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Consolidated financial stetements **2016**

Contents

This is a translation of the Italian original "Relazione finanziaria annuale consolidata 2016" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available on the website www.a2a.eu

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Consolidated financial statements

Consolidated balance sheet (1-2)

Assets

Millions of euro	Note	12 31 2016	12 31 2015
NON-CURRENT ASSETS			
Tangible assets	1	5,080	5,067
Intangible assets	2	1,724	1,348
Shareholdings carried according to equity method	3	67	68
Other non-current financial assets	3	69	69
Deferred tax assets	4	363	308
Other non-current assets	5	12	6
Total non-current assets		**7,315**	**6,866**
CURRENT ASSETS			
Inventories	6	159	184
Trade receivables	7	1,821	1,485
Other current assets	8	388	183
Current financial assets	9	218	171
Current tax assets	10	70	71
Cash and cash equivalents	11	402	636
Total current assets		**3,058**	**2,730**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**6**	**205**
TOTAL ASSETS		**10,379**	**9,801**

(1) For details regarding the first-time consolidation effects of acquisitions in 2016, reference is made to the specific statement below.

(2) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 40. Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 41 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

Millions of euro	Note	12 31 2016	12 31 2015
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(61)
Reserves	15	918	1,005
Result of the year	16	224	73
Equity pertaining to the Group		**2,717**	**2,646**
Minority interests	17	554	613
Total equity		**3,271**	**3,259**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,436	3,089
Employee benefits	19	365	332
Provisions for risks, charges and liabilities for landfills	20	668	576
Other non-current liabilities	21	112	99
Total non-current liabilities		**4,581**	**4,096**
Current liabilities			
Trade payables	22	1,384	1,170
Other current liabilities	22	744	521
Current financial liabilities	23	359	692
Tax liabilities	24	33	43
Total current liabilities		**2,520**	**2,426**
Total liabilities		**7,101**	**6,522**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**25**	**7**	**20**
TOTAL EQUITY AND LIABILITIES		**10,379**	**9,801**

Detail of the Balance Sheet highlighting the first-time consolidation effect of 2016 acquisitions

Millions of euro	Note	Consolidated at 12 31 2015	Effect first consolidation LA BI.CO DUE S.r.l.
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	1	5,067	2
Intangible assets	2	1,348	2
Shareholdings carried according to equity method	3	68	-
Other non-current financial assets	3	69	-
Deferred tax assets	4	308	-
Other non-current assets	5	6	-
TOTAL NON-CURRENT ASSETS		**6,866**	**4**
CURRENT ASSETS			
Inventories	6	184	-
Trade receivables	7	1,485	3
Other current assets	8	183	1
Current financial assets	9	171	-
Current tax assets	10	71	-
Cash and cash equivalents	11	636	-
TOTAL CURRENT ASSETS		**2,730**	**4**
NON-CURRENT ASSETS HELD FOR SALE	12	**205**	**-**
TOTAL ASSETS		**9,801**	**8**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	18	3,089	-
Employee benefits	19	332	1
Provisions for risks, charges and liabilities for landfills	20	576	-
Other non-current liabilities	21	99	-
TOTAL NON-CURRENT LIABILITIES		**4,096**	**1**
CURRENT LIABILITIES			
Trade payables	22	1,170	3
Other current liabilities	22	521	-
Current financial liabilities	23	692	2
Tax liabilities	24	43	-
TOTAL CURRENT LIABILITIES		**2,426**	**5**
TOTAL LIABILITIES		**6,522**	**6**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	25	**20**	**-**
LIABILITIES		**6,542**	**6**

	Effect first consolidation LGH Group	Effect first consolidation RI.ECO-RESMAL Group	Effect first consolidation Consul System	Total effect first consolidation acquisitions 2016	Changes	Consolidated at 12 31 2016
	332	5	1	340	(327)	5,080
	304	24	9	339	37	1,724
	4	-	-	4	(5)	67
	28	-	-	28	(28)	69
	8	1	-	9	46	363
	4	-	-	4	2	12
	680	**30**	**10**	**724**	**(275)**	**7,315**
	19	1	-	20	(45)	159
	192	12	46	253	83	1,821
	24	1	1	27	178	388
	19	1	-	20	27	218
	5	-	-	5	(6)	70
	80	3	3	86	(320)	402
	339	**18**	**50**	**411**	**(83)**	**3,058**
	1	**-**	**-**	**1**	**(200)**	**6**
	1,020	**48**	**60**	**1,136**	**(558)**	**10,379**
	437	-	4	441	(94)	3,436
	20	1	-	22	11	365
	72	1	1	74	18	668
	18	-	-	18	(5)	112
	547	**2**	**5**	**555**	**(70)**	**4,581**
	115	11	34	163	51	1,384
	55	2	5	62	161	744
	57	4	-	63	(396)	359
	3	-	-	3	(13)	33
	230	**17**	**39**	**291**	**(197)**	**2,520**
	777	**19**	**44**	**846**	**(267)**	**7,101**
	2	**-**	**-**	**2**	**(15)**	**7**
	779	**19**	**44**	**848**	**(282)**	**7,108**

Consolidated income statement ([1-2])

Millions of euro	Note	01 01 2016 12 31 2016	01 01 2015 12 31 2015
Revenues			
Revenues from the sale of goods and services		4,813	4,732
Other operating income		280	189
Total revenues	27	**5,093**	**4,921**
Operating expenses			
Expenses for raw materials and services		2,968	2,992
Other operating expenses		253	252
Total operating expenses	28	**3,221**	**3,244**
Labour costs	29	**641**	**629**
Gross operating income - EBITDA	30	**1,231**	**1,048**
Depreciation, amortization, provisions and write-downs	31	**775**	**833**
Net operating income - EBIT	32	**456**	**215**
Result from non-recurring transactions	33	**56**	**(1)**
Financial balance			
Financial income		40	28
Financial expenses		194	162
Affiliates		(4)	(4)
Result from disposal of other shareholdings (AFS)		-	-
Total financial balance	34	**(158)**	**(138)**
Result before taxes		**354**	**76**
Income taxes	35	**117**	**133**
Result after taxes from operating activities		**237**	**(57)**
Net result from discontinued operations	36	**2**	**-**
Net result		**239**	**(57)**
Minorities	37	**(15)**	**130**
Group result of the year	38	**224**	**73**
Result per share (in euro):			
- basic		0.0724	0.0234
- basic from continuing operations		0.0716	0.0234
- basic from assets held for sale		0.0008	-
- diluted		0.0724	0.0234
- diluted from continuing operations		0.0716	0.0234
- diluted from assets held for sale		0.0008	-

(1) For details regarding the consolidation effects of acquisitions in 2016, reference is made to the specific statement below.
(2) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 40. Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 41 as required by Consob Communication DEM/6064293 of July 28, 2006.

Consolidated statement of comprehensive income

Millions of euro	12 31 2016	12 31 2015
Net result of the year (A)	**239**	**(57)**
Actuarial gains/(losses) on Employee's Benefits booked in the Net equity	(27)	17
Tax effect of other actuarial gains/(losses)	9	(3)
Total actuarial gains/(losses) net of the tax effect (B)	**(18)**	**14**
Effective part of gains/(losses) on cash flow hedge	31	35
Tax effect of other gains/(losses)	(8)	(9)
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**23**	**26**
Other gains/(losses) of companies valued at equity net of the tax effect (D)	**-**	**-**
Total comprehensive result (A) + (B) + (C) + (D)	**244**	**(17)**
Total comprehensive result attributable to:		
Shareholders of the parent company	**229**	**113**
Minority interests	**15**	**(130)**

With the exception of the actuarial effects on employee benefits recognized in equity, the other effects stated above will be reclassified to the Income Statement in subsequent years.

Detail consolidation effect new acquisitions 2016

Millions of euro	Note	Effect consolidation LA BI.CO DUE S.r.l.	Effect consolidation LGH Group
REVENUES			
Revenues from the sale of goods and services		6	193
Other operating income		-	5
TOTAL REVENUES	27	**6**	**198**
OPERATING EXPENSES			
Expenses for raw materials and services		3	130
Other operating expenses		1	12
TOTAL OPERATING EXPENSES	28	**4**	**142**
LABOUR COSTS	29	**2**	**23**
GROSS OPERATING INCOME - EBITDA	30	**-**	**33**
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	31	**-**	**42**
NET OPERATING INCOME - EBIT	32	**-**	**(9)**
RESULT FROM NON-RECURRING TRANSACTIONS	33	**-**	**-**
FINANCIAL BALANCE			
Financial income		-	1
Financial expenses		-	10
Affiliates		-	(1)
Result from disposal of other shareholdings (AFS)		-	-
TOTAL FINANCIAL BALANCE	34	**-**	**(10)**
RESULT BEFORE TAXES		**-**	**(19)**
INCOME TAXES	35	**-**	**(1)**
RESULT AFTER TAXES FROM OPERATING ACTIVITIES		**-**	**(18)**
NET RESULT FROM DISCONTINUED OPERATIONS	36	**-**	**2**
NET RESULT		**-**	**(16)**
MINORITIES	37	**-**	**9**
GROUP RESULT OF THE YEAR	38	**-**	**(7)**

	Effect consolidation RI.ECO-RESMAL Group	Effect consolidation Consul System	Total effect consolidation new acquisitions 2016	Old perimeter 12 31 2016	Consolidated at 12 31 2016	Consolidated at 12 31 2015
	18	13	230	4,583	4,813	4,732
	1	-	6	274	280	189
	19	**13**	**236**	**4,857**	**5,093**	**4,921**
	14	12	159	2,809	2,968	2,992
	1	-	14	239	253	252
	15	**12**	**173**	**3,048**	**3,221**	**3,244**
	3	**1**	**29**	**612**	**641**	**629**
	1	**-**	**34**	**1,197**	**1,231**	**1,048**
	1	**-**	**43**	**732**	**775**	**833**
	-	**-**	**(9)**	**465**	**456**	**215**
	-	**-**	**-**	**56**	**56**	**(1)**
	-	-	1	39	40	28
	-	-	10	184	194	162
	-	-	(1)	(3)	(4)	(4)
	-	-	-	-	-	-
	-	**-**	**(10)**	**(148)**	**(158)**	**(138)**
	-	**-**	**(19)**	**373**	**354**	**76**
	-	**-**	**(1)**	**118**	**117**	**133**
	-	**-**	**(18)**	**255**	**237**	**(57)**
	-	**-**	**2**	**-**	**2**	**-**
	-	**-**	**(16)**	**255**	**239**	**(57)**
	-	**-**	**9**	**(24)**	**(15)**	**130**
	-	**-**	**(7)**	**231**	**224**	**73**

Consolidated cash-flow statement

Millions of euro		12 31 2016		12 31 2015
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**636**		**544**
Edipower demerger in favour of Cellina Energy		(38)		-
Contribution of first consolidation of LGH and other acquisitions of 2016		86		-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**684**		**544**
Operating activities				
Net result (**)		181		(57)
Tangible assets depreciation		374		341
Intangible assets amortization		55		54
Fixed assets write-downs/disposals		267		364
Result from affiliates		4		4
Net taxes paid (a)	*(168)*		*(59)*	
Gross change in assets and liabilities (b)	*89*		*249*	
Total change of assets and liabilities (a+b) (*)		(79)		190
Cash flow from operating activities		**802**		**896**
Investment activities				
Investments in tangible assets		(259)		(253)
Investments in intangible assets and goodwill		(127)		(88)
Investments in shareholdings and securities (*)		(123)		(4)
Disposal of fixed assets and shareholdings		6		7
Dividends received		1		2
Cash flow from investment activities		**(502)**		**(336)**

(*) Cleared of balances in return of shareholders' equity and other balance sheet items.

(**) Net Result is exposed net of gains on shareholdings', fixed assets' disposals and from discontinued operations (equal to 52 millions of euro - included in the item "Result from non-recurring transactions" of Consolidated Income statement).

Millions of euro	12 31 2016	12 31 2015
FREE CASH FLOW	**300**	**560**
Financing activities		
Change in financial assets (*)	37	(88)
Change in financial liabilities (*)	(355)	(133)
Net financial interests paid	(133)	(129)
Dividends paid by the parent company	(126)	(113)
Dividends paid by the subsidiaries	(5)	(5)
Cash flow from financing activities	**(582)**	**(468)**
CHANGE IN CASH AND CASH EQUIVALENTS	**(282)**	**92**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**402**	**636**

Statement of changes in Group equity

Description *Millions of euro*	Share Capital	Treasury Shares	Cash Flow Hedge
Net equity at December 31, 2014	**1,629**	**(61)**	**(51)**
2014 result allocation			
Distribution of dividends			
IAS 19 Revised reserves (*)			
IAS 32 and 39 reserves (*)			26
Put option on Aspem S.p.A. shares			
Other changes			
Group and minorities result of the year (*)			
Net equity at December 31, 2015	**1,629**	**(61)**	**(25)**
2015 result allocation			
Distribution of dividends			
Operations on own shares		7	
IAS 19 Revised reserves (*)			
IAS 32 and 39 reserves (*)			23
Other changes			
Group and minorities result of the year (*)			
Net equity at December 31, 2016	**1,629**	**(54)**	**(2)**

(*) These form part of the statement of comprehensive income.

	Other Reserves and retained earnings	Result of the year	Total Equity pertaining to the Group	Minority interests	Total Net shareholders' equity
	1,099	**(37)**	**2,579**	**600**	**3,179**
	(37)	37	-		-
	(113)		(113)	(5)	(118)
	14		14		14
			26		26
			-	1	1
	67		67	147	214
		73	73	(130)	(57)
	1,030	**73**	**2,646**	**613**	**3,259**
	73	(73)	-		-
	(126)		(126)	(5)	(131)
			7		7
	(18)		(18)		(18)
			23		23
	(39)		(39)	(69)	(108)
		224	224	15	239
	920	**224**	**2,717**	**554**	**3,271**

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Consolidated financial statements pursuant to Consob Resolution no. 17221 of March 12, 2010

Consolidated balance sheet

pursuant to Consob Resolution no. 17221 of March 12, 2010

Assets

Millions of euro	12 31 2016	of which Related Parties (note 40)	12 31 2015	of which Related Parties (note 40)
NON-CURRENT ASSETS				
Tangible assets	5,080		5,067	
Intangible assets	1,724		1,348	
Shareholdings carried according to equity method	67	67	68	68
Other non-current financial assets	69	7	69	5
Deferred tax assets	363		308	
Other non-current assets	12		6	
TOTAL NON-CURRENT ASSETS	**7,315**		**6,866**	
CURRENT ASSETS				
Inventories	159		184	
Trade receivables	1,821	102	1,485	103
Other current assets	388	1	183	
Current financial assets	218	10	171	6
Current tax assets	70		71	
Cash and cash equivalents	402		636	
TOTAL CURRENT ASSETS	**3,058**		**2,730**	
NON-CURRENT ASSETS HELD FOR SALE	**6**		**205**	
TOTAL ASSETS	**10,379**		**9,801**	

Equity and liabilities

Millions of euro	12 31 2016	of which Related Parties (note 40)	12 31 2015	of which Related Parties (note 40)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(61)	
Reserves	918		1,005	
Result of the year	224		73	
Equity pertaining to the Group	**2,717**		**2,646**	
Minority interests	554		613	
Total equity	**3,271**		**3,259**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,436		3,089	
Employee benefits	365		332	
Provisions for risks, charges and liabilities for landfills	668	3	576	
Other non-current liabilities	112		99	
Total non-current liabilities	**4,581**		**4,096**	
Current liabilities				
Trade payables	1,384	30	1,170	28
Other current liabilities	744	8	521	8
Current financial liabilities	359	2	692	1
Tax liabilities	33		43	
Total current liabilities	**2,520**		**2,426**	
Total liabilities	**7,101**		**6,522**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**7**		**20**	
TOTAL EQUITY AND LIABILITIES	**10,379**		**9,801**	

Consolidated income statement

pursuant to Consob Resolution no. 17221 of March 12, 2010

Millions of euro	01 01 2016 12 31 2016	of which Related Parties (note 40)	01 01 2015 12 31 2015	of which Related Parties (note 40)
Revenues				
Revenues from the sale of goods and services	4,813	409	4,732	415
Other operating income	280		189	1
Total revenues	**5,093**		**4,921**	
Operating expenses				
Expenses for raw materials and services	2,968	9	2,992	7
Other operating expenses	253	34	252	56
Total operating expenses	**3,221**		**3,244**	
Labour costs	**641**	**3**	**629**	**2**
Gross operating income - EBITDA	**1,231**		**1,048**	
Depreciation, amortization, provisions and write-downs	**775**	**3**	**833**	
Net operating income - EBIT	**456**		**215**	
Result from non-recurring transactions	**56**		**(1)**	
Financial balance				
Financial income	40	6	28	3
Financial expenses	194		162	
Affiliates	(4)	(4)	(4)	(4)
Result from disposal of other shareholdings (AFS)	-		-	
Total financial balance	**(158)**		**(138)**	
Result before taxes	**354**		**76**	
Income taxes	**117**		**133**	
Result after taxes from operating activities	**237**		**(57)**	
Net result from discontinued operations	**2**		**-**	
Net result	**239**		**(57)**	
Minorities	**(15)**		**130**	
Group result of the year	**224**		**73**	

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Notes to the consolidated annual report

General information

A2A S.p.A. is a company incorporated under Italian law.

A2A S.p.A. and its subsidiaries (the “Group”) operate both in Italy and abroad. In particular, abroad, the A2A Group is present in Montenegro following the acquisition of the shareholding in the company EPCG which took place in 2009.

The A2A Group mainly operates in the following sectors:

- the production, sale and distribution of electricity;
- the sale and distribution of gas;
- the production, distribution and sale of heat through district heating networks;
- waste management (from collection and sweeping to disposal) and the construction and management of integrated waste disposal plants and systems, also making these available for other operators;
- integrated water cycle management;
- technical consultancy relatingto energy efficiency certificates.

Consolidated annual report

The consolidated annual financial report (hereafter referred to as the "**Annual report**") of the A2A Group at December 31, 2016, is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Annual report of the A2A Group at December 31, 2016 has been prepared:

- in compliance with Legislative Decree 58/1998 (art. 154-ter) as amended and with the Issuers' Regulations published by Consob;
- in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union. IFRS means all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In preparing the Annual report, the same principles used in the preparation of the consolidated annual financial report at December 31, 2015 were applied, other than the principles and interpretations described in detail in the paragraph below "Changes in accounting principles" adopted for the first time on January 1, 2016.

In this file, use has been made of some alternative indicators of performance (APM) that are different from the financial indicators expressly provided for by the IAS/IFRS international accounting standards adopted by the Group; for details of these indicators, please see the specific paragraph "Alternative Indicators of Performance (APM)" in the file of the "Report on Operations".

This Annual report at December 31, 2016 was approved on April 3, 2017 by the Board of Directors, which authorized publication, and has been audited by EY S.p.A. in accordance with their appointment by the Shareholders' Meeting of June 11, 2015 for the nine years from 2016 to 2024.

Financial statements

The Group has adopted a format for the balance sheet which presents current and non-current assets and current and non-current liabilities as separate classifications, as required by paragraphs 60 and following of IAS 1.

The income statement is presented by nature, a format which is considered more representative than a presentation by function. The selected format is in agreement with the presentation used by the Group's major competitors and in line with international practice.

The specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings (AFS)" are in the format of the income statement in order to provide clear and immediate identification of the results arising from non-recurring transactions forming part of continuing operations, separating these from the results from discontinued operations. The line item "Non-recurring transactions" consists of the gains and losses arising from the measurement at fair value less costs to sell or from the sale or disposal of non-current assets (or disposal groups) classified as held for sale within the meaning of IFRS 5, the gains or losses arising on the disposal of shareholdings in unconsolidated subsidiaries and associates and other non-operating income and expenses. This item is presented 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.

The cash flow statement has been prepared using the indirect method as permitted by IAS 7.

The statement of changes in equity has been prepared in accordance with IAS 1.

The formats adopted for the financial statements are the same as those used to prepare the annual consolidated financial statements at December 31, 2015.

Basis of preparation

The consolidated annual financial report at December 31, 2016 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value.

The consolidation principles, the accounting principles, the accounting policies and the methods of measurement used in the preparation of the Annual report are consistent with those used to prepare the annual consolidated financial report at December 31, 2015, except as specified below.

Changes in international accounting standards

Pursuant to IAS 8, the subsequent paragraph "Accounting standards, amendments and interpretations applicable by the company as of the current year" indicates and briefly illustrates the amendments in force as of January 1, 2016.

The following paragraphs, *"Accounting standards, amendments and interpretations approved by the European Union"* and *"Accounting standards approved by the European Union but applicable in future years"* instead detail the accounting standards and interpretations already issued, whether not yet approved or approved by the European Union and therefore not applicable for the preparation of the financial statements at December 31, 2016, any impacts of which will then be transposed as of the financial statements of the following years.

Accounting principles, amendments and interpretations applied by the company from the current year

As from January 1, 2016, some additions have been applied following specific paragraphs of the international accounting standards already adopted by the company in previous years, none of which had an effect, with respect to December 31, 2015, on the company's economic and financial results or reporting methods.

The main changes are described in the following:

- IFRS 11 "Joint Arrangements": issued by the IASB on May 6, 2014, the amendment to this standard provides guidance on how to account for the acquisition of an interest in a joint operation that is a business as defined by IFRS 3 "Business Combinations". The amendment in question is applicable from January 1, 2016. There were no impacts for the A2A Group because at December 31, 2016, this case was not present. Specifically, with the entry into force of the amendment to IFRS 11, the Group has carried out an analysis of its jointly controlled shareholdings or joint ventures, analyzing for each the type of joint arrangement and verifying the existence of requirements of the standard for the identification of joint operations;

- IAS 1 "Presentation of the Financial Statements": issued by the IASB on December 18, 2014 and applicable from January 1, 2016, the amendment to the standard in question explicitly clarifies that non-significant disclosures need not be provided even if expressly required by a specific IFRS. With respect to the notes to the financial statements, there is no specific order and therefore the company could also decide to present the notes for each item of the financial statements, commenting on the content and the changes during the period along with a description of the accounting standard applied to said item. The amendment to the standard in question also intends to provide clarification on the aggregation or disaggregation of items of the financial statements if the amount is significant or "material". In particular, the amended to the standard requires not proceeding with the aggregation of financial statement items with different characteristics or the disaggregation of financial statement items that make the disclosure and reading of the financial statements difficult. Furthermore, with regard to the exposure of the financial position of an entity, the amendment clarifies the need to disaggregate some items required by paragraphs 54 (Balance sheet) and 82 (Income statement) of IAS 1. There were no significant impacts for the A2A Group, since the reporting of the separate and consolidated financial statements at December 31, 2016 is compliant with the amendments introduced to this standard;
- IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": this amendment to the two principles outlined, issued by the IASB on May 12, 2014, clarifies that a depreciation process based on revenues cannot be applied with reference to elements of property, plant and equipment, since this method is based on factors (ex. volumes and selling prices) that do not represent the actual consumption of the economic benefits of the underlying asset. The above prohibition has also been included in IAS 38, under which intangible assets may be amortized on the basis of revenues only if it can be shown that the revenues and consumption of the economic benefits of the intangible asset are highly correlated. There were no impacts because the A2A Group has never applied said methodology;
- with the amendments to the international accounting standards IAS 41 "Agriculture" and IAS 16 "Property, plant and equipment", the IASB established that fruit-bearing plants, used exclusively for the cultivation of agricultural products over various years, should be subject to the same accounting treatment for property, plant and equipment in accordance with IAS 16 "Property, plant and equipment", as the "operation" is similar to that of manufacturing production. The amendments in question are applicable from January 1, 2016. There were no impacts because the A2A Group has never applied said methodology;
- IAS 27 Revised "Separate Financial Statements": the amendment to this standard, issued by the IASB on August 12, 2014 and applicable from January 1, 2016, allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. In continuity with previous years, the A2A Group has decided not to resort to said option;

- IFRS 10 "Consolidated Financial Statements": the amendment to this standard issued on December 18, 2014 relates to the exemption from the presentation of the consolidated financial statements if the parent company has investments in "investment entities" that evaluate their subsidiaries at fair value. The amendment to the standard is applicable with retroactive effect from January 1, 2016. There were no impacts for the A2A Group because at December 31, 2016, this case was not present;
- IAS 28 "Investments in Associates and Joint Ventures": on December 18, 2014, this standard was amended regarding the investments in associates and joint ventures that are "investment entities": these investments can be measured at fair value or with the equity method. This amendment is applicable from January 1, 2016. There were no impacts for the A2A Group because at December 31, 2016, this case was not present;
- annual amendments to IFRS 2012-2014: on September 25, 2014, the IASB published a series of amendments to certain international accounting standards, applicable with effect from January 1, 2016. The amendments concern:
  (i) IFRS 5 "Non-current assets held for sale and discontinued operations";
  (ii) IFRS 7 "Financial Instruments: Disclosures";
  (iii) IAS 19 "Employee Benefits";
  (iv) IAS 34 "Interim financial reporting".

  Regarding the first point, the amendment clarifies that the restatement of the financial statement figures shall not be resort to if an asset or group of assets available for sale is reclassified as "held for distribution", or vice versa. There were no impacts for the A2A Group because at December 31, 2016, this case was not present.

  With reference to IFRS 7, the amendment provides that if an entity transfers a financial asset on terms which allow the "derecognition" of the asset, it shall be required to provide information regarding the involvement of the entity in the transferred asset, if it has signed service contracts that show an entity's interest in the future performance of the financial assets transferred. There were no impacts for the A2A Group because at December 31, 2016, this case was not present.

  The amendment of IAS 19 proposed, clarifies that the discount rate to discount the obligations for benefits following the employment relationship, is determined with reference to market yields on corporate bonds of leading companies and, in countries where there is no "thick market" of such securities, the market yields of the securities of public entities are used. There were no impacts because the A2A Group already applies this accounting treatment.

  The proposed amendment to IAS 34 requires disclosure of cross-references between the data reported in the interim financial statements and the information associated with them. There were no impacts because the A2A Group, in the preparation of the interim financial statements, already applies as required by the amendment to the standard in question.

Accounting standards, amendments and interpretations not yet approved by the European Union

The following standards and amendments to existing standards are still pending approval by the European Union and are therefore not applicable by the company. The dates indicated reflect the expected effectiveness date and enacted in the standards; this date is however subject to the actual approval by the competent bodies of the European Union:

- on September 11, 2014, the IASB published an amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shareholdings in affiliates and joint ventures", in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;
- IFRS 14 "Regulatory deferral accounts": the new transitional standard, issued by the IASB January 30, 2014, allows the entity that adopts for the first time the international accounting standards IAS/IFRS, to continue to apply the previous GAAP accounting policies for the evaluation (including impairment) and elimination of regulatory deferral accounts. This standard is still pending approval and will be applicable retroactively from January 1, 2016;
- Amendment to IFRS 15 "Revenues from contracts with customers": the amendment, issued on April 12, 2016 and applicable from January 1, 2018, aims to clarify the guidelines for the identification of an obligation to sell an asset or provide one or more services, and also intends to provide clarification regarding the accounting of licenses related to intellectual property;
- IFRS 16 "Leasing": this standard, issued by the IASB on January 13, 2016, replaces IAS 17 and sets out the criteria for the recognition, measurement and presentation of leasing contracts. IFRS 16 is applicable from January 1, 2019, but early adoption is permitted for entities that also apply IFRS 15. Any impacts regarding the adoption of the standard on the Group's financial statements are being evaluated;

- IAS 7 "Additional information in the financial statements on financial instruments": the amendment to the standard, applicable from January 1, 2017, was issued by the IASB on January 29, 2016 and requires that an entity provide information that enables users of the financial statements to evaluate changes in liabilities arising from financial assets;
- IAS 12 "Income taxes": on January 19, 2016, the IASB published some amendments that aim to clarify the accounting method for deferred tax assets related to debt instruments measured at fair value. The amendments are applicable from January 1, 2017;
- IFRS 4 "Insurance contracts": the amendment issued by the IASB on September 12, 2016 disciplines the effects of the application of the standard in question together with those related to the adoption of IFRS 9 "Financial instruments" in the financial statements of insurance contracts issuers. This amendment is applicable from January 1, 2018;
- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 "First-time adoption of International Accounting Standards", IFRS 12 "Disclosure of shareholdings in other entities" and IAS 28 "Shareholdings in associates":
  (i) With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;
  (ii) The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
  (iii) The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as "Non-current assets held for sale" in accordance with IFRS 5;
- on December 8, 2016, the IASB issued an amendment to IAS 40 "Property Investments", which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;
- IFRIC 22 "Transactions and advances in foreign currency": this interpretation was issued by the IASB on December 8, 2016 and is intended to clarify the accounting for transactions that include the payment or collection of advance payments in currency other than the euro. In particular, this interpretation regulates the exchange rate to be adopted for transactions in foreign currency resulting in non- monetary assets and liabilities related to the collection or payment of advances, before the recognition of the related assets, costs or revenues. The interpretation in question is applicable from January 1, 2018.

Accounting standards approved by the European Union but applicable in future years

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2016.

- IFRS 9 "Financial instruments": this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available-for-sale financial assets" and "held-to-maturity investments" disappear. Classification within the two categories is carried out on the basis of an entity's business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity's business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.
  All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).
  An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.
  IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity's business model. In this case the effects of the reclassification are applied prospectively.
  The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:
  (i) the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;

(ii) enabling entities to change the accounting of liabilities measure at fair value: in particular the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;

(iii) the effective date of the standard is deferring, originally effective as of January 1, 2015.

A partial amendment to the standard was issued in July 2014 on the subject of the valuation of financial instruments, with the introduction of the expected-loss impairment model for loans which replaces the impairment model based on realized losses.

Said impairment model uses a "forward looking" information in order to obtain early recognition of losses on receivables with respect to the "incurred loss" model that defers the recognition of the loss until occurrence of the event with reference to financial assets measured at amortized cost, financial assets measured at fair value recorded in other items of the comprehensive income statement, receivables arising from lease contracts, as well as assets arising from contracts and certain loan commitments and financial guarantee contracts.

The amendment in question is applicable from January 1, 2018.

The impact of the adoption of this standard on the consolidated financial statements is currently being analyzed; however, the Group does not expect significant effects from the application thereof on recurring transactions;

- IFRS 15 "Revenues from contracts with customers": the standard, issued by the IASB on May 28, 2014 and approved by the European Union on October 29, 2016, is the result of efforts to achieve convergence between the IASB and the FASB ("Financial Accounting Standard Board", the body responsible for issuing new accounting standards in the United States) in order to achieve a single revenue recognition model applicable both in terms of IFRS and US GAAP. The new standard will apply to all contracts with customers, including contract work in progress, and will thus replace the current IAS 18 - Revenues and IAS 11 - Long-term contracts and all related interpretations. The essential element of IFRS 15 requires the recognition of revenue to be carried out for an amount that reflects the amount that the Group expects to be entitled to receive in respect of the transfer of goods and/or services. A contract with a customer falls within the scope of the standard if all the following conditions are met:

  (i) the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;

  (ii) each party's rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;

  (iii) the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);

(iv) it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.

Based on these considerations, and preliminary analysis conducted on the contracts in place, it is believed that the application of IFRS 15 will not have a material impact on the consolidated financial statements of the A2A Group. The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018; at the present state, the Group does not expect to exercise the option of early adoption granted by the standard. The standard includes mandatory retroactive application and the transition can take place in two possible ways: retroactively to each previous year presented in accordance with IAS 8 (full retrospective approach) or retroactively by accounting for the cumulative effect from the initial application date (modified retrospective approach). In case of choosing the second approach, IFRS 15 is only applied retroactively to contracts that are not concluded at the initial application date (January 1, 2018). The A2A Group is evaluating which of the two options of retroactive application to adopt.

For the purposes of implementation of IFRS 15, the company expects the completion of its analyses by the end of 2017, in time for the evaluation of the quantitative aspects of the adoption of the new standard, to be included in the annual financial statements at December 31, 2017.

Scope of consolidation

The consolidated Annual Financial Report at December 31, 2016 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. exercises either direct or indirect control, even if the holding is less than 50%. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

Following the purchase by Aprica S.p.A. on April 20, 2016, of the 64% of the investment in LA BI.CO DUE S.r.l., a company active in urban waste services in the Province of Brescia, the latter was fully consolidated at December 31, 2016. In accordance with the provisions of IFRS 3, at December 31, 2016, the Group completed the Purchase Price Allocation process, allocating to the portfolio of clients the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

On July 20, 2016 A2A Ambiente S.p.A. finalized the acquisition of 100% of RI.ECO-RESMAL, Group active in the collection, sorting and recovery of waste in the hinterland of Milan; the latter has been consolidated with the line-by-line method and the Annual Report at December 31, 2016 reflects the Purchase price allocation activities, following which the difference between the price paid and transferred, valued in accordance with IFRS 3, and the net fair value attributed to the assets acquired and liabilities undertaken of RI.ECO-RESMAL was allocated entirely to the portfolio of clients of the acquired perimeter on the date of first consolidation.

Following the purchase by A2A S.p.A., which was finalized on August 5, 2016, of 51% of the investment in the Lombardy multi-utility LGH, at December 31, 2016, the latter was fully consolidated. Based on the provisions of IFRS 3, in the Annual Report at December 31, 2016, the transaction was accounted for by fully allocating the difference between the price paid and fraction of Equity of LGH on the date of first consolidation to the item Goodwill pending the completion of Purchase Price Allocation.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company), with the aim of creating operational synergies and developing new products and services; as a result of this transaction, the Group obtained control of the company and therefore at December 31, the latter has been fully consolidated.

At December 31, 2016, the Purchase price allocation activity was not completed as required by IFRS 3 and in the Annual Report, the difference between the price paid and fraction of Equity of Consul System S.p.A. was entirely attributed to Goodwill.

For further details on the activities of the Purchase Price Allocation required by IFRS 3, reference is made to the paragraph “Other information” of this report.

Lastly, the shareholding held by A2A Ambiente S.p.A. in Bellisolina S.r.l., previously fully consolidated, was reclassified to the item “Non-current assets held for sale”, in anticipation of its sale, which was finalized in late January 2017.

