a2a
SHAPING THE FUTURE TODAY

Half-yearly financial report
June 30, 2017

Contents

This is a translation of the Italian original "Relazione finanziaria semestrale al 30 giugno 2017" 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

Corporate boards

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DEPUTY CHAIRMAN
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CHIEF EXECUTIVE OFFICER
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INDEPENDENT AUDITORS

EY S.p.A.

Key figures of the A2A Group

Business Units

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

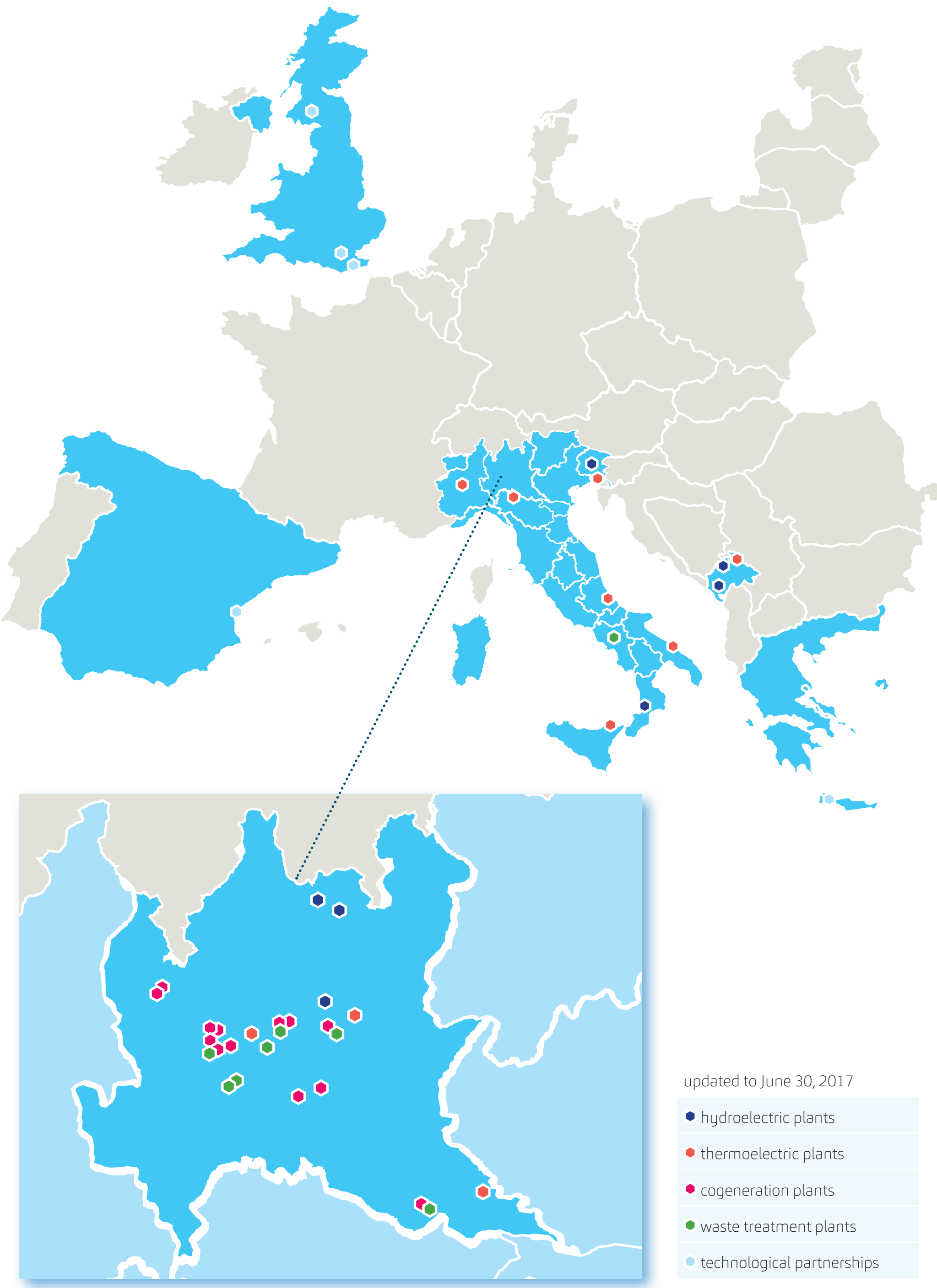
These sectors are in turn attributable to the “Business Units” specified in the following diagram identified as a result of the reorganization carried out by the management:

Business Units of the A2A Group

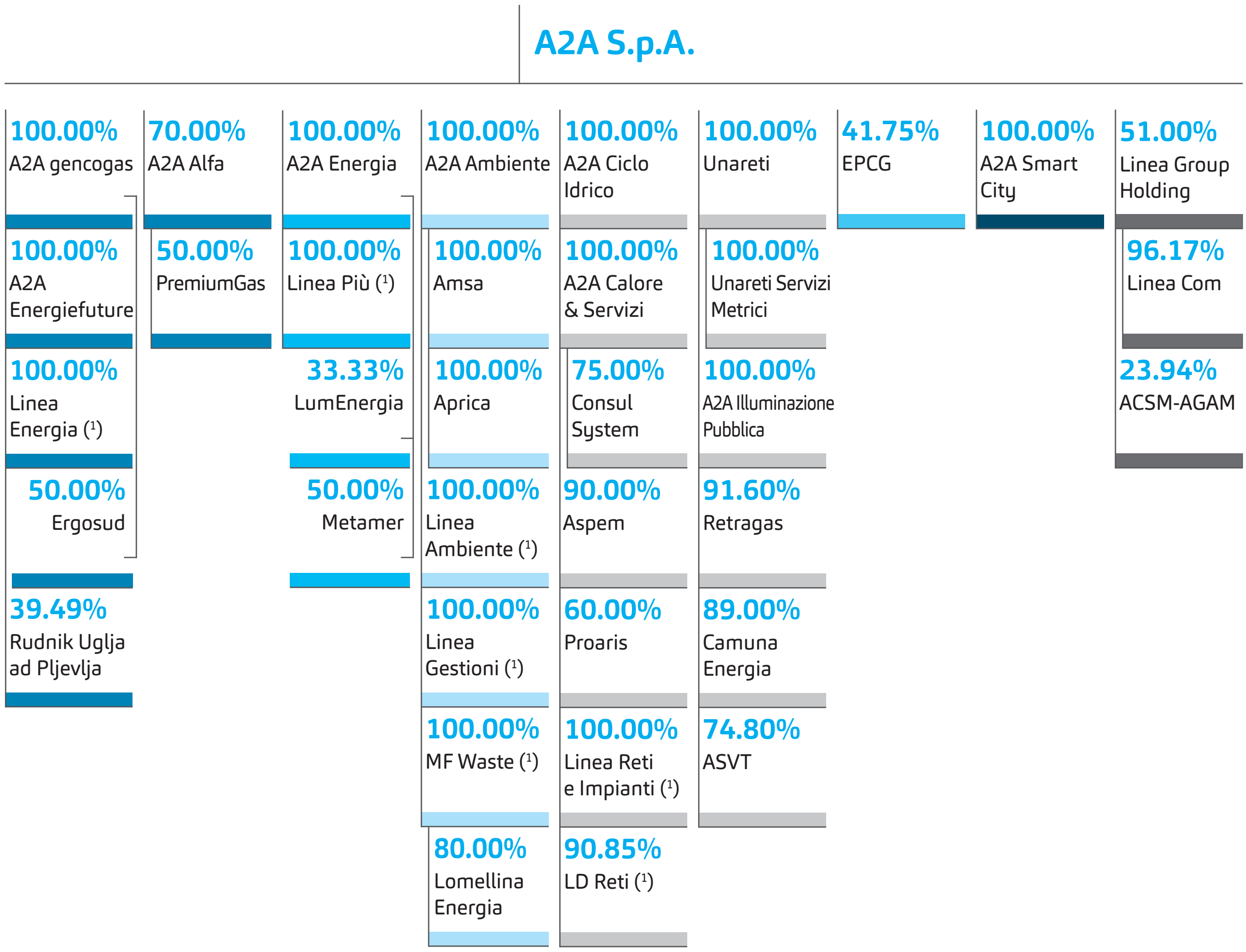
Generation and Trading	Commercial	Environment	Networks and Heat	Foreign	A2A Smart City	Corporate
Thermoelectric and hydroelectric plants	Sale of Electricity and Gas	Collection and street sweeping	Electricity networks	Electricity generation and commercial	Telecommunication services	Corporate services
Energy Management		Treatment	Gas networks	Electricity networks		
		Disposal and energy recovery	Integrated water cycle			
			Public lighting and other services			
			District Heating Services			
			Heat management services			

