noted that the figure of FTE refers to the average of the reporting year, while labour costs are related only to the five months of consolidation (from August 2016).

Revenues amounted to 1,433 million euro (1,333 million euro at December 31, 2015). Net of the LGH Group contribution of 108 million euro, revenues are substantially in line with 2015.

The Gross Operating Margin of the Commercial Business reached 144 million euro, an increase of 42 million euro compared to the year 2015.

Net of non-recurring items (24 million euro in 2016; 12 million euro in 2015) and of the contribution from the consolidation of the LGH Group (7 million euro), the Gross Operating Margin of the Business Unit was up by 26% (23 million euro). The greatest growth was recorded in the electricity sales sector, particularly thanks to the effects of AEEGSI Resolution no. 659/2015, which updated the regulated components to cover the marketing costs of both the protected and free markets. Net of the regulatory components, the Business Unit benefited from the positive contribution resulting from the commercial development on the free market, which led to an increase in the number of customers served of over 100,000 units, in line with the objectives of the strategic plan.

Depreciation, amortization, provisions and write-downs totalled 24 million euro (19 million euro in 2015).

As a result of the above changes, Net Operating Income amounted to 120 million euro (83 million euro in the previous year).

In the year, Investments of the Commercial Business Unit amounted to approximately 8 million euro and mainly concerned development and evolution maintenance on hardware and software platforms to support marketing and invoicing activities.

The increase in FTE recorded in 2016 compared to 2015 is attributable for about 92 FTE to the contribution of LGH, while the remaining part (+35 FTE) is instead mainly due to the new hirings arising from the consolidation of the atypical personnel present in the Group at the end of 2015.

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 2016	12 31 2015	Changes	% 2016/2015
Waste collected (Kton)	1,453	1,270	183	14.4%
Residents served (#/1000)	3,379	2,800	579	20.7%
Waste disposed of (Kton)	2,800	2,558	242	9.5%
Electricity sold (GWh)	1,714	1,593	121	7.6%
Heat sold (GWht)*	1,306	1,176	130	11.1%

(*) Quantities at the plant entrance.

In 2016, the quantity of waste collected, amounting to 1,453 thousand tonnes, was up compared to 2015 (+14.4%). Net of the waste collected relative to the LGH Group (87 thousand tonnes), the quantities increased by 7.6% mainly thanks to the new municipalities under management and the consolidation of LA BI.CO DUE S.r.l.. The quantities of waste disposed of show an increase (+242 thousand tonnes) compared to 2015: the higher quantities deriving from the consolidation of the LGH Group (299 Kton) were more than reabsorbed by the lower amounts of special waste disposed of at the inert waste landfill in Corteolona due to the interruption of contributions, by ARPA, for environmental analyses of the water table and the lower amounts disposed of at the Cavaglià and the Montichiari landfill (the latter being exhausted in December 2015). This trend was partly mitigated by the higher quantities disposed of at the landfill in Giussago (start in January 2016) and at the treatment plants of the newly acquired companies RI.ECO and RESMAL.

The quantities of electricity sold were up 121 GWh compared to 2015, mainly thanks to the contribution of the LGH Group (+78 GWh) and heat production was also up (+130 thermal GWh) thanks to both the contribution of the LGH Group (+29 GWht) and due to higher quantities required by the district heating sector.

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	852	809	43	5.3%
Gross Operating Income	240	210	30	14.3%
% of Revenues	28.2%	26.0%		
Depreciation, amortizations, provisions and write-downs	(75)	(63)	(12)	19.0%
Net Operating Income	165	147	18	12.2%
% of Revenues	19.4%	18.2%		
Investments ⁽¹⁾	79	59	20	33.9%
FTE	5,592	4,922	670	13.6%
Labour costs	267	258	9	3.5%

LGH: it is noted that the figure of FTE refers to the average of the reporting year, while labour costs are related only to the five months of consolidation (from August 2016).

(1) Investments in 2016 do not include the price paid for the acquisition of the investments in RI.ECO, RESMAL and LA BI.CO DUE for approximately 23 million euro.

During 2016, the Environment Business Unit recorded revenues of 852 million euro (809 million euro at December 31, 2015). Net of the contribution of the LGH Group, amounting to 50 million euro, revenues were down by 7 million euro mainly due to decreased activity on orders.

The Gross Operating Margin of the Environment Business Unit amounted to 240 million euro, up by 30 million euro compared to the same period of the previous year.

The result includes the positive contribution of around 11 million euro deriving from the consolidation of the LGH environment business unit.