Consolidation policies and procedures

Consolidation policies

Subsidiaries

Subsidiaries are those companies over which the parent company, A2A S.p.A., exercises control and has the power, as defined by IFRS 10, to determine financial and operating policy, either directly or indirectly, in order to obtain returns from their activities. Subsidiaries are consolidated from the date on which the Group effectively acquires control and cease to be consolidated on a line-by-line basis from the date on which control is transferred to a company outside the Group.

Associates, joint ventures and joint operations

Shareholdings in associates, namely those in which the A2A Group has a considerable interest and is able to exercise significant influence are accounted for using the equity method. Gains and losses attributable to the Group are recognized in the financial statements from the date on which significant influence or joint control commences.

In the event that the loss attributable to the Group exceeds the carrying amount of an investment, the carrying amount is reduced to zero and any excess loss is provided for to the extent that the Group has legal or constructive obligations to make good the associate's losses or in any case to make payments on its behalf.

With the adoption of IFRS 11, the Group must now classify investments in joint arrangements as either joint ventures (if the Group has rights to the net assets of the arrangement) or joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement).

The Group's investments in joint ventures as defined by IFRS 11 are accounted for using the equity method, whereas for joint operations the standard requires that the Group recognize its portion of the assets, liabilities, revenues and expenses, rather than account for the investments using the equity method.

The A2A Group is not a party to any joint operations and accordingly the adoption of the new standard had no effect on the Interim Report on Operations at September 30, 2016.

Potential voting rights

If the A2A Group holds call options on shares or other equity instruments that represent capital (warrants) that are convertible into ordinary shares or similar instruments having the potential, if exercised or converted, to give the Group voting rights or reduce the voting rights of third parties ("potential voting rights"), such potential voting rights are taken into consideration when assessing whether or not the Group has the power to govern or influence another company's financial and operating policies.

Treatment of put options on the shares of subsidiaries

In general, paragraph 23 of IAS 32 states that a contract that contains an obligation for an entity to purchase shares for cash or another financial asset gives rise to a financial liability for the present value of the exercise price of the option.

As a result, therefore, if the Group does not have the unconditional right to avoid the delivery of cash or other financial instruments when a put option on the shares of subsidiaries is exercised, it must recognize a liability.

In the absence of specific instructions in the related accounting standards, the A2A Group: (i) considers the shares involving put options to have already been purchased, including in cases in which the risks and rewards connected with ownership of the shares remain with the minority shareholders and they remain exposed to equity risk; (ii) records a corresponding entry among equity reserves for the liability resulting from the obligation and any subsequent changes that are not related to the mere unwinding of the present value of the strike price; (iii) and recognises such changes through the income statement.

Effect on the consolidation procedures of certain agreements involving the shares or quotas of Group companies

a) Earn-out and earn-in clauses on the purchase price of the shares of LGH S.p.A.

The acquisition of 51% of the share capital of LGH S.p.A. by A2A S.p.A. was finalized on August 5, 2016 for a total value of 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

The transaction value includes 9.6 million euro, paid by A2A S.p.A. to the minority shareholders of LGH S.p.A., linked to specific earn-in clauses established during transaction closing.

Based on the contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, will pay up to a maximum of 13.9 million euro included in the acquisition value of LGH S.p.A. of 112.8 million euro, regulated by specific and well-identified earn-out clauses.

In accordance with the provisions of paragraphs 65B, 65C and 65D of IFRS 3, the Group recorded the cost adjustments for 13.9 million euro under long-term payables, with the investment value as balancing entry, with respect to the disbursement it will pay to the minority shareholders of LGH S.p.A. upon the fulfilment of the conditions established in the contract, since said adjustments are considered probable and reliably determined at the acquisition date.

b) Put options relating to the portions held by the minority shareholder of LA BI.CO DUE S.r.l.

In the first half-year of 2016, Aprica S.p.A. acquired 64% of the shares of LA BI.CO DUE S.r.l..

As a result of the shareholders' agreement signed between Aprica S.p.A. and Ecoimmobiliare S.r.l., the latter shall have the right, but not the obligation, to sell (put option) to Aprica S.p.A. its shareholding in LA BI.CO DUE S.r.l., equal to 36%.

Ecoimmobiliare S.r.l. may exercise this option as of April 1, 2021 and by, and no later than June 30, 2021; following the option period, if Ecoimmobiliare S.r.l. shall not exercise the put option, Aprica S.p.A. will have the right to acquire the investment of Ecoimmobiliare S.r.l. in LA BI.CO DUE S.r.l..

In line with paragraph 23 of IAS 32, the Group has booked to liabilities with counter-entry to Equity the present value of the estimated outlay. At 0.3 million euro, which cannot be deducted in the event of exercise of the above option.

It is specified that this option has been valued based on the contractual conditions envisaged.

c) Adjustment of the purchase price of the portions of LA BI.CO DUE S.r.l.

The amount paid by Aprica S.p.A. for the acquisition of 64% of the portions of LA BI.CO DUE S.r.l. shall be subject to an adjustment clause, based both on the net debt and on the profitability of LA BI.CO DUE S.r.l..

With reference to the net debt of LA BI.CO DUE S.r.l., it is noted in October 2016, Aprica S.p.A. paid to the minority shareholder 0.3 million euro as price adjustment.

d) Earn-out on the purchase of the portions of LA BI.CO DUE S.r.l.

The contract for acquisition of 64% of the share capital of LA BI.CO DUE S.r.l. by Aprica S.p.A. envisages, among other things, an earn-out that Aprica S.p.A. will be required to pay in case of achievement of predetermined levels of profitability and the award and extension of some agreements in the municipalities of the Province of Brescia.

At December 31, 2016, since at the acquisition date these adjustments are considered probable and reliably determined, the Group has recognized a liability to the minority shareholder of LA BI.CO DUE S.r.l. for a total of 0.2 million euro, related the extension of the contract for the collection service at the Municipality of Coccaglio.

It is noted that Aprica S.p.A. proceeded with settlement of the liability in question in January 2017.

e) Adjustment of the purchase price of the RI.ECO-RESMAL Group

The price paid by A2A Ambiente S.p.A. for the acquisition of the entire RI.ECO-RESMAL perimeter is subject to an adjustment clause, based on both the net debt and on the amount of investments, exceedance of the threshold of which was provided in the contract, made by the company subject of acquisition as an increase in productivity between 2015 and the transaction closing date.

The Group, in view of the fact that these adjustments on the purchase price are considered probable and reliably determined and in accordance with paragraphs 65B, 65C and 65D of IFRS 3, at December 31, 2016, recognized a liability for a total of 1.8 million euro.

It is noted that the liability in question was fully paid in February 2017.

f) Earn-in of the purchase price of the RI.ECO-RESMAL Group

The contractual agreements that regulate the acquisition of the RI.ECO-RESMAL Group envisage, among other things, an earn-in clause in favour of A2A Ambiente S.p.A., linked both to an eventual non-renewal of the concession of the Cernusco plant for reasons not attributable to A2A Ambiente S.p.A., and to any disbursements and expenses incurred by RESMAL S.r.l. to obtain renewal of the concession. This clause will have an eventual effect from the third year and no later than the fifth year after the closing of the transaction.

In accordance with paragraphs 65B, 65C and 65D of IFRS 3, the Group considered the amount paid by way of earn-in as the investment value since said adjustments are not considered probable and reliably determined at the acquisition date.

g) Put options on the shares of Consul System S.p.A.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company). The transaction was finalized by ESCo certified by the A2A Group, A2A Calore & Servizi S.r.l., for a total value of 15.1 million euro. A part of this amount, equal to 11.8 million euro, was settled through cash at closing. Subsequently, an integration was made on the purchase price of 3.3 million euro, as a price adjustment based on both the net debt of Consul System S.p.A. and on other well-identified contractual clauses. The integration in question was recognized as an increase in the value of the shareholding.

It was also established that, by the deadline for approval of the financial statements of Consul System at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the outlay estimated in 1.9 million euro, which it will not be able to avoid if the option is exercised, with a counter-entry to equity attributable to the minority shareholder.

It is specified that this option has been valued based on the contractual conditions envisaged.

Consolidation policies

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the A2A Group are prepared at the end of each reporting period using the same accounting policies as the parent. Any items recognized by using different accounting principles are adjusted during the consolidation process to bring them into line with Group accounting policies. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Report the assets, liabilities, income and expenses of the companies being consolidated are included in their entirety on a line-by-line basis, with the portion of equity and net income for the period attributable to minority interests being stated separately in the balance sheet and income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of its net equity, including any adjustments to fair value at the acquisition date; any differences arising are accounted for in accordance with IFRS 3.

Transactions with minority interests which do not lead to the loss of control in consolidated companies are accounted for using the economic entity view approach.

Adoption of international accounting standard IFRS 12 “Disclosure of Interests in Other Entities”

With effect from January 1, 2014, the A2A Group has among other things adopted international accounting standard IFRS 12 “Disclosure of Interests in Other Entities”, issued by the IASB in 2011 and adopted by the European Commission on December 11, 2012.

On the basis of the requirements of paragraphs 7 and following of the standard the Group discloses information below about the significant judgements and assumptions it has made in determining:

(i) that the parent company has control of another entity within the meaning of IFRS 10;
(ii) the type of joint arrangement (joint operation or joint venture) when the arrangement has been structured through a separate vehicle, in compliance with IFRS 11;
(iii) that the parent company has significant influence over another entity (shareholdings in associates).

Shareholding in EPCG (IFRS 10)

The A2A Group has established that the requirements of IFRS 10 exist for the consolidation of the shareholding in the Montenegro company EPCG whose business is the production, distribution and sale of electricity.

More specifically, the Group consolidates EPCG, in whose share capital it has an interest of 41.75%, on a line-by-line basis.

Although the company does not hold the majority of the votes that may be exercised at a shareholders' meeting, it is considered to be a subsidiary because the parent company A2A S.p.A., with the appointment of the key managerial figures and the definition of some reserved matters on important topics for the corporate life of EPCG, has de facto control, applying in practice the provisions of the purchase agreement, namely it is able to manage the company from an effective standpoint.

In July, 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, 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 adoption of IFRS 10 has had no effect on the way in which the shareholding in EPCG is consolidated, since A2A S.p.A. has control as "it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee".

Shareholdings in joint ventures (IFRS 11): Ergosud S.p.A. and PremiumGas S.p.A.

IFRS 11 identifies two types of arrangement, joint operations and joint ventures, on the basis of the rights and obligations of the parties, and governs the resulting accounting treatment to be adopted for the recognition of these arrangements in the financial statements.

The most significant effect of the new standard is the fact that a number of entities jointly controlled by A2A, which up until now have been recognized using the equity method, could fall under the definition of joint operations on the basis of the requirements of IFRS 11. The accounting treatment for this type of joint arrangement requires the assets/liabilities and revenue/expenses connected with the arrangement to be recognized on the basis of the rights/obligations due to/assumed by A2A, regardless of the interest held.

In the particular case of its shareholdings in two joint arrangements operating in the Generation and Trading Business Unit, Ergosud S.p.A. and PremiumGas S.p.A., the A2A Group considers that these fall under the category joint ventures as far as their legal form and the nature of the contractual agreements are concerned.

More specifically, for the shareholding in PremiumGas S.p.A. the Group holds rights exclusively connected with the company's results; the company's activities are not directed solely towards the sale of gas to Group companies, thereby ensuring its continuity independent of its commercial relationships with the Group.

For the shareholding in Ergosud S.p.A., despite the existence of a tolling agreement the investee could dispatch energy autonomously, thereby ensuring business continuity also at the end of the agreement. In addition, the A2A Group does not appoint any of the company's key management.

On the basis of the above considerations, the A2A Group has accounted for the shareholdings using the equity method, continuing the treatment used in previous years.

Procedure for the consolidation of assets and liabilities held for sale (IFRS 5)

In the case of particularly large amounts and in connection with non-current assets and liabilities held for sale, and only in this case, in accordance with IFRS 5 the relative intra-group financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

Latest available summarized figures for joint ventures (consolidated at equity)

Key figures at December 31, 2016 *Millions of euro* **INCOME STATEMENT**	**Bergamo Pulita 50%**	**Metamer 50%**	**Ergosud 50% (figures at 12 31 2015) (*)**
Revenues	0.3	12.8	29.0
Gross operating income	**(0.1)**	**1.2**	**16.5**
% of net revenues	*(200.0%)*	*9.0%*	*57.0%*
Depreciation, amortization and write-downs	0.3	(0.2)	(51.0)
Net operating income	**0.1**	**1.0**	**(34.5)**
Result for the year	**(1.1)**	**0.7**	**(25.5)**
BALANCE SHEET			
Total assets	**2.8**	**6.5**	**188.9**
Net equity	**1.6**	**2.0**	**62.7**
Net (debt)	**(0.5)**	**(2.5)**	**(95.8)**

(*) Figures of the last financial statements available.

Key figures at December 31, 2015 *Millions of euro* **INCOME STATEMENT**	**Bergamo Pulita 50%**	**PremiumGas 50%**	**Metamer 50%**	**Ergosud 50% (figures at 12 31 2014) (*)**
Revenues	0.8	5.8	12.1	32.0
Gross operating income	**(0.2)**	**(0.5)**	**0.7**	**19.4**
% of net revenues	*(20.0%)*	*(7.8%)*	*5.8%*	*60.7%*
Depreciation, amortization and write-downs	-	-	(0.2)	(10.4)
Net operating income	**(0.2)**	**(0.5)**	**0.5**	**9.0**
Result for the year	**(0.2)**	**(0.4)**	**0.4**	**3.0**
BALANCE SHEET				
Total assets	**3.7**	**10.4**	**5.6**	**223**
Net equity	**(0.2)**	**2.9**	**1.6**	**88.0**
Net (debt)	**0.2**	**0.1**	**2.2**	**(107.0)**

(*) Figures of the last financial statements available.

Accounting standards and policies

Translation of foreign currency items

The consolidated financial statements of the A2A Group are presented in euro; this is also the functional currency of the economies in which the Group operates.

Transactions in other currencies are initially recognized at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rates at the balance sheet date.

Non-monetary items measured at historical cost in foreign currency are translated at the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rates at the date when the fair value was determined.

Tangible assets

Assets for business use are classified as tangible assets, while non-business assets are classified as investment property.

Tangible assets are measured at cost, including any additional charges directly attributable to bringing the asset into an operating condition (e.g. transport, customs duty, installation and testing costs, notary and land registry fees and any non-deductible VAT), increased when material and where there are obligations by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the asset. Borrowing costs, where directly attributable to the purchase or construction of an asset, are capitalized as part of the cost of the asset if the type of asset so warrants.

If important components of tangible assets have different useful lives, they are accounted for separately using the “component approach”, assigning to each component its own useful life for the purpose of calculating depreciation (the component approach).

Land, whether occupied by residential or industrial buildings or devoid of construction, is not depreciated as it has an unlimited useful life, except for land used in production activities that is subject to deterioration over time (e.g. landfills, quarries).

Ordinary maintenance costs are fully expensed to the income statement in the year they are incurred. Costs for maintenance carried out at regular intervals are attributed to the assets to which they refer and are depreciated over the specific residual possibility of use of such.

Assets acquired under finance leases are accounted for on the basis of IAS 17 "Leases", which requires the leased asset to be recognized as a tangible asset together with a financial liability of the same amount. The liability is progressively reduced on the basis of the scheme for the repayment of the capital portion of the contractual lease instalments, while the carrying amount of the asset is systematically depreciated over its economic and technical life or over the shorter of the lease term and the asset's useful life, but only if there is reasonable certainty that the lessee will obtain ownership by the end of the lease term. During the reporting year, the useful lives of the CCGT plants were reviewed, as described in note "1) Tangible assets".

For assets acquired in leasing by Group companies, the guidance contained in IFRIC 4 "Determining whether an Arrangement contains a Lease" is applied. This interpretation provides guidance for arrangements which do not take the legal form of a finance lease but in substance transfer the risks and rewards of ownership of the assets included in the arrangement.

Applying the interpretation leads to the same accounting treatment as that required by IAS 17 "Leasing".

Tangible assets are stated net of accumulated depreciation and any write-downs. Depreciation is charged from the year in which the individual asset enters service on a straight-line basis over the estimated useful life of the asset for the business. The estimated realizable value which is deemed to be recoverable at the end of an asset's useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.

Landfills are depreciated on the basis of the percentage filled, which is calculated as the ratio between the volume occupied at the end of the period and the total volume authorized.

The main depreciation rates used, which are based on technical and economic considerations, are as follows:

• buildings	1.7 %	- 100.0 %
• production plants	1.0 %	- 50.0 %
• transport lines	1.4 %	- 100.0 %
• transformation stations	2.5 %	- 6.7 %
• distribution networks	1.4 %	- 10.0 %
• miscellaneous equipment	4.8 %	- 20.0 %
• mobile phones		100.0 %
• furniture and fittings	10.0 %	- 25.0 %
• electric and electronic office machines	10.0 %	- 12.5 %
• vehicles	10.0 %	- 25.0 %
• leasehold improvements	5 %	- 17.4 %

Tangible assets are subjected to impairment testing if there is any indication that an asset may be impaired in accordance with the paragraph below "Impairment of assets"; write-downs may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

When an asset is disposed of or if future economic benefits are no longer expected from using an asset, it is removed from the balance sheet and any gain or loss (being the difference between the disposal proceeds and the carrying amount) is recognized in the income statement in the year of the derecognition.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are controlled by the enterprise and able to produce future economic benefits, and include goodwill when acquired for consideration.

The fact of being identifiable distinguishes an intangible asset that has been acquired from goodwill; this requirement is normally met when: *(i)* the intangible asset is attributable to a legal or contractual right, or *(ii)* the asset is separable, in other words it can be sold, transferred, rented or exchanged individually or as an integral part of other assets.

Control by the enterprise consists of the right to enjoy the future economic benefits flowing from the asset and to restrict the access of others to those benefits.

Intangible assets are stated at purchase or production cost, including ancillary charges, determined in the same way as for tangible assets. Intangible fixed assets produced internally are not capitalized but recognized in the income statement in the year in which the costs are incurred.

Intangible assets with a definite useful life are reported in the financial statements net of the related accumulated amortization and impairments in the same way as for tangible assets. Changes in the expected useful life or in the ways in which the future economic benefits of an intangible asset are achieved by the company are accounted for by suitably adjusting the period or method of amortization, treating them as changes in accounting estimates. The amortization of intangible fixed assets with a definite useful life is charged to income statement in the cost category that reflects the function of the intangible asset concerned.

Intangible assets are subjected to impairment testing if there are specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets"; impairment losses may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

Intangible assets with an indefinite useful life and those that are not yet available for use are subjected to impairment testing on an annual basis, whether or not there are any specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets". Impairment losses recognized for goodwill are not reversed.

Gains or losses on the disposal of an intangible asset are calculated as the difference between the disposal proceeds and the carrying amount of the asset and recognized in the income statement at the time of the disposal.

The following amortization rates are applied to intangible assets with a definite useful life:

- industrial patents and intellectual property rights ____________________ 12.5 % - 33.3 %
- concessions, licenses, trademarks and similar rights____________________ 6.7 % - 33.3 %

Service concession arrangements

IFRIC 12 states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognized as intangible assets if the operator has the right to receive a payment from the customer for the service provided, or as a financial asset if the operator has the right to receive payment from the public sector entity.

Impairment of tangible and intangible fixed assets

Tangible and intangible assets are subjected to impairment testing if there is any specific indication that there may be an impairment loss.

Goodwill, other intangible assets with an indefinite useful life and assets not available for use are tested for impairment at least annually or more frequently if there is any specific indication that they may be impaired.

Impairment testing consists of comparing the carrying amount of an asset with its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine an asset's value in use, the entity calculates the present value of the estimated future cash flows on the basis of business plans prepared by management, before tax, applying a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is lower than its carrying amount, a loss is recognized in the income statement. If a loss recognized for an asset other than goodwill no longer exists or is reduced, the carrying amount of the asset or cash-generating unit is increased to the new estimate of recoverable value, which may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. Reversals of impairment losses are immediately recognized in the income statement.

When the recoverable amount of the individual asset cannot be estimated, it is based on the cash generating unit (CGU) or group of CGUs that the asset belongs to and/or to which it may be reasonably allocated.

CGUs are identified on the basis of the company's organizational and business structure as homogeneous aggregations that generate independent cash inflows deriving from the continuous use of the assets allocated to them.

Emission quotas, Green Certificates and White Certificates

Different accounting policies are applied to quotas or certificates held for own use in the "Industrial Portfolio" and those held for trading purposes in the "Trading Portfolio".

Surplus quotas or certificates held for own use in the "Industrial Portfolio" which are in excess of the Group's requirements in relation to the obligations accruing at year end are recognized as other intangible assets at the actual cost incurred. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Given that they are assets for instant use, they are not amortized but subjected to impairment testing. The recoverable amount is the higher of value in use and market value. If, on the other hand, there is a deficit because the requirement exceeds the quotas or certificates in portfolio at the balance sheet date, a provision is recognized for the amount needed to meet the residual obligation, estimated on the basis of any purchase contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Quotas or certificates held for trading in the "Trading Portfolio" are recognized in inventories and measured at the lower of purchase cost and estimated realizable value based on market trends. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Market value is established on the basis of any sales contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Shareholdings in subsidiaries, associates and joint ventures

Subsidiaries are companies in which the parent company "is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee", as defined by IFRS 10. Control is generally assumed to exist when a company holds either directly or indirectly more than half of the exercisable voting rights at an ordinary shareholders' meeting, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments.

Subsidiaries are consolidated on a line-by-line basis.

Associates are companies in which the parent has a significant influence over strategic decisions, despite not having control, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments; significant influence is assumed to exist when A2A S.p.A. holds, either directly or indirectly, more than 20% of voting rights exercisable at an ordinary shareholders' meeting.

A joint venture is a contractual agreement whereby two or more parties undertake an income generating activity subject to joint control.

Shareholdings in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

Long term construction contracts in progress

Construction contracts currently in progress are measured on the basis of the contractual fees that have accrued with reasonable certainty on the basis of the stage of completion, using the “cost to cost” method, so as to allocate the revenues and net result of the contract to the individual periods to which they belong in proportion to the progress being made on the project. Any difference, positive or negative, between the value of the contracts and advances received is recognized as an asset or a liability respectively.

In addition to the contractual fees, contract revenues include variants, price revisions and incentive awards to the extent that it is probable that they represent actual revenues that can be reliably determined. Ascertained losses are recognized independently of the stage of completion of contracts.

Inventories

Inventories of materials and fuel are measured at the lower of weighted average cost and market value at the balance sheet date. Weighted average cost is determined for the period of reference for each inventory code. Weighted average cost includes any additional costs (such as sea freight, customers charges, insurance and lay or demurrage days in the purchase of fuel). Inventories are constantly monitored and, where necessary, obsolete stocks are written down with a charge to the income statement.

Financial instruments

They include shareholdings (other than shareholdings in subsidiaries, joint ventures and associates) held for trading (so-called (trading shareholdings) or available for sale, non-current receivables and loans, trade and other receivables deriving from company operations and other current financial assets such as cash and cash equivalents. The latter consist of bank and postal deposits, readily negotiable securities used as temporary investments of surplus cash and financial receivables due within three months. Financial instruments also include financial payables (bank loans and bonds), trade payables, other payables and other financial liabilities and derivatives.

Financial assets and liabilities are recognized at the time that the contractual rights and obligations forming part of the instrument arise.

Financial assets and liabilities are accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Financial assets are initially recognized at fair value, increased by ancillary charges (purchase/issue costs) in the case of assets and liabilities not measured at fair value through the income statement.

Measurement subsequent to initial recognition depends on which of the following categories the financial instrument falls into:

- non-derivative financial assets and liabilities measured at fair value through the income statement regarding:
  - financial assets and liabilities held for trading (HFT), meaning with the intention of reselling or repurchasing them in the short term;
  - financial liabilities which, on initial recognition, have been designated as measured at fair value through the income statement;
- other non-derivative financial assets and liabilities which consist of:
  - loans and receivables (L&R);
  - investments held to maturity (HTM);
  - financial liabilities measured at amortized cost;
- available-for-sale financial assets (AFS);
- derivatives.

The following is a detailed explanation of the accounting policies applied in measuring each of the above categories after initial recognition:

- non-derivative financial assets and liabilities at fair value through the income statement are measured at fair value;
- other non-derivative financial assets and liabilities, other than investments with fixed or determinable payments, are measured at amortized cost. Any transaction costs incurred during the acquisition or sale are treated as direct adjustments to the nominal value of the asset or liability (e.g. issue premium or discount, loan acquisition costs, etc.). Interest income and expense is then remeasured on the basis of the effective interest method. Financial assets are assessed regularly to see if there is any indication that they are impaired. In the assessment of receivables in particular, account is taken of the solvency of debtors, as well as the characteristics of credit risk which is indicative of the ability of the individual debtors to pay. Any write-downs are recognized in the income statement for the period. This category includes investments held with the intent and ability to hold them to maturity, non-current loans and receivables, trade receivables and other receivables originated by the operations of the business, financial payables, trade payables, other payables and other financial liabilities;

- available-for-sale financial assets are non-derivative financial assets that are not classified as financial assets at fair value through the income statement or other financial assets, which therefore makes them a residual item. They are measured at fair value and any gains or losses generated are recognized directly in equity until the assets are written- down or realized, at which stage they are reclassified to the income statement. Losses recognized in equity are in any case reversed and recognized in the income statement, even if the financial asset has not been eliminated, if there is objective evidence that the asset is impaired. Unlisted investments with a fair value that cannot be reliably measured are measured at cost less any write-downs. Write-downs are reversed when the reasons originating the loss no longer exist, with the exception of write-downs on equity instruments. This category essentially includes the other investments (i.e. not subsidiaries, jointly controlled entities or associates), except for those held for trading (trading investments);
- derivative instruments, including embedded derivatives separate from the main agreement are measured at current value (fair value) and any changes are recognized in the income statement if they do not qualify as hedging instruments. Derivatives qualify as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high, this being checked periodically. When derivatives hedge the risk of fluctuation in the fair value of hedged items (fair value hedges), they are measured at fair value through the income statement; consistent with this, the hedged items are adjusted to reflect variations in the fair value associated with the hedged risk. When derivatives hedge the risk of changes in the cash flows of the instruments being hedged (cash flow hedges), the effective portion of changes in the fair value of the derivatives is recognized directly in equity, while the ineffective portion is recognized in the income statement. The amounts recognized directly in equity are then reflected in the income statement in line with the economic effects produced by the hedged item.

Changes in the fair value of derivatives that do not meet the conditions to qualify as hedging instruments are recognized in the income statement. In particular, changes in the fair value of derivatives which hedge interest rate risk or currency risk but do not qualify for hedge accounting are recognized in “Financial income/expense” in the income statement; on the other hand changes in the fair value of derivatives which hedge commodity risk but do not qualify for hedge accounting are recognized in “Other operating income” in the income statement.

A financial asset (or where applicable, part of a financial asset or parts of a group of similar financial assets) is derecognized when:

- contractual rights to the cash flows from the financial asset expire; in particular, the time frame for derecognition relates to the “value date”;
- the company has retained the right to receive the future cash flows of the assets but has assumed a contractual obligation to pass them on to a third party without material delay;

- the company has transferred the right to receive the cash flows from the asset and (i) has transferred substantially all of the risks and rewards of ownership of the financial asset, or (ii) it has neither transferred nor retained substantially all of the risks and rewards of the asset but has transferred control of the asset.

In the cases in which the company has transferred the rights to receive financial flows from an asset and has neither transferred nor retained substantially all of the risks and rewards or has not lost control of the asset, it continues to recognize the asset to the extent of its continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset the extent of the continuing involvement is the lower of the initial carrying amount of the asset and the maximum amount that the company could be required to repay. Trade receivables considered definitively unrecoverable after all necessary recovery procedures have been completed are also removed from the balance sheet.

A financial liability is removed from the balance sheet when the underlying obligation is either discharged or cancelled or when it expires.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this exchange or modification is accounted for as a cancellation of the original financial liability and the recognition of a new financial liability. The difference in carrying amounts is recognized in the income statement.

The fair value of financial instruments that are listed in an active market is based on market prices at the balance sheet date. The fair value of instruments that are not listed on an active market is determined by using valuation techniques. In particular, in the absence of a forward market curve the measurement at fair value of financial derivatives for electricity has been estimated internally, using models based on industry best practice.

Non-current assets held for sale, disposal groups and discontinued operations – IFRS 5

Non-current assets held for sale, disposal groups and discontinued operations whose carrying amount will be recovered principally through sale rather than continuous use are measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is a group of assets to be disposed of together as a group in a single transaction together with the liabilities directly associated with those assets that will be transferred in that transaction. Discontinued operations on the other hand consist of a significant component of the Group such as a separate major line of business or a geographical area of operations or a subsidiary acquired exclusively with a view to resale.

In accordance with IFRSs, the figures for non-current assets held for sale, disposal groups and discontinued operations are shown on two specific lines in the balance sheet: non-current assets held for sale and liabilities directly associated with non-current assets held for sale.

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of carrying amount and fair value less costs to sell; any difference between carrying amount and fair value less costs to sell is recognized in the income statement as a write-down.

The net economic results arising from discontinued operations, and only discontinued operations, pending the disposal process, any gains or losses on disposal and the corresponding comparative figures for the previous year or period are recognized in a specific line of the income statement: "Net result from discontinued operations". On the other hand any gains or losses recognized as the result of measuring non-current assets (or disposal groups), classified as held for sale within the meaning of IFRS 5, at fair value less costs to sell are presented in a specific line item of the income statement "Result from non-recurring transactions", as discussed further in the previous section "Format of financial statements".

Employee benefits

The employees' leaving entitlement (TFR) and pension provisions are determined using actuarial methods; the rights accrued by employees during the year are recognized in the income statement as "labour costs", whereas the figurative financial cost that the company would have to bear if it were to ask the market for a loan of the same amount as the TFR is recognized as part of the "financial balance". Actuarial gains and losses arising from changes in actuarial assumptions are recognized in income statement taking into account the residual average working life of the employees.

Following the introduction of Finance Law no. 296 of December 27, 2006, only the portion of accrued employees' leaving entitlement that remained in the company has been measured in accordance with IAS 19, as amounts are now paid over to a separate entity as they accrue (either to a supplementary pension scheme or to funds held by INPS). As a result of these payments the company no longer has any obligations in connection with the services employees may render in the future.

Guaranteed employee benefits paid on or after the termination of employment through defined benefit plans (energy discount, health care or other benefits) or long-term benefits (loyalty bonuses) are recognized in the period when the right vests.

The liability for defined benefit plans, net of any plan assets, is determined by independent actuaries on the basis of actuarial assumptions and recognized on an accrual basis in line with the work performed to obtain the benefits.

Gains and losses arising from actuarial calculations are recognized in a specific equity reserve.

Reverse factoring

The Group entered into factoring agreements, typically in the technical form of reverse factoring. On the basis of the contractual structures in place, the supplier has the possibility to sell at its discretion, the receivables from the company to a lending institution. In some cases, the payment terms indicated in the invoice are the subject of further deferments agreed between the supplier and the Group; these deferments can be both burdensome and not burdensome.

In case of deferments, a quantitative analysis is performed aimed at verifying the substantiality or otherwise of the change in the contractual terms, by providing the quantitative test in accordance with IAS 39 AG 62. In this context, the relations, for which the primary obligation is maintained with the supplier and the possible deferment, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trading liabilities.

Provisions for risks, charges and liabilities for landfills

Provisions for risks and charges regard costs of a determinate nature and of certain or probable existence which at year-end are uncertain in terms of timing or amount. Provisions are recognized when there is a legal or constructive present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and it is possible to make a reasonable estimate of the obligation.

Provisions are recognized at the best estimate of the amount that the company would have to pay to settle the liability or to transfer it to third parties at the balance sheet date. If the effect of discounting is significant, provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money. If discounting is used the increase in the provision due to the passage of time is recognized as financial expense.

If the liability relates to tangible assets (such as the dismantling and reclamation of industrial sites), the initial provision is recognized as a counter-entry to the assets to which it refers; expense is then charged to income statement as the asset in question is depreciated.

Treasury shares

Treasury shares are accounted for as a deduction from equity. In particular, treasury shares are recognized as a negative equity reserve.

Grants

Grants, both from public entities and from third party private entities, are measured at fair value when there is the reasonable certainty that they will be received and that the Group will be able to comply with the terms and conditions for obtaining them.

Grants received to provide support for the cost of specific assets are recognized as a direct deduction from the assets concerned and credited to the income statement over the life of the depreciable asset to which they refer.

Revenue grants (given to provide the company with immediate financial support or as compensation for expenses or losses incurred in a previous accounting period) are recognized in their entirety in the income statement as soon as the conditions for recognizing the grants are met.

Revenues and costs

Revenues from sales and services are recognized to the extent that it is possible to establish their fair value on a reliable basis and it is probable that the related economic benefits will flow to the Group on the transfer of all significant risks and benefits normally deriving from ownership of the asset or on completion of the service. Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognized at the time that the energy is supplied or the service rendered, even if invoicing has not yet taken place, and are determined by adding estimates of consumption to amounts resulting from preestablished meter-reading schedules. Where applicable these revenues are based on the tariffs and related tariff restrictions prescribed by the law in force during the year and by the Electricity, Gas and Water Authority or equivalent organizations abroad;

- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in the income statement on collection and presented as "revenues from services";
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group's share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

Revenues are stated net of returns, discounts, allowances and rebates, as well as directly related taxes.

Expenses relate to goods or services sold or consumed during the year or as a result of systematic allocation; if no future use is envisaged they are recognized directly in the income statement.

Non-recurring transactions

The item "Non-recurring transactions" consists of the gains and losses arising from the measurement at fair value less costs to sell or from the sale or disposal of non- current assets (or disposal groups) classified as held for sale within the meaning of IFRS 5, the gains or losses arising on the disposal of shareholdings in unconsolidated subsidiaries and associates and other non-operating income and expense.

Financial income and expenses

Financial income is recognized when interest income arises using the effective interest method, i.e. at the rate that exactly discounts expected future cash flows over the expected life of the financial instrument.

Financial expense is recognized in the income statement on an accrual basis on the basis of the effective interest.

Dividends

Dividend income is recognized when it is established that the shareholders have a right to receive payment, and is recognized as financial income in the income statement.