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

Geographical areas of activity



Group structure



Business Units

- Generation and Trading
- Commercial
- Environment
- Networks and Heat
- Foreign
- A2A Smart City
- Other companies

(1) Shareholdings held through Linea Group Holding S.p.A..
This chart shows the most significant shareholdings of the A2A Group.
See attachments 3, 4 and 5 for full details of shareholdings.

Financial highlights at June 30, 2017 (**)

Revenues	2,918	millions of euro
Gross operating income	649	millions of euro
Result of the period	157	millions of euro
Dividend	0.0492	euro per share

Income statement figures
Millions of euro

	01 01 2017 06 30 2017	01 01 2016 06 30 2016
Revenues	**2,918**	**2,323**
Operating expenses	(1,922)	(1,398)
Labour costs	(347)	(311)
Gross operating income - EBITDA	**649**	**614**
Depreciation, amortization, provisions and write-downs	(280)	(234)
Net operating income - EBIT	**369**	**380**
Result from non-recurring transactions	1	52
Financial balance	(92)	(59)
Result before taxes	**278**	**373**
Income taxes	(119)	(106)
Net result from discontinued operations	1	-
Minorities	(3)	(13)
Group result of the period	**157**	**254**
Gross operating income/Revenues	**22.2%**	**26.4%**

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

Balance sheet figures
Millions of euro

	06 30 2017	12 31 2016 Restated
Net capital employed	6,358	6,415
Equity attributable to the Group and minorities	3,311	3,279
Consolidated net financial position	(3,047)	(3,136)
Consolidated net financial position/Equity attributable to the Group and minorities	0.92	0.96
Consolidated net financial position / EBITDA	4.69	2.55

Financial data
Millions of euro

	01 01 2017 06 30 2017	01 01 2016 06 30 2016
Net cash flows from operating activities	412	370
Net cash used in investing activities	(171)	(163)
Free cash flow (Cash Flow Statement figure)	241	207

Key indicators

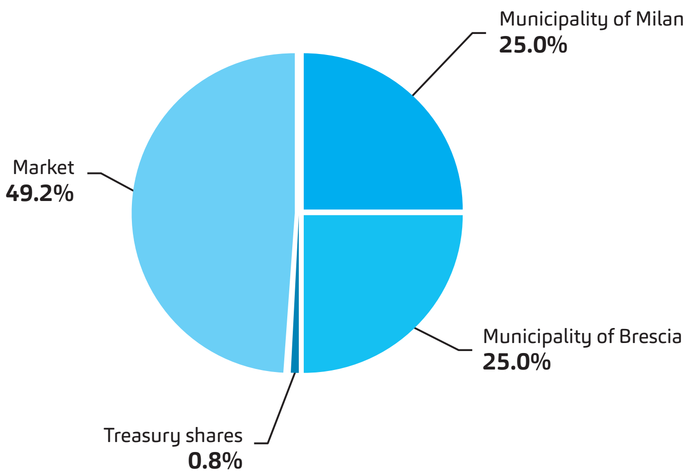
	06 30 2017	06 30 2016
Average 6-month Euribor	(0.247%)	(0.126%)
Average price of Brent (US$/bbl)	52.8	41.0
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	51.2	37.0
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	57.4	40.9
Average price of coal (Euro/tonne)	72.9	42.0
Average price of gas to the PSV (*) (Euro/MWh)	19.3	14.6
Average price of emission certificates EU ETS (**) (Euro/tonne)	5.0	5.7

(*) Price of gas of reference for the Italian market
(**) EU Emissions Trading System

Group's key operational indicators

	06 30 2017	06 30 2016
Thermoelectric production (GWh)	4,775	3,722
Hydroelectric production (GWh)	1,640	2,262
Electricity sold to wholesale customers (GWh)	3,387	3,122
Electricity sold on the Power Exchange (GWh)	5,914	6,532
Electricity sold to retail customers (GWh)	3,927	3,989
POD Electricity (#/1000)	1,050	961
Gas sold to retail customers (Mcm)	905	664
PDR Gas (#/1000)	1,295	1,084
Waste collected (Kton)	800	678
Residents served (#/1000)	3,562	2,859
Waste disposed of (Kton)	1,763	1,224
Electricity sold by WTE (GWh)	923	825
Electricity distributed (GWh)	5,773	5,466
Gas distributed (Mcm)	1,410	1,039
Water distributed (Mcm)	33	31
RAB Electricity (M€)	645	608
RAB Gas (M€)	1,160	971
Heat sales (GWht)	1,552	1,332
Cogeneration production (GWh)	162	109
Thermoelectric production (GWh) - EPCG	496	412
Hydroelectric production (GWh) - EPCG	488	1,082
Electricity sold by EPCG (domestic market) (GWh)	1,240	1,160

Shareholdings (*)



(*) Source CONSOB for Stakes higher than 3% (update at June 30, 2017).

Key figures of A2A S.p.A.

	06 30 2017	12 31 2016
Share Capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	23,721,421	23,721,421

A2A S.p.A. on the Stock Exchange

A2A in figures (Italian Stock Exchange)

Market capitalisation at June 30, 2017 (millions of euro)	4,555	
Share capital at June 30, 2017 (shares)	3,132,905,277	
	First six months of 2017	**Last 4 quarters**
Average market cap (millions of euro)	4,297	4,032
Average daily volumes (shares)	10,652,486	9,708,605
Average price (€/share)	1.37	1.29
Maximum price (€/share)	1.54	1.54
Minimum price (€/share)	1.23	1.08

Source: Bloomberg

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

On May 24, 2017 A2A S.p.A. distributed a dividend equal to 0.0492 euro per share.