Net of the non-recurring positive items, which grew by 5 million euro compared to the previous year, the industrial operating margin of the Business Unit grew by 14 million euro (+6.8%) compared to 2015. The following contributed to the growth in results for the year:

- the increased margins of the collection segment following greater quantities collected (despite more services being offered throughout the previous year for EXPO 2015), the higher number of inhabitants served, as well as greater proceeds deriving from the sale of after-treatment paper;
- the good performance of the Group's waste-to-energy plants, mainly deriving from greater electricity production, higher sales of heat (following greater demand in the district heating sector), the reduction of costs for the disposal of slag from the waste-to-energy plants, the reduction in the cost of electricity to activate the Efficient System for Users (SEU) at the WTE in Bergamo, as well as the positive dynamic of prices for disposing of waste deemed similar to urban waste;
- the start of disposal activity at the new landfill in Giussago from January 2016.

This trend was partially offset by a negative price effect (albeit mitigated by forward sales to the Generation and Trading Business Unit) attributable to the sale of electricity and heat produced by the Group's waste-to-energy plants, as well as the reduction in the quantities disposed of at the inert lots landfill of Corteolona (by May 2015) and at the landfills of Montichiari and Cavaglià (respectively exhausted in the months of December 2015 and June 2016).

Depreciation, Amortization, Provisions and Write-downs amounted to 75 million euro, an increase of 12 million euro over the previous year. This change is attributable for approximately 7 million euro to the recognition in the reporting year of write-downs of certain goodwill related to the LGH Group following the impairment test.

As a result of these changes, Net Operating Income totalled 165 million euro (147 million euro in 2015).

Investments in the year totalled 79 million euro and were mainly related to maintenance and development work on waste-to-energy plants (26 million euro), treatment plants and landfills (18 million euro), the purchase of collection vehicles and containers mainly following the awarding of the tenders for the management of new Municipalities (27 million euro), and other minor investments, including the contribution of LGH (8 million euro).

Excluding the consolidation of the LGH Group (+644 FTE), there was an increase of 26 FTE, mainly due to changes in the perimeter in the two comparison years for about 30 FTE (award of new tenders for collection and municipal sanitation and acquisition of the new companies active in the collection sector in 2016, offset by lower FTE for the event EXPO 2015).

Networks and Heat Business Unit

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

Quantitative data - Networks

	12 31 2016	12 31 2015	Changes	% 2016/2015
Electricity distributed (GWh)	11,204	11,178	26	0.2%
Gas distributed (Mcm)	2,096	1,832	264	14.4%
Gas transported (Mcm)	324	358	(34)	(9.5%)
Water distributed (Mcm)	62	63	(1)	(1.6%)
RAB Electricity (M€) ⁽¹⁾	608	586	22	3.8%
RAB Gas (M€) ⁽²⁾	1,137	970	167	17.2%

(1) A2A Estimate, does not include the value relating to LGH.

(2) Provisional figures, underlying the calculation of allowed revenues for the period.

Electricity distributed in 2016 amounted to 11,204 GWh, substantially in line with 2015. Net of the amount of electricity distributed by the LGH Group (+177 GWh), there was a 1.4% reduction, as a result of a decline in consumption, mainly due to the use in medium and high voltage.

The quantities of gas distributed amounted to 2,096 million cubic meters (+14.4%) in the reporting year, with a contribution of LGH of 255 million cubic meters, while the quantities of gas transported amounted to 324 million cubic meters (-9.5%).

Water distributed instead amounted to 62 Mcm, down 1 Mcm compared to the previous year.

Quantitative Data - Heat

<i>GWht</i>	12 31 2016	12 31 2015	Changes	% 2016/2015
SOURCES				
Plants in:	1,176	1,146	30	2.6%
- Lamarmora	437	465	(28)	(6.0%)
- Famagosta	99	145	(46)	(31.7%)
- Tecnocity	72	74	(2)	(2.7%)
- Other plants	568	462	106	22.9%
Purchases from:	1,709	1,529	180	11.8%
- Third parties	380	335	45	13.4%
- Other Business Units	1,329	1,194	135	11.3%
TOTAL SOURCES	2,885	2,675	210	7.9%
USES				
Sales to end customers	2,412	2,297	115	5.0%
Distribution losses	473	378	95	25.1%
TOTAL USES	2,885	2,675	210	7.9%

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 the year 2016, heat sales to end users were up 115 GWht from a year earlier, thanks to the contribution of the LGH Group of 99 GWht. The lower sales due to the mild climate recorded in 2016 were more than offset by the greater quantities sold resulting from the ongoing commercial development.

Heat production increased by 30 thermal GWh, while purchases increased by 180 thermal GWh.

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	954	903	51	5.6%
Gross Operating Income	397	353	44	12.5%
% of Revenues	41.6%	39.1%		
Depreciation, amortizations, provisions and write-downs	(170)	(119)	(51)	42.9%
Net Operating Income	227	234	(7)	(3.0%)
% of Revenues	23.8%	25.9%		
Investments ⁽¹⁾	213	181	32	17.7%
FTE	2,432	2,157	275	12.7%
Labour costs	112	115	(3)	(2.6%)

LGH: it is noted that the figure of FTE refers to the average of the reporting year, while labour costs are related only to the five months of consolidation (from August 2016).