Income taxes

Current taxes

Current income taxes are based on an estimate of taxable income in compliance with tax regulations in force or substantially approved at the balance sheet date, bearing in mind any exemptions or tax credits due. Account is also taken of the fact that the Group now files for tax on a consolidated basis.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases, with the exception of goodwill which is not deductible for tax purposes and any differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future. The tax rates used are those expected to apply to the period when the temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized. The measurement of deferred tax assets takes account of the period for which business plans are available.

When transactions are recognized directly in equity, any related current or deferred tax effects are also recognized directly in equity. Deferred taxes on the undistributed profits of Group companies are only provided for if there is the real intention to distribute such profits and, in any case, if the taxation is not offset as the result of filing a Group tax return.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes are only offset when they are levied by the same tax authority, when there is the legal right of set-off and when settlement of the net balance is expected.

Use of estimates

Preparing the financial statements and notes requires the use of estimates and assumptions in determining certain assets and liabilities and measuring contingent assets and liabilities. The actual results after the event could differ from such estimates.

Estimates have been used in impairment testing, to determine certain sales revenues, in provisions for risks and charges, in provisions for receivables and other write-downs, amortization and depreciation, the valuation of derivatives, employee benefits and taxes. The underlying estimates and assumptions are regularly reviewed and the effect of any change is immediately recognized in the income statement.

The following are the key assumptions made by management as part of the process of making these accounting estimates. The inherently critical element of such estimates comes from using assumptions or professional opinions on matters that are by their very nature uncertain. Changes in the conditions underlying the assumptions and opinions used could have a material impact on subsequent results.

Impairment Test

The carrying amount of non-current assets (including goodwill and other intangible assets) and of assets held for sale is reviewed periodically and whenever circumstances or events require a more frequent assessment. If it is considered that the carrying amount of a group of non-current assets is impaired, the group is written down to its recoverable amount which is estimated with reference to its use or future disposal, depending on the Group's latest plans. Management is of the opinion that the estimates of such recoverable amounts are reasonable, although possible changes in the factors underlying the estimates on which these recoverable amounts have been calculated could produce different measurements. For further details on the way in which impairment testing was carried out and the results of such testing, reference is made to the specific paragraph below.

Revenue recognition

Revenues from sales to retail and wholesale customers are recognized on an accrual basis. Revenues from sales of electricity and gas to customers are recognized when the supply takes place, based on periodic meter readings; they also include an estimate of the usage of electricity and gas from the date of the last reading to the balance sheet date. Revenues from the date of the last reading to the balance sheet date are based on estimates of customers' daily usage, according to their historical profile, and are adjusted to reflect weather conditions or other factors that may affect the usage being estimated.

Provisions for risks and charges

In certain circumstances it is not easy to identify whether a legal or constructive present obligation exists. The directors assess these situations case by case, together with an estimate of the economic resources required to settle the obligation. Estimating such provisions is the result of a complex process that involves subjective judgements on the part of company management. When the directors are of the opinion that it is only possible that a liability could arise, the risks are disclosed in the section on commitments and contingent liabilities without making any provision.

Liabilities for landfills

The liabilities for landfills provision represents the amount set aside to meet the costs which will be incurred for the management of the period of closure and post-closure of landfills currently in use. The future outlays, calculated for each landfill by a specific appraisal updated annually, were discounted in accordance with the provisions of IAS 37.

Bad debts provision

The provision for bad debts reflects the estimated losses in the company's receivables portfolio. Provisions have been made to cover specific cases of insolvency as well as estimated losses expected on the basis of past experience with balances of similar credit risk

Although the provision is considered adequate, the use of different assumptions or changes in prevailing economic conditions, even more so in this period of recession, could give rise to adjustments to the bad debts provision.

Amortization

Depreciation and amortization charges are a significant cost for the company. Non-current assets are depreciated or amortized on a straight-line basis over the useful lives of the assets. The useful lives of the company's non-current assets are established by the directors, with the assistance of expert appraisers, when they are purchased. The Group periodically reviews technological and sector changes, dismantling/closure charges and the recovery amount of assets to update their residual useful lives. This periodic update could lead to a change in the period of depreciation or amortization and hence also in the depreciation or amortization charge in future years.

Measurement of derivative instruments

The derivatives used are measured at fair value based on the forward market curve at the balance sheet date, if the underlying of the derivative is traded on markets that provide official, liquid forward prices. If the market does not provide forward prices, forecast price curves are used based on simulation models developed by Group companies internally. However, the actual results of derivatives could differ from the measurements made.

The serious turbulence on markets for the energy commodities traded by the company, as well the fluctuations in exchange and interest rates, could lead to greater volatility in cash flows and in expected results.

Employee benefits

The calculations of expenses and the related liabilities are based on actuarial assumptions. The full effects of any changes in these actuarial assumptions are recognized in a specific equity reserve.

Business combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. A2A S.p.A. bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Current taxes and future recovery of deferred tax assets

The uncertainties that exist regarding the way of applying certain tax regulations have led the Group to taking an interpretative stance when providing for current taxes in the financial statements; such interpretations could be overturned by official clarifications on the part of the tax authorities.

Deferred tax assets are accounted for on the basis of the taxable profit expected to be available in future years. Assessing the expected taxable profit for the purpose of accounting for deferred taxation depends on factors that can vary over time, and may lead to significant effects on the measurement of deferred tax assets.

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.

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**

Notes to the balance sheet

It is noted that the consolidation scope at December 31, 2016 changed compared to December 31, 2015 for to the following operations:

- as of January 1, 2016, the partial non-proportional demerger of Edipower S.p.A. related to the “Cellina Unit” in favour of Cellina Energy (a company wholly owned by Società Elettrica Altoatesina S.p.A.) came into effect pursuant to the demerger deed stipulated between the parties on December 28, 2015. At December 31, 2015, the assets and liabilities of Edipower S.p.A. relating to this transaction had been reclassified, being an operation regarded as disposal group pursuant to IFRS 5, under “Non-current assets held for sale” and “Liabilities directly associated with non-current assets held for sale”;
- on April 20, 2016, Aprica S.p.A. purchased 64% of the shareholding in LA BI.CO DUE S.r.l., a company operating in municipal sanitation services in the Province of Brescia; the company has been fully consolidated as of April;
- on July 20, 2016, A2A Ambiente S.p.A. acquired 100% of the RI.ECO-RESMAL Group, operating in the collection, sorting and recovery of special, non-hazardous waste such as plastic, biomass and waste paper in the area of Milan; the Groups have been fully consolidated as of August;
- in August 2016, A2A, AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema finalized the industrial partnership envisaged in the contract signed on March 4, 2016, through the purchase, by A2A, of 51% of the share capital of LGH, a company operating in environmental activities, in the distribution and sale of electricity and gas; the LGH Group has been fully consolidated as of August;
- On October 20, 2016, A2A Calore & Servizi S.r.l. acquired 75% of the shareholding in Consul System S.p.A., whose main activity is technical and engineering consultancy relating to Energy Efficiency Certificates and Kyoto Flexible Mechanisms. The company has been fully consolidated since November;

- the shareholding in Bellisolina S.r.l., held 100% by A2A Ambiente S.p.A., previously consolidated on a line-by-line basis, has been reclassified, as it is not a discontinued operation in accordance with IFRS 5, to “Non-current assets held for sale”, following management’s decision to sell the investment as discussed in further detail in note 12 “Non-current assets held for sale”.

For items concerned with the first-time consolidation of LA BI.CO DUE S.r.l., the RI.ECO-RESMAL Group, the LGH Group and Consul System S.p.A., the effect was highlighted in a specific column “First-time consolidation effect acquisitions 2016”.

ASSETS

Non-current assets

1) Tangible assets

Millions of euro	Balance at 12 31 2015	First-time consolid. effect Acquisitions 2016	Changes during the year						Balance at 12 31 2016
			Investments	Other changes	Disposals and sales	Write-downs/ Reversal	Depreciation	Total changes	
Land	266	15	1	(45)		(1)	(1)	(46)	235
Buildings	913	58	6	(81)	(2)	(32)	(40)	(149)	822
Plant and machinery	3,608	222	102	245	(5)	(185)	(294)	(137)	3,693
Industrial and commercial equipment	24	8	7				(6)	1	33
Other assets	56	7	17	9			(16)	10	73
Landfills	23	3	1	14			(8)	7	33
Construction in progress and advances	103	19	106	(125)		(3)	-	(22)	100
Leasehold improvements	72	1	19		(2)		(8)	9	82
Leased assets	2	7		1			(1)	-	9
Total	**5,067**	**340**	**259**	**18**	**(9)**	**(221)**	**(374)**	**(327)**	**5,080**
of which:									
Historical cost	9,838	340	259	16	(81)			194	10,372
Accumulated depreciation	(4,253)			2	72		(374)	(300)	(4,553)
Write-downs	(518)					(221)		(221)	(739)

At December 31, 2016, "Tangible assets" amounted to 5,080 million euro (5,067 million euro at December 31, 2015) and include the first-time consolidation effect relating to the acquisition of the LGH Group, the RI.ECO-RESMAL Group, Consul System S.p.A. and LA BI.CO DUE S.r.l. for a total of 340 million euro.

The changes for the year, net of the above effect, recorded a decrease of 327 million euro as follows:

- increase of 259 million euro for investments made in the year as further described below;
- increase of 18 million euro for other changes mainly concerning the increases of the decommissioning fund and expense funds for closure and post-closure of landfills as a result of the effect of updating the discount rates used for the estimates of the future costs of dismantling and restoration;
- decrease of 9 million euro arising from disposals in the year, net of accumulated depreciation;

- decrease of 221 million euro due to the counter effect of write-downs in the year for 272 million euro on the plants in Monfalcone, Gissi, Piacenza and Brindisi and reversal on the plant in San Filippo del Mela for 51 million euro;
- decrease of 374 million euro for the amortization charge for the year.

Investments may be analyzed as follows:

- for the Networks and Heat Business Unit, investments totalled 111 million euro and concerned: 53 million euro for the development and maintenance of electricity distribution plants, the extension and reconstruction of the medium and low-voltage network and the installation of new electronic meters, 6 million euro for the efficiency plan for public lighting in Milan and Bergamo, 40 million euro for the development of the district heating networks in the areas of Milan, Brescia, Bergamo and Varese, 11 million euro for investments of the LGH Group and 1 million euro for investments in the gas transport network;
- for the Environment Business Unit, investments of 75 million euro refer to: 37 million euro mainly for work on the plants of Silla 2, Brescia, Lacchiarella, Robassomero, Acerra, Caivano, Corteolona, Varese and the acquisition of the building in Lograto; 21 million euro for the acquisition of mobile means for waste collection and 7 million euro for the acquisition of collection facilities, 7 million euro for the acquisition of the business unit from Sanitaria Group S.r.l. and 3 million euro for investments of the LGH Group;
- for the Generation and Trading Business Unit, the increase was 32 million euro and concerned: 11 million euro for investments made on the hydroelectric plants, 15 million euro for works on the thermoelectric plants and 6 million euro for investments of the LGH Group;
- for the Foreign Business Unit EPCG, there was an increase of 26 million euro;
- for the Other Services and Corporate Business Unit, investments amounted to 14 million euro mainly related to the acquisition of the new Data Center (4 million euro), the fibre optic network (3 million euro), the restructuring of the Canavese building and other buildings of the group (2 million euro) as well as investments of the LGH Group for 1 million euro;
- for the Commercial Business Unit, the increase is of 1 million euro and mainly relates to investments of the LGH Group.

Tangible assets include “Leased assets” totalling 9 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at December 31, 2016 amounted to 7 million euro.

2) Intangible assets

Millions of euro	Balance at 12 31 2015	First-time consolid. effect Acquisitions 2016	Changes during the year						Balance at 12 31 2016
			Invest.	Recl./Other changes	Disposals/ sales	Write-downs	Amort.	Total changes	
Industrial patents and industrial property rights	26		6	3			(14)	(5)	21
Concessions, licences, trademarks and similar rights	799	182	88	27	(3)		(39)	73	1,054
Assets in progress	20	14	29	(34)		(3)		(8)	26
Other intangible assets	21	31		16			(2)	14	66
Goodwill	482	112				(37)		(37)	557
Total	**1,348**	**339**	**123**	**12**	**(3)**	**(40)**	**(55)**	**37**	**1,724**

At December 31, 2016, “Intangible assets” amounted to 1,724 million euro (1,348 million euro at December 31, 2015) and include the first-time consolidation effect relating to the acquisition of the LGH Group, the RI.ECO-RESMAL Group, Consul System S.p.A. and LA BI.CO DUE S.r.l. for a total of 339 million euro. As mentioned in the note “Scope of consolidation”, the purchase price allocation process related to the LGH Group and Consul System S.p.A. will be completed within the timeline provided by IFRS 3.

Applying IFRIC 12, from 2010 intangible assets also include assets in concession relating to gas distribution, the integrated water cycle and district heating plants of Varese Risorse.

The Group has environmental certificates that it received free of charge, as further specified in the section “Evolution of the regulation and impacts on the A2A Group Business Units” in the paragraphs “Incentives to production from renewable sources and conversion of the Green Certificate into tariffs” (Generation and Trading Business Unit) and “White Certificates and incentives for district heating” (Networks and Heat Business Unit).

The changes for the year, net of the first-time consolidation effect of acquisitions in 2016, recorded an increase of 37 million euro as follows:

- increase of 123 million euro for investments made in the year as further described below;
- increase of 12 million euro for other changes, mainly due to the change of environmental certificates of the industrial portfolio;
- decrease of 3 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 40 million euro related to write-downs in the year regarding for 37 million euro the write-down of the goodwill of Unareti S.p.A. (21 million euro) and on the goodwill of the LGH Group (16 million euro) and for 3 million euro relating to the abandonment of the project “Centralization Purifier Verziano”;
- decrease of 55 million euro for the amortization charge for the year.

More specifically, investments relate to the following:

- for the Networks and Heat Business Unit, investments of 98 million euro are: for development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 62 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 25 million euro and the implementation of IT systems for 8 million euro; for investments of the LGH Group for 3 million euro;
- investments of 9 million euro in the Other Services and Corporate Business Unit mainly relate to the implementation of IT systems;
- increase of 7 million euro in the Commercial Business Unit mainly relates to the implementation of IT systems;
- for the Environment Business Unit, the increase amounted to 4 million euro mainly due to the implementation of information systems as well as investments of the LGH Group for 1 million euro;
- for the Generation and Trading Business Unit, investments amounted to 4 million euro mainly due to the implementation of information systems as well as investments of the LGH Group for 2 million euro;
- for the Foreign Business Unit, there was an increase of 1 million euro.

“Other intangible assets” include customer lists arising on the acquisition of customer portfolios by Group companies. These balances are amortized on the basis of the estimated benefits expected to be obtained in future years. More specifically, the outstanding balance of 25 million euro relates to the amount paid in previous years by subsidiaries for 1 million euro regarding a portion of the networks and customers of the province of Brescia and the customer portfolio of the subsidiary Aspem Energia S.r.l. as well as 24 million euro following the consolidation of the RI.ECO-RESMAL Group and the company LA BI.CO.DUE S.r.l..

Impairment testing in accordance with IAS 36 on the carrying amount of goodwill and tangible and intangible fixed assets

The objective of the impairment testing required by international accounting standard IAS 36 is to ensure that the carrying amount of assets does not exceed their recoverable amount.

Impairment testing is carried out whenever there is an indication that an asset may be impaired, while goodwill, which is not amortized on a systematic basis, must be tested for impairment at least on an annual basis, regardless of whether there is any indication of impairment.

A cash generating unit (CGU) is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The definition of a CGU depends essentially on the type of activity carried out by the CGU, the business sector in which it operates and a company's organizational structure.

Impairment testing consists of comparing the carrying amount of an asset/cash generating unit (or group of cash generating units) with an estimate of the recoverable amount of that asset/cash generating unit (or group of cash generating units). The recoverable amount of an asset/cash-generating unit (or group of cash generating units) is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell of an asset/cash generating unit (or group of cash generating units) is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The value in use of an asset/cash generating unit (or group of cash generating units) is the present value of the future cash flows expected to be derived from the continuing use of an asset or cash generating unit and from its ultimate disposal. Value in use has been calculated using the discounted cash flow method, which is based on estimating future cash flows and discounting these by applying the appropriate discount rate.

Management made a projection of the future cash flows deriving from each asset/cash generating unit (or group of cash generating units) on the basis of reasonable and supportable assumptions which reflect the value of the asset/cash generating unit (or group of cash generating units) in its present condition and with a view to maintaining the normal conditions of business activities.

More specifically, the following were considered in calculating value in use:

- the future operating cash flows are based on the 2017-2021 medium-term Business Plan aimed at the impairment test as approved by the A2A S.p.A. Board of Directors in February 2017. Said forecasts reflect the management's best estimates in relation to the main assumptions concerning the Company performance (macro-economic and pricing trends and commodity prices, hypothesis of operation of production assets and business development);
- future operating cash flows for a period not exceeding five years, estimated by management on the basis of the most recent forecasts so as to represent the most reasonable estimate of the range of economic conditions expected over the remaining useful life of the asset;
- cash flows following this time horizon, estimated by extrapolating the explicit time horizon projections, suitably modified to normalize the results and using a nominal growth rate less than the average rate of nominal growth in the long term;
- the cash flow from disposal at the end of the useful life of an asset/cash generating unit (or group of cash generating units) (terminal value). Depending on the different cases analyzed, this value has prudently been forecast to be zero, to be the sum of the estimate

of the future value of the assets, net working capital and provisions or else to be the present value of operating cash flows;
- the discount rate used to reflect current market assessments of the time value of money and the risks specific to the asset was estimated, consistent with the cash flows considered, by calculating the weighted average cost of capital (WACC).

An independent expert was engaged to carry out the impairment testing; among other things, the expert analyzed the components and key assumptions included in the economic and financial projections prepared by the Group's management, performed comparisons and tests as to the correctness of the sources and assumptions used and developed the assumptions about the growth rate beyond the plan's horizon to be used for calculating normalized flows through to the end of the useful lives of the plants. The analysis also included any requirements for the decommissioning of the thermoelectric plants at the end of their useful lives and the reimbursements that may be expected to be received in the event that the hydroelectric concessions, electrical networks and gas networks are not renewed consistent with present expiry dates.

The discount rate of unlevered cash flows was estimated as the Weighted Average Cost of Capital (WACC), representing the expected return from the company's lenders and shareholders for use of own capital.

In crisis situations, as highlighted by the Italian Rating Board (OIV), various structures of the Capital Asset Pricing Model are suggested in order to properly reflect the country risk in the discount rate. In this context, various methodologies are referred to, among which the conditional and unconditional methodologies, which differ according to the classification of the country risk (in the Market Risk Premium, in the first case and in the Risk-free in the second).

In view of the current macro-economic context and the indications emerging from most accepted practices and national and international doctrine, it was considered necessary to apply the correction factors for the determination of the discount rates.

In particular, for the assessment, it was considered necessary to use the formulation "unconditional adjusted" of WACC rates. The unconditional adjusted WACC methodology involves the use of a risk-free rate that incorporates country risk normalized by the monetary policies implemented by the Central Banks. In particular, such an adjustment is necessary in order to mitigate the effects of short-term monetary policy that has recently characterized the money markets in the Eurozone. Therefore, the risk-free rate for Italy was determined by calculating the rate of return of the securities of a benchmark country with AAA rating, to which was added the differential between the Credit Default Swaps of Italy and the Credit Default Swaps of the benchmark country.

The approach adopted for the calculation of the Value in Use is the pre-tax with gross-up simplified of the WACC in continuity with company practices used for evaluations in the previous years.

Therefore, the WACC was estimated from post-tax WACC, using the gross-up simplified and assuming a tax rate of 27.9%. This total tax rate consists of the IRES tax rate of 24% and IRAP rate of 3.9%. In the presence of regulated businesses, the IRAP rate considered was 4.2%.

Goodwill

At December 31, 2016, goodwill amounted to 557 million euro:

CGU - *Millions of euro*	Balance at 12 31 2015	Changes during the year					Balance at 12 31 2016
		First-time consolid. acquis. 2016	Investments	Other changes	Write-downs	Total changes	
A2A Reti Elettriche	184				(21)	(21)	163
A2A Ambiente	232					-	232
A2A Reti gas	38					-	38
A2A Gas	7					-	7
A2A Calore	21					-	21
Linea Più	-	6				6	6
Linea Ambiente	-	40				40	40
Linea Gestioni	-	7			(7)	-	-
Linea Energia	-	16			(7)	9	9
Linea Com	-	2			(2)	-	-
Greenambiente	-	10				10	10
Linea Reti e Impianti	-	9				9	9
Total	**482**	**90**	**-**	**-**	**(37)**	**53**	**535**
First-time Consolidation Effects							0
LGH Group	-	13				13	13
Consul System	-	9				9	9
Total	**-**	**22**	**-**	**-**	**-**	**22**	**22**
Total Goodwill	**482**	**112**	**-**	**-**	**(37)**	**75**	**557**

The first-time consolidation effect of acquisitions in 2016 led to an overall increase of 112 million euro of which 90 million euro already in the sub-consolidation of the LGH Group, while the first-time consolidation of the LGH Group (13 million euro) and of the company Consul System S.p.A. (9 million euro) led to the provisional recognition of goodwill for a total value of 22 million euro, pending completion of the Purchase Price Allocation, as further described in the paragraph "Other information 3) Transactions IFRS 3 Revised". The increase in goodwill resulting from the acquisition of the LGH Group, recognized at September 30, 2016, for 8 million euro, is due to the restatement by the LGH Group on the financial statements at December 31, 2015, which modified the values of the equity of the LGH Group and third parties.

The results of the impairment tests performed at December 31, 2016 resulted in a total write-down of 37 million euro of which 21 million euro, relating to the Electricity Networks Cash Generating Unit and 16 million euro to some Cash Generating Units of the LGH Group.

The operational organization and reporting structure used by management to assess the A2A Group's performance were taken into consideration in identifying cash generating units.

Since goodwill does not generate independent cash flows and cannot be sold separately, the impairment testing of recognized goodwill is carried out in a residual manner by referring to the cash generating unit (or group of cash generating units) to which it may be reasonably allocated.

The following table sets out the goodwill allocated to each individual cash generating unit, specifying for each the recoverable amount and the discount and growth rates used with comparative figures of the previous year.

CGU with goodwill	Value in millions of euro at 12 31 2016	Recoverable Value	WACC 2016 (1)	Growth rate g 2016	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	163	Use value	6.80%	0.00%	6.60%	0.00%
A2A Ambiente	232	Use value	8.80%	1.00%	37.48%	1.00%
A2A Reti gas	38	Use value	7.28%	0.00%	13.10%	0.00%
A2A Gas	7	Use value	10.23%	0.00%	298.57%	0.00%
A2A Calore	21	Use value	8.40%	1.00%	9.01%	1.00%
Linea Più	6	Use value	10.22%	1.00%	89.51%	1.00%
Linea Ambiente	40	Use value	8.91%	1.00%	37.40%	1.00%
Linea Gestioni		Use value	8.91%	1.00%	5.16%	1.00%
Linea Energia	9	Use value	7.94%	1.00%	7.35%	1.00%
Linea Com		Use value	10.28%	1.00%	8.83%	1.00%
Greenambiente	10	Use value	8.99%	1.00%	n.s.	n.s.
Linea Reti e Impianti	9	Use value	8.01%	1.00%	8.71%	1.00%
Total	**535**					
First-time Consolidation Effects (A)						
LGH Group	13					
Consul System	9					
Total	**22**					
	557					

(A) The effects of the first-time consolidation were not subject to Impairment Test.

CGU with goodwill	Value in millions of euro at 12 31 2015	Recoverable Value	WACC 2015 (1)	Growth rate g 2015	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	184	Use value	6.76%	0.00%	7.00%	n.s.
A2A Ambiente	232	Use value	8.30%	1.00%	37.30%	n.s.
A2A Reti gas	38	Use value	7.28%	0.00%	14.70%	n.s.
A2A Gas	7	Use value	9.19%	0.00%	n.s.	n.s.
A2A Calore	21	Use value	7.89%	1.00%	8.60%	1.00%
	482					

(1) Nominal pre-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

With reference to the CGU already included in the scope of consolidation of the A2A Group at December 31, 2015, and precisely "A2A Calore" CGU, to the "A2A Reti gas" CGU, to the "A2A Reti Elettriche" CGU and "A2A Ambiente" CGU, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2016 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the "A2A Calore", "A2A

Reti gas", and "A2A Reti Elettriche" CGUs was conducted by comparing the recoverable value determined as fair-weighted average of the values in use of the definite useful life scenario (consistent with the average duration of the concessions in place) and the indefinite useful life scenario. Compared to the results obtained and only for the CGUs that did not show impairment, a sensitivity analysis was conducted considering only the definite useful life scenario; said sensitivity analysis did not reveal any criticality on the recoverability of the value of the impairment test.

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, which showed no particular criticality for all the CGUs subject to impairment testing.

In relation to the "A2A Reti Elettriche" CGU, in light of the update of the remuneration rate introduced by the AEEGSI for the regulatory period 2016-2023, it was not deemed necessary to conduct any sensitivity analysis on the WACC as it is not reasonable to expect significant legislative and/or regulatory changes in the future. The impairment test of the "A2A Reti Elettriche" CGU showed a value in use lower than the carrying amount. The main reason for this phenomenon is attributable to a reduction in revenues (extra-tariff) with respect to as envisaged in the previous plan and consistent with as found in the 2016 final balance. Moreover, in a scenario of definite useful life, of importance, from a valuation point of view, is the approach of the concessions expiry set for the year 2030.

In relation to the analyses conducted the CGU of the LGH Group, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2016 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the CGU of the LGH Group was conducted following an indefinite useful life approach for all CGUs except Greenambiente, Ecolevante (the goodwill of which is included in the Linea Ambiente CGU) and Lomellina Energia.

With regard to the latter CGUs, economic-financial plans were prepared until the conclusion of operations and, therefore, a definite useful life approach was applied.

It is specified that the impairment test conducted on the Linea Energia, Linea Gestioni and Linea Com CGUs revealed values in use less than the carrying amounts (i.e. impairment). These observations are primarily due to two effects: first, concerning the adoption of a methodology for the calculation of discounting rate in line with that used by the A2A Group for the purposes of impairment testing; the second due to a redefinition of criteria for the identification of maintaining long-term investments.

"A2A Reti Elettriche" Cash Generating Unit

This goodwill, arising on the acquisition of the businesses of Enel Distribuzione S.p.A. by A2A Reti Elettriche S.p.A., amounted to 163 million euro, while it amounted to 184 million at December 31, 2015. In the "Electricity Networks" Cash Generating Unit, goodwill relating to the agreements for the activities on the public lighting systems of the Municipality of Bergamo was also allocated, for a value of 4 million euro, which derives from the portion of goodwill recorded following the merger between BAS S.p.A. and A2A S.p.A..

The impairment test resulted in a loss in value of 21 million euro, which reduced the value of goodwill from 184 million euro to 163 million euro.

"A2A Ambiente" Cash Generating Unit

The "Environment" CGU carries out collection and street sweeping and is involved in the treatment and disposal of waste and the waste-to-energy process and it also builds treatment plants for third parties.

The "Environment" CGU operates in the solid urban waste segment and in the special and hazardous waste segment, performs collection and street sweeping activities in the municipalities of Milan, Brescia, Bergamo and Como and in a number of municipalities of the relative provinces, is the owner of 5 waste-to-energy plants (in the municipalities of Milan, Brescia, Bergamo, Filago and Corteolona) and manages the Acerra waste-to-energy plant. It also has several waste treatment plants and a number of landfills.

The A2A Group's consolidated financial statements at December 31, 2016 include goodwill of 232 million euro associated with this CGU, which has been impairment tested as required by IAS 36. Of this goodwill, 227 million euro arises from the acquisition of the Ecodeco Group which took place between 2005 and 2008 (the former Ecodeco Cash Generating Unit) and 5 million euro from the merger between ASM Brescia S.p.A. (subsequently merged into AEM S.p.A. which at the same time changed its name to A2A S.p.A.) and BAS S.p.A..

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Reti gas" Cash Generating Unit

The goodwill of 38 million euro arises from various acquisitions made by A2A Reti Gas S.p.A. (now Unareti S.p.A.) over the past years regarding companies operating as gas distributors in around 200 different Italian municipalities. Activities are mainly concentrated in Lombardy and Piedmont.

The recoverable value of goodwill attributed to the "A2A Reti gas" Cash Generating Unit was calculated by referring to its value in use.

In calculating the value in use, for reasons of prudence a time horizon has been taken for the majority of the outstanding concessions, which corresponds to a shorter term than that envisaged by current legislation.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Gas" Cash Generating Unit

The goodwill arising from the consolidation of the Gas Business Unit, amounting to 7 million euro, refers to the area involved in selling gas to end customers (residential and business) and wholesalers and was impairment tested. It is specified that the "A2A Gas" Cash Generating Unit includes the portion of the goodwill arising on the merger between BAS S.p.A. and A2A S.p.A..

"A2A Calore" Cash Generating Unit

The goodwill arising from the consolidation of the Heat Business Unit, amounting to 21 million euro, is held by a number of companies of the A2A Group active in the production, distribution and sale of district heating. In particular, this Cash Generating Unit contains an amount of 18 million euro representing part of the goodwill arising from the merger between BAS S.p.A. and A2A S.p.A.. The recoverable value of goodwill allocated to the "Heat" Cash Generating Unit, in the impairment test, was calculated with reference to the value in use using a time horizon of 30 years.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"Linea Più" Cash Generating Unit

The Linea Più Cash Generating Unit consists of the legal entity Linea Più S.p.A., the operating company of the LGH Group that is mainly engaged in the sale of gas and electricity, as well as the sale, construction and maintenance of photovoltaic plants and the installation and maintenance of boilers for domestic use.

The goodwill resulting from the consolidation of the Linea Più Business Unit, amounting to 6 million euro, mainly refers to the consolidation difference relative to the gain recognized on the sale of gas and electricity.

"Linea Ambiente" Cash Generating Unit

Linea Ambiente S.r.l. is a company specialized in the collection, transportation, treatment and disposal of waste, as well as the design of plants and commercial management services and activities of the waste flows generated and managed by all the companies belonging to the LGH Group.

The goodwill resulting from the consolidation of the Linea Ambiente Gas Business, amounting to 40 million euro, mostly refers (35.7 million euro) to the acquisition of the environmental company Ecolevante S.p.A., subsequently incorporated by merger into Linea Ambiente S.r.l.; the remaining part is essentially related to the consolidation difference relative to the surplus recognized to the activity of environmental brokerage.

"Linea Gestioni" Cash Generating Unit

Linea Gestioni S.r.l. operates in environmental health services (collection, transport and disposal of waste) in more than 120 municipalities of the provinces of Cremona, Lodi and Brescia (about 600,000 residents served).

The impairment test resulted in a loss of value on the CGU in question, which determined a write-down for 7 million euro that totally zeroed the value of goodwill previously recognized.

"Linea Energia" Cash Generating Unit

The "Linea Energia" Cash Generating Unit consists of the legal entity Linea Energia S.p.A., a company that deals with the design, development and management of plants for the production of renewable energy, including six biogas plants with a total installed capacity of 9.5MW, a photovoltaic system (0.5MW), five 37.4MW hydroelectric plants and two wood biomass plants (2MW in total).

The goodwill resulting from the consolidation of the Linea Energia Business Unit equal to 10 million euro, mostly relates to the acquisition of hydroelectric plants. It is noted that the impairment test resulted in a loss in value of 7 million euro, which reduced the value of goodwill from 16 million euro to the current 9 million euro.

"Linea Com" Cash Generating Unit

Linea Com S.r.l. offers multiple services in the public and private sectors. These include the realization and management of video surveillance systems, remote management and metering, services for the management of taxes and GIS applications i.e. computerized information systems that allow the acquisition, registration, analysis and return information from geographical data (geo-referenced).

The impairment test resulted in a loss of value on the CGU in question, which determined a write-down for 2 million euro that totally zeroed the value of goodwill previously recognized.

"Greenambiente" Cash Generating Unit

Greenambiente S.r.l., which constitutes the Greenambiente Cash Generating Unit, is the company that operates in the business of disposal of municipal solid waste and special waste through the management of the Augusta landfill (SR) in Gigia, where mainly urban waste produced in the province of Syracuse is disposed of.

The goodwill resulting from the consolidation of the Greenambiente Business Unit, amounting to 10 million euro, refers to the consolidation difference relative to the gain recognized on the disposal of waste at the landfill of the company.

"Linea Reti Impianti" Cash Generating Unit

Linea Reti e Impianti S.r.l. incorporates the LGH holding assets mainly regarding the electricity distribution network of Cremona, the waste-to-energy plant of Cremona and the business of district heating in the Municipality of Cremona, Lodi and Crema. The cogeneration plants located in the three municipalities, respectively have an installed capacity of 13MW, 4MW and 6MW. In 2016, Linea Reti Impianti incorporated Steam S.r.l., owner of two cogeneration plants in the city of Rho.

The goodwill resulting from the consolidation of the Linea Reti Impianti Business Unit equal to 9 million euro, refers, for 6 million euro, mainly to the consolidation difference relative to the gain recognized to the activity of district heating and for 3 million euro to goodwill arising on the transfer in 2010 of the electricity distribution unit by AEM Cremona S.p.A..

Assets other than goodwill

Impairment testing of the "Electricity" Cash Generating Unit

The Electricity cash generating unit belongs to the Generation and Trading Business Unit and Commercial Business Unit of A2A, whose activities are the generation of electricity and its sale on the wholesale and retail markets. Support for the marketing areas is assured by activities involving fuel provisioning, programming and dispatch of electricity generating plants and optimizing business portfolio management.

More specifically, the activities carried out by the "Electricity" Cash Generating Unit consist of the following:

- electricity generation: power plant management through a generation pool of hydroelectric and thermoelectric plants with installed power of about 10.5 GW;

- energy management: the purchase and sale of electricity, gas and non-gas fuels on national and international wholesale markets; the provisioning of the fuel needed, and the management of the environmental certificates, to cover the needs of thermoelectric plants and customers; planning, programming and dispatch of electricity generating plants;
- sale of electricity: sale of electricity on the market of suitable customers.

In addition to the activities conducted directly by A2A S.p.A., the operations of the following companies also come under the "Electricity" Cash Generating Unit:

- A2A gencogas S.p.A., A2A Energiefuture S.p.A. and Ergosud S.p.A., electricity producers operating in Italy;
- A2A Energia S.p.A., providing marketing activities.