A2A forms part of the following indices

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

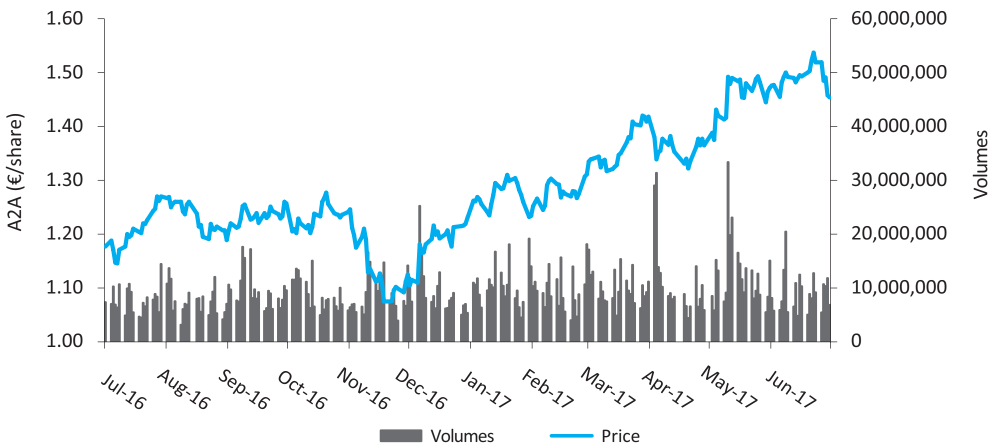
Ethical Indices

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

Source: Bloomberg and company information

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

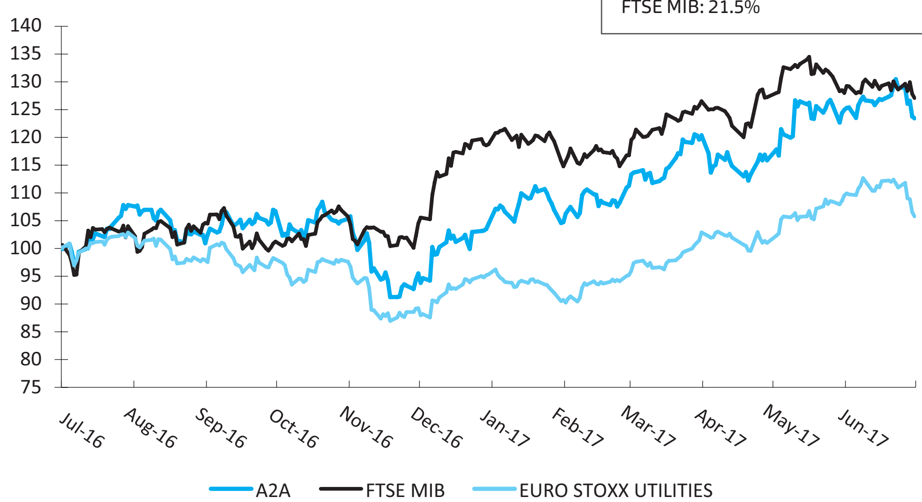
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price June 30, 2016 = 100)

Historical volatility in the last 4 quarters:
A2A: 24.0%
FTSE MIB: 21.5%



Source: Bloomberg

Rating

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

Source: Rating agencies

Alternative Performance Indicators (APM)

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

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

These indicators are shown in the "Summary of results and financial position of the A2A Group". For the Income Statement, the comparative figures refer to the values at June 30, 2016, while for the Balance Sheet, the comparative values refer to December 31, 2016 Restated.

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

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

Gross operating income (EBITDA)

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

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

Result from non-recurring transactions

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

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

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

Net fixed capital

Net fixed capital is determined as the algebraic sum of:

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

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

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

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

Working capital

Working capital is determined as the algebraic sum of:
- inventories;
- trade receivables and other current assets;
- trade payables and other current liabilities;
- current tax assets/tax liabilities.

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

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

Capital employed/Net capital employed

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

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

Sources of funds

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

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

Net debt

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

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

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

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

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

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

Investments in tangible and intangible assets

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

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

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

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

Consolidated results and report on operations

Summary of results, assets and liabilities and financial position

Results

The results of the A2A Group for the period ended June 30, 2017 are set out below, with comparative figures for the corresponding period of the previous year.

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

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes
Revenues	**2,918**	**2,323**	**595**
of which:			
- Revenues from the sale of goods and services	*2,810*	*2,180*	*630*
- Other operating income	*108*	*143*	*(35)*
Operating expenses	(1,922)	(1,398)	(524)
Labour costs	(347)	(311)	(36)
Gross operating income - EBITDA	**649**	**614**	**35**
Depreciation, amortization and write-downs	(269)	(198)	(71)
Provisions	(11)	(36)	25
Net operating income - EBIT	**369**	**380**	**(11)**
Result from non-recurring transactions	**1**	**52**	**(51)**
Net financial charges	(96)	(63)	(33)
Affiliates	4	4	-
Result from disposal of other shareholdings (AFS)	-	-	-
Result before taxes	**278**	**373**	**(95)**
Income taxes	(119)	(106)	(13)
Result after taxes from operating activities	**159**	**267**	**(108)**
Net result from discontinued operations	1	-	1
Minorities	(3)	(13)	10
Group result of the period	**157**	**254**	**(97)**

In the first half of 2017, the **Revenues** of the A2A Group amounted to 2,918 million euro, up by 595 million euro on the first six months of the previous year (+25.6%). Net of the contribution from LGH (amounting to around 265 million euro), the increase in revenues can be mainly attributed to the increase in revenues from the sale of electricity and gas on the wholesale markets.

The increase in spot prices on the IPEX markets recorded in the first half-year with respect to the same period of the previous year also contributed to the higher revenues of the Group.

The **"Gross Operating Margin"** equalled 649 million euro, an increase of 35 million euro compared to the first half of 2016 (+6%).

The following table highlights the composition by Business Unit:

Millions of euro	06 30 2017	06 30 2016	Delta	Delta %
Generation and Trading	186	170	16	9.4%
Commercial	77	73	4	5.5%
Environment	137	119	18	15.1%
Networks and Heat	245	227	18	7.9%
Foreign	12	35	(23)	(65.7%)
A2A Smart City	3	3	-	-
Corporate	(11)	(13)	2	(15.4%)
Total	**649**	**614**	**35**	**5.7%**

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 186 million euro, an increase of 16 million euro on the first six months of the previous year.

Net of the non-recurring items - down by around 13 million euro compared to the first half of 2016 - the Gross Operating Margin of the Generation and Trading Business Unit was up by around 29 million euro. The increased demand on the domestic market, favored in the first months of the year by the decline in quantities imported from France (due to both the shutdown of some nuclear plants and the significant fall in temperatures in the first half of January) and in June 2017, by the exceptional heat wave, has led to a considerable increase in electricity prices, both on the GMP and on the dispatching market. This scenario was beneficial for all the Group's plants, and in particular the gas ones - CCGT - which recorded strong growth in margins, however penalizing the gas forward market in relation to forward sales. Moreover, the growth of the gas portfolio margin thanks to the efficiency of the purchasing policies contributed to the excellent performance of the Generation and Trading Business Unit. On the other hand, the lower feed-in tariff revenues have contributed negatively to the lower hydroelectric production due to the poor hydraulicity recorded in the first half of 2017, mainly attributable to the Valtellina plants, as well as the different structure of the must-run regime recognized to the San Filippo del Mela plant.

In the Commercial Business Unit the Gross Operating Margin amounted to 77 million euro, up by 4 million euro with respect to the same period of 2016, thanks to both the contribution deriving from the gas sector margin for the greater volumes sold and the contribution of the consolidation of the LGH Group. This increase was partially offset by the lower margins recorded in the electricity segment relative to sales to large customers, mainly due to higher cost for imbalances.

The Gross Operating Margin of the Environment Business Unit amounted to 137 million euro, up by 18 million euro compared to the same period of the previous year.

A contribution to the growth of the margins in the period in question came from the waste treatment and disposal sector, in particular:

- the results of the LGH Group and the new companies acquired, RI.ECO/RESMAL;
- the good performance of the disposal of waste similar to urban waste, mainly attributable to the positive dynamic of the contribution prices;
- the greater contributions at the inert lots landfill in Corteolona. The activities, due to environmental analyses of the water table, suspended in 2016, resumed after the decision by ARPA (Regional Agency for Environmental Protection) to exclude the landfill from the perimeter of the remediation area.

Whereas, the collection sector was essentially in line mainly thanks to the contribution of the LGH Group, which in the period in question recorded a Gross Operating Margin of 3 million euro in this segment.

The Networks and Heat Business Unit recorded a Gross Operating Margin of 245 million euro, up by 18 million euro compared to the first half of 2016.