(1) Investments in 2016 do not include the price paid for the acquisition of the shareholdings in Consul System S.p.A. for approximately 15 million euro.

In 2016, revenues of the Networks and Heat Business Unit stood at 954 million euro (903 million euro as at December 31, 2015). This trend was impacted by both the consolidation of the LGH Group for an amount equal to 34 million euro, and the posting in 2016 of 51.4 million euro of non-recurring revenues for the company A2A Ciclo Idrico S.p.A..

In fact, with resolution no. 16/2016 the Board of Directors of the “Ente di Governo dell’Ambito” (Ambit Government Entity) for Brescia approved the previous tariff items (for the years 2007-2011) for A2A Ciclo Idrico S.p.A. pursuant to Resolution no. 643/2013/R/idr of the Italian Regulatory Authority for Electricity, Gas and the Water System.

This trend was however partially offset by the lower revenues recorded in the electricity and gas distribution sectors following the review of the WACC (Weighted Average Cost of Capital) starting from 2016 as well as the new regulatory framework for the distribution of electricity, the sale of environmental certificates, as well as the strong contraction of the average sales prices for heat in the district heating and heat management sector.

The Gross Operating Margin of the Networks and Heat Business Unit amounted to 397 million euro, an increase of 44 million euro compared to the year 2015.

Net of the positive non-recurring items of 43 million euro (+49 million compared to 2015), the operating margin of the Business Unit was down by approximately 5 million euro (-1.4%) compared to the previous year.

This performance is essentially due to:

- lower revenues allowed for the distribution of electricity and gas and other regulated items of around 21 million euro overall mainly attributable, in the distribution of gas, to the updating of the WACC (Weighted Average Cost of Capital) by AEEGSI from 2016 and, in the distribution of electricity, to the general change of the regulatory period, as well as the updating of the aforementioned WACC. Moreover, in the electrical sector, there were lower revenues for connections and services of around 5 million euro, while in the gas sector, there were higher premiums relating to the gas distribution service safety improvements;
- lower margins relating to district heating and heat management activities for around 11 million euro, predominately attributable to the reduction of unitary sales prices of heat, linked to the decreasing price of gas, as well as lower revenues recorded in the environmental certificates market;
- greater revenues pertaining to the year 2016 relating to the aqueduct, purification and sewage service for approximately 2 million euro, following the tariff increases acknowledged by AEEGSI;
- lower fixed costs for the entire Networks and Heat Business Unit for approximately 18 million euro deriving partly from the Group’s current operative efficiency plan and partly from higher capitalization.

The margins relating to public lighting activities were instead down by 2 million euro with respect to those of 2015.

Lastly, the consolidation of the LGH group Networks and Heat sector led to a growth in the profit margins of the Business Unit of approximately 12 million euro in 2016.

Depreciation, Amortization, Provisions and Write-downs amounted to 170 million euro, an increase of 51 million euro over the previous year. Net of the contribution of LGH amounting to 12 million euro, the increase of 39 million euro is attributable for 21 million euro to the recognition in the reporting year of the write-down of the goodwill of electrical networks as a result of the Impairment test, for 12 million euro to higher provisions for risks and for 6 million euro to higher depreciation.

As a result of the above changes, net operating income amounted to 227 million euro (234 million euro in 2015).

Capital expenditure for the reporting period amounted to 213 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 (59 million euro, of which 3 million euro related to the LGH Group);
- in the gas distribution subsector, 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 (73 million euro, of which 6 million euro related to the LGH Group);
- in the integrated water cycle, work carried out on the water transportation and distribution network and the sewerage networks and purification plants (25 million euro);
- in the public lighting sector, work carried out to replace lighting systems with LED equipment in the Municipalities managed (10 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 46 million euro (of which 4 million euro related to the LGH Group).

Excluding the consolidation of the LGH Group (+249 FTE), there was an increase of FTE equal to +26 (+1.2%) in 2016.

Foreign Business Unit

The following is a summary of the main quantitative and economic data relating to the Foreign Business Unit. In the year under review, the Foreign Business Unit coincides with EPCG, for which the quantitative and economic data is shown.

Quantitative data - Electricity Production and Sale

<i>GWh</i>	12 31 2016	12 31 2015	Changes	% 2016/2015
SOURCES				
Production	2,973	2,846	127	4.5%
- thermoelectric production	1,216	1,412	(196)	(13.9%)
- hydroelectric production	1,757	1,434	323	22.5%
Imports and other sources	828	1,074	(246)	(22.9%)
- imports	744	1,031	(287)	(27.8%)
- other sources	84	43	41	95.3%
TOTAL SOURCES	3,801	3,920	(119)	(3.0%)
USES				
Domestic market consumption	2,321	2,802	(481)	(17.2%)
Distribution losses and internal consumption	413	453	(40)	(8.8%)
Transmission losses	137	140	(3)	(2.1%)
Other uses	25	27	(2)	(7.4%)
Exports	905	498	407	81.7%
TOTALE USES	3,801	3,920	(119)	(3.0%)

The total availability of the EPCG Group in 2016 was 3,801 GWh (3,920 GWh at December 31, 2015).