The impairment testing of the "Electricity" Cash Generating Unit solely regarded activities concerning electricity, thus excluding those relating to the "Gas" Cash Generating Unit, for which specific impairment testing was carried out as described above.

The perimeter of the "Electricity" Cash Generating Unit does not include the following:

- EPCG, a company producing electricity in Montenegro, because it is not interconnected and the electricity is dispatched outside its national borders;
- the San Filippo del Mela power plant, owned by A2A Energiefuture S.p.A. and operating as an Essential Unit;
- Protected category services[(*)], delivered by A2A Energia S.p.A.;
- trading carried out by A2A S.p.A. (formerly A2A Trading S.r.l. merged by incorporation into the parent company at December 31, 2016 with accounting and fiscal effect January 1, 2016).

The value of the "Electricity" Cash Generating Unit in the impairment test amounted to 1,768 million euro.

The scenario of the A2A Group Plan was prepared with reference to, for 2017, the forward curves (market prices as at January 9, 2017). For the subsequent years, and thus, from 2018 to 2021 the estimation of various parameters (PUN, gas, oil price, spark and dark spread, etc.) was determined using a proprietary model based on the trend of demand and supply fundamentals and the main reference commodities, as well as on the analyzes of the main market operators and research institutions. The scenario thus created led to values that increased over the period of analysis, albeit to a lesser extent than as developed in the previous Plan 2016-2020.

(*) Protected category services apply to customers with low-voltage domestic utilities, utilities for other non-domestic uses and public lighting (in other words, small businesses connected to a low voltage supply, with less than 50 employees and annual turnover < 10 million euro. This category includes all users who selected the so-called Free Market and ended up without a supplier. The Protected Category service guarantees the supply of electricity at prices established by AEEGSI (Italian Authority for Electricity, Gas and Water).

In particular, in 2021 (last year of explicit planning), the main reference values are as follows:

- Oil price: 70.0 $/bbl;
- PUN base load: 49.2 €/MWh;
- PUN peak load: 55.2 €/MWh;
- Gas to the PSV (spot market of reference for gas in Italy): 18.2 €/MWh.

The recovery of energy prices, in particular, is estimated to grow according to both the recovery in the price of oil and, related thereto, of gas and, to a portion, of the expected capacity exit of CCGT Groups from the market.

The 2017-2021 Plan also provides for the launch of the Capacity Market that will remunerate the eligible capacity for a given amount of €/MW in ways currently being discussed between the Italian Government and the European Commission, which resulted in the consultation documents published by Terna and AEEGSI in the fourth quarter of 2016 as described in the paragraph "Remuneration of available production capacity" on the file of the Report on Operations. Said remuneration, higher than the one currently in force, but less than that as envisaged in the 2016-2020 Plan, is estimated as of 2018.

For the purposes of determining the value in use, two distinct and equally probable scenarios were considered involving different treatment of incentives related to the capacity payment defined respectively "Scenario 1" and "Scenario 2". In particular, flows relating to the capacity market for the adequacy component have been isolated and evaluated separately from operating flows generated by hydroelectric, thermoelectric (CCGT) and coal plants.

"Scenario 1" envisages, for the period 2017-2021, the use of EBITDA expected in the 2017-2021 Plan including the revenues from capacity payments, calculated on the basis of a unitary contribution system.

"Scenario 2" differs for the different treatment of revenues from capacity payments. For the period 2017-2021, the operating EBITDA expected in the 2017-2021 Plan was used, to which EBITDA relating to the capacity payment calculated on the basis of a unitary contribution system was added less a percentage between 50% with respect to the unitary drivers used in "Scenario 1".

In both scenarios, the investments of the Plan and the changes in net working capital were deducted from the EBITDA of the two scenarios.

For the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

Consistent with the aforementioned flows, discount rates were estimated by determining the weighted average cost of capital as described above.

The impairment test conducted resulted in a write-down of 68 million euro.

The table below shows net invested capital at December 31, 2016, the discount rate used, the growth rates beyond the explicit time horizon, the recoverable value obtained and the related write-down.

CGU - without goodwill Electricity	Net capital employed in Millions of euro at 12 31 2016	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2016	1,836	9.9%	1.0%	1,768	(68)

CGU - without goodwill Electricity	Net capital employed in Millions of euro at 12 31 2015	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2015	2,118	9.0%	1.0%	2,014	(104)

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, as well as the assumptions developed in the terms of capacity payment. Additionally, in support of the impairment assessments, sensitivity analyzes were carried out on the 2017-2021 Plan, in particular to determine the effect on the revenues and costs envisaged in the Plan of some changes in electricity demand. Said sensitivity analysis was set on the basis of the assumption that any peaks in demand, both positive and negative, are met by the CCGT plants as the most suitable to meet sudden demands.

The impact on the EBITDA of the “Electricity” CGU of a 1% change in electricity demand, both positive (“Increase Scenario”) and negative (“Decrease Scenario”) was then estimated based on the clean spark spread of the Plan. For the purposes of the sensitivity analysis, a probability of 60% was attributed to the Decrease Scenario and 40% to the Increase Scenario.

With reference to the sensitivity analyzes of WACC and growth rate g, it is noted that a plus/minus 0.1% change in WACC results in a change in the value in use of plus/minus 16 million euro, while a plus/minus 0.1% change in the growth rate g results in a change in the value in use of plus/minus 10 million euro.

On allocating the total impairment loss of the “Electricity” CGU, no amounts were attributed to the hydroelectric plants. This step was taken because of the profitability of those plants and because of the valuation criterion applicable at the end of the concession term for those assets for which a reimbursement could be obtained from the incoming concession holder in the event of losing a tender.

Regarding the coal thermoelectric plant in Monfalcone, no write-down was allocated during the impairment test because it had been written down in the evaluation phase of the business unit for the conferment from A2A S.p.A. to the subsidiary A2A Energiefuture S.p.A.. The write-down was equal to 202 million euro.

For the CCGT, based on specific technical parameters, it was possible to identify by induction the value in use, reasonably attributable to each plant and, by comparison with the relative carrying values, identify the write-down possibly attributable to them. The technical parameters used refer, with equal weighting, to the technical obsolescence index, the cost efficiency index, the historical cost index and the technical flexibility index. By applying this methodology, the write-down of the "Electricity" CGU was allocated to the system of Gissi plant for 53 million euro and to the Piacenza plant for 15 million euro (both owned by A2A gencogas S.p.A.).

The CCGT plants of Chivasso, Sermide and Cassano have not been written down thanks to their technical parameters.

Plant *Millions of euro*	**Book value of the plant before the write-down 12 31 2016**	**Book value of the plant after the write-down 12 31 2016**	**Write-down**
Gissi	250	197	(53)
Piacenza	191	176	(15)
Chivasso	170	170	-
Cassano	160	160	-
Sermide	158	158	-

"EPCG" Cash Generating Unit

In the presence of specific impairment indicators, the A2A Group performed the impairment test on the "EPCG" Cash Generating Unit. More precisely, the 2017-2021 Plan developed by A2A Management related to the "EPCG" CGU includes similar bases with respect to the 2016-2020 Plan developed the previous year as detailed below:

- 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. It is considered that this increase has already been approved by the competent authority (Regulatornoj agenciji za energetiku - "RAE") and that the regulatory framework provides for any tariff increases up to 7%. The RAE decision allows the management of EPCG to have visibility of long-term tariff trends;
- the 2017-2021 Plan envisages investments slightly down by about 2 million euro compared to the previous plan in the years 2016-2020;

- the closure of the thermoelectric coal plant of Pljevljia in the first part of 2021 and the simultaneous start of import activities to support the estimated electricity demand (hypothesis already envisaged in the 2016-2020 Plan);
- regarding domestic demand of electricity, the Plan envisages an increasing trend between 2017 and 2021. In the same period, an increase is expected in exports, with a CAGR of 9.2%, mainly due to the completion of the submarine cable for the commercialization of electricity with Italy, HVDC Italy - Montenegro, expected in 2019 according to the Plan and with estimated power equal to 500,000 MWh per year. Therefore, the total value of domestic demand plus exports, increases in the period of the 2017-2021 Plan with CAGR equal to 4.3%;
- the coal requirement is expected to decrease sharply (average decrease of -24%) between 2016 and 2021, to then tend to zero as a result of the closure of the thermoelectric plant of Pljevlja assumed in 2021.

It is noted that the EPCG plan used for the performance of the impairment test, was drafted by A2A management with the support of the CEO of EPCG appointed by A2A. It therefore reflects the current strategic vision of the A2A partner on the expected performance of the Montenegrin subsidiary.

The result of the impairment test showed no additional impairment losses with respect to the write-downs made in the 2015 financial statements.

The following table sets out net invested capital at December 31, 2016, the discount rates used and the type of recoverable amount considered.

CGU - EPCG	Values in Millions of euro at 12 31 2016	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2016	576	9.9% *	1.0%	586	n.a.

(*) WACC weighted between regulated and market activities

CGU - EPCG	Values in Millions of euro at 12 31 2015	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2015	827	10.3% *	1.0%	581	(246)

(*) WACC weighted between regulated and market activities

The reduction of the WACC for the impairment test of EPCG in the year 2016 reflects the reduction in the rate of remuneration of the regulated activities of the company and set by RAE (the Montenegrin Regulation Agency) from 7.24% to 5.86%, while the WACC used for electricity generation remained unchanged at 11.4%.

"San Filippo del Mela" Cash Generating Unit

The power plant in San Filippo del Mela includes two plants: SFM 150 kV (group 1) and SFM 220 kV (groups 2, 5 and 6).

The impairment tests carried out in previous years assumed to be able to keep the essence regime of the plants of the power plant in San Filippo del Mela until the end of 2016.

With Resolution 803/2016 of December 28, 2016, the Authority recognized the San Filippo del Mela plant among the essential plants permitted to perform reinstatement of costs for the contract period with Terna that will cover the 2017-2021 five-year period. From the plant point of view, the Group's request for admission to the reinstatement only concerned the 220-kV plant (UP SF2, UP SF5, UP SF6) with the provision of the 150-kV plant (UP SF1) as reserve of the UP SF2.

Considering the improvement scenario with respect to as assumed for the impairment tests performed in previous years, it was deemed appropriate to subject the "San Filippo del Mela" CGU to impairment testing also for the year 2016 to verify whether the assessment of the independent expert of 2014 and 2015 is still valid in light of the profitability prospects of resolution 803/2016, which recognizes the essentiality of the plants for the five-year period 2017-2021.

In determining the value in use of the "San Filippo del Mela" CGU, the 2017-2021 Plan was used. The estimated value in use is based on a definite useful life scenario until 2021.

For the "San Filippo del Mela" CGU, there were no specific assumptions on the performance of revenues from capacity payments in view of the incompatibility between the current mechanism of cost reinstatement and potential mechanism of capacity market.

It is noted that, for the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

CGU - Thermoelectric plant San Filippo del Mela	Values in Millions of euro at 12 31 2016	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2016	-	9.9%	0.0%	51	51

CGU - Thermoelectric plant San Filippo del Mela	Values in Millions of euro at 12 31 2015	WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2015	25	9.0%	0.0%	25	-

The result of the impairment test carried out on the CGU led to a reversal of 51 million euro.

3) Shareholdings and other non-current financial assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Shareholdings carried according to equity method	68	4	(5)	67	-	-
Other non-current financial assets	69	28	(28)	69	*57*	*56*
Total shareholdings and other non-current financial assets	**137**	**32**	**(33)**	**136**	***57***	***56***

The following table sets out details of the changes:

Shareholdings carried according to equity method - *Millions of euro*	**Total**
Balance at December 31, 2015	**68**
First-time consolidation effect acquisitions 2016	**4**
Changes during the year:	
- acquisitions and capital increases	
- valuations at equity	(4)
- write-downs	
- dividends received from shareholdings in companies carried at equity	(1)
- sales	
- other changes	
- reclassifications	
Total changes for the year	**(5)**
Balance at December 31, 2016	**67**

The change in “Shareholdings carried according to equity method” includes 4 million euro for the positive effect of the first-time consolidation of the LGH Group, 8 million euro for the negative valuation in equity mainly deriving from the variation of the shareholdings in Premiumgas and in the company Rudnik Uglja Ad Pljevlja, for 4 million euro the positive valuations of the shareholding in ACSM-AGAM S.p.A. and the shareholding in Metamer, and 1 million euro for the negative change from the collection of dividends.

The details of the shareholdings are provided in annex no. 4 “List of shareholdings in companies carried at equity”.

“Other non-current financial assets” had a balance of 69 million euro at December 31, 2016 (69 million euro at December 31, 2015). The first-time consolidation effect related to the acquisitions in 2016 led to a positive change of 28 million euro, while changes in the year showed a decrease of 28 million euro. These assets include 56 million euro for medium/long-term financial receivables of which 13 million euro related to the LGH Group, consisting mainly of the non-current portion of financial receivables from minority shareholders and third parties, and 42 million euro related to financial receivables for medium/long-term deposits mainly of the subsidiary EPCG, 1 million euro in financial assets with companies subject to disposal, as well as 13 million euro of investments in other companies, including the first-time consolidation effect of the LGH Group for 5 million euro; for details, reference is made to annex no. 5 "List of financial assets available for sale".

4) Deferred tax assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016
Deferred tax assets	308	9	46	363

"Deferred tax assets" amounted to 363 million euro (308 million euro at December 31, 2015), the positive change related to the first-time consolidation effect of acquisitions in 2016 amounted to 9 million euro. This item consists of the net balance of IRES and IRAP deferred tax assets and liabilities arising from changes and accruals made solely for fiscal purposes. The recoverability of "Deferred tax assets" recorded in the financial statements is considered likely, as the future plans envisage taxable income sufficient to use the deferred tax assets.

At December 31, 2016, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net ("offsetting") as per IAS 12 standards.

The following tables sets out the main deferred tax assets and liabilities.

Millions of euro **Detail of deferred tax assets and liabilities**	Consoli-dated financial statements at 12 31 2015	First-time consolid. effect Acquisit. 2016	Accruals (A)	Utilizations (B)	Adjustment Rates (C)	Total (A+B+C)	IAS 39 at Equity Net	IAS 19 Revised at Equity Net	Other changes/ Reclass./ Mergers	Consoli-dated financial statements at 12 31 2016
Deferred tax liabilities										
Measurement differences for tangible assets	701	6	18	(99)	-	(81)	-	-	-	626
Application of the leasing standard (IAS 17)	6		-	-	-	-	-	-	-	6
Application of the financial instrument standard (IAS 39)	-		-	-	-	-	-	-	-	-
Measurement differences for intangible assets	(4)	13	-	-	-	-	-	-	-	9
Deferred capital gains	-		-	-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	4		-	-	-	-	-	-	-	4
Goodwill	94	4	1	(7)	-	(6)	-	-	(49)	43
Other deferred tax liabilities	(15)	5	1	(4)	-	(3)	-	-	16	3
Total deferred tax liabilities (A)	**786**	**28**	**20**	**(110)**	**-**	**(90)**	**-**	**-**	**(33)**	**691**
Deferred tax assets										
Taxed risk provisions	113	4	25	(19)	-	6	-	4	-	127
Measurement differences for tangible assets	618	-	59	(56)	-	3	-	-	-	621
Application of the financial instrument standard (IAS 39)	32	2	-	-	-	-	(8)	-	-	26
Bad debts provision	7	7	8	(10)	-	(2)	-	-	-	12
Measurement differences for intangible assets		6	-	(1)	-	(1)	-	-	-	5
Grants	12	7	-	-	-	-	-	-	-	19
Goodwill	308	1	-	(60)	-	(60)	-	-	(33)	216
Other deferred tax assets	4	10	33	(19)	-	14	-	--	-	28
Total deferred tax assets (B)	**1,094**	**37**	**125**	**(165)**	**-**	**(40)**	**(8)**	**4**	**(33)**	**1,054**
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	**308**	**9**	**105**	**(55)**	**-**	**50**	**(8)**	**4**	**-**	**363**

5) Other non-current assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Non-current derivatives	-	1	3	4	-	4
Other non-current assets	6	3	(1)	8	-	-
Total other non-current assets	**6**	**4**	**2**	**12**	**-**	**4**

At December 31, 2016, the item showed an increase of 2 million euro compared to the previous year, net of the first-time consolidation effect of acquisitions in 2016, positive for 4 million euro.

“Non-current derivatives” amounted to 4 million euro (no value at December 31, 2015) and refer to the fair value valuation of a financial instrument at the end of the year; at December 31, 2015, said derivative instrument had a fair value valuation recognized under non-current liabilities.

“Other non-current assets” amounted to 8 million euro and, net of the first-time consolidation effect of acquisitions in 2016, positive for 3 million euro, were down 1 million euro over December 31, 2015 and they essentially consist of security deposits and costs already incurred, however pertaining to future years.

Current assets

6) Inventories

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016
- Materials	*86*	*12*	*(2)*	*96*
- Material obsolescence provision	*(26)*	*-*	*(4)*	*(30)*
Total materials	60	12	(6)	66
- Fuel	99	-	(22)	77
- Others	22	8	(21)	9
Raw and ancillary materials and consumables	**181**	**20**	**(49)**	**152**
Third-party fuel	**3**	**-**	**4**	**7**
Total inventory	**184**	**20**	**(45)**	**159**

“Inventories” amounted to 159 million euro (184 million euro at December 31, 2015), net of the related obsolescence provision for 30 million euro (26 million euro at December 31, 2015). The increase in the obsolescence provision refers to the write-down of material inventories of the warehouses of the power plants.

Inventories, net of the first-time consolidation effect of acquisitions in 2016, positive for 20 million euro, showed the following overall negative changes for 45 million euro:

- 22 million euro relating to the decrease in fuel stocks, which at December 31, 2016 totalled 77 million euro compared to 99 million euro at December 31, 2015;
- 21 million euro for the decrease in other inventories, which at December 31, 2016, amounted to 9 million euro, mainly related to the first-time consolidation of the LGH Group, against 22 million euro at December 31, 2015, which referred to inventories of environmental certificates of the trading portfolio;
- 6 million euro relating to the decrease in materials stocks, which totalled 66 million euro including the first-time consolidation effect of acquisitions in 2016 for 12 million euro compared to 60 million euro at December 31, 2015;
- 4 million euro due to an increase in fuel at third parties, which amounted to 7 million euro at December 31, 2016 and 3 million euro at the end of the previous year.

7) Trade receivables

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016
Trade receivables invoices issued	1,066	200	(212)	1,054
Trade receivables invoices to be issued	734	97	289	1,120
(Bad debts provision)	(315)	(44)	6	(353)
Total trade receivables	**1,485**	**253**	**83**	**1,821**

At December 31, 2016, "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 of 253 million euro. In detail, the changes were as follows:

- 75 million euro due to an increase in trade receivables from customers; this item had a balance of 1,726 million euro at the reporting date, including the first-time consolidation effect of acquisitions in 2016 for 252 million euro compared to 1,399 million euro at December 31, 2015;
- 7 million euro due to an increase in receivables from associates, which totalled 12 million euro including the first-time consolidation effect of acquisitions in 2016 for 1 million euro;
- 1 million euro due to the increase in projects underway; this item had a balance of 4 million euro at the reporting date compared to 3 million euro at December 31, 2015.

The Group makes spot sales of receivables on a non-recourse basis. At December 31, 2016, the receivables which had not yet fallen due, sold by the Group on a definitive basis and derecognized in accordance with the requirements of IAS 39, amounted to 43 million euro in total (101 million euro at December 31, 2015). At the date of publication of this Consolidated Annual Financial Report, these receivables amount to 13 million euro (8 million euro at December 31, 2015). The sale is related to trade receivables. The Group has no rotating factoring programs.

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 net decrease of 6 million euro compared to December 31, 2015. This provision is considered adequate to cover the risks to which it relates.

The changes in the bad debt provision are outlined in the following table:

Millions of euro	Balance at 12 31 2015	First-time consolid. effect acquisit. 2016	Accruals	Utilizations	Others Changes	Balance at 12 31 2016
Bad debts provision	315	44	24	(30)	-	353

The following is the aging of trade receivables:

Millions of euro	12 31 2015	12 31 2016
Trade receivables of which:	1,485	1,821
Current	556	456
Past due of which:	510	598
- Past due up to 30 days	56	94
- Past due from 31 to 180 days	59	72
- Past due from 181 to 365 days	45	45
- Past due over 365 days	350	387
Invoices to be issued	734	1,120
Bad debts provision	(315)	(353)

8) Other current assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Current derivatives	55	1	209	265	*16*	-
Other current assets of which:	128	26	(31)	123		
- receivables from Cassa per i Servizi Energetici e Ambientali	52	2	(14)	40		
- advances to suppliers	7	3	1	11		
- receivables from employees	1			1		
- tax receivables	4	8		12		
- receivables related to future years/periods	12	4	(2)	14		
- receivables from Ergosud	19		(10)	9		
- receivables from social security entities	3			3		
- Stamp office	1		(1)	-		
- receivables for damage compensation	1			1		
- receivables for water derivation fees	1		(1)	-		
- receivables for COSAP advances	5			5		
- sundry receivables EPCG	12		1	13		
- receivables for security deposits	1			1		
- receivables for RAI fee	-		3	3		
- sundry receivables for hedging	-		3	3		
- other sundry receivables	9	9	(11)	7		
Total other current assets	183	27	178	388	*16*	-

"Other current assets" show a balance of 388 million euro compared to 183 million euro at December 31, 2015, an increase of 178 million euro, net of the first-time consolidation effect of acquisitions for 27 million euro.

"Current derivative instruments" increased by 209 million euro, net of the first-time consolidation effect of 1 million euro, related to the increase in commodity derivatives mainly due to the change in the fair value valuation at the end of the year in question; financial hedging derivatives are equal to zero considering the redemption of the bond maturing in the year to which they referred.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 40 million euro (52 million euro at December 31, 2015), mainly refer to receivables for equalizations pertaining to both 2016 and 2015, outstanding receivables for equalizations pertaining to previous years, net of collections made during the reporting year.

Tax receivables, amounting to 12 million euro, mainly relate to tax receivables from the tax authorities for VAT, excise and withholding taxes.

Receivables from Ergosud, amounting to 9 million euro (19 million euro at December 31, 2015) refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by AEEGSI Resolutions no. ARG/elt 194/10 and no. 117/10.

9) Current financial assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Other financial assets	165	17	24	206	*165*	*206*
Financial assets from related parties	6	3	1	10	*6*	*10*
Financial assets from assets held for sale	-	-	2	2	*-*	*2*
Total current financial assets	**171**	**20**	**27**	**218**	***171***	***218***

The item showed a balance of 218 million euro (171 million euro at December 31, 2015) including the first-time consolidation effect of acquisitions in 2016 for 20 million euro. This item mainly includes 190 million euro for financial receivables of the EPCG Group related to freely available interest-bearing bank deposits and 17 million euro of financial receivables of the LGH Group from minority shareholders and third parties.

10) Current tax assets

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016
Current tax assets	71	5	(6)	70

"Current tax assets" amounted to 70 million euro (71 million euro at December 31, 2015), with a decrease of 6 million euro compared to the previous year, net of the first-time consolidation effect of acquisitions in 2016 for 5 million euro. This item consists of receivables from the tax authorities for IRES (31 million euro) mainly relating to requests for reimbursement as a result of IRAP deductibility for IRES, IRAP (19 million euro) mainly relating to the requests for reimbursement as a result of the recognition of the status of industrial holding for A2A S.p.A. in the previous year and for Robin Tax (20 million euro) relating to the credit requests for reimbursement/compensation.

11) Cash and cash equivalents

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Cash and cash equivalents	636	86	(320)	402	*636*	*402*

"Cash and cash equivalents" at December 31, 2016 represent the sum of the Group's bank and postal asset balances, of which 66 million euro relating to the EPCG Group and 26 million euro related to the LGH Group.

Bank deposits include interest accrued even if it was not credited by the end of the financial year under review.

12) Non-current assets held for sale

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Non-current assets held for sale	205	1	(200)	6	*38*	*1*

At December 31, 2016, "Non-current assets held for sale" show a balance of 6 million euro and refer to 4 million euro for the reclassification of assets owned by the company Bellisolina S.r.l. held for sale, pursuant to IFRS 5, to 1 million euro for assets held for sale of the EPCG Group and to 1 million euro for assets held for sale of the LGH Group regarding the business unit for municipal sanitation activities of the Lodi area.

At December 31, 2015, this item included 203 million euro, which related to certain assets and asset items of Edipower S.p.A. reclassified in accordance with IFRS 5, in application of the non-proportional, partial demerger of Edipower S.p.A. stipulated on December 28, 2015; the transaction became effective on January 1st, 2016 as further described in the paragraph "Significant events during the year".

EQUITY AND LIABILITIES

Equity

"Equity", which amounted to 3,271 million euro at December 31, 2016 (3,259 million euro at December 31, 2015), is set out in the following table:

Millions of euro	Balance at 12 31 2015	Changes during the year	Balance at 12 31 2016
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(61)	7	(54)
Reserves	1,005	(87)	918
Group result of the year	73	151	224
Total equity pertaining to the Group	**2,646**	**71**	**2,717**
Minority interests	613	(59)	554
Total equity	**3,259**	**12**	**3,271**

The overall changes in 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.

13) Share capital

"Share capital" amounts to 1,629 million euro and consists of 3,132,905,277 ordinary shares each of nominal value 0.52 euro.

14) Treasury shares

"Treasury shares" amounted to 54 million euro (61 million euro at December 31, 2015) and consist of 23,721,421 treasury shares held by the parent company A2A S.p.A. (26,917,609 treasury shares at December 31, 2015). In February and March 2016, the parent company A2A S.p.A. had purchased 35,000,000 treasury shares with a total value of 37 million euro as part of the buy back program approved by the Shareholders' Meeting on June 11, 2015. Treasury shares acquired during the year and a further portion already held in the previous year were used as part of the payment for the purchase of 51% of the share capital of LGH S.p.A. by A2A S.p.A. in August 2016 with a total value of 47 million euro. The adjustment of the value of treasury shares at cost value, compared to the market value on the transaction date, resulted in a positive change of 3 million euro, which was recognized as a balancing entry in equity reserves as required by IAS/IFRS international standards.

15) Reserves

Millions of euro	Balance at 12 31 2015	Changes during the year	Balance at 12 31 2016
Reserves	**1,005**	**(87)**	**918**
of which:			
Change in the fair value of cash flow hedge derivatives	(33)	31	(2)
Tax effect	8	(8)	-
Cash flow hedge reserves	**(25)**	**23**	**(2)**
Change in the IAS 19 Revised reserve - Employee Benefits	(64)	37	(27)
Tax effect	16	(7)	9
IAS 19 Revised reserve - Employee Benefits	**(48)**	**30**	**(18)**

“Reserves”, which amounted to 918 million euro (1,005 million euro at December 31, 2015), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the negative cash flow hedge reserve of 2 million euro which arises from the year-end measurement of derivatives qualifying for hedge accounting.

The balance also includes negative reserves of 18 million euro arising from the adoption of IAS 19 Revised “Employee Benefits” which requires actuarial profits and losses to be recognized directly in an equity reserve.

The effects, at January 1, 2016, of the non-proportional, partial demerger of Edipower S.p.A. to Cellina Energy S.r.l. resulted in a decrease in Group equity of 39 million euro.

Reconciliation between the result of the year of A2A S.p.A. and the Group result of the year

Millions of euro	**2016**	**2015**
Result of the year of A2A S.p.A.	**274**	**(73)**
Intra-group dividends eliminated from the consolidated financial statements	(477)	(257)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	362	235
Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	55	214
Other consolidation adjustments	10	(46)
Group result of the year	**224**	**73**

Reconciliation between the equity of A2A S.p.A. and equity pertaining to the Group

Millions of euro	**12 31 2016**	**12 31 2015**
Equity pertaining to A2A S.p.A.	**2,316**	**2,162**
- Elimination of the portion of the equity reserve resulting from profit on intra-group operations for the transfer of business units	(406)	(410)
- Retained earnings/(accumulated losses)	910	768
- Intra-group dividends eliminated from the consolidated financial statements	(477)	(257)
- Result of subsidiaries not included in the financial statements of A2A S.p.A.	362	235
- Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	55	214
Other consolidation adjustments	(43)	(66)
Equity pertaining to the Group	**2,717**	**2,646**

16) Result of the year

This item consists of a profit of 224 million euro, representing the result for the year.

17) Minority interests

Millions of euro	Balance at 12 31 2015	Changes during the year	Balance at 12 31 2016
Minority interests	**613**	**(59)**	**554**

"Minority interests" amounted to 554 million euro (613 million euro at December 31, 2015) and represent the portion of capital, reserves and result pertaining to minority shareholders related to third-party shareholders of EPCG and the LGH Group.

The decrease for the year of 59 million euro is mainly related to the effects of the non-proportional, partial demerger of Edipower S.p.A. to Cellina Energy S.r.l., which led to the full possession of the shareholding in Edipower S.p.A. held by the Parent Company A2A S.p.A. and the consequent reduction in interest of minority shareholders, in part adjusted by the portions due to the minority shareholders of the LGH Group and by the result of the year due to the minority shareholders of EPCG.

LIABILITIES

Non-current liabilities

18) Non-current financial liabilities

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Non-convertible bonds	2,431	294	(245)	2,480	*2,431*	*2,480*
Payables to banks	657	139	150	946	*657*	*946*
Finance lease payables	1	4	-	5	*1*	*5*
Payables to other lenders	-	4	1	5		*5*
Total non-current financial liabilities	**3,089**	**441**	**(94)**	**3,436**	***3,089***	***3,436***

"Non-current financial liabilities" amounted to 3,436 million euro (3,089 million euro at December 31, 2015) of which 66 million euro of EPCG and, excluding the first-time consolidation effect of acquisitions in 2016 equal to 441 million euro, showed a net decrease of 94 million euro.

"Non-convertible bonds" regard the following bonds, accounted for at amortized cost:

- 565 million euro, maturing in November 2019 and a coupon of 4.50%, the nominal value of which at December 31, 2016, net of the partial repurchase in December 2016 for 182 million euro nominal, is equal to 567 million euro;
- 427 million euro, maturing in January 2021 and a coupon of 4.375%, the nominal value of which at December 31, 2016, net of the partial repurchase in December 2016 for 70 million euro nominal, is equal to 430 million euro;
- 497 million euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500 million euro;
- 299 million euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300 million euro;
- 297 million euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300 million euro;
- 98 million euro, Private Placement in yen maturing August 2036 and 5.405% fixed rate.
- 297 million euro, related to the LGH Group, maturing in November 2018 and coupon of 3.875%, the nominal value of which is equal to 300 million euro.

The decrease in the non-recurring item of "Non-convertible bonds", equal to 245 million euro compared to December 31, 2015, is due to the partial repurchase of the bonds maturing 2019 and 2021 performed in line with the Group's strategy aimed at optimizing the timing of maturities.

Non-current "Payables to banks" amounted to 946 million euro, an increase of 150 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2016 equal to 139 million euro. This increase is mainly due to the use by EPCG of BEI loans and a portion of the EBRD loan.

"Finance lease payables" amounted to 5 million euro (1 million euro at December 31, 2015) and mainly refer to the consolidation of 2016 acquisitions.

Lastly, "Payables to other lenders" amounted to 5 million euro and referred mainly to the LGH Group.

19) Employee benefits

At the reporting date, this item amounted to 365 million euro (332 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 22 million euro and changed as follows:

Millions of euro	Balance at 12 31 2015	First-time consolid. effect acquisit. 2016	Provisions	Utilizations	Others Changes	Balance at 12 31 2016
Employee leaving entitlement (TFR)	164	20	26	(13)	(21)	176
Employee benefits	168	2		(9)	28	189
Total employee benefits	**332**	**22**	**26**	**(22)**	**7**	**365**

Other changes mainly refer to payments made to INPS and supplementary pension funds, as well as to the recognition of actuarial differences that include the increase resulting from the service cost for 1 million euro, the increase resulting from the interest cost for 4 million the euro and the increase resulting from actuarial gains/losses for 26 million euro.

Technical valuations were carried out on the basis of the following assumptions:

	2016	2015
Discount rate	from 0.0% to 1.3%	from 0.24% to 2.03%
Annual inflation rate	from 1.5% to 2.0%	from 1.5% to 2.0%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	from 2.6% to 3.0%	from 2.6% to 3.0%
Average annual increase rate of supplementary pensions	1.1%	1.5%
Annual turnover frequencies	from 2.0% to 5.0%	from 2.0% to 5.0%
Annual TFR advance frequencies	from 2.0% to 2.5%	from 2.0% to 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the curve relative to the inflation rate under the current economic situation, which has particular volatility of the majority of economic indicators, was changed as shown in the table. This hypothesis was derived from the "Document of Economics and Finance 2015 - Update September 2015 Sect. II-Tab II.2" issued by the MEF and "The medium/long-term trends in the pension and social-health system - Report no. 16" published by the State General Accounting Office;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;
- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;
- for the demographic technical bases, it is noted that:
  - for "death", the tables TG62 (Premungas) and AS62 (other plans) were used;
  - for "inability", the INPS tables divided by age and gender were used;
  - for "retirement", the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance).
  - for the "probability of leaving the family", the table in the INPS model was used for projections to 2010;
  - for the "frequency of the various structures of surviving nuclei and average age of members", the table in the INPS model was used for projections to 2010.

20) Provisions for risks, charges and liabilities for landfills

Millions of euro	Balance at 12 31 2015	First-time consolid. effect acquisitions 2016	Provisions	Releases	Utilizations	Others changes	Balance at 12 31 2016
Decommissioning provisions	170	32		(1)	(2)	11	210
Landfill closing and post-closing expense provisions	145	32	2	(2)	(5)	13	185
Tax provisions	59		19	(19)	(7)	(4)	48
Personnel lawsuits and disputes provisions	131	4	19	(5)	(40)	2	111
Other risk provisions	71	6	53	(5)	(12)	1	114
Provisions for risks, charges and liabilities for landfills	**576**	**74**	**93**	**(32)**	**(66)**	**23**	**668**

"Decommissioning provisions", which amounted to 210 million euro, including the first-time consolidation effect of acquisitions in 2016 for 32 million euro, include charges for costs of dismantling and recovery of production sites mainly related to thermoelectric plants and waste-to-energy plants. The changes for the year concerned releases for 1 million euro, uses for 2 million euro, to cover the expenses incurred during the reporting year and other increases for 11 million euro, which refer mainly to the effects of the updates of the discount rates used to estimate the future costs of dismantling and restoration of the sites having "Tangible assets" as balancing entry.