Net of the non-recurring items (-16 million euro) which regarded both the first half of 2017 (35 million euro, of which 30 million euro came from Energy Efficiency Certificates recognized for projects carried out in previous years) and the half-year of the same period of the previous year (51 million euro, mainly due to the recognition of tariff increases to A2A Ciclo Idrico S.p.A. for the years 2007-2011), the Gross Operating Margin of the Networks and Heat Business Unit was up by 34 million euro compared to the first half of 2016.

This performance is mainly due to:

- consolidation of LGH (from August 2016) for 14 million euro;
- contribution of 3 million euro from Consul System S.p.A., a company specializing in energy efficiency acquired in October 2016;
- greater margins relating to district heating and heat management activities for about 5 million euro mainly attributable to the greater quantities of heat sold both due to the commercial development and the low temperatures recorded at the end of the 2016/2017

season and a more favourable scenario (heat prices related to the rising price of gas and the increase in the prices of electricity from co-generation);
- greater revenues due to the optimization of the white certificates portfolio for 4 million euro;
- higher margins relating to the aqueduct, purification and sewage services for about 3 million euro following the tariff increases recognized by AEEGSI.

The Gross Operating Margin of the Foreign Business Unit amounted to 12 million euro, down by 23 million euro compared to the same period of the previous year. The lower hydroelectric production caused by the poor hydraulicity recorded in the first half of 2017 and the increase in consumption following the particularly harsh temperatures in the first two months of 2017, led to an abrupt and exceptional increase in the prices of electricity in the region and consequently the higher cost of imports, necessary to meet the domestic demand.

A2A Smart City recorded a Gross Operating Margin of 3 million euro in the first half of 2017, in line with the first half of the previous year.

“Depreciation, amortization, provisions and write-downs” amounted to a total of 280 million euro (234 million euro at June 30, 2016), of which 26 million euro from the consolidation of the companies acquired in the second half of 2016 (24 million euro of depreciation and amortization, 4 million euro of bad debts provision and -2 million euro of provisions) and include amortization and depreciation of intangible and tangible assets for 209 million euro (197 million euro at June 30, 2016), net write-downs of tangible and intangible assets for 60 million euro (1 million euro at June 30, 2016) and net provisions for 11 million euro (36 million euro at June 30, 2016).

“Depreciation and amortization” of tangible and intangible assets amounted to 209 million euro (197 million euro at June 30, 2016), of which 24 million euro related to the consolidation of companies acquired in the second half of 2016 and recorded an increase of 12 million euro.

Amortization of intangible assets amounted to 34 million euro (24 million euro at June 30, 2016). The item recorded higher amortization of 10 million euro, of which 8 million euro relating to the consolidation of newly acquired companies and 2 million euro for the implementation of information systems.

Depreciation of tangible assets show an increase of 2 million euro compared to June 30, 2016 and includes:
- higher depreciation resulting from the consolidation of the companies acquired in the second half of 2016 for 16 million euro;
- higher depreciation of 4 million euro, mainly relating to the investments which went into production after December 31, 2016;

- lower depreciation of 12 million euro, resulting in write-downs of assets at December 31, 2016;
- lower depreciation of 6 million euro, resulting in the extension of the residual useful life of the San Filippo del Mela plant, related to the stipulation of a contract under must-run regime with Terna.

"Net write-downs of assets" amounted to 60 million euro (1 million euro at June 30, 2016).

The write-downs recorded are the result of the exercise by A2A S.p.A. on July 3, 2017 of the sale put option relating to the company EPCG, communicated to the Government of Montenegro.

The put option concerns the sale of the entire shareholding held by A2A S.p.A., equal to 41.75% of the company's shares, at a price of 250 million euro; the sale will be in seven annual instalments starting from May 2018.

As a result, the A2A Group valued the assets and liabilities of EPCG at fair value, resulting in a write-down of 60 million euro, net of discounting charges. Reference is made to the paragraph "Significant events after June 30, 2017" in this "Half-yearly financial report at June 30, 2017" for further information.

The balance of **"Provisions for risks and charges"** shows an increase of 5 million euro (decrease of 29 million euro at June 30, 2016) due to allocations of 11 million euro made during the period, offset by the surpluses of 16 million euro of risk since the original disputes have ceased to exist.

Provisions for the period concerned 3 million euro provisions for hydroelectric fees, 3 million euro for other risks provisions relating to EPCG, 2 million euro provisions for funds for personnel lawsuits and disputes, 1 million euro provisions for tax funds, 1 million euro for expenses funds for closure and post-closure of landfills and 1 million euro for various provisions. Surpluses of risks provisions amounted to 16 million euro.

The "Bad debts provision" amounted to 16 million euro (7 million euro at June 30, 2016), consisting of the provisions of the newly acquired companies in the second half of 2016 for 4 million euro.

As a result of these changes, **"Net Operating Income"** amounted to 369 million euro (380 million euro at June 30, 2016), a decrease of 11 million euro compared to the corresponding period of the previous year.

The **"Result from non-recurring transactions"** was positive for 1 million euro. At June 30, 2016, it was positive for 52 million euro and was related to the demerger of the "Cellina Unit" of Edipower S.p.A. in favour of Cellina Energy S.r.l., effective January 1, 2016 following the demerger deed stipulated between the parties on December 28, 2015.

"Net financial charges" amounted to 96 million euro (63 million euro at June 30, 2016), of which 11 million euro related to the consolidation of the companies acquired in the second half of 2016.

The increase in the period of 33 million euro is attributable to the exercise of the EPCG sales put option by the Group. Therefore, the company's assets and liabilities were valued at fair value. This led to the recognition of discounting charges for 35 million euro as a result of the discounting of the net assets that the A2A Group will collect in 7 years starting from May 2018.

Discounting was made using the rates corresponding to Montenegrin government bonds contracted in euro with similar maturities.

For further information, reference is made to the paragraph "Significant events after June 30, 2017" in this "Half-yearly financial report at June 30, 2017".

The result from **"Affiliates"** was positive for 4 million euro (positive for 4 million euro at June 30, 2016), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

"Income taxes" in the period in question equalled 119 million euro (106 million euro at June 30, 2016).

The **"Net result from discontinued operations"** was 1 million euro (no value at June 30, 2016) and is related to the gain on the sale of the company Bellisolina S.r.l..

The **"Group result of the period"**, after the minorities were deducted, was positive and amounted to 157 million euro (positive for 254 million euro at June 30, 2016).

Balance sheet and financial position

In the first half of 2017, the A2A Group completed the Purchase Price Allocation (PPA) following the acquisition of 51% of the LGH Group.

The PPA was applied to the first-time consolidation figures at July 31, 2016, reflecting the financial effects of the transaction on figures at December 31, 2016.

For further details of the transaction and the consequent effects on the figures at December 31, 2016 published, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph "Other Information" of this Half-yearly financial report.

Net fixed assets

"**Net fixed assets**" amounted to 6,001 million euro, down by 135 million euro compared to December 31, 2016 Restated.