Demand was covered by the EPCG plants that produced a total of 2,973 GWh (up 4.5% compared to 2015), of which 1,216 GWh from thermoelectric source (-13.9%) and 1,757 GWh from hydroelectric source (+22.5%); the reduction in thermoelectric production at the plant in Pljevlja was offset by higher hydroelectric production recovered significantly recorded especially in the second and last quarters of the year. The year under review also recorded a decrease in imports (-287 GWh), as well as an increase in quantities exported (+407 GWh).

EPCG Group electricity sales on the domestic market stood at a total of 2,321 GWh, down 17.2% on the previous year, mainly following the interruption of the supply of electricity to the major energy-hungry customer Montenegro Bonus.

Quantitative data - Electricity distribution

	12 31 2016	12 31 2015	Changes	% 2016/2015
Electricity distributed (GWh)*	2,183	2,161	22	1.0%

(*) Data net of distribution losses.

Moreover, in the year under review, the electricity distributed on the medium and low voltage network in Montenegro amounted to 2,183 GWh (2,161 GWh at December 31, 2015).

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	233	242	(9)	(3.7%)
Gross Operating Income	69	53	16	30.2%
% of Revenues	29.6%	21.9%		
Depreciation, amortizations, provisions and write-downs	(39)	(280)	241	(86.1%)
Net Operating Income	30	(227)	257	n.s.
% of Revenues	12.9%	(93.8%)		
Investments	27	27	-	-
FTE	2,370	2,490	(120)	(4.8%)
Labour costs	45	46	(1)	(2.2%)

Revenues amounted to 233 million euro (242 million euro at December 31, 2015). The reduction in revenues in 2016 was mainly due to the lower electricity sales to the Montenegro Bonus customer (supply interrupted from March 2016), partly offset by higher exports of electricity.

The Gross Operating Margin was 69 million euro, entirely attributable to the subsidiary EPCG, an increase of 16 million euro compared to the previous year. The lower margins deriving from lower electricity sales to the customer Montenegro Bonus was more than offset by lower costs for thermoelectric production, the greater quantities exported and lower operating costs.

Depreciation, amortization, provisions and write-downs amounted to 39 million euro, down 241 million euro compared to the previous year: this change is mainly attributable to the recognition in 2015 of assets write-downs resulting from the impairment analysis for a total of 246 million euro.

As a result of the above changes, Net Operating Income was positive for 30 million euro (-227 million euro in 2015).

Investments amounted to about 27 million euro and mainly refer to work to replace traditional meters with remote controlled meters (14 million euro), maintenance of the primary and secondary distribution network (9 million euro), work on the central information systems and the purchase of new vehicles (approximately 1.2 million euro), as well as maintenance work on the thermoelectric plant in Pljevlja and on the hydroelectric plants in Perucica and Piva (a total of approximately 2.4 million euro).

Other Services and Corporate

Economic data

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes	% 2016/2015
Revenues	195	186	9	4.8%
Gross Operating Income	(23)	(18)	(5)	27.8%
% of Revenues	(11.8%)	(9.7%)		
Depreciation, amortizations, provisions and write-downs	(29)	(59)	30	(50.8%)
Net Operating Income	(52)	(77)	25	(32.5%)
% of Revenues	(26.7%)	(41.4%)		
Investments	23	9	14	n.s.
FTE	1,213	986	227	23.0%
Labour costs	99	89	10	11.2%

LGH: it is noted that the figure of FTE refers to the average of the reporting year, while labour costs are related only to the five months of consolidation (from August 2016).

In 2016, revenues of Other Services and Corporate amounted to 195 million euro, up by 9 million euro compared to the previous year, entirely attributable to the contribution of LGH.

Gross Operating Margin was negative for 23 million euro, a decrease of 5 million euro compared with the figure recorded in the previous year, almost entirely attributable to negative non-recurring items (-3 million euro in 2016) and the negative result of LGH of the corporate and other services sector (-3 million euro).

It is noted that in comparison with the previous year, the Gross Operating Margin of the subsidiary A2A Smart City S.p.A., consolidated in the Business Unit under review, was up by 1 million euro.

Depreciation, amortization, provisions and write-downs equalled 29 million euro (59 million euro at December 31, 2015). Net of the contribution of LGH for about 10 million euro, the increase is mainly due to the allocation in 2015 of higher provisions for non-recurring risks for about 40 million euro.