The "Landfill closing and post-closing expense provisions", which amounted to 185 million euro, including the first-time consolidation effect of acquisitions in 2016 for 32 million euro, refer to all the costs that will have to be incurred in the future for the sealing of the landfills in cultivation at the reporting date and for the subsequent post-operative management, thirty-year and fifty-year, provided by the AIA (Integrated Environmental Authorization). The changes for the year concerned provisions of 2 million euro related to the effects of the updates of the discount rates in relation to assets fully depreciated, the effect of which was recognized in the Income Statement, releases for 2 million euro, uses for 5 million euro, which represent the actual outlays of the year, and other changes, positive for 13 million euro, mainly relating to the constitution of the expenses costs for closure and post-closure for the start-up of the bioreactor of Giussago, as well as the effects of the updates of the discount rates of assets not fully depreciated and that have "Tangible assets" as balancing entry.

"Tax provisions", which amounted to 48 million euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for direct and indirect taxes, levies and excises. Provisions for the year, for 19 million euro, were mainly related to the ICI/IMU and COSAP dispute with territorial entities as well as new tax audits opened in the year under review. Releases, for 19 million euro, mainly refer to the conclusion of some ICI/IMU disputes and the dispute concerning the technical verification of the waste-to-energy plant in Brescia. Utilizations, for 7 million euro, refer to disbursements in the year due mainly to the subscription of transactions with territorial entities, with regard to pending litigation or pre-litigation. Other changes, negative for 4 million euro, refer to the reclassification under “Other payables” of the certain portion that will be paid in future years in respect of disputes transacted and concluded with the territorial entities.

The “Personnel lawsuits and disputes provisions” amounted to 111 million euro, including the first-time consolidation effect of acquisitions in 2016 for 4 million euro and mainly refer to lawsuits pending with social security institutions, for 32 million euro, related to social security contributions that the Group believes it is not required to pay and for which specific disputes are pending, to lawsuits with third parties, for 75 million euro, and with employees, for 4 million euro, to cover the liabilities that could arise from litigations in progress. Provisions for the year, amounting to 19 million euro, and releases for the year, for 5 million euro, refer to the provisions related to litigation with third parties and the provision for the ongoing litigation with social security institutions. Uses, for 40 million euro, mainly refer to the payment made in respect of the ongoing lawsuit with Pessina Costruzioni in relation to the dispute for Asm Novara S.p.A. as further described in the paragraph “Other information – Asm Novara S.p.A. dispute”.

“Other provisions”, which amounted to 114 million euro, including the first-time consolidation effect of acquisitions in 2016 for 6 million euro, mainly refer to provisions relating to public water derivation fees for 30 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 3 million euro, to the provision for extraordinary maintenance of the waste-to-energy plant in Acerra, for 16 million euro, to the risks provision related to EPCG, for 17 million euro, as well as other provisions for 48 million euro. Provisions for the year amounted to 53 million euro and mainly concerned the provision made to cover contractual expenses, the provision for public water derivation fees, the provision for the non-routine maintenance of the Acerra waste-to-energy plant, as well as provisions of EPCG. Releases for the year amounted to 5 million euro. Uses amounted to 12 million euro and mainly refer to public water derivation fees. Other changes were positive for 1 million euro.

21) Other non-current liabilities

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Other non-current liabilities	72	10	11	93	-	-
Non-current derivatives	27	8	(16)	19	*27*	*19*
Total other non-current liabilities	**99**	**18**	**(5)**	**112**	***27***	***19***

At December 31, 2016, this item showed a decrease of 5 million euro compared to the previous year, excluding the first-time consolidation effect of acquisitions in 2016 for 18 million euro.

"Non-current derivatives" amounted to 19 million euro and, excluding the first-time consolidation effect of acquisitions in 2016, positive for 8 million euro, showed a negative change of 16 million euro compared to the previous year-end mainly due to the change in the fair value valuation of financial instruments at year-end and to the reclassification to the item "Other non-current assets" of a derivative, which at December 31, 2016, showed an asset fair value, while at December 31, 2015, it was a liability.

"Other non-current liabilities", which showed a balance of 93 million euro, including the first-time consolidation effect of acquisitions in 2016 for 10 million euro, mainly refer to security deposits from customers, for 60 million euro, to liabilities pertaining to future years for 8 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 21 million euro, which mainly include the effect of entry of earn-out clauses envisaged in the contracts signed for the acquisition of new investments during the year.

Current liabilities

22) Trade payables and other current liabilities

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Advances	5		(2)	3		
Payables to suppliers	1,165	163	53	1,381		
Total trade payables	**1,170**	**163**	**51**	**1,384**	**-**	**-**
Payables to social security institutions	37	2	-	39		
Current derivatives	51	1	201	253	7	
Other current liabilities of which:	433	59	(40)	452	-	-
- Payables to personnel	72	7	2	81		
- Payables to Cassa per i Servizi Energetici e Ambientali	100		(28)	72		
- Tax payables	44	35	(21)	58		
- Payables for tax transparency	8		(1)	7		
- Payables for energy tariff components	105		10	115		
- Payables to third-party shareholders EPCG	20		-	20		
- Payables to third-party shareholders LGH	-	3	2	5		
- Payables for A.T.O.	7		(1)	6		
- Payables to customers for work to be performed	14	2	(4)	12		
- Payables to customers for interest on security deposits	3		-	3		
- Payables for liabilities of competence of following years/periods	21	2	2	25		
- Payables for auxiliary services	1		-	1		
- Payables for collections to be allocated	8		1	9		
- Payables to insurance companies	3		-	3		
- Payables for damage compensation to third parties	2		(2)	-		
- Payables to waterway municipalities	1		-	1		
- Payables for excise compensation	6		-	6		
- Payables for environmental compensation	3		(1)	2		
- Payables for RAI fee	-		6	6		
- Sundry payables	15	10	(5)	20		
Total other current liabilities	**521**	**62**	**161**	**744**	**7**	**-**
Total trade payables and other current liabilities	**1,691**	**225**	**212**	**2,128**	**7**	**-**

"Trade receivables and other current liabilities" amounted to 2,128 million euro (1,691 million euro at December 31, 2015), representing an increase of 212 million euro, excluding the first-time consolidation effect of acquisitions in 2016 for 225 million euro.

"Trade receivables" amounted to 1,384 million euro and compared to the closing of the previous year, represent an increase of 51 million euro, excluding the first-time consolidation effect of acquisitions in 2016 for 163 million euro.

"Payables to social security institutions" amounted to 39 million euro (37 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 2 million euro, and relate to the Group's debt position with social security and pension institutions, related to contributions of the month of December 2016 not yet paid.

"Current derivatives" amounted to 253 million euro (51 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 1 million euro and refer to the fair value measurement of both commodity derivatives and financial hedging derivative, mainly in relation to Interest Rate Swap (IRS) contracts to hedge the risk of adverse changes in interest rates on bonds due within the year. The increase is essentially due to the increase in commodity derivatives for the fair value measurement of the year.

"Other current liabilities" mainly refer to:

- payables to employees for 81 million euro (72 million euro at 31 December, 2015), including the first-time consolidation effect of acquisitions in 2016 for 7 million euro, relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2016;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 72 million euro at December 31, 2016 (100 million euro at December 31, 2015) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the year under review;
- tax payables for 58 million euro (44 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 35 million euro, and mainly refer to payables to the tax authority for excise duty and withholding taxes;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A. (8 million euro at December 31, 2015);
- payables for electricity tariff components for 115 million euro at December 31, 2016 (105 million euro at December 31, 2015);
- payables to minority shareholders of EPCG for 20 million euro, reclassified in the previous year from "Minority interests";
- payables for A.T.O. for 6 million euro (7 million euro at December 31, 2015) relating to the payment of the fee for concessions regarding the management of the water service;
- payables to customers for work to be performed for 12 million euro (14 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 2 million euro. They refer to estimates already paid by customers for work that has not been completed yet;
- payables to customers for interest on security deposits accrued but not yet paid for 3 million euro, unchanged over the previous year;

- payables for the following year/period liabilities for 25 million euro (21 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 2 million euro relating to the suspension of portions of costs and revenues relating to future periods;
- payables for ancillary services, amounting to 1 million euro, unchanged over the previous year, relating to the remaining debt on the dispute with the CSEA for ancillary services on the waste-to-energy plant in Filago.

23) Current financial liabilities

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Non-convertible bonds	571	11	(535)	47	*571*	*47*
Payables to banks	119	45	139	303	*119*	*303*
Finance lease payables	1	3	(2)	2	*1*	*2*
Financial payables to related parties	1		1	2	*1*	*2*
Payables to other lenders	-	4	1	5	*-*	*5*
Total current financial liabilities	**692**	**63**	**(396)**	**359**	***692***	***359***

"Current financial liabilities" amounted to 359 million euro compared to 692 million euro recorded at December 31, 2015 and, excluding the first-time consolidation effect of acquisitions in 2016 for 63 million euro, showed a decrease of 396 million euro.

"Non-convertible bonds", excluding the first-time consolidation effects of acquisitions in 2016 for 11 million euro, showed a decrease of 535 million euro mainly due to the redemption of the bond maturing November 2016.

Interest of 47 million euro (53 million euro at December 31, 2015) accrued on the bonds at December 31, 2016, of which 1 million euro related to the consolidation of the LGH Group.

Current "Payables to banks" amounted to 303 million euro and, excluding the first-time consolidation effects of acquisitions in 2016 for 45 million euro, showed an increase of 139 million euro mainly due to the use of credit lines for 200 million euro.

Lastly, payables to other lenders amounted to 5 million euro and, excluding the first-time consolidation effects of acquisitions in 2016 equal to 4 million euro, showed an increase of 1 million euro.

24) Tax liabilities

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016
Tax liabilities	43	3	(13)	33

"Tax liabilities" amounted to 33 million euro (43 million euro at December 31, 2015), including the first-time consolidation effect of acquisitions in 2016 for 3 million euro, and showed a net decrease of 13 million euro over the previous year-end.

25) Liabilities directly associated with non-current assets held for sale

Millions of euro	Balance at 12 31 2015	First-time consolidation effect acquisitions 2016	Changes during the year	Balance at 12 31 2016	*of which included in the NFP*	
					12 31 2015	*12 31 2016*
Liabilities directly associated with non-current assets held for sale	20	2	(15)	7	-	3

At December 31, 2016, this item amounted to 7 million euro and refers to the liabilities directly associated with non-current assets held for sale of the company Bellisolina S.r.l. and the LGH Group concerning the business unit for municipal sanitation activities of the Lodi area.

At December 31, 2015, this item amounted to 20 million euro and related mainly to the reclassification, pursuant to IFRS 5, of deferred tax liabilities of Edipower S.p.A. in connection with the non-proportional, partial demerger of the same.

Net debt

26) Net debt

(pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006 and ESMA/2013/319)

The following table provides details of net debt.

Millions of euro	Notes	12 31 2016	First-time consolidation effect acquisit. 2016	12 31 2015
Bonds - non-current portion	18	2,480	294	2,431
Bank loans - non-current portion	18	946	139	657
Finance leases - non-current portion	18	5	4	1
Non-current amounts due to other providers of finance	18	5	4	-
Other non-current liabilities	21	19	7	27
Total medium/long-term debt		**3,455**	**448**	**3,116**
Non-current financial assets - related parties	3	(7)	-	(5)
Non-current financial assets	3	(48)	(23)	(52)
Financial receivables due from companies held for sale	3	(1)	-	-
Other non-current assets	5	(4)	-	-
Total medium/long-term financial receivables		**(60)**	**(23)**	**(57)**
Total non-current net debt		**3,395**	**425**	**3,059**
Bonds - current portion	23	47	11	571
Bank loans - current portion	23	303	45	119
Finance leases - current portion	23	2	3	1
Current amounts due to other providers of finance	23	5	4	-
Current financial liabilities - related parties	23	2	-	1
Other current liabilities	22	-	-	7
Financial payables in liabilities held for sale	25	3	-	-
Total short-term debt		**362**	**63**	**699**
Other current financial assets	9	(206)	(17)	(165)
Current financial assets - related parties	9	(10)	(3)	(6)
Other current assets	8	-	-	(16)
Financial receivables due from companies held for sale	9	(2)	-	-
Total short-term financial receivables		**(218)**	**(20)**	**(187)**
Cash and cash equivalents	11	(402)	(86)	(636)
Cash and cash equivalents included in assets held for sale	12	(1)	-	(38)
Total current net debt		**(259)**	**(43)**	**(162)**
Net debt		**3,136**	**382**	**2,897**

The Group's net debt includes the positive net financial position of the EPCG Group for 201 million euro (152 million euro at December 31, 2015).

Notes to the income statement

It is noted that the consolidation scope at December 31, 2016 changed compared to the previous year for to the following operations:

- at January 1, 2016, the partial non-proportional demerger of Edipower S.p.A. came into effect related to the “Cellina Unit” in favour of Cellina Energy S.r.l. (company wholly owned by Società Elettrica Altoatesina S.p.A.) in application of the demerger deed stipulated by the parties on December 28, 2015;
- in April 2016, the A2A Group, through Aprica S.p.A., subsidiary of A2A Ambiente S.p.A., acquired the majority shareholding of 64% of the company LA BI.CO DUE S.r.l., a company operating in municipal sanitation services in the Province of Brescia and the latter has been fully consolidated as of April;
- in July 2016, the A2A Group signed, through its subsidiary A2A Ambiente S.p.A., the deed for the purchase of the shares of the RI.ECO-RESMAL Group companies operating in the collection, sorting and recovery of non-hazardous special waste, plastic, biomass and in particular waste paper, with production facilities in the area of Milan and the latter has been fully consolidated as of August;
- in August 2016, A2A, AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema finalized the industrial partnership envisaged in the contract signed on March 4, 2016, through the purchase, by A2A, of 51% of the share capital of LGH, a company operating in environmental activities, in the distribution and sale of electricity and gas and the latter has been fully consolidated as of August;
- on October 20, 2016, A2A Calore & Servizi S.r.l. acquired 75% of the shareholding in Consul System S.p.A., whose main activity is technical and engineering consultancy relating to Energy Efficiency Certificates and Kyoto Flexible Mechanisms; the company has been fully consolidated since November;
- the relative income statement items for operating revenues and expense and the financial balance of the company Bellisolina S.r.l. held 100% by A2A Ambiente S.p.A., previously fully consolidated, were reclassified, as it is a discontinued operation in accordance with IFRS 5, to the item “Net result from discontinued operations”, following the management’s decision to divest. It is pointed out that the impact on the income statement of this reclassification is not significant as it is less than one million euro.

As a result of this, the figures in the income statement at December 31, 2016 are not consistent with those at December 31, 2015.

27) Revenues

Revenues for the year totalled 5,093 million euro (4,921 million euro at December 31, 2015), of which 236 million euro, gross of intercompany eliminations, related to the first-time consolidation of the newly acquired companies, and therefore increased by 172 million euro (+3.5%).
Details of the more significant items are as follows:

Revenues - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Revenues from the sale of goods	3,966	3,947	19	0.5%
Revenues from services	842	768	74	9.6%
Revenues from long-term contracts	5	17	(12)	(70.6%)
Total revenues from the sale of goods and services	**4,813**	**4,732**	**81**	**1.7%**
Other operating revenues	**280**	**189**	**91**	**48.1%**
Total revenues	**5,093**	**4,921**	**172**	**3.5%**

Net of the contribution from LGH (amounting to around 194 million euro), the decrease in revenues can be mainly attributed to the reduction in revenues from the sale of electricity on the wholesale markets.

Despite the increased volumes sold, the decline in sale prices of both gas and electricity recorded on the retail market weighed heavy on the downturn to Group revenues.

Further details of the main items are as follows:

Millions of euro	12 31 2016	12 31 2015	Changes	% 2016/2015
Sale and distribution of electricity	2,639	2,738	(99)	(3.6%)
Sale and distribution of gas	958	842	116	13.8%
Sale of heat	138	173	(35)	(20.2%)
Sale of materials	24	12	12	100.0%
Sale of water	100	46	54	n.s.
Sales of environmental certificates	77	114	(37)	(32.5%)
Connection contributions	30	22	8	36.4%
Total revenues from the sale of goods	**3,966**	**3,947**	**19**	**0.5%**
Services to customers	842	768	74	9.6%
Total revenues from services	**842**	**768**	**74**	**9.6%**
Revenues from long-term contracts	**5**	**17**	**(12)**	**(70.6%)**
Total revenues from the sale of goods and services	**4,813**	**4,732**	**81**	**1.7%**
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	60	116	(56)	(48.3%)
Damage compensation	10	20	(10)	(50.0%)
Contributions - Cassa Servizi Energetici ed Ambientali	20	5	15	n.s.
Rents receivable	2	2	-	-
Contingent assets	42	34	8	23.5%
Incentives for production from renewable sources (feed-in tariff)	101	-	101	n.s.
Other revenues	45	12	33	n.s.
Other operating revenues	**280**	**189**	**91**	**48.1%**
Total revenues	**5,093**	**4,921**	**172**	**3.5%**

Revenues from water sales increased by 54 million euro, compared to the previous year, mainly as a result of the recognition, to the subsidiary A2A Ciclo Idrico S.p.A., as per Resolution no. 16/2016, by the Ambit Government Entity for Brescia of previous tariff items relating to the financial years 2007-2011 under the Resolution of the Authority for Electricity, Gas and the Water System no. 643/2013/R/idr.

"Revenues from services" showed an increase of 74 million euro due to greater service provisions during the year.

The item "Other operating revenues" shows an increase of 91 million euro arising mainly from the recognition as of January 1, 2016 of the incentives (equal to 101 million euro) on net production from renewable sources, for the entire remaining period of right to Green Certificates after 2015 recognized by the Energy Services Operator, in implementation of the Ministerial Decree of July 6, 2012 as regards plants from renewable sources (entered into operation by December 31, 2012 and that have acquired the right to use the Green Certificates), from revenues for 26 million euro relating to the conclusion of the mechanism pursuant to resolution 196/2013/R/gas, and the decrease of 56 million euro of revenues for the reinstatement of the costs of the thermoelectric plant of S. Filippo del Mela that as of the end of May 2016, is no longer under the essentiality regime.

Further details on the reasons for the performance of revenues relating to the various Business Units can be found in the paragraph "Result by sector".

28) Operating expenses

"Operating expenses" totalled 3,221 million euro (3,244 million euro at December 31, 2015), of which 173 million euro, gross of intercompany eliminations, related to the first-time consolidation of the newly acquired companies, and therefore recorded a decrease of 23 million euro.

The main components of this item are as follows:

Operating expenses - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Raw materials and consumables	2,177	2,286	(109)	(4.8%)
Service costs	791	706	85	12.0%
Total expenses for raw materials and services	**2,968**	**2,992**	**(24)**	**(0.8%)**
Other operating expenses	**253**	**252**	**1**	**0.4%**
Total operating expenses	**3,221**	**3,244**	**(23)**	**(0.7%)**

"Total expenses for raw materials and services" amounted to 2,968 million euro (2,992 million euro at December 31, 2015), of which 159 million euro relating to the first-time consolidation of the newly acquired companies, therefore decreasing by 24 million euro.

This decrease is due to the combined effect of the following factors:

- a decrease of 112 million euro in the purchase of raw materials and consumables, due to the decrease of 130 million euro in costs for the purchase of power and fuel, the net effect of expenses/income from hedging on operating derivatives that decreased by 13 million euro, the increase of 7 million euro for the purchase of materials and the increase of 24 million euro in costs relating to the purchase of environmental certificates;
- an increase of 85 million euro in costs for delivery, subcontracted work and services;
- the increase in inventories of fuel and materials for 3 million euro.

For further information, the following table sets out details of the more significant components:

Millions of euro	12 31 2016	12 31 2015	Changes	% 2016/2015
Purchases of power and fuel	1,986	2,116	(130)	(6.1%)
Purchases of materials	80	73	7	9.6%
Purchases of water	3	3	-	-
Hedging losses on operating derivatives	4	6	(2)	(33.3%)
Hedging gains on operating derivatives	(19)	(8)	(11)	n.s.
Purchases of emission certificates and allowances	97	73	24	32.9%
Total expenses for raw materials and consumables	**2,151**	**2,263**	**(112)**	**(4.9%)**
Delivery and transmission costs	343	272	71	26.1%
Maintenance and repairs	148	152	(4)	(2.6%)
Services from associates	1	1	-	-
Other services	299	281	18	6.4%
Total service costs	**791**	**706**	**85**	**12.0%**
Change in inventories of fuel and materials	**26**	**23**	**3**	**13.0%**
Total expenses for raw materials and services	**2,968**	**2,992**	**(24)**	**(0.8%)**
Leasehold improvements	108	77	31	40.3%
Concession fees distribution networks Municipality of Milan and Brescia	11	8	3	37.5%
Water derivation concession fees	55	60	(5)	(8.3%)
Contributions to territorial entities, consortia and AEEGSI	11	13	(2)	(15.4%)
Taxes and duties	36	52	(16)	(30.8%)
Damages and penalties	3	5	(2)	(40.0%)
Contingent liabilities	13	20	(7)	(35.0%)
Other costs	16	17	(1)	(5.9%)
Other operating expenses	**253**	**252**	**1**	**0.4%**
Total operating expenses	**3,221**	**3,244**	**(23)**	**(0.7%)**

Trading margin

The following table sets out the results arising from the trading portfolio; these figures relate to trading in electricity, gas and environmental certificates.

Trading margin - *Millions of euro*	Notes	12 31 2016	12 31 2015	Changes
Revenues	27	1,180	1,145	35
Operating expenses	28	(1,193)	(1,136)	(57)
Total trading margin		**(13)**	**9**	**(22)**

The trading margin decreased by 22 million euro compared to the previous year, already including the first-time consolidation of the LGH Group. This dynamic was affected by the loss of some opportunities in the market for environmental certificates (such as the conclusion of the mechanism of Green Certificates), the sharp decline and for a period, the inversion of price differentials with other countries, in particular France and Switzerland.

29) Labour costs

Excluding capitalized costs, labour costs at December 31, 2016 amounted to 641 million euro (629 million euro at December 31, 2015), of which 29 million euro related to the first-time consolidation of the newly acquired companies.

“Labour costs” may be analyzed as follows:

Labour costs - *Millions of euro*	12 31 2016	12 31 2015	Changes	% 2016/2015
Wages and salaries	460	441	19	4.3%
Social security charges	164	163	1	0.6%
Employee leaving entitlement (TFR)	26	25	1	4.0%
Other costs	36	27	9	33.3%
Total labour costs before capitalizations	**686**	**656**	**30**	**4.6%**
Capitalized labour costs	(45)	(27)	(18)	66.7%
Total labour costs	**641**	**629**	**12**	**1.9%**

The table below shows the average number of employees by category:

	2016	2015	Changes
Managers	208	187	21
Supervisors	618	548	70
White-collar workers	5,770	5,277	493
Blue-collar workers	6,842	6,326	516
Total	**13,438**	**12,338**	**1,100**

At December 31, 2016, the average labour cost per capita, not considering the effects of the newly acquired companies, amounted to 50.6 thousand euro (50.9 thousand euro at December 31, 2015), substantially in line with the previous year.

At December 31, 2016, the Group had 13,494 employees (of whom 2,301 work for the EPCG Group), of whom 1,423 related to the first-time consolidation of the newly acquired companies. At December 31, 2015, the Group had 12,083 employees (of whom 2,393 work for the EPCG Group).

The item “Other labour costs” includes early retirement incentives for 6 million euro (2 million euro at December 31, 2015).

30) Gross operating income

As a result of the above movements, consolidated “Gross operating income” at December 31, 2016 amounted to 1,231 million euro (1,048 million euro at December 31, 2015), of which 34 million euro arising from the first-time consolidation of the newly acquired companies.

Further details may be found in the section “Results sector by sector”.

31) Depreciation, amortization, provisions and write-downs

“Depreciation, amortization, provisions and write-downs” totalled 775 million euro (833 million euro at December 31, 2015), of which 43 million euro related to the first-time consolidation of the companies acquired in the year (20 million euro of depreciation and amortization, 16 million euro of write-downs of assets, 5 million euro of bad debt provision and 2 million euro of provisions for risks), representing a decrease of 58 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Amortization of intangible assets	55	54	1	1.9%
Depreciation of tangible assets	374	341	33	9.7%
Net write-downs of fixed assets	261	359	(98)	(27.3%)
Total amortization, depreciation and write-downs	**690**	**754**	**(64)**	**(8.5%)**
Provisions for risks	61	57	4	7.0%
Bad debts provision on receivables recognized as current assets	24	22	2	9.1%
Total depreciation, amortization, provisions and write-downs	**775**	**833**	**(58)**	**(7.0%)**

“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 amounted to 55 million euro (54 million euro at December 31, 2015). The item includes lower amortization of 8 million euro mainly following the adjustment of the amortization process of gas distribution networks resulting from the publication of the tender by the Municipality of Milan for the award in concession of the gas distribution service in the territory and 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.

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;
- 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;
- higher depreciation, for 9 million euro related to a greater number of hours of operation of CCGT of the Plants in Sermide, Chivasso, Cassano and Piacenza;
- higher depreciation following the first-time consolidation of the newly acquired companies for 14 million euro.

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 Monfalcone thermoelectric plant as a result of the findings of an appraisal performed by an independent external expert. In addition, following the emergence of certain impairment indicators:

- the plants in Gissi and Piacenza were written down for 68 million euro;
- the goodwill related to the CGU "A2A Reti Elettriche" was written down for 21 million euro;
- there was the partial write-down of the goodwill of the LGH Group for 16 million euro;
- there was the "Write-back of assets" for 51 million euro relative to the plant in San Filippo del Mela.

The write-downs were made on tangible and intangible assets as a result of the findings of the Impairment Test process performed by an independent external expert; for further clarifications relating to the impairment activities, reference is made to note 2 of these Notes.

Regarding the transposition of the "Growth Decree" which lays down procedures for calculating the surrender value of the water system works used to supply water under concession to hydroelectric power plants (the "wet works"), the calculation criteria (revaluation coefficients and useful lives) needed to quantify the surrender value at the end of the relative concessions have not been set yet by the relevant authorities. In the absence of a regulatory framework, the A2A Group carried out a series of simulations estimating the revaluations using ISTAT coefficients, which were found to be the only possible data objectively usable, and made its own estimates of the economic and technical lives of the assets. The results of these simulations led to a very wide variability range, confirming that it is currently impossible to make a reliable estimate of the surrender values at the end of the concessions. Nevertheless, for concessions close to expiry the net carrying amount of the wet works was significantly lower than the range of results obtained. As a result, therefore, as of June 30, 2012, depreciation and amortization is no longer charged only for those concessions nearing expiry (Hydroelectric plant in Valtellina), while the same valuation methods continue to be applied to the remaining concessions.

The balance of "Provisions for risks and charges" shows a net effect of 61 million euro (57 million euro at December 31, 2015) due to allocations of 93 million euro made during the year, offset by the 32 million euro of risk provisions made in previous years, released in the current year since the original disputes have ceased to exist.

Net provisions for the year concerned 2 million euro provisions for expenses funds for closure and post-closure of landfills, 19 million euro provisions for tax funds, 14 million euro provisions for contractual obligations, 19 million euro provisions for funds for personnel lawsuits and disputes, 17 million euro provisions for hydroelectric fees, 11 million euro for other risks provisions relating to EPCG and 11 million euro for various provisions. Releases of risk provisions set aside in previous years amounted to 32 million euro, of which 5 million euro from the first-time consolidation of the newly acquired companies.

For further information, reference is made to note 20 "Provisions for risks, charges and liabilities for landfills".

The "Bad debt provision" amounted to 24 million euro (22 million euro at December 31, 2015), consisting of the accrual for the period.

32) Net operating income

"Net operating income" amounted to 456 million euro (215 million euro at December 31, 2015).

33) Result from non-recurring transactions

The "Result from non-recurring transactions" is positive for 56 million euro (negative for 1 million euro at December 31, 2015) and for 52 million euro is related to the demerger of the "Cellina Unit" of Edipower S.p.A. in favour of Cellina Energy S.r.l., which took effect on January 1, 2016 following the demerger deed signed between the parties on December 28, 2015 as further specified in the paragraph "Significant events during the year", and 4 million euro to non-recurring income of the subsidiary EPCG.

34) Financial balance

The "Financial balance" shows a negative balance of 158 million euro (negative for 138 million euro at December 31, 2015), of which 10 million euro resulting from the first-time consolidation of the newly acquired companies.
Details of the more significant items are as follows:

Financial balance - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Financial income	40	28	12	42.9%
Financial expense	(194)	(162)	(32)	19.8%
Affiliates	(4)	(4)	-	-
Total financial balance	**(158)**	**(138)**	**(20)**	**14.5%**

"Financial income" amounted to 40 million euro (28 million euro at December 31, 2015), of which 1 million euro from the first-time consolidation of the newly acquired companies, and the breakdown is as follows:

Financial income - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Bank income	7	10	(3)	(30.0%)
Fair value of financial derivatives	8	1	7	n.s.
Realized on financial derivatives	8	9	(1)	(11.1%)
Income from dividends in other companies	1	-	1	n.s.
Other financial income of which:	16	8	8	100.0%
- Financial income from the Municipality of Brescia (IFRIC 12)	*6*	*3*	*3*	*100.0%*
- Foreign exchange gains	*3*	*1*	*2*	*n.s.*
- Other income	*7*	*4*	*3*	*75.0%*
Total financial income	**40**	**28**	**12**	**42.9%**

"Financial expenses", which amounted to 194 million euro, of which 10 million euro from the first-time consolidation of the newly acquired companies, increased by 32 million euro over December 31, 2015, and may be analyzed as follows:

Financial expenses - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**	**% 2016/2015**
Interest on bond loans	125	125	-	-
Interest charged by banks	9	13	(4)	(30.8%)
Interest on Cassa Depositi e Prestiti loans	-	2	(2)	(100.0%)
Fair value of financial derivatives	-	(5)	5	(100.0%)
Realized on financial derivatives	6	10	(4)	(40.0%)
Other financial expenses of which:	54	17	37	n.s.
- Discounting charges	*10*	*8*	*2*	*25.0%*
- Financial expenses (IFRIC 12)	*3*	*4*	*(1)*	*(25.0%)*
- Foreign exchange losses	*1*	*1*	*-*	*-*
- Other expenses	*40*	*4*	*36*	*n.s.*
Total financial expenses before capitalizations	**194**	**162**	**32**	**19.8%**
Capitalized financial expenses	-	-		
Total financial expenses	**194**	**162**	**32**	**19.8%**

"Other expenses" amounting to 40 million euro include, for 36 million euro, the expense incurred by A2A S.p.A. for the partial buyback 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 equity method valuation of shareholdings was negative for 4 million euro (negative for 4 million euro at December 31, 2015), and is mainly attributable to the write-downs of the shareholdings related to the companies Rudnik Uglija Ad Pljevlja and Premiumgas S.p.A. and the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

35) Income taxes

Income taxes - *Millions of euro*	**12 31 2016**	**12 31 2015**	**Changes**
Current IRES	138	105	33
Current IRAP	25	23	2
Effect of differences - taxes of previous years	4	(17)	21
Total current taxes	**167**	**111**	**56**
Deferred tax assets	40	142	(102)
Deferred tax liabilities	(90)	(120)	30
Total losses/gains for income taxes	**117**	**133**	**(16)**

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

It is noted that the parent company A2A determines IRAP taxes for the year according to art. 6, paragraph 9, of Legislative Decree December 15, 1997, no. 446 ("industrial holding" method), under which the taxable amount is determined by taking into account also financial income and expenses (excluding those related to shareholdings).

The reconciliation between the tax burden posted in the consolidated financial statements and theoretical tax liabilities, calculated on the basis of theoretical rates applicable in Italy, is as follows:

Millions of euro	**2016**	**2015**
Pre-tax result	**354**	**76**
Write-downs of assets	261	350
Result before taxes adjusted for write-downs	**615**	**426**
Theoretical rates based on applicable tax rates (1)	169	117
Tax effect of write-downs	(72)	(28)
Permanent differences	(7)	15
IRAP one-off effect	-	(10)
IRES one-off effect rate adjustment from 27.5% to 24%	-	20
Differences between international tax rates and theoretical Italian rates	2	(4)
Total taxes charged to income statement (excluding IRAP)	**92**	**110**
CURRENT IRAP	25	23
Total taxes charged to income statement	**117**	**133**

(1) Taxes have been calculated considering a theoretical IRES rate of 27.5%.

36) Net result from discontinued operations

The "Net result from discontinued operations" was 2 million euro (no value at December 31, 2015) and derives from the first-time consolidation of the LGH Group.

37) Result of minorities

The "Result of minorities" is negative for the Group for 15 million euro and mainly includes the portion attributable to minority interests of the company EPCG and of the LGH Group. In the previous year, the item showed a positive balance for the Group for 130 million euro.

38) Group result of the year

The "Group result of the year" was positive for 224 million euro (positive for 73 million euro at December 31, 2015)

Earnings per share

39) Earnings per share

	01 01 2016 12 31 2016	01 01 2015 12 31 2015
Earnings (loss) per share (in euro)		
- basic	0.0724	0.0234
- basic from continuing operations	0.0716	0.0234
- basic from assets held for sale	0.0008	-
- diluted	0.0724	0.0234
- diluted from continuing operations	0.0716	0.0234
- diluted from assets held for sale	0.0008	-
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,092,517,411	3,105,987,668
- diluted	3,092,517,411	3,105,987,668

Note on related party transactions

40) Note on related party transactions

"Related parties" are those indicated by the international accounting standard that concerns Related Party Disclosures (IAS 24 revised).

Relationships with parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a Shareholders' Agreement to regulate the ownership structure of A2A S.p.A.; this gave the Municipalities joint control over the company.

Specifically, the merger effective January 1, 2008, regardless of the legal structure established, was considered a joint venture, whose joint control was exercised by the Municipalities of Milan and Brescia, each of which owned a share equal to 27.5%.

On June 13, 2014, the Shareholders' Meeting modified the company's governance system, passing from the original two-tier system, adopted in 2007, to a "traditional" system of management and control through the appointment of the Board of Directors.