The changes that occurred are detailed below:

- Tangible Assets recorded a drop of 150 million euro following:
  - investments amounting to 106 million euro, essentially in the Networks and Heat Business Unit for 48 million euro, the Environment Business Unit for 35 million euro and the Generation and Trading Business Unit for 11 million euro. Investments of around 12 million euro were then recorded, divided between the Foreign Business Unit (EPCG), A2A Smart City and Corporate;
  - increases, for 16 million euro, mainly referred to the increase in the decommissioning fund following the update of the expert report on the Monfalcone plant;
  - a reduction of 95 million euro following the evaluation at fair value of the EPCG asset resulting from the exercising, by the A2A Group, of put option to sell concerning the entire shareholding held by A2A S.p.A., amounting to 41.75% of the company. Reference is made to the paragraph "Significant events after June 30, 2017" in this "Half-yearly financial report at June 30, 2017" for further details;
  - disposals for 2 million euro net of the relative amortization and depreciation fund;
  - a reduction of 175 million euro due to the depreciation and amortization for the period;
- the Intangible Assets show an increase of 5 million euro compared to December 31, 2016 attributable:
  - for 52 million euro, to the posting, as a result of the application of IFRIC 12, of the investments made in the period mainly referred to the Networks and Heat Business Unit and in particular to development and maintenance work on the gas distribution plants, work on the water transport and distribution network and on the sewerage networks as well as the implementation of information systems;
  - to the 12 million euro reduction mainly relating to the change in the environmental certificates of the industrial portfolio;
  - to the 1 million euro reduction due to disposals made during the period net of the relative amortisation and depreciation fund;
  - to the 34 million euro reduction arising from the depreciation and amortisation in the period;
- the Shareholdings and the other non-current financial assets amounted to 76 million euro and recorded a decrease of 4 million euro due to the reclassification, for 6 million euro, of the shareholding in Azienda Servizi Valtrompia S.p.A., following the acquisition of a further stake in the company which, as of March 1, 2017 is fully consolidated. In addition, there was a negative change of 2 million euro deriving from the cash in of dividends and other negative changes. These negative adjustments were offset by the positive valuation for 4 million euro of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings;

- the Other non-current assets/liabilities recorded a positive change of 6 million euro mainly due to the evaluation at fair value of non-current derivatives;
- Advance/deferred tax assets/liabilities, amounting to 297 million euro, recorded a reduction of 44 million euro referable to the net effect of the deferred tax liabilities and advance tax assets for IRES and IRAP on variations and provisions performed exclusively for tax purposes;
- Provisions for risks, charges and liabilities for landfills recorded a decrease of 35 million euro. The change in the period was mainly due to: the increase in the decommissioning provision of about 19 million euro following the effects of updating the valuation for the Monfalcone power plant as well as the discount rates used to estimate the future costs of dismantling and restoration of the sites; using about 30 million euro of the reserve for legal and personnel actions after the conclusion of current litigation by the subsidiary A.S.R.A.B. S.p.A., which did not involve financial expenses for the Group and other negative changes of about 10 million euro that are primarily related to the reclassification as debt of part of the reserve for the litigation with Social Insurance Institutions that will be paid out in the second half of the year;
- Employee benefits recorded a decrease of around 17 million euro and mainly refer to payments made to INPS and supplementary social security funds as well as the actuarial valuation of the period.

Working capital

“**Working capital**” amounted to 356 million euro, an increase of 78 million euro over December 31, 2016 Restated. The main changes at are detailed below:

- Inventories showed a positive change of 9 million euro due to the combined effect of higher fuel stocks for 8 million euro, higher inventories of materials for 2 million euro and lower inventories of environmental certificates for about 1 million euro;
- Trade receivables amounted to 1,488 million euro, down 333 million euro compared to December 31, 2016. The changes involved a reduction of approximately 343 million euro in trade receivables mainly due to seasonal effects, an increase of approximately 11 million euro relating to receivables from the Municipality of Milan and Brescia and a further reduction of 1 million euro relating to contracts in progress;
- Other current assets amounted to 390 million euro, an increase of 1 million euro compared to December 31, 2016. The main changes relate to: current derivatives with a total decrease of 130 million euro due to the change in the fair value measurement at the end of the period considered and the change in the quantities hedged; other receivables for current assets, totalling 131 million euro, regarding which the main change, amounting to 88 million euro, refers to higher receivables pertaining to 2017 and 2016 from Cassa per i Servizi Energetici e Ambientali;

- Trade payables amounted to 1,027 million euro, a decrease of 357 million euro compared to the end of the previous year mainly due to seasonality;
- Other current liabilities amounted to 633 million euro, a decrease of 111 million euro compared to December 31, 2016 primarily related to the decrease in current derivatives equal to 124 million euro, relating to the fair value measurement of commodity derivatives outstanding at year-end. This decrease, together with the decrease of 22 million euro in payables to third-party shareholders and the decrease in payables to employees of about 10 million euro, is partially offset by the increase in tax payables of approximately 40 million euro and the increase in other current payables of about 5 million euro;
- Current tax assets and liabilities show a debt of 30 million euro, down 67 million euro compared to December 31, 2016.

"Assets held for sale" amounted to 1 million euro, a decrease of 5 million euro compared to the Restated figure of the previous year that included the IFRS 5 reclassification of the assets of Bellisolina S.r.l. for 4 million euro, in addition to 1 million euro related to EPCG assets and 1 million euro of assets held for sale related to the LGH Group.

"Liabilities held for sale" had no value at June 30, 2017, a decrease of about 7 million compared to the Restated figure at December 31, 2016, which mainly included the liabilities for the sale of Bellisolina S.r.l..

The consolidated **"Employed capital"** at June 30, 2017 came to 6,358 million euro and was covered by the Net Equity for 3,311 million euro and the Net Financial Position for 3,047 million euro.

Shareholders' equity

The overall change in Shareholders' equity was positive for a total of 32 million euro. The result for the period produced a positive effect of 157 million euro, offset by the distribution of the dividend for 153 million euro, the positive change in the minority interests for 19 million euro, as well as the evaluations, in accordance with IAS 32 and 39, of the cash flow hedge derivatives.

The "**Net financial position**" amounted to 3,047 million euro (3,136 million euro at December 31, 2016 Restated). The cash flow generated in the period was positive and amounted to 89 million euro, after the payment of dividends for 153 million euro and investments in the year for 171 million euro.

Millions of euro	06 30 2017	12 31 2016 Restated	Changes
CAPITAL EMPLOYED			
Net fixed assets	**6,001**	**6,136**	**(135)**
- Tangible assets	4,979	5,129	(150)
- Intangible assets	1,709	1,704	5
- Shareholdings and other non-current financial assets (*)	76	80	(4)
- Other non-current assets/liabilities (*)	(76)	(82)	6
- Advance/deferred tax assets/liabilities	297	341	(44)
- Provisions for risks, charges and liabilities for landfills	(636)	(671)	35
- Employee benefits	(348)	(365)	17
of which with counter-entry to equity	*(160)*	*(168)*	
Working capital	**356**	**278**	**78**
- Inventories	168	159	9
- Trade receivables and other current assets (*)	1,878	2,210	(332)
- Trade payables and other current liabilities (*)	(1,660)	(2,128)	468
- Current tax assets/tax liabilities	(30)	37	(67)
of which with counter-entry to equity	*(21)*	*(38)*	
Assets/liabilities held for sale (*)	**1**	**1**	**-**
of which with counter-entry to equity	-	-	
TOTAL CAPITAL EMPLOYED	**6,358**	**6,415**	**(57)**
SOURCES OF FUNDS			
Shareholders' equity	**3,311**	**3,279**	**32**
Total financial position beyond one year	3,652	3,395	257
Total financial position within one year	(605)	(259)	(346)
Total Net financial position	**3,047**	**3,136**	**(89)**
of which with counter-entry to equity	*13*	*15*	
TOTAL SOURCES	**6,358**	**6,415**	**(57)**

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

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016
NET FINANCIAL POSITION AT THE BEGINNING OF THE PERIOD	**(3,136)**	**(2,897)**
Cellina demerger effect	**-**	**(38)**
Net result (**)	160	215
Amortization	209	197
Write-downs/disposals of tangible and intangible assets	98	4
Affiliates	(4)	(4)
Net taxes paid	(1)	(7)
Changes in assets and liabilities (*)	(50)	(35)
Net cash flows from operating activities	**412**	**370**
Investments in tangible and intangible assets	(158)	(129)
Investments in shareholdings and securities	(13)	-
Disposal of fixed assets and shareholdings	-	2
Dividends received from shareholdings	-	1
Purchase of treasury shares	-	(37)
Net cash flows from investment activities	**(171)**	**(163)**
Free cash flow	**241**	**207**
Dividends paid by the parent company	(153)	(126)
Dividends paid by the subsidiaries	(1)	(5)
Cash flow from the distribution of dividends	**(154)**	**(131)**
Change in financial assets/liabilities with counter-entry to Shareholders' equity	2	27
NET FINANCIAL POSITION AT THE END OF THE PERIOD	**(3,047)**	**(2,832)**

(*) Excluding balances with counter-entry to equity.
(**) The net result is stated excluding gains on the disposal of shareholdings.