After depreciation, amortization, provisions and write-downs there was a Net operating loss of 52 million euro (a net operating loss of 77 million euro at December 31, 2015).

Investments for the year amounted to 23 million euro and mainly refer to investments in information systems and telecommunication networks.

Excluding the consolidation of the LGH Group (+205 FTE), there was an increase of FTE of the Business Unit equal to +22 FTE.



ARTISTS





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...."*

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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 organizational 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 estimated impact on the Group, the main types of risk are the following, in order of importance:

- regulatory changes;
- energy scenario;
- economic and social context;
- Business Interruption;
- climatic changes.

Risk of regulatory changes

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 solely as compliance (or litigation). The structure also deals with regulatory issues for Linea Group Holding, in order to monitor and manage the impacts of regulatory changes on the company.

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.

Regulatory Affairs and Market implemented constantly updated monitoring and control tools (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;
- 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 and management of the plants in conservation;
- the achievement of energy savings under the White Certificates mechanism and impacts on the development of district heating.

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.

Economic and social context risk

The Group's activities are sensitive to economic cycles and general economic conditions in the countries in which it operates. A slowing economy could determine, for example, a drop in consumption and/or of industrial production, having as a result a negative effect on the demand for electricity and of other carriers offered by the Group, thereby affecting the results and prospects and preventing the implementation of planned development strategies. Furthermore, the operational activities of sites and infrastructures, their profitability, the implementation of adjustment programs or conversion of certain facilities rather than growth in some business areas, planned by the Group, may be impaired as a result of possible actions taken by some stakeholders, not favourable to the presence of the sites or the effect of a negative perception of Group activities in the areas served.

In view of the current context of the energy markets in which the 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, the renegotiation of service contracts with manufacturers of turbogas machinery, 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, San Filippo del Mela). Said oversight aims to promote a proper 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.

We note the emerging issue concerning the relationship of the companies of the Environment Business Unit and the Networks and Heat Business Unit with some stakeholders, relating to the future construction of new plants, the expansion of existing ones or the provision of new services in the territories. With specific reference to waste-to-energy, waste recovery and waste water treatment plants, forms of opposition and protest could be promoted, partly as a result of an incorrect perception of the works, with potential effects on the implementation of development programs. To oversee the issue, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities, also through participation in public debates and special press conferences, as well as through the organization of multi-stakeholder forums, designed to promote dialogue with the territory. The forum was established with the aim of identifying solutions that can respond in a targeted and effective manner to the needs and expectations of stakeholders and that allow promoting the environmental, economic and social sustainability activities carried out by the company and the Group and services provided in the territory.

We also highlight that the Group companies active in the management of the integrated waste cycle, street cleaning and other essential services for the environment, sanitation and decorum of the city are particularly focused on the continuation of entrusting its activities in territories already served or in the awarding of public tenders for the same services in new areas; constant monitoring of opportunities, effective and efficient management of tenders and award of the same play a critical role in maintaining and developing the positioning of said services on the market and thus maintaining and expanding the company's business.

Lastly, we confirm the 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 S.p.A., in the definition of mechanisms to guarantee the revenues of the plant after the conclusion of the CIP 6 tariff regime.

An element of uncertainty that cannot be ignored for a proper analysis of the economic and social context is represented by the "Brexit": on June 23, 2016, the UK expressed itself through a referendum to decide whether to stay in the European Union. More than 30 million

people have voted, and 51.9% opted for “leave”. The outcome of the British referendum has definitely increased uncertainty about the Eurozone economic outlook: while the short-term effects, related mainly to foreign trade, is expected to be contained, the medium-term effects will be conditioned by the nature of future agreements between the United Kingdom and the European Union.

The possible economic effects of the “Brexit” on the European Union could result in greater volatility in financial markets, lower exports to the UK due to the weakening of the pound on the euro but also in re-addressing investments expected in Great Britain to other EU countries.

In the medium term, the IMF has revised downwards its Eurozone growth forecasts and estimates a further slowdown in the global economy, concerns for safety and the financial sector. According to the IMF, the “Brexit” will have a negative impact also on Italian recovery, which is already impacted by high public debt and the problems in the banking system.

Accordingly, in consideration of the business operated by the A2A Group in the country and in other EU and non-EU countries, it is not believed that the Group is particularly exposed to the “Brexit” in the achievement of the corporate objectives it intends to pursue.

Country risk

The A2A Group also operates in foreign countries characterized, for historical and cultural reasons, by a lower degree of political, social and economic stability than the OECD developed countries. Therefore, A2A is exposed to risks of possible negative developments in the political, social and macroeconomic framework that can produce situations such as decline in economic activities and financial difficulties of local governments, high levels of inflation, currency devaluation and similar phenomena such as to temporarily or permanently impact the Group’s ability to operate in favourable economic conditions. Other risks associated with activities in those countries are represented by the lack of a stable regulatory framework, unfavourable developments in laws and regulations, unilateral contractual changes that will result in reduction of A2A asset value, forced divestments, nationalizations and expropriations, increments of applicable taxes.