In December 2014, the Municipalities of Milan and Brescia sold a total shareholding of 0.51% of A2A S.p.A., while in the first two months of 2015, the Municipalities of Milan and Brescia sold an additional shareholding of 4.5% of A2A S.p.A..

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 share 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.

At the date of approval of this consolidated Annual Financial Report at December 31, 2016, the two shareholders held a shareholding of 50% plus two shares that allows the two municipalities to maintain control over the company.

The A2A Group companies and the Municipalities of Milan and Brescia routinely entertain commercial relationships related to the supply of electricity, gas, heat, and potable water, management of public lighting systems and street lights, management of water purification and sewers, garbage collection and street sweeping and video surveillance.

Similarly, the A2A Group companies entertain commercial relationships with the companies controlled by the Municipalities of Milan and Brescia, for example, Metropolitana Milanese S.p.A., ATM S.p.A., Brescia Mobilità S.p.A., Brescia Trasporti S.p.A. and Centrale del Latte di Brescia S.p.A., supplying them with electrical energy, gas, heat, water purification and sewer service at market rates appropriate to the supply conditions and providing the services required. Note that these companies are considered related parties in the preparation of the financial statement schedules pursuant to Consob Resolution 17221 of March 12, 2010.

The relationships between the Municipalities of Milan and Brescia and the A2A Group, in relation to granting the services associated with public lighting, street lights, management and supply of electricity, gas, heat, and water purification and sewer service are regulated by special conventions and specific contracts.

The relationships between the companies controlled by the Municipalities of Milan and Brescia, which refer to the supply of electricity, are at arm's length conditions.

On April 3, 2014, Amsa S.p.A., a subsidiary of A2A S.p.A., entered a service agreement with the Municipality of Milan covering waste management, street and green area cleaning, special services and other services upon request (such as the removal of illegally dumped waste, reclamation and snow removal) for the period from January 1, 2014, to December 31, 2016; the renegotiation for renewal of this contract is currently underway.

Relationships with subsidiaries and affiliates

The parent company A2A S.p.A., operates like a centralized treasury for the majority of the subsidiaries.

Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies.

For the financial year 2016, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

Note that for IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86. To this end, with each of the subsidiaries joining, a special contract was drawn up to regulate the tax advantages/disadvantages transferred, with specific reference to the current entries. These contracts also govern the transfer of any excess of ROL as set forth by prevailing legislation.

The parent company provides the subsidiaries and affiliates with administrative, fiscal, legal, management and technical services in order to optimize the resources available in the company and to use the existing expertise in terms of economic convenience. These services are regulated by special intercompany service contracts stipulated annually. A2A S.p.A. also provides its subsidiaries and affiliates with office spaces and operating areas, at their own sites, as well as the services related to their use, at market conditions.

The companies A2A gencogas S.p.A. and A2A Energiefuture S.p.A., for a monthly fee related to the actual availability of the thermoelectric plants, provide to the Parent Company the power generation service.

Telecommunication services are provided by the subsidiary A2A Smart City S.p.A..

Finally, note that pursuant to the Consob communication issued on September 24, 2010, bearing the provisions regarding related party transactions in accordance with Consob Resolution no. 17221 of March 12, 2010, as amended, on November 11, 2010, the Group had approved the procedure for related party transactions which took effect on January 1, 2011, and which aims to ensure the transparency and substantial fairness of the related party transactions executed by A2A S.p.A. directly, or through subsidiaries, identified in accordance with the IAS 24 revised accounting standard. 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.

Below are the tables with detail of the related party transactions, in accordance with the Consob Resolution no. 17221 of March 12, 2010:

Balance sheet *Millions of euro*	Total 12 31 2016	Of which with related parties								
		Associated companies	Related companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	% effect on the balance sheet item
TOTAL ASSETS OF WHICH:	**10,379**	**75**	**27**	**69**	**1**	**14**	**1**	**-**	**187**	**1.8%**
Non-current assets	*7,315*	*57*	*13*	*-*	*-*	*4*	*-*	*-*	*74*	*1.0%*
Shareholdings	67	57	10	-	-	-	-	-	67	100.0%
Other non-current financial assets	69	-	3	-	-	4	-	-	7	10.1%
Current assets	*3,058*	*18*	*14*	*69*	*1*	*10*	*1*	*-*	*113*	*3.7%*
Trade receivables	1,821	10	11	69	1	10	1	-	102	5.6%
Other current assets	388	-	1	-	-	-	-	-	1	0.3%
Current financial assets	218	8	2	-	-	-	-	-	10	4.6%
TOTAL LIABILITIES OF WHICH:	**7,101**	**24**	**7**	**2**	**1**	**8**	**-**	**1**	**43**	**0.6%**
Non-current liabilities	*4,581*	*1*	*2*	*-*	*-*	*-*	*-*	*-*	*3*	*0.1%*
Provisions for risks and charges	668	1	2	-	-	-	-	-	3	0.4%
Current liabilities	*2,520*	*23*	*5*	*2*	*1*	*8*	*-*	*1*	*40*	*1.6%*
Trade payables	1,384	14	5	2	1	8	-	-	30	2.2%
Other current liabilities	744	7	-	-	-	-	-	1	8	1.1%
Current financial liabilities	359	2	-	-	-	-	-	-	2	0.6%

Income statement *Millions of euro*	Total 12 31 2016	Of which with related parties								
		Associa-ted compa-nies	Related compa-nies	Municipa-lity of Milan	Subsidia-ries Municipa-lity of Milan	Municipa-lity of Brescia	Subsidia-ries Municipa-lity of Brescia	Related parties indivi-duals	Total related parties	% effect on the balance sheet item
REVENUES	**5,093**	**3**	**46**	**315**	**6**	**37**	**2**	**-**	**409**	**8.0%**
Revenues from the sale of goods and services	4,813	3	46	315	6	37	2	-	409	8.5%
Other operating revenues	280	-	-	-	-	-	-	-	-	0.0%
OPERATING COSTS	**3,221**	**24**	**4**	**2**	**4**	**9**	**-**	**-**	**43**	**1.3%**
Expenses for raw materials and services	2,968	1	4	-	4	-	-	-	9	0.3%
Other operating costs	253	23	-	2	-	9	-	-	34	13.4%
LABOUR COSTS	**641**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**	**0.5%**
AMORTIZATION, DEPRECIATION, PROVISIONS AND WRITE-DOWNS	**775**	**2**	**1**	**-**	**-**	**-**	**-**	**-**	**3**	**0.4%**
FINANCIAL BALANCE	**(158)**	**(1)**	**(3)**	**-**	**-**	**6**	**-**	**-**	**2**	**(1.3%)**
Financial expenses	194	-	-	-	-	-	-	-	-	0.0%
Financial income	40	-	-	-	-	6	-	-	6	15.0%
Affiliates	(4)	(1)	(3)	-	-	-	-	-	(4)	100.0%

The complete financial statements are included in the section "Consolidated financial statements" of this report pursuant to Consob Resolution no. 17221 of March 12, 2010.

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With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document "Remuneration Report – 2017" available on the website www.a2a.eu.

Consobe Communication no. DEM/6064293 of July 28, 2006

41) Consob Communication no. DEM/6064293 of July 28, 2006

As of January 1, 2016, the partial non-proportional demerger came into effect of Edipower S.p.A. (now A2A S.p.A.) related to the "Cellina Unit" in favour of Cellina Energy S.r.l. (company wholly owned by Società Elettrica Altoatesina S.p.A.) in application of the demerger deed stipulated between the parties on December 28, 2015, which led to a positive impact on the income statement of 52 million euro included under "Result from non-recurring transactions".

The reporting year benefited from 51 million euro of non-recurring revenues of the company A2A Ciclo Idrico S.p.A. following application of Resolution no. 16/2016, by means of which the Board of Directors of the Ambit Government Entity of 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 Authority for Electricity, Gas and the Water System.

Guarantees and commitments with third parties

Millions of euro	12 31 2016	12 31 2015
Guarantees received	654	460
Guarantees provided	1,113	1,545

Guarantees received

Guarantees received amounted to 654 million euro (460 million euro at December 31, 2015) and include 254 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 400 million euro for sureties and security deposits received from customers to guarantee the regularity of payments.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,113 million euro (1,545 million euro at December 31, 2015), of which for obligations undertaken in the loan agreements of 284 million euro. These guarantees have been issued by banks for 619 million euro, insurance companies for 134 million euro and the parent company A2A S.p.A., as parent company guarantee, for 360 million euro.

* * *

Group companies hold third party assets under concession, relating mainly to the integrated water cycle, amounting to 66 million euro.

Other information

1) Significant events for the Group after December 31, 2016

For a description, reference is made to the paragraph "Significant events after December 31, 2016" of the Report on operations.

2) Information on treasury shares

At December 31, 2016, A2A S.p.A. held 23,721,421 treasury shares (26,917,609 at December 31, 2015), representing 0.757% of the share capital consisting of 3,132,905,277 shares. In the first three months of the year, there was an increase in the number of treasury shares compared to December 31, 2015 of 35,000,000 shares purchased between February 16 and March 31, 2016 for a total of approximately 37 million euro. In August, a portion of 38,196,188 treasury shares for a total value of 47 million euro were sold for the acquisition of the majority stake of Linea Group Holding S.p.A..

At December 31, 2016, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

In 2016, the A2A Group completed some acquisitions of investments, which are listed below:

- in April, Aprica S.p.A., subsidiary of A2A Ambiente S.p.A. acquired 64% of the share capital of LA BI.CO DUE S.r.l., a company operating in municipal sanitation services in the Province of Brescia;
- in July, A2A Ambiente S.p.A. completed the acquisition of 100% of the RI.ECO-RESMAL Group, operating in waste collection, selection and recovery in the Milan area;
- in August, A2A S.p.A. acquired 51% of the Lombardy multi-utility LGH S.p.A.;
- in October, A2A Calore & Servizi S.r.l. acquired 75% of Consul System S.p.A., main independent Italian ESCo (Energy Service Company).

The transactions summarized above are classified as business combinations in accordance with international standard IFRS 3 "Business Combinations"; the Group fully consolidated the companies through the application of the acquisition method prescribed by IFRS 3, by virtue of the control obtained on the entities acquired.

IFRS 3 requires all business combinations to be accounted for using the acquisition method. The acquirer must therefore recognize all the identifiable assets, liabilities and contingent liabilities relating to the acquisition at their fair values at the acquisition date and highlight the eventual recognition of goodwill.

Business combination transactions are recognized using the acquisition method. The fee transferred in a business combination is determined at the date of acquisition of control and is equal to the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognized in the income statement when incurred. At the date of acquisition of control, the net equity of the investee companies is determined by attributing to individual assets and liabilities their fair value, except in cases where the IFRS provisions provide a different valuation criterion. Any residual difference with respect to the purchase cost, if positive, is recognized under the item "Goodwill" (hereinafter also goodwill); if negative, it is recognized in the income statement. In the case of acquisition of non-totalitarian control, the portion of equity of minority interests is determined according to the portion of the fair values attributed assets and liabilities at the date of acquisition of control, excluding any related goodwill (so-called partial goodwill method).

Purchase Price Allocation LA BI.CO DUE S.r.l.

In 2016, Aprica S.p.A., subsidiary of A2A Ambiente S.p.A. acquired 64% of the share capital of LA BI.CO DUE S.r.l., a company active in municipal sanitation services in the Province of Brescia.

The price agreed for the acquisition was 1.3 million euro. Aprica S.p.A. also signed a shareholders' agreement with the minority shareholder of the company, under which Aprica S.p.A. will have the right to acquire, by a certain date, the additional shareholding of 36% in LA BI.CO DUE S.r.l..

Therefore, following the acquisition in 2016 of the control of the investee LA BI.CO DUE S.r.l., the valuation of said company was carried out in accordance with IFRS 3 recognizing the fair value of assets, liabilities and contingent liabilities at the acquisition date.

For the purposes of allocation of the higher value (Purchase Price Allocation) paid for the acquisition with respect to the portion of related shareholders' equity, in consideration of the strictly commercial nature of the activity carried out, it was considered that the cash flows of LA BI.CO DUE S.r.l. are essentially linked to the company's ability to maintain and develop the existing customer portfolio.

In view of the requirements necessary in order to recognize an intangible asset in accordance with IFRS 3 mentioned above, the value of the customer portfolio was recognized (so-called Customer List) at the acquisition date. The fair value of these assets was determined by an independent expert based on the information contained in the sales contract.

In order to proceed with the valuation of LA BI.CO DUE S.r.l., the discounted cash flow (DCF) criterion was used, which is one of the main methods at the base of any company valuation and transaction.

The value of invested capital of each company was determined by discounting future cash flows related to:

- the ongoing use of assets up to the end of the related useful life;
- the disposal of assets at the end of their useful life.

These cash flows were discounted at December 31, 2016 using as discount rate the one applied by Aprica S.p.A. to determine the final offer price.

The resulting values were allocated to intangible assets considering the related tax effects through the provision of the corresponding deferred tax liabilities. Therefore, the value, gross of the tax effect, was attributed to the customer list.

The useful life of such higher value, and therefore the duration of the related amortization, was determined for the customer list in 9 years.

Millions of euro	
Book value of assets and liabilities acquired	**1.3**
Plus:	
Fair value adjustment assets and liabilities acquired	1.6
Tax effect	(0.5)
Total values of assets and liabilities at fair value of LA BI.CO DUE S.r.l.	**2.4**

Purchase Price Allocation scope RI.ECO-RESMAL

On July 20, 2016, A2A Ambiente S.p.A., subsidiary of A2A S.p.A., completed the acquisition of 100% of RI.ECO-RESMAL, Group active in environmental services in the hinterland of Milan, particularly in the selection and recovery of waste.

The acquisition of the RI.ECO-RESMAL perimeter has resulted in a total outlay of 21.9 million euro, of which 19.5 million euro agreed at a fixed rate during the acquisition and the remaining 2.4 million euro referring to compensation and price adjustments accrued on the basis of specific contractual clauses.

For the purposes of allocation of the higher value (Purchase Price Allocation) paid for the acquisition with respect to the portion of related shareholders' equity, in consideration of the strictly commercial nature of the activity carried out, it was considered that the cash flows of the RI.ECO-RESMAL perimeter are essentially linked to the company's ability to maintain and develop the existing customer portfolio.

In view of the requirements necessary in order to recognize an intangible asset in accordance with IFRS 3 mentioned above, the value of the customer portfolio was recognized (so-called Customer List) at the acquisition date.

The fair value of these assets was determined by an independent expert based on the information contained in the sales contract.

In order to proceed with the valuation of RI.ECO-RESMAL, the discounted cash flow (DCF) criterion was used, which is one of the main methods at the base of any company valuation and transaction.

The value of invested capital of each company was determined by discounting future cash flows related to:

- the ongoing use of assets up to the end of the related useful life;
- the disposal of assets at the end of their useful life.

These cash flows were discounted at December 31, 2016 using as discount rate the one applied by A2A Ambiente S.p.A. to determine the final offer price.

The resulting values were allocated to intangible assets considering the related tax effects through the provision of the corresponding deferred tax liabilities. Therefore, the value, gross of the tax effect, was attributed to the customer list.

The useful life of such higher values, and therefore the duration of the related amortization, was determined for the customer list in 14 years.

Millions of euro	
Book value of assets and liabilities acquired	**21.9**
Plus:	
Fair value adjustment assets and liabilities acquired	22.3
Tax effect	(6.2)
Total values of assets and liabilities at fair value of the scope RI.ECO-RESMAL	**38.0**

Business combination LGH

The acquisition of 51% of the share capital of LGH S.p.A. by A2A S.p.A. was finalized on August 5, 2016 for a counter value of 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a counter value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

The transaction value includes 9.6 million euro, paid by A2A S.p.A. to the minority shareholders of LGH S.p.A., linked to specific earn-in clauses established during transaction closing.

Based on the contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, will pay up to a maximum of 13.9 million euro included in the acquisition value of LGH S.p.A. of 112.8 million euro, regulated by specific and well-identified earn-out clauses.

Business combination Consul System S.p.A.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company), with the aim of creating operational synergies and developing new products and services. 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%).

It was also established that, by the deadline for approval of the financial statements of Consul System at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

* * *

At December 31, 2016, the accounting of the business combination relating to the acquisition of LGH and Consul System is still being finalized. In this regard, also in accordance with the provisions of International Standard IFRS 3 "Business Combinations", A2A temporarily recorded in its consolidated financial statements at December 31, 2016 the provisional amounts of acquired items whose accounting is incomplete today.

In this sense, "Goodwill" includes the difference between the price paid for the acquisition of LGH and the equity of the company acquired at the beginning of August 2016, the date of completion of the transaction and the accounting entries carried out by December 31, 2016.

The completion of the combination is expected within 12 months of the acquisition, the period allowed by the standard, at the end of which A2A may retrospectively adjust the provisional amounts recognized on the acquisition date to reflect any new information acquired and the analyzes carried out also by independent consultants specially appointed on facts and circumstances at the date of acquisition which, if known, would have affected the valuation of the amounts recorded on that date.

4) Information on non-current assets held for sale and discontinued operations (IFRS 5)

"Non-current assets held for sale" and "Liabilities directly associated with non-current assets held for sale" at December 31, 2016 implement the reclassification of the assets owned by the company Bellisolina S.r.l. sold in early 2017 in compliance with a provision of the Competition Authority and the Market, following the purchase of 51% of the share capital of the LGH Group by A2A S.p.A., of the assets held for sale of the EPCG Group, and assets and liabilities held for sale of the LGH Group regarding the business unit for municipal sanitation activities of the Lodi area; while at December 31, 2015, they included some assets of Edipower S.p.A. and liabilities related to them as part of the partial, non-proportional demerger, effective January 1, 2016, in favour of Cellina Energy S.r.l. (wholly owned investee company of Società Elettrica Altoatesina S.p.A.), relating to the "Cellina Unit", as well as assets and liabilities of SEASM S.r.l., which was reclassified to the item "Shareholdings" at December 31, 2016 as the sale thereof decided by management was not finalized.

There was no need for the reclassified balances in the above transactions to be written down.

Summarized figures relating to these assets and liabilities are as follows.

Figures at December 31, 2016 *Millions of euro* ASSETS AND LIABILITIES HELD FOR SALE	Assets Bellisolina S.r.l.	LGH Group	EPCG Group	Total
Non-current assets	2	1	1	4
Current assets	2	-	-	2
Total assets	**4**	**1**	**1**	**6**
Non-current liabilities	2	1	-	3
Current liabilities	3	1	-	4
Total liabilities	**5**	**2**	**-**	**7**

It is specified that the impact on the income statement of the reclassification of revenues, operating costs and the financial balance of Bellisolina S.r.l. is not significant as it is less than one million euro, while the economic impact of the reclassification of revenues, operating costs and financial balance related to the business unit of the LGH Group has an effect of 2 million euro.

5) Financial risk management

The A2A Group operates in the electricity, natural gas and district heating industry and is exposed to various financial risks in performing its activity:

a) commodity risk;
b) interest rate risk;
c) exchange rate risk not related to commodities;
d) liquidity risk;
e) credit risk;
f) equity risk;
g) default and covenant non-compliance risk.

The commodity price risk, related to the volatility of energy commodity prices (gas, electricity, fuel oil, coal, etc.) and prices of environmental securities (EUA/ETS emission rights, green certificates, white certificates, etc.), consists of the possible negative effects that a change in the market price of one or more commodities may have on the cash flows and income prospects of the company, including the exchange rate risk related to the same commodities.

Interest rate risk is the risk of additional financial costs as the result of an unfavourable change in interest rates.

Currency risk not related to commodities is the risk of higher costs or lower revenues because of an unfavourable change in exchange rates between currencies.

Liquidity risk is the risk that financial resources will not be sufficient to meet established financial and business obligations in a timely manner.

Credit risk is the exposure to potential losses deriving from non-performance of commitments by commercial, trading and financial counterparties.

Equity risk is the possibility of incurring losses due to an unfavourable change in the price of shares.

Default and covenant risk represent the possibility that loan agreements or bond regulations to which one or more Group companies are party contain provisions allowing the counterparties, banks or bondholders, to ask the debtor for immediate reimbursement of the amounts lent if certain events take place.

Details on the risks to which the A2A Group is exposed are provided below.

a. Commodity risk

a.1) Commodity price risk and exchange rate risk involved in commodity activities

The Group is exposed to price risk, including the related currency risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil and environmental certificates; the results of production, purchases and sales are similarly affected by fluctuations in the prices of such energy commodities. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

To stabilize cash flows and to assure the Group's economic and financial stability, A2A S.p.A. has an Energy Risk Policy that sets out clear guidelines to manage and control the above risks, based on guidance by the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and the Group on Risk Management of Euroelectric. Reference was also made to the Accords of the Basel Committee on bank supervision approved in June 2004 ("Basel 2") and the requirements laid down in international accounting standards on how to recognize the volatility of commodity price and financial derivatives in the income statement and balance sheet.

In the A2A Group, assessment of this kind of risk is centralized at the holding company, which has established a Group Risk Management Organizational Unit as part of the Planning, Finance and Control Organizational Unit. This unit has the task to manage and monitor market and commodity risks, to create and evaluate structured products, to propose financial energy risk hedging strategies, and to support senior management in defining the Group's energy risk management policies.

Each year, A2A S.p.A. sets the Group's commodity risk limits approving PaR and VaR proposed in the Risk Committee, in conjunction with approval of the Budget/Business Plan; the Risk Management supervises the situation to ensure compliance with these limits and proposes to senior management the hedging strategies designed to bring risk within the set limits.

The activities that are subject to risk management include all of the positions on the physical market for energy products, both purchasing/production and sales, and all of the positions in the energy derivatives market taken by Group companies.

For the purpose of monitoring risks, industrial and trading portfolios have been separated and are managed in different ways. The industrial portfolio consists of the physical and financial contracts directly relating to the Group's industrial operations, namely where the objective is to enhance production capacity also through the wholesaling and retailing of gas, electricity and heat.

The trading portfolio comprises all contracts, both physical and financial, entered into to supplement the profits made from the industrial activities, i.e. all contracts that are ancillary though not strictly necessary to the industrial activity.

In order to identify trading activity, the A2A Group follows the Capital Adequacy Directive and the definition of assets held for trading provided by International Accounting Standard (IAS) 39: namely assets held for the purpose of short-term profit taking on market prices or margins, without being for hedging purposes, and designed to create a high-turnover portfolio.

Given that they exist for different purposes, the two portfolios have been segregated and are monitored separately with specific tools and limits. More specifically, the trading portfolio is subject to particular risk control and management procedures as laid down in Deal Life Cycle documents.

Senior management is systematically updated on changes in the Group's commodity risk by the Group Risk Management Unit, which controls the Group's net exposure. This is calculated centrally on the entire asset and contract portfolio and monitors the overall level of economic risk assumed by the industrial and trading portfolios (Profit at Risk - PaR, Value at Risk - VaR, Stop Loss).

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

The hedging of price risk by means of derivatives focuses on protecting against the volatility of energy prices on the power exchange (IPEX), stabilizing electricity price margins on the wholesale market with particular attention being paid to fixed price energy sales and purchases and stabilizing price differences deriving from various indexing mechanisms for the pricing of gas and electricity. To that end, hedging contracts were executed during the year on electricity purchase and sale agreements and on contracts to hedge the fee for the use of electricity transport capacity between the areas of the IPEX market (CCC contracts); hedging contracts were concluded with leading banks on contracts for the purchase of coal so as to protect sales margins and at the same time keep the risk profile to within the limits set by the Group's energy risk policy.

As part of the optimization of the portfolio of greenhouse gas emission allowances (see Directive 2003/87/EC), the A2A Group has stipulated Future and Forward contracts on the ICE ECX (European Climate Exchange) price. These are considered hedging transactions from an accounting point of view in the event of demonstrable surplus/deficit quotas.

The fair value at December 31, 2016 was 8.1 million euro (-5.5 million euro at December 31, 2015).

Derivatives of the industrial portfolio not considered hedges

Also as part of its optimization of the industrial portfolio, contracts have been entered to hedge the fee for the use of electricity transport capacity within the areas of the IPEX market (CCC contracts), as well as Forward contracts on the market price of EUA environmental certificates (ECX ICE).

These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at December 31, 2016 was -0.2 million euro (0.0 million euro at December 31, 2015).

Derivatives of the Trading Portfolio

As part of its trading activity, the A2A Group has taken out Future contracts on major European energy stock exchanges (EEX, Powernext) and forward contracts on the price of electricity with delivery in Italy and neighboring countries such as France, Germany and Switzerland. The Group has also signed interconnection contracts with operators in neighboring countries, which are considered purchases of options. Forward contracts have been stipulated on the market price of EUA environmental certificates (ECX ICE), as well as Future contracts, which permit delivery of the allowances at the contract price as well as cash settlement of the differential between the market price and the contract price. Also as part of trading activities, both Future and Forward contracts were also stipulated for the market price of gas (ICE-Endex CEGH).

The fair value at December 31, 2016 was 4.8 million euro (0.5 million euro at December 31, 2015).

a.3) Energy Derivatives, risk assessment of Industrial Portfolio derivatives

PaR[(1)] or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. It is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this methodology, over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at December 31, 2016 was 10.851 million euro (50.789 million euro at December 31, 2015).

The following are the results of the simulation with the related maximum variances:

Millions of euro	12 31 2016		12 31 2015	
Profit at Risk (PaR)	***Worst case***	***Best case***	***Worst case***	***Best case***
Confidence level 99%	**(10.851)**	**13.759**	**(50.789)**	**62.560**

This means that with a 99% probability the A2A Group expects not to have changes in fair value exceeding 10.851 million euro in its entire portfolio of financial instruments at December 31, 2016 due to commodity price fluctuations.

If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

(1) Profit at Risk: statistical measurement of the maximum potential negative deviation of the margin of an asset portfolio in case of unfavorable market changes over a given time horizon and with a defined confidence interval.

a.4) Energy Derivatives, risk assessment of Trading derivatives

VaR (Value at Risk)(2) is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 1 day and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as *stress test analysis.*

Under this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 1 day, the maximum estimated loss on the derivatives in question was 1.794 million euro at December 31, 2016 (1.067 million at December 31, 2015). In order to ensure closer monitoring of activities, VaR and Stop Loss limits are also set, understood as the sum of VaR, P&L Realized and P&L Unrealized.

The following are the results of the assessments:

Millions of euro	12 31 2016		12 31 2015	
Value at Risk (VaR)	***VaR***	***Stop loss***	***VaR***	***Stop loss***
Confidence level 99%, holding period 1 day	**(1.794)**	**(13.215)**	**(1.067)**	**(1.067)**

b. Interest rate risk

The volatility of financial expenses associated to the performance of interest rates is 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.

At December 31, 2016, the structure of gross debt is as follows:

Millions of euro	December 31, 2016			December 31, 2015		
	Without derivatives	With derivatives	% with derivatives	Without derivatives	With derivatives	% with derivatives
Fixed rate	2,643	2,800	74%	3,066	3,218	85%
Floating rate	1,152	995	26%	715	563	15%
	3,795	**3,795**		**3,781**	**3,781**	

(2) Value at Risk: statistical measurement of the maximum potential drop in the fair value of an asset portfolio in the event of unfavorable movements in the market with a given time horizon and confidence level.

At December 31, 2016, the following are the hedging instruments for interest rate risk:

Millions of euro

Hedging instrument	Hedged asset	December 31, 2016		December 31, 2015	
		Fair value	Notional	Fair value	Notional
IRS+Collar	Fixed rate loan	-	-	8.6	503.4
IRS	Floating rate loan	(4.6)	60.7	-	-
Collar	Floating rate loan	(14.8)	133.3	(17.1)	152.4
Total		**(19.4)**	**194.0**	**(8.5)**	**655.8**

With reference to the accounting treatment, hedging derivatives for interest rate risk can be classified as follows:

Millions of euro

Accounting treatment	Derivatives	Notional		Fair Value assets		Notional		Fair Value liabilities	
		at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015
Cash flow hedge	Collar	-	-	-	-	133.3	152.4	(14.8)	(17.1)
Cash flow hedge	IRS	-	-	-	-	60.7	-	(4.6)	-
Fair value hedge	IRS	-	503.4	-	16.2	-	-	-	-
Fair value	Collar	-	-	-	-	-	503.4	-	(7.6)
Total				**-**	**16.2**			**(19.4)**	**(24.7)**

Derivatives on interest rates at December 31, 2016 refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2016 amounting to 133.3 million euro, at floating rate interest.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At December 31, 2016, the fair value was negative for 14.8 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Lomellina Energia project loan with a pool of banks: maturing December 2024, residual balance at December 31, 2016 of 48.9 million euro, at floating rate.	IRS on 75% of the amount of the loan until June 2022 and on 23% until maturity thereof. At December 31, 2016, the fair value was negative for 3.2 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Energia loan with Unicredit: maturity May 2021, residual balance at December 31, 2016 amounting to 22.1 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2016, the fair value was negative for 1.1 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
LD Reti loans with UBI and CDDPP: maturity December 2020 and December 2022, residual balance at December 31, 2016 amounting to 4.7 million euro, at floating rate.	IRS on 40% of the amount of the loan until maturity thereof. At December 31, 2016, the fair value was negative for 0.3 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.

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. Under this methodology at least ten thousand scenarios are simulated for each key variable on the basis of the associated volatilities and correlations, using market rate forward curves for future levels. In this way, a probability distribution of the results is obtained from which the worst case scenario and best case scenario can be extrapolated using a 99% confidence level.

The following are the results of the simulation with the related maximum variances (worst case and best case scenarios) for 2017 together with a comparison with 2016 (excluding EPCG):

Millions of euro	**Year 2017 (*base case*: -107.4)**		**Year 2016 (*base case*: -119.6)**	
	Worst case	***Best case***	***Worst case***	***Best case***
Change in expected cash flows (including hedge flows) Confidence level 99%	(0.3)	0.3	(0.3)	0.3

A sensitivity analysis is provided relating to possible changes in the fair value of derivatives (excluding cross currency swaps) on shifting the forward rate curve by +50 bps and -50 bps:

Millions of euro	12 31 2016 (*base case*: -19.4)		12 31 2015 (*base case*: -8.5)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(3.6)	3.3	(3.3)	3.0
(of which cash flow hedge derivatives)	(3.6)	3.3	(3.3)	3.0
(of which fair value hedge derivatives)	-	-	1.4	(1.4)

This sensitivity analysis is calculated to determine the effect of the change of the forward interest rate curve of the fair value of derivatives ignoring any impact of the adjustment due to counterparty risk – "Bilateral Credit Value Adjustment" (bCVA) – introduced in the calculation of fair value in accordance with international accounting standard IFRS13.

c. Exchange rate risk not related to commodities

In relation to the exchange rate risk other than the one included in the price of commodities, A2A decides whether to enter into hedging actions from the risk of exchange rate.

At December 31, 2016, the following are the hedging instruments for exchange rate risk:

Millions of euro

Hedging instrument	Hedged asset	December 31, 2016		December 31, 2015	
		Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	3.9	98.0	(10.1)	98.0
Currency Forward	Future purchases in foreign currency	0.1	0.8	-	-
Total		**4.0**	**98.8**	**(10.1)**	**98.0**

With regard to the accounting treatment, the hedging derivatives above are in cash flow hedges with full recognition in the equity reserve.

In particular:

1) Cross Currency IRS

   The underlying of the derivative refers to the bond at fixed rate of 14 billion yen with maturity 2036 bullet issued in 2006.

   A cross currency swap contract was stipulated for the entire duration of this loan, which converts the principal and interest payments from yen into euro.

   At December 31, 2016, the fair value of the hedge was positive for 3.9 million euro. This fair value would improve by 20.5 million euro in the event of a 10% decline in the forward curve of the euro/yen exchange rate (appreciation of the yen) and would worsen by 16.8 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

2) Currency Forward
The underlying of the derivative refers to payments of invoices in foreign currency, denominated in USD, in relation to the maintenance contract of the Sermide plant.

d. Liquidity risk

Liquidity risk is the risk that the Group, despite being solvent, is unable to meet its obligations in a timely manner or that it is able to do so under unfavourable economic conditions.

The profile of the Group's gross debt maturities is as follows:

Millions of euro	Accounting balance 12 31 2016	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				12 31 2018	12 31 2019	12 31 2020	12 31 2021	After
Bonds	2,527	47	2,480	297	566	-	427	1,190
Finance lease payables	7	2	5	1	1	1	1	1
Financial payables to related parties	2	2	-	-	-	-	-	-
Bank loans	1,259	308	951	101	103	99	101	547
TOTAL	**3,795**	**359**	**3,436**	**399**	**670**	**100**	**529**	**1,738**

The risk management policy is realized through (i) a debt management strategy diversified by funding sources and maturities, and (ii) maintenance of financial resources sufficient to meet scheduled and unexpected commitments over a given time horizon.

The following table analyses the worst case for financial liabilities (including trade payables) in which all of the flows shown are undiscounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest (excluding EPCG, for which interest is not included); they also include the undiscounted nominal flows of derivative contracts on interest rates.

12 31 2016 *Millions of euro*	1-3 months	4-12 months	After 12 months
Bonds	45	52	2,938
Payables and other financial liabilities	107	213	1,028
Total financial flows	**152**	**265**	**3,966**
Payables to suppliers	515	99	6
Total trade payables	**515**	**99**	**6**

12 31 2015 *Millions of euro*	1-3 months	4-12 months	After 12 months
Bonds	48	566	3,004
Payables and other financial liabilities	51	77	718
Total financial flows	**99**	**643**	**3,722**
Payables to suppliers	412	16	2
Total trade payables	**412**	**16**	**2**

At December 31, 2016, the Group had a total of 1,136 million euro, as follows:

(i) revolving committed credit lines for 800 million euro, with maturity 200 million euro in 2017 and 600 million euro in 2019, used for 100 million euro; (ii) unused long-term financing for a total of 33 million euro; (iii) cash and cash equivalents totalling 403 million euro, 280 million euro of which held by the parent company.

The Group also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which 1,902 million euro still available.

e. 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 (Credit Policy, Energy Risk Management procedure) 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. Risk mitigation is through the prior assessment of the creditworthiness of the counterparty and the constant verification of compliance with exposure limit as well as through the request for adequate guarantees.

The credit terms granted to customers as a whole have a variety of deadlines, in accordance with applicable law and market practice. In cases of delayed payment, default interest is charged as explicitly prescribed by the underlying supply contracts or by current law (application of the default rate as per Legislative Decree 231/2002).