Significant events during the period

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

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

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

On March 8, 2017, A2A S.p.A. fully subscribed the share capital increase for a fee of 5.8 million euro of the company Azienda Servizi Valtrompia S.p.A., Brescia based multi utility specialized in particular in the water, waste and gas sectors; by means of the subscription, following the waiver of exercise of option rights by all other shareholders, it has increased its shareholding from 49% to 75%.

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

A2A S.p.A.: bond issue

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

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

As of March 16, 2017, the bonds were listed on the regulated market of the Luxembourg stock exchange.

Monfalcone Plant Investigation

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

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

The suspect employees appointed trusted defenders.

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

ACSM-AGAM, Aspem, AEVV, Lario holding networks and A2A: Letter of intent signed

On April 1, 2017, a non-binding letter of intent was signed between the companies in question with the aim of launching studies on possible industrial and corporate partnerships aimed at enhancing expertise and rooted presence in the territory.

The study, which was initially expected to last for four months, was extended on July 20 for another two months, after which if the preliminary results are satisfactory, the aggregation project will be submitted for approval to the respective shareholders.

A2A S.p.A.: The Board of Directors approves the 2016 results

On April 3, 2016, the Board of Directors, chaired by Mr. Giovanni Valotti, approved the drafts of the Separate financial statements and of the Consolidated annual financial report at December 31, 2016.

The realization of the 2015-2019 Strategic Plan (and its developments) has allowed achieving brilliant economic and financial results:

- Sharp growth in the Gross Operating Margin, which has recorded the best result from the creation of the A2A Group, amounting to 1,231 million euro, and the net profit of the Group amounting to 224 million euro.
- Increase of 23% in investments equal to 424 million euro and Net Financial Position, excluding the acquisition of LGH, equal to 2,667 million euro, a decrease of 230 million euro compared to 2015.
- The acquisition of 51% of the share capital of Linea Group Holding leads to a total Net Financial Position of 3,136 million euro with a NFP/Ebitda index of 2.5X.

A2A S.p.A.: Approval of the 2017-2021 Strategic Plan

On April 3, 2017, the Board of Directors examined and approved the A2A Group's 2017-2021 Strategic Plan.

As main objective, the significant redesign of the industrial asset portfolio is confirmed, which will allow reactively seizing the market's growing opportunities. Industrial scale projects will also be proposed, which have already been initiated in experimental phase in the fields of energy efficiency, innovation and digitization.

The milestones introduced with the previous 2015-2019 plan have been confirmed with different priorities.

Relaunch. Investments are expected for about 2.75 billion euro in 5 years (+500 million euro compared to the previous Strategic Plan), with about 53% allocated to the Networks Business Unit and focus on participation in gas distribution tenders, development and maintenance of already existing electricity distribution networks and enhancement of the integrated water cycle. It is expected that in 2021, a total margin of 457 million euro will be realized.

Of the investments envisaged in the Strategic Plan, 25% will be allocated to the Environment Business Unit, identified as an operating area that will contribute more to the overall growth of the Group. These investments will be aimed at increasing the operating segment dedicated to municipal sanitation (+100,000 inhabitants per year) and increasing the amount of waste treated (+50% in 2021 compared to 2016). The total margin of the segment is expected to be 341 million euro.

Moreover, the objectives set out in the previous Strategic Plan for the Retail Operations Area were revised upwards (+150,000 free market customers) thanks to the capitalization of the industrial partnership with the LGH Group and specific projects launched in recent years regarding the sale of electricity and high value added services to widespread customers and SMEs. A contribution to the Group's Gross Operating Margin is expected in 2021, amounting to 51 million euro.

Restructuring. The objective of the Plan is to seek an active role in the energy market by completing the flexibility of the plant park, going from 2GW to 3.6GW flexible, with particular attention to the Winter Package objectives.

Redesign. The goal is the consolidation and definitive launch on the market of innovative projects such as Smart City, Green Economy and Energy Efficiency. These include the doubling of LED light points up to 420,000 light points installed in 2021 and the development of energy efficiency thanks to the acquisition of Consul System, a company active in the Energy Efficiency Certificates sector.

The A2A Group also participates operationally in the "*Horizon 2020*" referred to as *"Sharing Cities"*.

Also important is the launch of biomethane production by FORSU thanks to four dedicated plants that will produce 20 million cubic meters in 2021.

A2A S.p.A.: The Board of Directors approves the figures at March 31, 2017

On May 10, 2017, the Board of Directors of A2A S.p.A., under the chairmanship of Giovanni Valotti, approved the quarterly report at March 31, 2017.

The results approved are brilliant and above expectations.

Ordinary net income of 180 million euro rose by 64 million euro over the same period of 2016. The 2016 result excludes non-recurring items of 42 million euro deriving from the non-proportional partial demerger of Edipower in favour of Cellina Energy S.r.l..

In the period, however, positive cash flow was generated for 109 million euro, after investments of 62 million euro. Net financial position down further to 3,027 million euro compared to 3,136 million euro at year-end 2016.

The above results derive from performance growth in all Business Units (excluding EPCG), in particular the Generation and Trading Business Unit, which in the half-year, managed to benefit from an energy context characterized by high electricity and gas prices mainly due to the stoppage of numerous French nuclear power plants along with the strong cold wave.

A2A S.p.A.: Ordinary Shareholders' Meeting

On May 15, 2017, the Ordinary Shareholders' Meeting was held and resolved:

- approval of the economic-financial reports and integrated financial statements for 2016;
- approval of the proposal of the Board of Directors to distribute a dividend of 0.0492 euro per ordinary share to be paid as from May 24, 2017 (ex-dividend no. 20 May 22, 2017) and record date May 23, 2017;
- favourable vote of the first part of the Remuneration Report;
- the authorization to carry out transactions for the purchase and disposal of treasury shares in the manner and for the purpose set out in the Minutes of the Ordinary Shareholders' Meeting of May 15, 2017;
- appointment for a term of three years using the voting list system of the Board of Directors consisting of the following 12 members: Giovanni Valotti – Chairman; Alessandra Perrazzelli – Vice Chairman; Luca Camerano; Giovanni Comboni; Enrico Corali; Norberto Rosini; Alessandro Carlo Alvaro Fracassi; Maria Chiara Franceschetti and Gaudiana Giusti (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of share capital); Giambattista Brivio (taken from the list jointly submitted by the minority shareholders Valsabbia Investimenti S.p.A., Raffmetal S.p.A. and Municipality of Bergamo, owners of a total shareholding equal to 1.6746% of the share capital); Luigi De Paoli and Secondina Giulia Ravera (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 1.0648% of the share capital).