Business interruption risk

The Group operates production sites and operationally and technologically complex services (power plants, waste disposal plants, cogeneration plants, distribution networks, waste collection and sanitation services, delivery services of drinking water, etc.), the malfunction or accidental damage of which could determine the unavailability and, consequently, result in economic losses and possible reputational damage due to the interruption of 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. Although 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 the Business Units concerned to reduce the probability of such risks occurring and/or 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 provides for periodic review of the plants and networks, the redesign of plant parts that over time have revealed structural problems as well as the provision of specific training courses for technical staff. 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 systems is planned at all of the Group's plants for calculating the actual yield thereof, 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 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 and manage the eventual 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 and partly concluded 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, extraordinary maintenance also aimed at increasing the thermal potential of these plants, upgrades of control systems of the plants that are technologically obsolescent. 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.

With reference to the interruption issue of waste collection and urban sanitation services in the territories of the municipalities served by the Group companies caused by any strikes, the company has specific management and planning procedures for the recovery of collection activities or sweeping aimed at restoring the standards of service quality in the days immediately following. Means are also available to deal with situations of emergency, control and monitoring of vehicles in service at the areas served (even in online mode through the control room equipped with the latest technical equipment), spare parts warehouses managed and structured so as to deal with the statistically most recurrent faults.

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 and currently the subject of unification and optimization, in view of the recent organizational developments, 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.

With reference to Linea Group Holding, acquired in the second half of 2016, the main issue of risk concern any faults on energy production plants, as well as on primary and secondary transformation stations or on the electricity distribution network, which could lead to significant discontinuities with consequent impacts in terms of corporate image. To address these risks, the company has identified the situations of greatest technical obsolescence and is currently investing for the complete renovation of lines and metering equipment and a number of receiver stations on the network of the city of Cremona.

The A2A 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. Also being studied are interventions for strengthening of power plants of the district heating network whose capacity is most exploited, construction interventions of new heat transport routes aimed at improving the network structure, revamping of existing networks to limit corrosion, the construction of new electrical boilers to keep in reserve to cope with peaks of heat demand by the users served, and the realization of thermal storage at some of the company’s sites. 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 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 always important and that is transversal to all business areas required to manage plants and infrastructure, is the one related to the unauthorized access of external personnel to the Group, 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 have to interrupt production activities. To mitigate these possible contingencies, it is noted that the unification activities of the Security Control Rooms of A2A and AMSA has been accomplished; guidelines

for management within the Group are also being developed, to regulate in a unified way the operational method of access to the plants and security services. Further interventions are being evaluated and have already been partly realized 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. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the management of all security aspects in order to ensure the protection of human and material resources, industrial assets and information managed by the A2A Group.

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 lower availability of water resources compared to expected values (based on statistical estimates). To ensure optimum exploitation of available water resources, even in the presence of periods characterized by particular deficiency, we note organizational monitoring structure consisting of business units dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants. We also note that the hydroelectric plants of the Group have different characteristics in terms of water resource exploitation and are distributed on the Italian territory. As regards the Networks and Commercial Business Units, 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 constant updating of demand forecasts in relation to the trend in 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. The section “Other Information/Interest Rate Risk” of the 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 hedge 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, 2016, the Group contracted revolving committed credit lines for 800 million euro, used for 100 million euro. It also has unused long-term bank financing for a total of 33 million euro and cash and cash equivalents totalling 403 million euro. The management of liquidity risk is pursued by the Group also by maintaining a Bond Issue Program (Euro Medium Term Note Programme) sufficiently large and partially unused as to enable the company to timely resort to the Capital market. As of today, this program amounts to 4 billion euro, of which 1,902 million euro still available.

Covenants non-compliance risk on debt

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 Consolidated Financial Statements illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. At December 31, 2016, the book value of these loans amounted to 161 million euro. Lastly, at December 31, 2016, 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 deposit and storage sites of waste materials to prevent pollution phenomena, monitoring systems and the presence of static and dynamic barriers enabling to detect pollution phenomena attributable to the same sites, systems for prevention and/or abatement of polluting concentrations in gaseous emissions, water purification plants for discharges of energy production and waste treatment plants, systems for continuous/period measurement of polluting concentrations in emissions. With regard to the issue concerning the management of reservoirs, with specific reference to maintenance/removal of the sediments and the corresponding possible negative effects on water and on the local area, it is noted that there are controlled and specific arrangements for the execution of drainage operations to minimize the effects on the environment.

With reference to the issue of waste water treatment, actions are being evaluated for the upgrading and enhancement of existing infrastructure.