Trade receivables are stated in the balance sheet net of any write-downs; the amount shown is considered to be a correct reflection of the realizable value of the receivables portfolio. For the aging of trade receivables, reference is made to note 7 "Trade receivables".

f. Equity risk

The A2A Group is exposed to equity risk limited to the holding of treasury shares held by A2A S.p.A., which at December 31, 2016 amounted to 23,721,421 shares corresponding to 0.757% of the share capital, which is made up of 3,132,905,277 shares.

From an accounting standpoint, as provided by IAS/IFRS, the purchase cost of treasury shares is recorded as decrease in shareholders' equity and not even if transferred will the eventual positive or negative difference, with respect to the purchase cost, have effects on the income statement. The purchase of treasury shares has been made to pursue development objectives such as transactions related to business projects consistent with the strategies that the company intends to pursue, in relation to which there is the opportunity of stock exchanges.

g. Covenants compliance risk

Bonds (book value at December 31, 2016 equal to 2,527 million euro), loans (book value at December 31, 2016 equal to 1,162 million euro) and revolving committed bank lines (book value 97 million euro) present Terms and Conditions in line with the market for each type of instrument. In particular, they envisage: (i) negative pledge clauses under which the parent company undertakes not to pledge, with exceptions, guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross- default/acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain Group companies.

Bonds include (i) 2,128 million euro (book value) issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in the following 180 days (if within said 180 days, the company's rating should return to investment grade, the option may not be exercised); (ii) 100 million euro relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade); (iii) 298 million euro related to the LGH Eurobond with maturity 2018 with a Change of Control Put clause in the event of a change in control of the company. Following the acquisition by A2A S.p.A., said option was exercised by some bondholders for a total amount of 500 thousand euro, reimbursed on October 12, 2016. The bond existing between LGH and a pool of institutional investors also envisages, if the ratio of consolidated EBITDA and total financial expenses falls below the value of 2.50, the prohibition to stipulate new debt and the prohibition to distribute dividends.

The loans stipulated with the European Investment Bank, with book value of 821 million euro, excluding EPCG, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), of which 688 million euro - due after 2024 - also include a change of control clause of the parent company, with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

Lastly, the loan signed by the parent company with UniCredit, brokered by the EIB, for a book value of 11 million euro and falling due in June 2018, contains a credit-rating clause that provides for a commitment by the company to maintain an investment grade rating for the whole loan term. In the event of non-compliance there are a number of annual financial covenants to be respected based on the ratios of debt to equity, debt to gross operating income and gross operating income to interest expense.

With regard to loans of the subsidiaries, the loan of Abruzzoenergia S.p.A. for a book value of 39 million euro is backed by a secured guarantee (mortgage) for a maximum of 120 million euro and contains two financial covenants, NFP/Shareholders' funds and NFP/Gross operating income.

Additionally, the subsidiary EPCG has entered into two loans signed with EBRD (European Bank for Reconstruction and Development) for a total book value of 49 million euro, and two loans with International Development Association-World Bank (SDR) for a total book value of 4 million euro, which provide for financial covenants.

The "project loan" of 48 million euro in place between Lomellina Energia and a pool of banks is secured by collateral on the company's properties and plants and envisages, among the cases of non-compliance, the reduction of the Loan Life Coverage Ratio (resulting from the ratio of net present value of the expected cash flow of the project and amount of the outstanding debt) below the value of 1.10.

The loan of 22 million euro in place between Linea Energia and Unicredit is secured by collateral on the company's properties and plants and envisages for the year 2016 the obligation to ensure that the ratio between the amount of principal of the loan disbursed and not yet repaid and equity (inclusive of subordinated shareholder loans) is less than 2.40.

Therefore, at December 31, 2016, the total book value of loans that contain financial covenants amounts to 161 million euro.

With reference to the bank lines revolving committed available, the line for 600 million euro with maturity November 2019 and the bilateral ones for a total of 200 million euro with maturity 2017 used at December 31, 2016 for 100 million euro, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn. The line for 600 million is also subject to the financial covenant NFP/EBITDA.

At December 31, 2016, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Financial covenants at December 31, 2016

Company	Bank	Level of reference	Level recognized	Date of recognition
A2A	Pool RCF	NFP/Ebitda <=4.2	2.5	12/31/2016
A2A gencogas	IntesaSanpaolo	NFP/Equity <=2 NFP/EBITDA<=6	0.1 0.8	12/31/2016 12/31/2016
EPCG	EBRD	Debt/Ebitda <= 4 Curr.Assets/Curr. Liab. >= 1.2 Ebitda/Interest >= 4	1.2 3.2 29.5	12/31/2016 12/31/2016 12/31/2016
	IDA	self-fin. ratio=>35% collection ratio>94%	185.92% 104%	12/31/2016 12/31/2016
LGH	Bondholders	Consolidited Interest Coverage Ratio > 2.50	2.62	12/31/2016
Lomellina Energia	Pool of banks	Loan Life Coverage Ratio >1.10	1.17	12/31/2016
Linea Energia	Unicredit	Residual debt/Equity < 2.40	0.9	12/31/2016

Analysis of forward transactions and derivatives

Tests were performed to determine whether these transactions qualify for hedge accounting in accordance with International Accounting Standard IAS 39. In particular:

1) transactions qualifying for hedge accounting under IAS 39: can be analyzed between transactions to hedge cash flows (cash flow hedges) and transactions to hedge fair value of assets and liabilities (fair value hedges). For the cash flow hedges, the accrued result is included in gross operating income when realized on commodity derivatives and in the financial balance for interest rate and currency derivatives, whereas the future value is shown in equity. For fair value hedge transactions, the impacts in the income statement are recorded within the same line of the financial statements.

2) transactions not considered as hedges for the purposes of IAS 39, can be:
   a. margin hedges: for all hedging transactions of cash flows or the market value in line with internal risk policies, the accrued result and future value are included in gross operating income for commodity derivatives and in the financial balance for interest rate and currency derivatives;
   b. trading transactions: the accrued result and future value are recognized above gross operating income for commodities transactions and in financial income and expense for interest rate and currency transactions.

The use of derivatives in the A2A Group is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on industry best practices and designed to limit the risk of the Group being exposed to commodity price fluctuations, based on a cash flow hedging strategy.

The derivatives are measured at fair value based on the forward market curve at the balance sheet date, if the asset underlying the derivative is traded on markets with a forward pricing structure. In the absence of a forward market curve, fair value is measured on the basis of internal estimates using models that refer to industry best practices.

The A2A Group uses “continuous-time” discounting to measure fair value. As a discount factor, it uses the interest rate for risk-free assets, identified in the Euro Overnight Index Average (EONIA) rate and represented in its forward structure by the Overnight Index Swap (OIS) curve. The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IAS 39.

In compliance with the provisions of IFRS 13, the fair value of an over-the-counter (OTC) financial instrument is determined taking into account the non-performance risk. To quantify the fair value adjustment attributable to this risk, A2A has, in line with best market practices, developed a proprietary model called the “bilateral Credit Value Adjustment” (bCVA), which takes into account changes in the creditworthiness of the counterpart as well as the changes in its own creditworthiness.

The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA):

- the CVA is a negative component and contemplates the probability that the counterparty will default and at the same time that A2A has a receivable due from the counterparty;
- the DVA is a positive component and contemplates the probability that A2A will default and at the same time that the counterparty has a receivable due from A2A.

The bCVA is therefore calculated with reference to the exposure, measured on the basis of the market value of the derivative at the time of the default, the probability of default (PD) and the loss given default (LGD). This latter item, which represents the non- recoverable portion of the receivable in the case of default, is measured on the basis of the IRB Foundation Methodology as stated in the Basel 2 accords, whereas the PD is measured on the basis of the rating of the counterparties (internal rating based where not available) and the historic probability of default associated with this and published annually by Standard & Poor's.

Applying the above method did not result in significant changes in fair value measurements.

Instruments outstanding at December 31, 2016

A) On interest and exchange rates

Millions of euro	Notional value (a) due within 1 year		Notional value (a) due within 1 and 5 years		Notional value (a) due over 5 years	Amount reported in balance sheet(b)	Progressive effect to the income statement at 12 31 2016 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IAS 39		28		114	52	(20)	
- not considered hedges as per IAS 39		-		-	-	-	
Total derivatives on interest rates	**-**	**28**	**-**	**114**	**52**	**(20)**	
Exchange rate risk management							
- considered hedges as per IAS 39 on commercial transactions on financial transactions					 1 98	 - 4	
- not considered hedges as per IAS 39 on commercial transactions on financial transactions							
Total exchange rate derivatives	**-**	**-**	**-**	**-**	**99**	**4**	**-**

(a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.
(b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.
(c) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from the stipulation of the contract to the present day.

B) On commodities

The following is an analysis of the commodity derivative contracts outstanding at the balance sheet date set up for the purpose of managing the risk of the fluctuations in the market prices of commodities.

Energy product price risk management	Unit of measurement of the notional value	Notional Value millions of euro	Notional value expiring within 1 year	Notional value expiring within 2 years	Notional value expiring within 5 years	Balance sheet value (*) millions of euro	Progressive effect to income statement (**) millions of euro
A. Cash flow hedges as per IAS 39, including:						**8.4**	**-**
- Electricity	TWh	107.2	3.4			4.3	
- Oil	Bbl						
- Coal	Tons						
- Natural Gas	TWh	3.0	0.2			0.4	
- Natural Gas	Millions of cubic metres	4.9	26.2			0.3	
- Exchange rate	Millions of dollars						
- CO_2 Emission rights	Tons	10.1	2,052,000			3.4	
B. Considered fair value hedges as per IAS 39						**-**	**-**
C. Not considered hedges as per IAS 39 of which:						**4.6**	**4.1**
C.1 Hedge margin						**(0.2)**	**(0.2)**
- Electricity	TWh	0.1	0.1				
- Oil	Bbl						
- Natural Gas	MWh						
- Natural Gas	Millions of cubic metres						
- CO_2 Emission rights	Tons	0.5	120,000			(0.2)	(0.2)
- Exchange rate	Millions of dollars						
C.2 Trading transactions						**4.8**	**4.3**
- Electricity	TWh	2,041.7	59.8	4.8		4.2	3.7
- Natural Gas	TWh	456.9	27.2	0.6		0.6	0.4
- CO_2 Emission rights	Tons	1.1	200,000				0.2
- Environmental Certificates	MWh						
- Environmental Certificates	Tep						
Total						**13.0**	**4.1**

(*) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(**) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from stipulation of the contract until the current date.

Financial and operating results for derivative transactions at December 31, 2016

The following table shows the balance sheet figures at December 31, 2016, for derivative transactions.

Effects on the balance sheet

Millions of euro	Notes	
ASSETS		
NON-CURRENT ASSETS		**4**
Other non-current assets - Derivatives	5	4
CURRENT ASSETS		**265**
Other current assets - Derivatives	8	265
TOTAL ASSETS		**269**
LIABILITIES		
NON-CURRENT LIABILITIES		**19**
Other non-current liabilities - Derivatives	21	19
CURRENT LIABILITIES		**253**
Trade payables and other current liabilities - Derivatives	22	253
TOTAL LIABILITIES		**272**

Effect on the income statement

The following table sets out the income statement figures at December 31, 2016 arising from the management of derivatives.

Millions of euro	Notes	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	27			
Revenues from the sale of goods				
Energy product price risk management and commodity exchange risk management				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		27	(297)	(270)
Total revenues from the sale of goods		**27**	**(297)**	**(270)**
OPERATING EXPENSES	28			
Expenses for raw materials and services				
Energy product price risk management and commodity exchange risk management				
- considered hedges as per IAS 39		10	-	10
- not considered hedges as per IAS 39		(53)	301	248
Total expenses for raw materials and services		**(43)**	**301**	**258**
Total booked to gross operating income (*)		**(16)**	**4**	**(12)**
FINANCIAL BALANCE	34			
Financial income				
Interest rate risk management and equity risk management				
Income on derivatives				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		8	8	16
Total		**8**	**8**	**16**
Total financial income		**8**	**8**	**16**
Financial expense				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IAS 39		(6)	-	(6)
- not considered hedges as per IAS 39		-	-	-
Total		**(6)**	**-**	**(6)**
Total financial expenses		**(6)**	**-**	**(6)**
TOTAL BOOKED TO FINANCIAL BALANCE		**2**	**8**	**10**

(*) These figures do not include the effect of the net presentation of the trading margin.

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity). The last column of the table shows the fair value of the instrument at December 31, 2016, where applicable.

Millions of euro

	Criteria to measure the reported amount of financial instruments							
	Notes	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Shareholdings / Securities convertible into unlisted shareholdings measured at cost	Amount as stated in the consolidated balance sheet at 12 31 2016	Fair value at 12 31 2016 (*)
		Income statement	Equity					
		(1)	(2)	(3)	(4)	(5)		
ASSETS								
Other non-current financial assets								
Shareholdings / Securities convertible into shareholdings available for sale of which:								
-unlisted				13			13	n.a.
-listed							-	-
Financial assets held to maturity							-	-
Other non-current financial assets					56		56	56
Total other non-current financial assets	3						**69**	
Other non-current assets	5		4		8		12	12
Trade receivables	7				1,821		1,821	1,821
Other current assets	8	257	8		123		388	388
Current financial assets	9				218		218	218
Cash and cash equivalents	11				402		402	402
Assets held for sale	12				6		6	6
LIABILITIES								
Financial liabilities								
Non-current and current bonds	18 and 23				2,527		2,527	2,527
Other non-current and current financial liabilities	18 and 23				1,268		1,268	1,268
Other non-current liabilities	21		19		93		112	112
Trade payables	22				1,384		1,384	1,384
Other current liabilities	22	253			491		744	744

(*) The fair value has not been calculated for receivables and payables not related to derivative contracts and loans as the corresponding carrying amount is a good approximation to this.
(1) Financial assets and liabilities measured at fair value with the changes in fair value recognized in the income statement.
(2) Cash flow hedges.
(3) Financial assets available for sale measured at fair value with profit/loss recognized in equity.
(4) Loans and receivables and financial liabilities measured at amortized cost.
(5) Available-for-sale financial assets consisting of unlisted shareholdings whose fair value is not reliably measurable are measured at the lower of cost less any impairment losses and fair value.

Fair value hierarchy

IFRS 7 and IFRS 13 require that fair value classification of financial instruments to be based on the quality of the input source used to calculate the fair value.

In particular, IFRS 7 and IFRS 13 set out three levels of fair value:

- level 1: this level consists of financial assets and liabilities for which fair value is based on (unadjusted) prices for identical assets or liabilities quoted on active official or over-the-counter markets;
- level 2: this level consists of financial assets and liabilities for which fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly;
- level 3: this level consists of financial assets and liabilities for which fair value is based on unobservable market data. This level includes instruments measured on the basis of internal estimates made using proprietary methods based on best sector practice.

An analysis of the assets and liabilities included in the three fair value levels is set out in the following fair value hierarchy table.

Millions of euro	Note	Level 1	Level 2	Level 3	Total
Available-for-sale assets measured at fair value	3		13		13
Other non-current assets	5		4		4
Other current assets	8	263	0	2	265
TOTAL ASSETS		**263**	**17**	**2**	**282**
Other non-current liabilities	21		19		19
Other current liabilities	22	253	-		253
TOTAL LIABILITIES		**253**	**19**	**0**	**272**

Sensitivity analysis for financial instruments included in level 3

As required by IFRS 13, the following table sets out the effects arising from changes in the unobservable parameters used in calculating fair value for financial instruments included in level 3 of the hierarchy.

Financial instrument	Parameter	Parameter change	Sensitivity (millions of euro)
Commodity Derivatives	Probability of Default (PD)	1%	0.00
Commodity Derivatives	Loss Given Default (LGD)	25%	0.00
Commodity Derivatives	Volatility underlying interconnection capacity abroad	1%	0.04
Commodity Derivatives	Correlation underlying interconnection capacity abroad	1%	(0.01)
Commodity Derivatives	Underlying interconnection capacity zonal Italy	1%	0.04

6) Concessions

The following table sets out the main concessions obtained by the A2A Group:

Hydroelectric concessions

		Hydroelectric plants	Concession expiry	Concessionaire
Generation and Trading	Valtellina	Premadio II	12/31/2043	Region/Province
		Premadio I(1)	12/31/2017	
		Braulio(1)	12/31/2017	
		San Giacomo(1)	12/31/2017	
		Nuovo Canale Viola(1)	12/31/2017	
		Grosio(2)	12/31/2017	
		Lovero(3)	12/31/2017	
		Stazzona(3)	12/31/2017	
		Grosotto(3)	12/31/2017	
		Sernio(3)	12/31/2017	
		Boscaccia	01/30/2037	
	Province of Brescia	Lozio	08/03/2024	
		Darfo	07/10/2032	
		Mazzunno	08/26/2037	
		Resio(3)	12/31/2017	
		Corna	09/29/2041	
		Calabria Unit (9 concessions)	12/31/2029	
		Mese Unit (16 concessions)	03/31/2029	
		Udine Unit (3 concessions)	03/31/2029	

(1) extension of the temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/4225 of 10/23/15
(2) in temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/5823 of 11/18/16
(3) extension of the temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/4595 del 12/17/15

Other concessions

		Hydroelectric plants	Concession expiry	Concessionaire
Generation and Trading	Mese plant	3 concessions water for sanitary and related use	12/31/2027	Lombardy Region
		2 concessions State Area	03/31/2029	Authorities of Bacino lacuali
	Valtellina	1 concession water for industrial use	renewal process underway	Lombardy Region
		Thermoelectric plants	**Concession expiry**	**Concessionaire**
		A2A Energiefuture (5 concessions)	2020-2024	Region/Port authorities
		A2A gencogas (10 concessions)	2018-2050 1 concess. with automatic renewal	Region/Province

Environment concessions

	Geographical area	Activities in concession	Concession expiry	Concessionaire
Environment	Milan	Collection and disposal of waste and sanitation	2021	Municipality
	Brescia		2050	
	Bergamo		2023	
	Varese		2034	
	Como		2023	
	Cremona		2029	
	Lodi		2029	
	another 242 municipalities		2016 - 2028	

NETWORKS AND HEAT CONCESSIONS

Networks concessions

	Geographical area	Activities in concession	Concession expiry	Concessionaire
Networks	Milan	Gas distribution	Tender on ATEM basis underway The new concessions in various ATEM(1) will be awarded for a period of 12 years through a public tender process	Municipality
	Brescia			
	Bergamo			
	Varese			
	Cremona			
	Lodi			
	another 292 municipalities			
	Milan and Rozzano	Electrical distribution	2030	Ministry of Economic Development
	Brescia and another 45 municipalities in the province			
	Cremona			
	Brescia	Aqueduct, sewage and purification	2050	Province, Ambit Authority
	another 69 municipalities in the province of Brescia		2020 - 2034	
	Varese		2030	
	another 33 municipalities in the province of Varese		2019 - 2036	
	Milan Brescia	Public and traffic lighting	indefinite duration (duration equal to company term)	Municipality
	Bergamo		2023	
	another 4 municipalities		- two municipalities respectively in 2017 and 2028 - two municipalities with tacit renewal	

(1) Minimum Territorial Ambit.

District heating concessions

	Geographical area	Concession expiry	Concessionaire
District heating	Milan	2036	Municipality
	Brescia	indefinite duration (duration equal to company term)	
	Bergamo	2037	
	Varese	2025	
	Cremona	2030	
	Lodi	2035	
	another 9 municipalities	2022 - 2035	

7) Update of the main legal and tax disputes still pending

Adequate provisions are provided where necessary for the disputes and litigation described below.

It is noted that if there is no explicit reference to the presence of a provision, the Group assessed the corresponding risk as possible without appropriating provisions in the financial statements.

EC infringement procedure

On June 5, 2002, the European Commission published Decision no. 2003/193/EC stating that the three-year exemption from income tax provided by article 3 paragraph 70 of Law no. 549/95 and article 66.14 of Decree Law no. 331/1993, converted into Law no. 427/93, is incompatible with community law, considering this to be "State aid" which is prohibited by article 87.1 of the EC Treaty.

The Company appealed against this decision before the community jurisdictions but these appeals were rejected. The Italian State went ahead with the recovery of the aid in three separate stages, issuing different orders for the various tax period concerned.

The process followed by the various community and national appeals was described in the financial statements up until 2012 and in the quarterly reports up until the third quarter of 2013, to which reference is made for brevity. All the amounts requested for the principal and interest have been settled to avoid any executive action.

The situation regarding pending matters is as follows:

- Sentence regarding the First recovery. The verdict has been finalized following the sentence of the first instance rejecting the company's appeal.
- Sentence regarding the Second recovery. Following the adverse sentence of the Regional Tax Commission the company filed an appeal with the Supreme Court. The case is awaiting discussion.
- Sentence regarding the Third recovery. Following the adverse sentence of the Regional Tax Commission the company filed an appeal with the Supreme Court. The appeal was discussed on November 14, 2013 before the Tax Section. By way of an ordinance published on February 13, 2014, the court suspended the case and ordered that the records be passed to the European Court of Justice, raising a question of a preliminary ruling pursuant to article 267 of the Treaty of the Functioning of the European Union concerning the way in which the interest due on the recovery of the aid should be calculated. The company has made an appearance before the court and filed a brief; the Italian State and the European Commission have done the same, taking a position in opposition to the company. The related proceedings are registered under number C-89/14.

As of today, therefore, the question concerning the quantification of the interest due on the amounts to be recovered is still pending in cassation (whether the interest is compound or simple interest), related to the Second and Third recovery. On this point, the interpretation made by the European Court of Justice is binding on national courts. On March 26, 2015, the Attorney General at the Court of Justice, Melchior Wathelet, submitted his non-binding conclusions to the Court. According to the Attorney General, European legislation does not preclude that national legislation provides for the application of compound interest to a recovery action for illegal aid. However, the same Attorney General found that before 2008, neither European nor national legislation envisaged the application of compound interest for recovery activities.

By sentence ruled on September 3, 2015, the EU Court substantially transposed the opinion of the Attorney General, considering that a national legislation regarding interest on the recovery of State aid, which provides for the application of compound interest, is not contrary to European law. However, the Court highlighted that – before 2008 – no legislation (European and national) provided for the application of compound interest for the recovery of State aid relating to Decisions issued – as in this case – before the entry into force of Reg. no. 794/2004.

Following this binding sentence on the national court, the proceedings in cassation on the Third recovery suspended following the prejudicial referral to the Court of Justice, resumed its course. The defence of the Company filed a statement pointing out that - according to a correct reading of the EU court ruling - the application of compound interest can only occur from November 2008. The hearing was held March 18, 2016; the Attorney General concluded for the dismissal of the appeal of the party. The sentence has not yet been filed.

In any case, concerning the position of A2A, as all the amounts requested were settled some time ago, it is believed that once the pending disputes are completed the company should not have to bear any further costs for the recovery of State aid.

Consult Latina/BAS S.p.A. (now A2A S.p.A.)

In the 90s, the purchase by BAS S.p.A. of the investment in HISA was made thanks to the services of a local consultant, Consult Latina.

Given the non-uniqueness of the contractual text and the non-acquisition of 100% of the investment in HISA, BAS S.p.A. did not pay to Consult Latina the fee requested because it considered the contractual provision as not applicable and therefore the formulated payment request as unjustified. In 1998, Consult Latina established a lawsuit to obtain payment of the fee.

Legal counsel has confirmed that the preliminary phase was completed years ago and that only the final sentence is awaited.

A2A S.p.A. took over the litigation after the incorporation of BAS S.p.A. in 2005 and repeatedly conferred upon the lawyers the mandate to reach a settlement also expressing a willingness to increase previous offers to cover the litigation costs as well as to listen to and weigh even incremental requests.

The Court convened the parties in a council chamber which was held December 18, 2014 to verify the conditions of a conciliation or transaction; following the discussion, the Court has set a new discussion session for February 19, 2015 and then a new mediation hearing on September 27, 2016 as well as one on December 27, 2016 and, in consideration of the non-definition of settlement agreement, one on February 21, 2017. At the hearing, the parties informed the judge of the advanced state of negotiation and the need for additional time to define payment details. The settlement solution will be accepted, in order to settle the dispute, without recognition of debt.

Over time, Redengas, a subsidiary of HISA whose shares have been foreclosed in guarantee for the payment by A2A, by Consult Latina, has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina. Said damages would result in additional costs for A2A S.p.A..

The Group has set aside a risk provision of 1.3 million euro.

Consorzio Eurosviluppo S.c.a.r.l./Ergosud S.p.A. + A2A S.p.A. - Civil Court of Rome

On May 27, 2011, Consorzio Eurosviluppo Industriale S.c.a.r.l. served a writ on Ergosud S.p.A. and A2A S.p.A. with the following claims: (i) compensation for damages, of both a contractual and extra-contractual nature, jointly, or alternatively exclusively and separately, in the amount of 35,411,997 euro (of which 1,065,529 euro as the residual portion of their share of the expenses); (ii) compensation for damages for the stoppage at the worksite and the failure to return the areas of pertinence to the Consortium.

In the filing of appearance Ergosud S.p.A. and A2A S.p.A. called for the request to be rejected in full because it is unfounded in its merit and in its substance, and pointed out: (i) the lack of the right of the Consortium to institute proceedings as it is in a state of bankruptcy, (ii) the lack of the right of the Consortium to institute proceedings for the damages allegedly suffered by Fin Podella at the item “anticipation of program contract” for 6,153,437 euro and the damages allegedly suffered by Conservificio Laratta S.r.l. for 359,000 euro.

S.F.C. S.A. filed a notice of joinder on November 8, 2011 pursuant to article 105 of the Civil Procedure Code (which allows a third party to make a new, different request to the original judge, extending the argument) and called that Ergosud S.p.A. alone should be ordered to pay damages, in part similar to those claimed by the Consortium, quantified in 27,467,031 euro.

The judge found the bankruptcy of S.F.C. S.A. was legitimate and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion, setting May 23, 2013 as the date for the hearing to appoint the court's expert witness. At that hearing the judge, changed in the meantime, confirmed the questions already formulated on December 19, 2012 and appointed the court experts Messrs. Pompili and Caroli, setting a term for the parties to appoint their own consultants. A2A S.p.A. and Ergosud S.p.A. appointed as their experts Mr. Massardo and Mr. Gioffrè, persons who over the years have already drawn up reports on the matters to which the questions refer. After postponements requested by the experts, on July 31, 2014, the CTU was filed with the Court. The hearing for the expert's examination was held after postponement on April 1, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence.

The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

CIP 6 auxiliary services

This matter regards the usage of electricity for auxiliary services. According to the Electricity, Gas and Water Authority (AEEGSI), self-consumption by certain types of plant (waste-to-energy) should be considered in the same way as consumption for auxiliary services. The Group has various plants that benefited from CIP 6/92 incentives and for which inspection visits have been carried out over the years. In certain cases, the Authority carried out said verifications by mandating the CSEA to act with respect to the Group; in other cases, the Authority has not taken any action; in others, the verifications are underway. To date, it is not deemed that there are potential contingent liabilities such as to require the recording of a provision.

With regard to the inspection visit in 2006 by the CSEA at the Silla 2 waste-to-energy plant, to date, no updates were found with respect to as already reported in the Notes to the financial statements of previous years. It is believed that, in the event of measures by the AEEGSI tending to the recovery of the CIP 6/92 facilitation, valid defensive objections can be adopted, even taking into account the peculiarities of the waste-to-energy plant in question. In relation to this specific case, the Group has not allocated any provision as it considers the liability possible and not likely.

Union Temporal De Impresas vs. the Municipality of Calig (Spain)

This proceeding involved the Union Temporal De Impresas (UTE), set up between A2A Ambiente S.p.A., (with shareholding of 1% and consequent joint responsibility), Azhar and Teconma (now Enusa S.A.) to build and manage an ITS treatment and disposal plant and composting line in Castellon de la Plana (Spain) as the result of being awarded the tender called by Zone 1 Consortium of Castellon. The Municipality of Calig, neighboring with Castellon, has appealed against the amendment to the agreement between the consortium and the UTE which provided for an increase in the fee from 121 million euro to 140 million euro for adjusting the plants to the specifications required in the AIA, requesting that it be annulled. In the sentence of the court of the first instance of May 21, 2013, the Court upheld the appeal of the Municipality of Calig, additionally ordering, besides upholding the requests of the counterparty, the annulment of the original awarding of the tender to the UTE, with the resulting requirement for the consortium to find a new supplier.

The UTE, defended by the law firm Urìa Menendez, has filed an appeal against the Court's sentence of June 12, 2013.

On February 22, 2016, the UTE was notified the judgement of the Superior Court of Justice of the Valencian Community.

The sentence partially upheld the appeal of the UTE, as it declared the concession null, but confirmed the remainder of the first degree sentence ordering the annulment of the change of the concession contract by which the Consortium (client) paid to the UTE in 2010 extra costs amounting to 19 million euro, due to the non-demonstration of public interest in the contract change.

On March 31, 2016, the Consortium Zone 1 filed an appeal with the Court for Administrative Litigation of Castellon for the declaration of material impossibility of execution of the sentence of the Tribunal de Justicia Superior since said sentence would be contrary to the obligations imposed by the AIA.

The UTE presented adhesive intervention on May 11, 2016 in support of the appeal of the Consortium.

On September 21, 2016, the Judge of the Administrative Litigation of Castellon issued a ruling in which it declared the appeal of the Consortium as inadmissible, considering the previous sentence of the TSJ. However, the Judge did not provide any reasons in support of this anomalous decision.

An appeal against this ruling could have been filed by October 17, 2016.

As a result of non-appeal of the Municipality of Calig in the terms mentioned above, on November 2, 2016, the Judge of Administrative Litigation of Castellon ultimately declared its ruling.

The means of appeal of the rulings at the disposal of the parts are therefore exhausted.

The parties are currently negotiating to define a proposal for a contractual amendment that adequately identifies the public interest perseverance of the initiative and the inclusion of mechanisms other than those subject of sentence, which allow the remuneration of additional costs while ensuring economic-financial balance for both the UTE and for the Consortium.

To complete this matter, trade and financial receivables of approximately 2.6 million euro due from the UTE were recognized in the financial statements of A2A Ambiente S.p.A. at December 31, 2016.

Given the available information, it is believed today that the aforementioned trade and financial receivables are recoverable even in a medium to long-term period.

Monfalcone Plant investigation

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The current risk considered possible is for the higher costs incurred for undelivered biomass and higher costs incurred for counterfeiting (others) of the calorific capacity of the biomass delivered and not delivered. This is in addition to the increased use of coal instead of biomasses could have as a consequence an increase in the environmental costs relating to the second half of 2009 and the whole of 2010, as well the need to reimburse the additional income or Green Certificates recognized with respect to the real income. The company could have submitted, without fault and with reference to the years 2009 and 2010, generating statements of environmental rights greater than those actually produced.

To date, the GSE, as it blocked the issuing of licenses for subsequent years, did not address return requests for previous annuities of competence of the A2A Group (second half of 2009-full-year 2010). If the GSE were to take action against the A2A Group, it will evaluate the appropriate actions, including damages, considering also the amount withheld from third-party suppliers. A2A Trading S.r.l. (now A2A S.p.A.) filed a request with the GSE, in accordance with the procedures and modalities required, to obtain Green Certificates relating to 2011 in which the calculation has been made on the basis of the real quantities of biomasses delivered to the power station and, in agreement with the Public Prosecutor, by taking into account a possible false (not of A2A) increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged to A2A Trading S.r.l. (now A2A S.p.A.) the correctness of the calculations made for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

In criminal proceedings, some sentencing measures have been adopted in the context of alternative rites to some of the defendants, with recognition of minimum compensation and recasts of expenses in favour of A2A.

The proceeding passed, for local jurisdiction, before the Court of Gorizia.

The dispute is ongoing. At the last hearing of February 23, 2017, some texts of the PM were heard. The next hearing is scheduled for May 18, 2017 also for preliminary investigation.

The Group has not allocated any provisions as it considers being the aggrieved party in the proceedings.

ASM Novara S.p.A. dispute

Conduct of the arbitration proceedings and filing of the award

On March 29, 2013, Pessina Costruzioni notified A2A S.p.A. of the appointment of the arbitrator and the deposition with the arbitrators to initiate the arbitration, in fulfilment of the shareholders' agreements signed in August 2007, with the scope of having A2A S.p.A. ordered to pay compensation for damages for the non-fulfillment of its obligations under the agreements.

A2A S.p.A. appointed its arbitrator within the established term of 20 days, rejecting the requests.

After discussion on the appointment, and after a request for the appointment of a sole arbitrator made by Pessina to the Court of Novara, the parties signed an agreement concerning the formation of the Arbitration Board.

The appointed arbitrators are the Lawyers Bruna Gabardi Vanoli, Marco Praino (designated by Pessina) and Salvatore Sanzo (designated by A2A S.p.A.); the hearing for the formal constitution of the board was on July 1st, 2013. After this preliminary fulfilment, the parties specified the applications for arbitration. As a result of the hearing, by means of a summary order, the board fulfilled the requirements for it to be formally established and be able to commence work, setting the deadlines for briefs and preliminary motions and the date of the first hearing. The dates set are October 15 and December 20, 2013 and February 21, 2014 for the submission of briefs and March 5, 2014 for the first hearing. By order of October 8, 2013, the Arbitration Board postponed the deadline for the submission of briefs respectively to October 9, 2013, January 21, 2014 and March 25, 2014. Consequently, the hearing set for March 2014 was postponed to April 10, 2014. The location for the arbitration was set as the offices of the President of the Arbitration Board in Milan. At the hearing of April 10, 2014, preceded by the submission of the parties' briefs, the Board set three new deadlines for the briefs (May 20 for A2A, June 17 for Pessina and June 26 for A2A) and set the date of the merit hearing as July 11, 2014. During the hearing, the plaintiff requested to fix a hearing for conclusions that by order outside the hearing filed on July 22 was set for September 16, 2014. At that hearing, the board set the terms for the filing of the final statements and the date of final hearing; at the request of the parties, such terms were postponed to December 3, 2014 and January 7, 2015 for the briefs and February 3, 2015 for the hearing. At that hearing, the board ordered an extension of the deadline for filing the award to 120 days. At the end of May 2015, A2A, having had news of habitual familiarity and commensality elements between the Chair of the Arbitration Board and the lawyer of the claimant, filed at the court of Milan application for recusal of the Chair of the Arbitration Board.