  Giambattista Brivio, Enrico Corali, Luigi De Paoli, Alessandro Carlo Alvaro Fracassi, Maria Chiara Franceschetti, Gaudiana Giusti, Alessandra Perrazzelli, Secondina Giulia Ravera and Norberto Rosini declared that they meet the requisites of independence prescribed by article 148, paragraph 3 of Legislative Decree 58/98 and article 3 of the Corporate Governance Code; Giovanni Comboni declared to meet the requisites of independence prescribed by article 148, paragraph 3 of Legislative Decree 58/98;
- the annual compensation for each Director of 80,000 euro;
- appointment for a term of three years using the voting list system, of the Board of Statutory Auditors consisting of the following 3 standing members and 2 substitute members: Maurizio Leonardo Lombardi – Standing Auditor; Chiara Segala – Standing

Auditor and Stefano Morri – Substitute Auditor (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital); Giacinto Gaetano Sarubbi – Chairman and Sonia Ferrero – Substitute Auditor (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 1.0648% of the share capital);

- the annual compensation for the Chairman of the Board of Statutory Auditors and each Standing Auditor at 130,000 euro and 80,000 euro respectively.

New electric fleet and hub dedicated to charging

A2A has introduced the new corporate fleet and an innovative hub for charging systems.

There will be 100 dedicated vehicles that will cover the whole fleet of Unareti, a company dedicated to A2A Group network services.

The hub dedicated to charging stations, launched on July 25, 2017, proposes an innovative model based on energy efficiency, distinguishing between night-time charging, slower and oriented to power-saving, and daytime charging with power of 22kW and fast charge.

With this initiative, A2A is at the center of the Smart City project as interlocutor of public administrations, car sharing companies and car manufacturers, increasingly focused on sustainable mobility.

A2A S.p.A.: Board of Directors

On May 17, 2017, the Board of Directors appointed by the Shareholders' Meeting on May 15, 2017 met under the chairmanship of Giovanni Valotti.

Luca Valerio Camerano was appointed as Chief Executive Officer with ample powers for ordinary management and drafting of proposals relating to extraordinary management; the Chairman was conferred powers in relations with shareholders, institutions, authorities, media, external relations, social responsibility and extraordinary territorial aggregation.

The existence of the independence requirements of art. 148 TUF (CFA) and art. 3 of the Corporate Governance Code for non-executive directors and the actual members of the Board of Statutory Auditors was evaluated positively.

Appointment of 3 committees:

- *Control and Risks Committee:* Luigi De Paoli (Chairman), Enrico Corali, Gaudiana Giusti and Giovanni Comboni;
- *Appointments and Remuneration Committee:* Alessandra Perrazzelli (Chairwoman), Dina Ravera and Norberto Rosini;
- *Sustainability and Territory Committee*: Giovanni Valotti (Chairman), Giambattista Brivio, Alessandro Fracassi and Maria Chiara Franceschetti.

A2A consolidates its strategic role in the future of cities: acquired the start-up Patavina Technologies

On June 1, 2017, A2A acquired Patavina Technologies through its subsidiary A2A Smart City S.p.A..

The start-up acquired, spin-off of the University of Padua is active in the design of software and TLC systems and will favour further impetus to innovation related to Smart Cities in addition to automation of network management and control processes.

A2A Energia S.p.A. rises to 90.33% of LumEnergia S.p.A.

On June 28, 2017, the Board of Directors of A2A Energia S.p.A. resolved to exercise the option right for the purchase of 57% of LumEnergia S.p.A., regarding which it already held 33.33%.

The closing of the transaction is expected at the end of July 2017.

Significant events after June 30, 2017

A2A S.p.A.: Exercise of the sale put option for the management of the company "EPCG"

In July 2016, the A2A Group and the State of Montenegro reached an agreement for the renewal of the new Shareholders' Agreements for the management of the Montenegrin company EPCG, with duration until December 31, 2016 subsequently extended on March 29, 2017 to June 30, 2017.

The main points of these new agreements were: i) maintenance of the management rights of A2A in EPCG, with the appointment of the key managerial figures by A2A, ii) the definition of some reserved matters on important topics for the corporate life of EPCG, iii) the possibility to exercise an option to sell the entire shareholding of A2A to the State of Montenegro, upon expiration of the agreements and exercisable as of July 1, 2017 and by September 30, 2017.

Until June 30, 2017, A2A S.p.A. had several contacts with the Government of Montenegro, until late at night, in order to define the technical terms to renew the agreements, finding unexpectedly and under all circumstances, the opposition of the counterparty, by means of counter-proposals that aimed to remove from A2A all the operational management rights of EPCG.

Therefore, on July 1, 2017, A2A S.p.A., taking into account the impossibility of reaching an agreement with the Government of Montenegro for further extension of the Shareholders' Agreements, exercised the sales put option, the effectiveness of which was finalized on July 3, 2017 following the communication of exercise thereof to the counterparty, as contractually established. The put option concerns the sale of the entire shareholding held by A2A S.p.A., equal to 41.75% of the company's shares, at a price already defined between the parties of 250 million euro. The disposal will take place in multiple steps, i.e. in seven equal instalments for each of the following seven years beginning in the month of May 2018, upon payment by the Government of Montenegro of the related fees at each maturity date.

As a result of this decision, as of July 2017, there was a change in the allocation of the shareholding held in EPCG, from a continuing investment to an investment held for sale, in accordance with IFRS 5.

The use value previously used, determined on the basis of prospective cash flows, estimated in a strategic context of investment continuity supported by the renewal of the aforementioned Shareholders' Agreements, is no longer applicable as a result of the non-existence of such scenario of continuity.

As a result of the exercise of the put option, for the purposes of the Half-yearly financial report at June 30, 2017, A2A valued EPCG's assets and liabilities in accordance with the IAS 36 principle of the lesser of their book value and their fair value as inferable from the compensation following the exercising of the put option.

The determination of the fair value of assets and liabilities resulted in a write-down of assets totalling 95 million euro: i) 35 million euro as a result of the discounting of net assets that the A2A Group will will receive in 7 years as of May 2018 and that were consequently recognized as financial expenses as described in paragraph "34) Financial balance" and ii) 60 million euro as write-down of assets, as described in the notes "1) Tangible assets" and "31) Depreciation, amortization, provisions and write-downs".

This assessment has taken into account the considerations detailed in this report in the section "Update of the main ongoing legal and tax disputes - Investigation related to EPCG service contracts" and subsequent actions taken by the Company with a view to obtaining the revocation of the precautionary measure for the seizure of EPCG shares notified on July 25, 2017, by May 1, 2018, the date set for collection of the first instalment.

Criminal proceedings no. 25597/14 R.G. offence notices/Form 21 on the alleged "abusive management of special non-hazardous waste" by A2A Ambiente S.p.A.
Public Prosecutor of Brescia and Linea Ambiente – P.M. Sandro Raimondi

On July 11, 2017, an employee of A2A Ambiente S.p.A. and two former employees of Linea Ambiente S.r.l. were notified warrants for local and personal search and simultaneous confiscation of personal effects – Information on Warranty and the right of defence and communication appointment of the office counsel, as part of the same criminal proceedings no. 25597/14 issued by the Public Prosecutor of the Republic of Brescia – Anti-Mafia and Anti-terrorism District Department on July 7, 2017.

As far as known, the investigation concerns 33 individuals and 14 different legal entities.

In particular, the employee of A2A Ambiente was investigated because, according to the allegation - Chapter A.1.9, there was involvement in abusive waste management referred to in Chapter A, failing to verify the acceptability of waste from third parties, thereby favouring the illegal disposal of 11,659 tonnes in 2014 and 2015.

Chapter A, challenged by several parties outside the group and also the two former employees of Linea Ambiente as well as an employee of Linea Ambiente who has not yet been notified of any action, is related to the offence referred to in articles 110, 81 Criminal Code and 260 Legislative Decree 152/2006 because "*jointly with others, in derogation from the provisions and authorizations*" they "*abusively managed, without subjecting them to the recovery activities envisaged, large quantities of special non-hazardous waste received with EWC code 191212 (other waste) produced by mechanical treatment of wastes other than as mentioned under 191211, contractually defined as Dry fraction waste shredding (FST) and packed from the waste shredding plants in Giugliano and Tufino (NA), where, on the basis of the award to LINEA AMBIENTE S.r.l., of public tender of SAPNA S.p.A. in Naples, ...the waste was destined and disposed of at the waste-to-energy plants of A2A Ambiente S.p.A. in Brescia, Lomellina Energia S.r.l. in Parona Lomellina (PV) and Silea di Valmadrera (LC)*".