Lastly, it is noted that the Group pays particular attention, as part of the acquisition of new assets, to the possible presence of “environmental liabilities”, i.e. situations of risk or latent non-compliance related to the operation of establishments and connected to the previous management, in order to implement all measures aimed at their removal.

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 main activities of the structure consist in the definition of guidelines, oversight of Environment and Safety regulations and dissemination thereof within the Group and in conducting regular audits, both in terms of regulatory compliance and compliance with company procedures.

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.

The Group directly oversees the risk issues concerned also through the Environment, Health and Safety Organizational Structures of the company and site, which provide the necessary support to employees, officers and management in the oversight of significant environmental aspects, in implementing developments in regulations and in the HSE (Health Safety Environment) management system.

In addition, the organizational structure Enterprise Risk Management, in coordination with the organizational structures Environment Health and Safety, dialogues with the Business Unit managers to support the identification and study of possible environmental risks even in the implementation of the new standard ISO 14001:2015. As mentioned above, the environmental management systems in place, thus allow identifying and overseeing the environmental aspects related to the activities and processes while minimizing risk on the environment due to the normal activities of the Group.

The Group is also active in the prevention of abnormal situations or special external events such as the issues of risk associated to the transfer to the plants of off-specification materials. The Group implements strict control on incoming materials to plants, search for systems for monitoring of emissions in line with the best available technologies, the use of methods of analysis with low detection limit and that thus allow the detection of very low concentrations of micro-pollutants and the choice of materials and techniques for the flue gas purification system able to absorb even the possible presence of higher quantities of pollutants with respect to expectations and therefore ensure compliance with the prescribed limits.

Another risk area concerns the possible exploitation of environmental data and information which, although without foundation, may damage the image of the Group or hinder the smooth operation of the plants. To monitor these risks, the Group carries out constant monitoring of the environmental parameters of both the quality of water distributed and their emissions, constant dialogue with local communities and Entities, the publication of specific reports. The Group is in fact involved at various levels in constant and transparent dialogue in dealings with entities, with the communities of reference and with stakeholders, also through tools such as Environmental declarations (published for sites participating in the EMAS regulation).

Other issues of environmental risk concern the possible future introduction of more restrictive regulations that may require investments for adjustments of plants or review of production

processes. To deal with this issue, the Group has adopted a monitoring policy of regulatory change, collaborative dialogue with the institutions (Ministry of Environment and Protection of Land and Sea, Regions, etc.), as well as of active participation in trade associations and work groups set up at these entities. This is also in order to always be in line with the best available techniques regarding the environment and to efficiently plan any new investments that may be necessary. In this context, the Group participates, for example, in work tables for the definition of the BREF (Best Available Techniques Reference Document) for LCP (Large Combustion Plants) and for waste management.

The process of updating the Organizational and Management Model as per Legislative Decree no. 231/2001 with reference to the introduction of environmental offences following the enactment of Law 68/2015 has been completed for some Group companies and is in progress at the other Group 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 Center of Milan. 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; this 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 carried out daily on the Power Exchange, particular attention is paid to the oversight of systems for interfacing with the Market and activities have been completed that guarantee the continuity of operations for generation and energy bidding areas, in case of failure of one of the CEDs. A specific control was developed in 2012 to support trading activities.

Data confidentiality and security are subject to specific controls by the Group, through internal policies, tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access sensitive information. To further improve the oversight in place, the alignment is being performed between the model of organizational roles and model of technical roles of Segregation of Duties implemented in the systems; said verification will be followed by the implementation of profiles designed to

strengthen security aspects for critical information 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 as well as additional access control systems at the Group CEDs. 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 further 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 elaborated, 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 have been 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.

Lastly, it is noted that insurance coverage is being evaluated specific for ICT aimed at mitigating the potential indirect damages as a result of the unavailability of systems and applications as well as those related to violations and intrusions into corporate systems.

With reference to Linea Group Holding, acquired in the second half of 2016, the main ICT risk issues are related to possible inefficiencies in the billing process related to the inadequacy of CRM and Billing systems, the unavailability of core applications due to the absence of a disaster recovery system, issues relating to the management of distribution networks for deficiencies of supporting information systems. In order to oversee these issues, to date a dedicated ICT Risk Framework and an ICT Risk Matrix were defined, thanks to which the IT applications existing in the LGH Group were mapped and the controls to achieve a reduction of the residual risk were identified.

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.

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.

Regarding safety, a further issue is connected to the safety risks for employees working in direct contact with the public and/or citizens, for example in activities related to the recovery of arrears, checks on the correctness of recycling, substitutions/removal of meters. To manage these risks, the Group carries out specific training activities for its staff.

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, and implementation was completed of new systems for remote control of lighting points.





Sustainability responsible management

Sustainability responsible management

In recent years, the issues concerning sustainable development were the focus of the political agendas of the most important world leaders, driven to a real and substantial debate on these issues by a growing awareness and need for action by the company.