In view of the news of the appeal, with Ordinance 6 issued outside the hearing on June 3, 2015, the Board suspended the filing of the award until the end of the proceeding, or until the day following the notification of the outcome of the proceeding conducted by the most diligent party.

The Delegated Chair issued an order rejecting the request condemning A2A to litigation costs to the Chair of the Board and to Pessina.

On June 30, 2015, Pessina notified the Board, in execution of Ordinance 6/15, requesting the board to summarize the pending arbitration process.

On June 30, 2015, the Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses.

Appeal of the award

The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal. The appeal concerns: 1) nullity of the Award for violation of art. 829, paragraph 1, no. 2, CPC, in light of the lack of impartiality of the Chair of the Arbitration Board, the lawyer Bruna

Gabardi Vanoli; 2) the nullity of the Award, pursuant to art. 829, no. 4, CPC, as the arbitration board pronounced outside the limits of the arbitration agreement; 3) nullity of the Award for violation of the adversarial principle, pursuant to art. 829, no. 9 CPC, in so far as the arbitration board based its decision on art. III of the Shareholders' Agreement; 4) failure to state reasons under art. 829, no. 5 and 823, no. 5 CPC, and violation of the adversarial principle pursuant to art. 829, no. 9 CPC, as the arbitration board took its decision, excluding, for no reason, the evaluation of the documentation filed in court by A2A; 5) nullity of the Award for violation of the adversarial principle, pursuant to art. 829, no. 9 CPC, as the arbitration board decided on the basis of accepting the importance of the office of an equitable settlement of the damage, without submitting the issue to a hearing of the parties; 6) nullity of the Award pursuant to art. 829, no. 5 and 823, no. 5 CPC, as the arbitration board assessed the damages on an equitable basis pursuant to art. 1226 Civil Code, without justifying the existence of the condition for the applicability of said provision, and without justifying the existence of the damage; 7) nullity of the Award pursuant to art. 829, no. 3, as the arbitration board assessed the damages on an equitable basis pursuant to art. 1226 Civil Code, without the necessary conditions, in violation of public order. Pessina made a cross appeal before the court. After the first hearing held on December 16, 2015, a hearing was scheduled for the final judgement on May 3, 2016. At said hearing, the parties specified the conclusions and A2A also formulated a reasoned request for relief in terms. The Court adjourned the hearing to June 14, 2016. At said hearing, the Court granted the terms for the filing of final claims and objections respectively for September 5 and September 26, 2016, stating that the request for relief in terms will be examined and assessed in the final conclusions. Within the terms, the parties filed the conclusion brief and related reply reiterating and clarifying the respective requests and arguments. On November 23, 2016, the Court of Appeal filed the sentence 4337/16 declaring the reasons for appeal inadmissible and unfounded, resulting in absorption of incidental requests; the terms are pending for appeal in Cassation.

Effectiveness and execution of the award

In July 2015, contextually to the appeal, A2A filed an appeal for the suspension of enforceability of the Ruling. The Court of Appeal by a decree issued by the Chair of the 1st Civil Section on July 10, 2015, without hearing the parties, suspended the enforceability of the Award until the hearing before the Board set for September 15, 2015. On joint request of the parties on September 11, 2015, said hearing was postponed to November 10, 2015. By order issued outside the hearing on November 19, 2015, the decree issued on July 10 was revoked. By decision 3378 of December 18, 2015, the Court of Milan granted the enforceability of the Award requested by Pessina, immediately suspended the same day by order issued by the President of the First Section of the Court of Appeal at the request of A2A, scheduling a hearing on January 19, 2016. By order of January 26, 2016 notified on February 4, 2016, the Court of Appeals revoked the Presidential Decree of December 18, 2015 and rejected the request for suspension of the contested measure. On February 24, 2016, Pessina notified injunction and on March 7, 2016 notified garnishment (with a leading banking institution with which A2A opened a specifically dedicated bank account), with the simultaneous assumption by the garnishee of the obligations that the law imposes on the keeper. On March 23, 2016, the garnishment was registered and the hearing for the third-party statement was fixed by the Court of Brescia for May 23, 2016. On April 15, the lawyers of Pessina notified A2A and the third-party bank garnishee the hearing anticipation decree issued on April 6, 2016 by the Court of Brescia, on the request of Pessina, which brought forward to April 27, 2016 the hearing for third-party declaration. Following said hearing, on May 2, 2016, Pessina notified to the third-party garnishee identification of the credit that was paid on May 11, 2016 for the value of 38,524,290.56 euro.

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

With Regional Law no. 22/2011, Lombardy essentially doubled the fee for hydroelectric use of public water, thereby infringing the principles of gradualism and reasonableness in the determination of fees, already recognized by the case law, and also violating the principle of equal competition between operators in the national territory.

Faced with the payment requests made by the Region for the years 2012 and 2013, Edipower S.p.A. (now A2A S.p.A.) therefore paid the fee considering solely the increase arising from the planned inflation rate as compared to the previous year. As a consequence, for 2012 and 2013 the Region issued injunctions for the payment of the amount not paid by the company; Edipower S.p.A. (now A2A S.p.A.) appealed against these injunctions before the Regional Court of Public Waters ("TRAP") of Milan, proposing the exception of unconstitutionality of the regional provision.

The same conduct was adopted by Edipower S.p.A. (now A2A S.p.A.) for the annuities of the 2014, 2015 and 2016 fees.

However, given the consolidation of unfavourable law and contrary to the thesis of Edipower S.p.A. (now A2A S.p.A.) (ref. sent. TSAP no. 138/2016 and sent. Const. Court no. 158/2016), there was the extinction of almost all the appeals established by Edipower S.p.A. (now A2A S.p.A.) and payment the amount originally ordered pursuant to art. 309 Code of Civil Procedure, in order to avoid the increase of legal interest and the risk of condemnation to significant legal fees, as happened to other operators, while keeping intact its right to recover any amounts overpaid. Against this background, the injunctions for payment of October 2016 relating to the years 2014-2015 have not been opposed by Edipower S.p.A. (now A2A S.p.A.), which undertook to pay, with reserve of repetition in the event of a favourable judicial outcome, the quantum state fee not yet paid. The only judgement ("pilot") still pending before the TRAP Milan is related to the state property fee for 2013 related to the Liro Auction.

The same issue also concerns the large-scale derivations in Lombardy of A2A, which, since the outset, in view of its specific circumstances, fully pays, but with reservation of repetition, the fee demanded by the Region and then sues for excess repetition. In December 2016, the only case pending for A2A before the TRAP Milan on the "doubling" of the state fee was also concluded, with partial loss of A2A in this respect.

In addition, the D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an "additional fee" established "provisionally" at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. It is noted that said additional fee is imposed retroactively from the original expiry of each concession, and therefore for Grosotto, Lovero and Stazzona from January 1, 2011, for Premadio 1 from July 29, 2013 and for Grosio from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters.

For disputes relating to public water derivation fees, at December 31, 2016, the Group set aside risk provisions for the total amount of 29.4 million euro equal to the entire claim of the counterparties.

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

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual "discount" on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate them (specifying that it be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

The parties will discuss the admissibility and relevance of their respective preliminary motions at the next hearing of September 26, 2017. Upon completion of the discussion, the judge will decide on the preliminary motions and, in particular, on the opposing request to have an expert witness.

The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Cassa per i Servizi Energetici e Ambientali/Lomellina Energia S.r.l./AEEGSI/GSE S.p.A. (R.G. no. 2178/2016)

Following the audit carried out by the Authority for Electricity and Gas in July 2012 at its plant in Parona, the AEEG issued resolution which disputes the amount of the net energy incentive. The Company appealed against this resolution at the Lombardy Regional Administrative Court, which rejected the appeal in April 2014. Despite appeal presented at the Council of State, with sentence of December 2014, the first instance sentence was confirmed.

In view of the aforementioned resolution, in December 2013, the Equalization Fund for the Electricity Sector, sent the Company a letter of formal notice to pay, by the end of January 2014.

The Company, totally contesting the decision from which the amount requested by the CCSE derives, notified the appeal on January 30, 2014 at the Lombardy Regional Administrative Court which, with sentence filed on December 15, 2015, declined jurisdiction in the matter in favour of the ordinary judge.

On March 11, 2016, the appeal was notified at the Council of State proposed by the Fund for energy and environmental services - CSEA, the new name of the CCSE (Equalization Fund) as a result of the provisions of the 2016 Stability Law, in order to obtain the annulment of the sentence of the Regional Administrative Court (TAR) in so far as the Court declined jurisdiction in favour of the administrative judge.

The case is covered by a provision for risks of 3.5 million euro allocated in 2014 and considered adequate to cover the risk to which the company is exposed.

In November 2011, the Gestore Servizi Energetici S.p.A. (Energy Services Manager - GSE) sent two communications to Lomellina Energia S.r.l. concerning the two lines of the plant, in which it communicated, without any justification, the replacement of the criterion for calculation of the energy facilitated for the granting of green certificates, required by law, previously agreed with the Company and applied since 2007 production, with regular issue, collection and simultaneous payment of the green certificates required by Lomellina Energia. The modification in the criteria, prudently applied by the Company from 2011, resulted in a reduction of green certificates due to the Company. Even the duration of the incentives for the non-biodegradable part of waste of line 1 declared by the GSE in the aforementioned communications, is less than as required by regulations. To protect its rights, Lomellina Energia challenged before the Regional Administrative Court of Lazio the provisions of the GSE, to obtain annulment of the same and payment of amounts due. The cautionary request for suspension of the measures was dismissed by the Regional Administrative Court; the Council of State, following appeal filed against these orders, referred the matter to the Lazio Regional Administrative Court to rule in regard and the related hearing was held in February 2013. On April 15, 2013, the sentences of the Lazio TAR for the two production lines with the following results were published:

- for line 1, the Regional Administrative Court recognized the right of Lomellina Energia to receive the incentives for the portion of production from non-biodegradable waste until January 19, 2014;
- for line 2, the Regional Administrative Court rejected the requests of the company.

The company appealed to the Council of State which, in March 2016, issued a favourable sentence, recognizing as claimed by the company. It is noted that the company, pending the final resolution of the dispute, had prudently recognized from 2011 in the financial statements only the green certificates for surplus electricity fed into the grid from line 2; in the coming months, the effect of the above sentences will be quantified, also by means of discussions with the counterparty, to be recognized for accounting purposes in 2016.

In February 2017, the Company managed to obtain a meeting with the representatives of the GSE for a discussion on scenarios related to the sentences of the Council of State regarding the Green Certificates; said meeting resulted in the willingness of the counterparty to apply the sentences strictly and therefore, as favourable as possible for the Company. During the meeting, the likelihood of reaching an agreement even with the CSEA was also discussed in order to carry out a three-part transaction to permanently close all open situations. For the above, it was therefore decided to release the risk provision of 3.5 million euro in the previous financial statements as considered excessive, taking into account the fact that the amount of the greater Green Certificates due is higher than the amount to be recognized by way of self-consumption variation.

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The following information is provided in connection with the main litigation of a fiscal nature.

A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) - General IRES/IRAP/VAT audit for fiscal years 2014 and 2015

On January 19, 2016, the Finance Police - Chieti Unit commenced a general audit of A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) for fiscal years 2014 and 2015 for IRES, IREP and VAT purposes. The audit was completed on May 25, 2016. The company submitted comments to the formal notice of assessment by the inspectors. In December 2016, the Revenue Agency of Chieti issued notices of assessment for IRES, IRAP and VAT for the years

2011 and 2012. The company is assessing the action to be taken. A risk provision of 1.4 million euro has been recognized.

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

Unareti S.p.A. (already A2A Reti Gas S.p.A.) – COSAP Municipality of Milan for the years from 2003 to 2016

On December 27, 2011 the Municipality of Milan served payment notices for COSAP (a fee paid for occupying public spaces and areas) for the years 2003 to 2011. An application was filed for annulment of these notices by internal revocation, which the Municipality rejected. The company filed a summons with the Court of Milan against this rejection on July 11, 2012 and on September 25, 2012 filed an appeal with the regional administrative court. In December 2014, payment notices were notified for the years 2012 to 2014 and, in February 2016, a notice of assessment was served for the year 2015. In February 2015, a settlement agreement was entered into with the Municipality of Milan for the final conclusion of the COSAP litigation for the years 2003 to 2011 and a claim was filed before the Regional Administrative Court of Milan against the payment notices for the years from 2012 to 2014. In April 2016, appeal was submitted to the Regional Administrative Court for the year 2015. In September 2016, notice of payment for 2016 was submitted, against which the company appealed. A risk provision of 2.9 million euro has been recognized.

A2A Ambiente S.p.A. (formerly Partenope Ambiente S.p.A.) - General IRES/IRAP/VAT audit for fiscal year 2011

On September 4, 2014, the Tax Revenue Office - Brescia Provincial Department - began a general tax audit of Partenope Ambiente S.p.A. (now A2A Ambiente S.p.A.) for fiscal year 2011 for IRES, IREP and VAT purposes. This audit was completed on October 6, 2014. The findings mainly related to violations exclusively regarding direct taxation. On July 7, 2015, a notice of assessment was served for the year 2011. On October 5, 2015, the company filed an application to the assessing office for settlement. On December 22, 2015, the company and the

Office signed the contradictory report defining the tax claim. The company has set aside a risk provision for 0.3 million euro.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 7, 2013, the Brescia Customs Agency commenced a technical audit of the Brescia waste-to-energy plant owned by Aprica S.p.A. (now owned by A2A Ambiente S.p.A.). The audit was completed on January 16, 2014 with the serving of a formal notice of assessment for the years 2008 to 2011. For 2008 and 2009, the Customs Authority served payment notices on May 7 and 21, 2014 together with the respective penalties. The company appealed against these two demands in July 2014. For the year 2009, in December 10, 2014, the company signed a conciliation agreement with the Customs Agency of Brescia for the final closure of the dispute and the consequent termination of the proceedings. For 2008, the litigation of first instance ended favorably for the company. On September 24, 2015, the Office appealed. The company filed counter-claims on November 17, 2015. With sentence of June 6, 2016, the Regional Tax Commission partially upheld the company's reasons. The Office appealed to the Court of Cassation and the company is considering the consequent actions. On August 5, 2014, the Customs Authority served formal notices of assessment for 2012 and 2013. In March 2016, the company defined with the Customs Agency of Brescia the years from 2010 to 2013 with the payment of the amounts due on the basis of the criteria identified in the deed of reconciliation for the year 2009. As a result of the settlement agreements, the fund has been released for the excess and there is a residual risks provision of 0.3 million euro for the year 2008.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favorable outcome for the company in all cases. The Tax

Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. filed a cross-appeal on November 9, 2012.

The outcomes of the 2002 and 2003 disputes were also favorable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation. For 2001 and 2002, the hearing dates for discussion before the Supreme Court have not yet been set. The company has set aside a risk provision for 1.6 million euro.

A2A S.p.A. (formerly A2A Trading S.r.l.) - VAT assessments Green Certificates 2004 – 2010

On December 23, 2009 the Milan Tax Revenue Office served A2A Trading S.r.l. (now A2A S.p.A.) with a VAT tax assessment regarding fiscal 2004. This notice cited the company's failure to invoice taxable transactions and required the company to pay additional VAT as well as penalties and interest amounting to a total of 3.3 million euro.

In particular, under this assessment the Tax Revenue Office served a penalty on A2A Trading S.r.l. (now A2A S.p.A.) for not having invoiced the Tollee (Edipower S.p.A.) for the Green Certificates allegedly transferred between the two.

After appropriate examination, which also included the other Tollers, it was considered that the Tax Revenue Office's conclusions could not be accepted. In fact, under Tolling arrangements Tollers are on the one hand the owners of the raw materials, including fuel, that they supply to the Tollees to produce electricity, and on the other are the "ab origine" owners of the electricity produced. The delivery of Green Certificates to Tollees by Tollers can in no way be considered to be the transfer of title of such.

A2A Trading S.r.l. (now A2A S.p.A.) has therefore not committed any breach of law and accordingly no risk provision has been made in the financial statements for this matter.

On December 16, 2010, the Milan Tax Revenue Office served notice of a VAT tax assessment regarding fiscal 2005 and on October 31, 2011 notice of a VAT tax assessment regarding fiscal 2006 for the same reasons, with the resulting demands for additional value added tax plus penalties and interest totalling 5.2 million euro and 11.2 million euro respectively. As in the case of 2004, and also for 2005 and 2006, A2A Trading S.r.l. (now A2A S.p.A.) has not committed any breach of law accordingly no risk provision has been made in the financial statements for this matter.

A2A Trading S.r.l. (now A2A S.p.A.) has filed an appeal with the relevant bodies against both notices, requesting that the claim for additional taxes be fully annulled.

The Milan Provincial Tax Commission upheld the company's appeals for all years under dispute.

On March 12, 2013 the Tax Revenue Office stated its acceptance, for 2006, of the sentence for the part relating to the dispute regarding the green certificates and filed an appeal with respect to the remaining findings (283,454.16 euro). The Regional Tax Commission rejected the appeal and the Office filed an appeal against this decision with the Supreme Court on August 5, 2014, which was followed by a cross appeal by the company. On May 6, 2013 the Tax Revenue Office notified that it was waiving its appeal and applying for a dismissal of the case for 2004 and 2005.

Note that following the request for documentation regarding Green Certifications for the same Tolling contract in tax years from 2007 to 2010, on October 28, 2011 the Italian Guardia di Finanza - Milan Office served notice of the Report on Findings, highlighting the same failure to bill taxable transactions for the years 2007, 2008 and 2010. No assessment notices have yet been notified.

No provision was ever allocated as the company considered unfounded the claims of the financial administration.

* * *

Consob Recommendation no. 61493 of July 18, 2013

In response to Consob Recommendation no. 61493 published in July 2013, the A2A Group has carried out detailed analyses which have led to the identification of the hydroelectric production sector as the area applicable to the Group.

The investments made in this sector in 2016 were of a marginal amount and due to ordinary maintenance.

In addition, the A2A Group plans to make investments in the hydroelectric sector in the coming years and in particular to incur expenditure for maintenance and for increasing the energy efficiency of plants located in Lombardy and Calabria.

0.4

Attachments to the notes to the consolidated annual report

1 - Statement of changes in tangible assets

Tangible assets *Millions of euro*	Net book value at 12 31 2015	First-time Consolidation Acquisitions 2016	Changes during the year	
			Investments	Changes in category
Land	266	15	1	
Buildings	913	58	6	6
Plant and machinery	3,608	222	102	99
Industrial and commercial equipment	24	8	7	1
Other assets	56	7	17	9
Landfills	23	3	1	3
Construction in progress and advances	103	19	106	(120)
Leasehold improvements	72	1	19	1
Leased assets	2	7		1
Total tangible assets	**5,067**	**340**	**259**	**-**

Tangible assets *Millions of euro*	Net book value at 12 31 2014	First consolidation Bellisolina/SED and Bergamo Servizi	Changes during the year		
			Investments	Changes in category	AFS (IFRS5)
Land	270	2			(4)
Buildings	949	2	3	21	(21)
Plant and machinery	4,136	1	81	109	(135)
Industrial and commercial equipment	20		3	1	
Other assets	52		6	12	
Landfills	30				
Construction in progress and advances	109		146	(149)	(6)
Leasehold improvements	57		14	9	
Leased assets	2				
Total tangible assets	**5,625**	**5**	**253**	**3**	**(166)**

	Changes during the year								Net book value at 12 31 2016
	Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the year		
	Gross value	Accumulated amortization	Gross value	Accumulated amortization					
	(45)				(1)	(1)	(46)		235
	(87)		(3)	1	(32)	(40)	(149)		822
	145	1	(66)	61	(185)	(294)	(137)		3,693
	(1)		(1)	1		(6)	1		33
			(9)	9		(16)	10		73
	11					(8)	7		33
	(5)				(3)		(22)		100
	(1)		(2)			(8)	9		82
	(1)	1				(1)	-		9
	16	**2**	**(81)**	**72**	**(221)**	**(374)**	**(327)**		**5,080**

	Changes during the year								Net book value at 12 31 2015
	Other changes		Write-downs	Disposals/Sales		Amortization	Total changes for the year		
	Gross value	Accumulated amortization		Gross value	Accumulated amortization				
						(2)	(6)		266
	(28)	28	(1)	(2)	1	(39)	(38)		913
	(90)	137	(358)	(11)	7	(269)	(529)		3,608
	5					(5)	4		24
	1			(4)	4	(15)	4		56
	(2)					(5)	(7)		23
	3						(6)		103
	(2)					(6)	15		72
	(2)	2					-		2
	(115)	**167**	**(359)**	**(17)**	**12**	**(341)**	**(563)**		**5,067**

2 - Statement of changes in intangible assets

Intangible assets *Millions of euro*	Net book value at 12 31 2015	First-time Consolidation Acquisitions 2016	Changes during the year	
			Investments	Changes in category
Industrial patent and intellectual property rights	26		6	3
Concessions, licences, trademarks and similar rights	799	182	88	31
Goodwill	482	112		
Assets in progress	20	14	29	(34)
Other intangible assets	21	31		
Total intangible assets	**1,348**	**339**	**123**	**-**

Intangible assets *Millions of euro*	Net book value at 12 31 2014	First consolidation Bellisolina/SED and Bergamo Servizi	Changes during the year	
			Acquisitions	Changes in category
Industrial patent and intellectual property rights	34		4	3
Concessions, licences, trademarks and similar rights	766		68	5
Goodwill	482			
Assets in progress	15		16	(11)
Other intangible assets	21			
Total intangible assets	**1,318**	**-**	**88**	**(3)**

Changes during the year							Net book value at 12 31 2016
Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the year	
Gross value	Accumulated amortization	Gross value	Accumulated amortization				
					(14)	(5)	21
(4)		(13)	10		(39)	73	1,054
				(37)		(37)	557
				(3)		(8)	26
16					(2)	14	66
12	**-**	**(13)**	**10**	**(40)**	**(55)**	**37**	**1,724**

Changes during the year							Net book value at 12 31 2015
Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the year	
Gross value	Accumulated amortization	Gross value	Accumulated amortization				
					(15)	(8)	26
		(11)	9		(38)	33	799
						-	482
						5	20
1					(1)	-	21
1	**-**	**(11)**	**9**	**-**	**(54)**	**30**	**1,348**

3 - List of companies included in the consolidated annual report

Company name	Registered office	Currency	Share capital *(thousands)*
Scope of consolidation			
Unareti S.p.A.	Brescia	Euro	965,250
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	100
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
A2A Smart City S.p.A.	Brescia	Euro	3,000
A2A Energia S.p.A.	Milan	Euro	2,000
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
A2A Ambiente S.p.A.	Brescia	Euro	220,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100
A2A Energiefuture S.p.A.	Milan	Euro	50,000
Mincio Trasmissione S.r.l.	Brescia	Euro	10
A2A gencogas S.p.A.	Milan	Euro	450,000
Retragas S.r.l.	Brescia	Euro	34,495
Aspem S.p.A.	Varese	Euro	174
Varese Risorse S.p.A.	Varese	Euro	3,624
Ostros Energia S.r.l. in liquidation	Brescia	Euro	350
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900
A2A Alfa S.r.l.	Milan	Euro	100
Plurigas S.p.A. in liquidation	Milan	Euro	800
Proaris S.r.l.	Milan	Euro	1,875
Consul System S.p.A.	Milan	Euro	2,000
Ecofert S.r.l. in liquidation	S. Gervasio Bresciano (BS)	Euro	100
Unareti Servizi Metrici S.r.l.	Brescia	Euro	100
SEASM S.r.l.	Brescia	Euro	700
Ecodeco Hellas S.A. in liquidation	Atene (Greece)	Euro	60
Ecolombardia 4 S.p.A.	Milan	Euro	13,515
Sicura S.r.l.	Milan	Euro	1,040
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250
Vespia S.r.l. in liquidation	Milan	Euro	10
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582
Nicosiambiente S.r.l.	Milan	Euro	50
Bioase S.r.l.	Sondrio	Euro	677
Montichiariambiente S.r.l.	Brescia	Euro	10
Aprica S.p.A.	Brescia	Euro	20,000

% of shareholding consolidated by Group at 12 31 2016	Shareholding %	Shareholder	Valuation method
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
91.60%	91.60%	A2A S.p.A. (87.27%) Unareti S.p.A. (4.33%)	Line-by-line consolidation
90.00%	90.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Aspem S.p.A.	Line-by-line consolidation
80.00%	80.00%	A2A S.p.A.	Line-by-line consolidation
81.90%	89.00%	A2A S.p.A. (74.50%) Linea Energia S.p.A. (14.50%)	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
75.00%	75.00%	A2A Calore & Servizi S.r.l.	Line-by-line consolidation
71.48%	95.00%	A2A S.p.A. (47%) Linea Energia S.p.A. (48%)	Line-by-line consolidation
100.00%	100.00%	Unareti S.p.A.	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
68.58%	68.58%	A2A Ambiente S.p.A.	Line-by-line consolidation
96.80%	96.80%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

Company name	Registered office	Currency	Share capital *(thousands)*
Scope of consolidation			
Amsa S.p.A.	Milan	Euro	10,000
SED S.r.l.	Robassomero (TO)	Euro	1,250
Bergamo Servizi S.r.l.	Brescia	Euro	10
LA BI.CO DUE S.r.l. (*)	Lograto (BS)	Euro	96
Elektroprivreda Cnre Gore AD Nikśič (EPCG)	Nikśič (Montenegro)	Euro	1,003,666
EPCG d.o.o. Beograd	Beograd (Serbia)	Dinar RSD	3,101
Zeta Energy d.o.o.	Danilovgrad (Montenegro)	Euro	14,240
CRNOGORSKI ELEKTRODISTRIBUTIVNI SISTEM D.O.O. PODGORICA	Podgorica (Montenegro)	Euro	278,102
RI.ECO S.r.l.	Novate Milanese (MI)	Euro	1,000
RESMAL S.r.l.	Milan	Euro	500
Galli Ecologistica S.r.l.	Novate Milanese (MI)	Euro	100
Resmal Ecologistica S.r.l.	Truccazzano (MI)	Euro	80
Linea Group Holding S.p.A.	Cremona	Euro	189,494
Linea Reti e Impianti S.r.l.	Cremona	Euro	7,794
Linea Gestioni S.r.l.	Crema (CR)	Euro	5,000
LD Reti S.r.l.	Lodi	Euro	23,981
Linea Più S.p.A.	Pavia	Euro	5,000
Linea Energia S.p.A.	Rovato (BS)	Euro	3,969
Linea Com S.r.l.	Cremona	Euro	5,833
Linea Ambiente S.r.l.	Rovato (BS)	Euro	3,000
MF Waste S.r.l.	Rovato (BS)	Euro	750
Greenambiente S.r.l.	Priolo Gargallo (SR)	Euro	50
Lomellina Energia S.r.l.	Parona (PV)	Euro	160
Equity investments held for sale			
Bellisolina S.r.l.	Montanaso (LO)	Euro	10

(*) The percentage does not take into account the put option.

	% of shareholding consolidated by Group at 12 31 2016	Shareholding %	Shareholder	Valuation method
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	80.00%	80.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
	64.00%	64.00%	Aprica S.p.A.	Line-by-line consolidation
	41.75%	41.75%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	EPCG	Line-by-line consolidation
	57.86%	51.00%	EPCG	Line-by-line consolidation
	100.00%	100.00%	EPCG	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A. (45%) RI.ECO S.r.l. (55%)	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A. (45%) RESMAL S.r.l. (55%)	Line-by-line consolidation
	51.00%	51.00%	A2A S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	90.85%	90.85%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	96.17%	96.17%	Linea Group Holding S.p.A.	Line-by-line consolidation
	100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	51.00%	51.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	80.00%	80.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
	40.80%	80.00%	MF Waste S.r.l.	Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

4 - List of shareholdings in companies carried at equity

Company name	Registered office	Currency	Share capital *(thousands)*
Shareholdings in companies carried at equity			
PremiumGas S.p.A.	Bergamo	Euro	120
Ergosud S.p.A.	Rome	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (CH)	Euro	650
SET S.p.A.	Toscolano Maderno (BS)	Euro	104
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	6,000
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Centrale Termoelettrica del Mincio S.r.l. in liquidation	Ponti sul Mincio (MN)	Euro	11
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
LumEnergia S.p.A.	Lumezzane (BS)	Euro	300
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (BS)	Euro	1,616
ACSM-AGAM S.p.A.	Monza	Euro	76,619
Futura S.r.l.	Brescia	Euro	2,500
Prealpi Servizi S.r.l.	Varese	Euro	5,451
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100
G.Eco S.r.l.	Treviglio (BG)	Euro	500
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
Rudnik Uglja Ad Pljevlja	Pljevlja (Montenegro)	Euro	21,493
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898
Bresciana Infrastrutture gas S.r.l.	Roncadelle (BS)	Euro	100
Total shareholdings			

Shareholding %	Shareholder	Carrying amount at 12 31 2016 *(thousands)*	Valuation method
50.00%	A2A Alfa S.r.l.	2,914	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	1,844	Equity
49.00%	A2A S.p.A.	847	Equity
49.15%	A2A S.p.A. (48.77%) Unareti S.p.A. (0.38%)	5,964	Equity
47.00%	A2A S.p.A.	2,175	Equity
45.00%	A2A S.p.A.	4	Equity
40.00%	A2A S.p.A.	740	Equity
40.00%	A2A S.p.A.	6	Equity
33.33%	A2A Energia S.p.A.	227	Equity
24.29%	A2A S.p.A.	769	Equity
23.94%	A2A S.p.A.	39,301	Equity
20.00%	A2A Calore & Servizi S.r.l.	671	Equity
12.47%	Aspem S.p.A.	-	Equity
52.00%	A2A Calore & Servizi S.r.l.	87	Equity
40.00%	Aprica S.p.A.	3,400	Equity
50.00%	A2A Ambiente S.p.A.	-	Equity
25.00%	A2A Ambiente S.p.A.	238	Equity
39.49%	A2A S.p.A.	12,067	Equity
49.00%	Linea Più S.p.A.	3,159	Equity
50.00%	LD Reti S.r.l.	112	Equity
		74,525	

5 - List of available-for-sale financial assets

Company name	Shareholding %	Shareholder	Carrying amount at 12 31 2016 *(thousands)*
Available-for-sale financial assets (AFS)			
Infracom S.p.A.	0.44%	A2A S.p.A.	155
Immobiliare-Fiera di Brescia S.p.A.	1.21%	A2A S.p.A.	280
Azienda Energetica Valtellina e Valchiavenna S.p.A. (AEVV)	9.39%	A2A S.p.A.	1,846
Others:			
AQM S.r.l.	7.52%	A2A S.p.A.	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio DIX.IT in liquidation	14.28%	A2A S.p.A.	
Consorzio Ecocarbon	n.s.	A2A Ambiente S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
Consorzio L.E.A.P.	8.57%	A2A S.p.A.	
Consorzio Milano Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
Emittenti Titoli S.p.A.	1.85%	A2A S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
Guglionesi Ambiente S.c.a.r.l.	1.01%	A2A Ambiente S.p.A.	
Isfor 2000 S.c.p.a.	5.13%	A2A S.p.A. (4.94%) Linea Gestioni S.r.l. (0.19%)	
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A.	3.00%	A2A Ambiente S.p.A.	
Prva banka Crne Gore A.D. Podgorica (*)	19.76%	EPCG	

Company name	Shareholding %	Shareholder	Carrying amount at 12 31 2016 *(thousands)*
DI.T.N.E.	1.45%	A2A S.p.A.	
SIRIO S.C.P.A.	0.02%	A2A S.p.A.	
ORIONE S.C.P.A.	0.22%	A2A S.p.A.	
COMIECO	n.s.	RI.ECO S.r.l. (n.s.) RESMAL S.r.l. (n.s.)	
CONAPI	0.28%	RI.ECO S.r.l. (0.23%) RESMAL S.r.l. (0.05%)	
Blugas Infrastrutture S.r.l.	27.51%	Linea Group Holding S.p.A.	
Casalasca Servizi S.p.A.	13.88%	Linea Gestioni S.r.l.	
SABB S.p.A.	4.47%	Linea Gestioni S.r.l.	
Gestione Multiservice S.c.a.r.l.	6.07%	Linea Più S.p.A. e Linea Reti e Impianti S.r.l.	
Crit S.c.a.r.l.	32.90%	Linea Com S.r.l.	
Sinergie Italiane S.r.l. in liquidation	14.92%	Linea Group Holding S.p.A.	
Cassa Padana S.c.a.r.l.	n.s.	Linea Com S.r.l.	
Confidi Toscana S.c.a.r.l.	n.s.	Linea Ambiente S.r.l.	
Credito Valtellinese	n.s.	Linea Ambiente S.r.l.	
Idroenergia S.c.a.r.l.	n.s.	Lomellina Energia S.r.l.	
Total other financial assets			**10,655**
Total available-for-sale financial assets			**12,936**

(*) It is noted that the shareholding in Prva banka Crne Gore A.D. Podgorica, also taking into account the preference shares with no voting rights, amounts to 24.10% of share capital.

Note: A2A S.p.A. took part in the setting up of Società Cooperativa Polo dell'innovazione della Valtellina, subscribing 5 shares having a nominal value of 50 euro.

Certification of the consolidated financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned Luca Camerano, in the name and on behalf of the entire Board of Directors of A2A S.p.A., and Andrea Eligio Crenna, as manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify, also taking into account the contents of article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the business, and
- the effective application

of administrative and accounting procedures for the preparation of financial statements in the year 2016.

2. It is also certified that:

2.1 the Consolidated Financial Statements

a) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of July 19, 2002;

b) correspond to the information contained in the accounting ledgers and records;

c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation;

2.2 the Report on Operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Milan, April 3, 2017

Luca Camerano (For the Board of Directors)	Andrea Eligio Crenna (Manager in charge of preparing the corporate accounting documents)

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Independent Auditors' Report

Independent Auditors' Report

EY S.p.A.
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Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of A2A Group, which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in Group equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The Directors of A2A S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of A2A Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Other matters

The consolidated financial statements of A2A Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2016.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of A2A S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of A2A Group as at 31 December 2016.

Milan, 12 April 2017

EY S.p.A.
Signed by: Massimo Antonelli, Partner

This report has been translated into the English language solely for the convenience of international readers.