In November 2015, the A2A S.p.A. Board established the Committee for the Territory and Sustainability and decided to implement a demanding Corporate Social Responsibility program, based on four pillars: the publication of the Sustainability Report and gradual transformation into the Integrated Report; definition of a Sustainability Policy and Plan and the consequent introduction of sustainability objectives in the management incentive system; extension of the stakeholder engagement model based on multi-stakeholder forum and territorial sustainability reports; development of internal training programs aimed at consolidating a shared approach to sustainability.

At the beginning of 2016, a consultation process was undertaken with the first lines and the company that led to the establishment of the Sustainability Policy and Plan of A2A, which define the Group's strategic guidelines for achieving the Sustainable Development objectives of Nations United in 2030.

The Sustainability Policy defines in its statement what sustainability means for A2A: "Help Communities to be sustainable", taking a lead role in a new, low carbon circular economy based on smart services and networks. In fact, the policy is developed based on four pillars:

1. CIRCULAR ECONOMY: sustainably manage waste throughout the life cycle;
2. DECARBONISATION: contribute to achieving national and EU targets for the reduction of greenhouse gas emissions;
3. SMARTNESS IN GRIDS AND SERVICES: increase the reliability of grids and services through technological innovation;
4. PEOPLE INNOVATION: make an active contribution to the well-being of the community and improvement in working conditions, increasing transparency and improving dialogue with stakeholders.

The 2016-2020 Sustainability Plan is the tool that allows translating the objectives of the Sustainability Policy into concrete and short-medium term action. Every action of the Plan is composed of different indicators that allow monitoring and measuring the progress of the action.

The 2016 results of the targets of the Sustainability Plan, as well as the environmental and social performance of the Group are reported in the 2016 Integrated Report of A2A, the ninth report on sustainability performance and the first that ultimately adheres to the Integrated Reporting Framework (IR Framework).

The document allows clearly representing and communicating the integration between the group's economic sustainability and social and environmental sustainability implemented in corporate decision-making processes, but also in the Group's strategy, governance and business model.

The Integrated Report contains all the information related to the management of capital with which the Group creates value over time:

- Financial Capital: set of economic resources involved in the production processes;
- Manufacturing Capital: real estate, infrastructure and physical means (plant, machinery, etc.) used for the production of the services offered by the company;
- Natural Capital: all processes and environmental resources providing goods or services for the production of services offered by the company;
- Human Capital: all the expertise, skills and experience of the people that work at the company;
- Intellectual Capital: intangible resources represented by organisational knowledge and intellectual property of the Group;
- Relational Capital: represents the company's ability to create relations with external stakeholders and share values in order to increase individual and collective well-being.

The 2016 Integrated Report of A2A, presented to the Board of Directors of A2A S.p.A. on April 3, 2017, is subject to review by an external company and is brought to formal approval of the Shareholders' Meeting together with this document, becoming an integral part of Group corporate information to its stakeholders.





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. are subject to a full audit by EY S.p.A. on the basis of their appointment for financial years 2016 to 2024 by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed within the Group during 2016, analyzed between the leading auditor EY S.p.A. and other auditors.

Description - Thousands of euro	Leading Auditor	Other auditors
A2A S.p.A.		
Audit of annual financial statements	169.0	
Audit of consolidated financial statements	35.0	
Periodic tests of accounting	17.0	
Review of half-yearly report	56.0	
Audit of the separate annual accounts for the AEEGSI	13.0	
Other testing and attestation engagements	-	
Total	290.0	0.0
Subsidiaries		
Audit of annual financial statements	706.0	
Periodic tests of accounting	161.0	
Review of half-yearly report	170.0	
Audit of the separate annual accounts for the AEEGSI	45.0	
Other testing and attestation engagements	-	
LGH Group ⁽¹⁾	283.0	
Total	1.365.0	0.0
Associates and joint ventures ⁽²⁾		
Audit of the information sent to shareholders for the consolidation	32.0	
Total	32.0	0.0
TOTAL A2A GROUP	1.687.0	0.0

(1) The amount for the LGH Group refers to the audit fees incurred for all of 2016.

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

In addition to the above audit work, companies belonging to the EY network also performed other engagements in 2016 for fees amounting in total to 38 thousand euro, which mainly related to activities as the company's legal auditor as specified by current legislation; moreover, in the period January-June 2016, also for the activities described above, 36 thousand euro was paid to the previous independent auditors of the Group.

Treasury shares

At December 31, 2016, A2A S.p.A. held 23,721,421 treasury shares, being 0.757% of its share capital consisting of 3,132,905,277 shares. At December 31, 2016, 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 does not have secondary offices.

Related parties and tax consolidation

Details of related party transactions are provided in note 40 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, 2016”, 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 Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure “Regulation of transactions with Related Parties”. The review of the procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure.

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 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.