A2A Ambiente S.p.A., which, according to the Prosecutor's accusative hypothesis, was investigated for the administrative offences provided for in art. 5 paragraph I, letter a), 25 *undecies*, paragraph II – letter f) of Legislative Decree no. 231 of June 8, 2001, "as responsible for committing offences of criminal association and organized activities for illegal waste trafficking on the part of its top management, in the interest and benefit of the Company" has not yet received any notification.

All the waste mentioned as conferred to the waste-to-energy plant in Brescia is special non-hazardous waste that the plant is authorized to receive.

The former employees of the Linea Group Holding Group are being investigated, according to accusatory reconstruction,

- in Chapter A.1) referred to above in point A.1.7) because they were involved in abusive waste management referred to in Chapter A.1, entrusting the recovery of some of the waste from the SAPNA plants to a third plant, aware that the recovery thereof would only be fradulent;
- in Chapter B, point B.2, because they were involved in abusive waste management by carrying out intermediation activities between SAPNA and a third plant with regard to certain waste batches. Chapter B suggests that several parties jointly and with several execution actions of the same criminal matter, to achieve unjust profit through multiple operations and the organization of continuous means and activities and organized in

derogation from the authorizations, abusively managed, without subjecting them to the recovery activities envisaged, large quantities of non-hazardous waste received with EWC code 191212 and/or 190501 from STIR managed by different parties where, on the basis of the award to Linea Ambiente and others of the tenders of waste producers, they did not subject the waste to recovery, but illegally disposed of it at landfills of other operators;

- in Chapter E, because organizers of the association under art. 416 Criminal Code aimed at committing an indefinite series of offences under articles 256, paragraph 4 and 260 Legislative Decree 152/06 and articles 356, 346 *bis*, 81 and 481 Criminal Code and because organizers of the association in the role of public service agents collaborated functionally and organically with other investigated party, giving concrete implementation to the delinquent project, dealing with activities of primary importance for the acquisition of the public contracts mentioned.

Linea Ambiente S.r.l., investigated according to the Prosecutor's accusative hypothesis, for the administrative offences provided for in art. 5 paragraph I, letter a), 24 *ter* paragraph II and 25 *undecies*, paragraph II – letter f) of Legislative Decree no. 231 of June 8, 2001, "as responsible for committing offences of criminal association and organized activities for illegal waste trafficking on the part of its top management, in the interest and benefit of the Company" has not yet received any notification.

At present, since the proceedings are in the preliminary investigation phase, no evaluations can be made.

Outlook for operations

Following the decision on July 1, 2017 to exercise the put option to sell the entire stake in the share capital held by A2A S.p.A. in the Montenegrin company EPCG (41.75%), beginning in the second half of 2017 EPCG will be excluded from the full consolidation and classified as an investment available for sale.

The higher than expected results achieved in the second quarter, an energy market – according to the current forward prices – expected to remain positive in the second half of the year, and the forecast of greater positive non-recurring items for around 25 million euro with respect to the previous guidance, allow to be optimistic about the financial results for the year and essentially confirm the forecasts indicated during the presentation of the data of the first quarter of 2017, namely a Gross Operating Margin for the Group of between 1,165 and 1,185 million euro – despite the lack of the contribution expected in the second half of 2017 from EPCG (estimated to be around 30 million euro).

Please also note that – all other conditions being equal – the exclusion of EPCG from the full consolidation will result in the worsening of the Group's Financial Position by 206 million euro, corresponding to the net liquidity of the Net Financial Position of EPCG as of June 30, 2017.

Consolidated financial statements

Consolidated balance sheet (1-2)

Assets

Millions of euro	Note	06 30 2017	12 31 2016 Restated (*)	06 30 2016
NON-CURRENT ASSETS				
Tangible assets	1	4,979	5,129	5,013
Intangible assets	2	1,709	1,704	1,347
Shareholdings carried according to equity method	3	63	67	72
Other non-current financial assets	3	70	69	71
Deferred tax assets	4	297	341	285
Other non-current assets	5	9	12	24
Total non-current assets		**7,127**	**7,322**	**6,812**
CURRENT ASSETS				
Inventories	6	168	159	142
Trade receivables	7	1,488	1,821	1,482
Other current assets	8	390	389	283
Current financial assets	9	214	218	181
Current tax assets	10	71	70	69
Cash and cash equivalents	11	545	402	633
Total current assets		**2,876**	**3,059**	**2,790**
NON-CURRENT ASSETS HELD FOR SALE	12	**1**	**6**	**3**
TOTAL ASSETS		**10,004**	**10,387**	**9,605**

(1) 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.
(2) 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.

(*) For further details on the financial effects deriving from the PPA of the LGH Group on figures at December 31, 2016, reference is made to the specific paragraph “Other information - 3) IFRS 3 Revised Transactions”.

Equity and liabilities

Millions of euro	Note	06 30 2017	12 31 2016 Restated (*)	06 30 2016
EQUITY				
Share capital	13	1,629	1,629	1,629
(Treasury shares)	14	(54)	(54)	(98)
Reserves	15	1,007	919	916
Result of the year	16	-	232	-
Result of the period	16	157	-	254
Equity pertaining to the Group		**2,739**	**2,726**	**2,701**
Minority interests	17	572	553	425
Total equity		**3,311**	**3,279**	**3,126**
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	18	3,696	3,436	3,063
Employee benefits	19	348	365	348
Provisions for risks, charges and liabilities for landfills	20	636	671	590
Other non-current liabilities	21	98	109	88
Total non-current liabilities		**4,778**	**4,581**	**4,089**
Current liabilities				
Trade payables	22	1,027	1,384	1,054
Other current liabilities	22	633	744	561
Current financial liabilities	23	154	359	658
Tax liabilities	24	101	33	117
Total current liabilities		**1,915**	**2,520**	**2,390**
Total liabilities		**6,693**	**7,101**	**6,479**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	25	-	7	-
TOTAL EQUITY AND LIABILITIES		**10,004**	**10,387**	**9,605**

Consolidated income statement (1-2)

Millions of euro	Note	01 01 2017 06 30 2017	01 01 2016 06 30 2016	01 01 2016 12 31 2016 Restated (*)
Revenues				
Revenues from the sale of goods and services		2,810	2,180	4,813
Other operating income		108	143	280
Total revenues	**27**	**2,918**	**2,323**	**5,093**
Operating expenses				
Expenses for raw materials and services		1,774	1,289	2,968
Other operating expenses		148	109	253
Total operating expenses	**28**	**1,922**	**1,398**	**3,221**
Labour costs	**29**	**347**	**311**	**641**
Gross operating income - EBITDA	**30**	**649**	**614**	**1,231**
Depreciation, amortization, provisions and write-downs	**31**	**280**	**234**	**758**
Net operating income - EBIT	**32**	**369**	**380**	**473**
Result from non-recurring transactions	**33**	**1**	**52**	**56**
Financial balance				
Financial income		9	12	40
Financial expenses		105	75	194
Affiliates		4	4	(3)
Result from disposal of other shareholdings (AFS)		-	-	-
Total financial balance	**34**	**(92)**	**(59)**	**(157)**
Result before taxes		**278**	**373**	**372**
Income taxes	**35**	**119**	**106**	**120**
Result after taxes from operating activities		**159**	**267**	**252**
Net result from discontinued operations	**36**	**1**	**-**	**2**
Net result		**160**	**267**	**254**
Minorities	**37**	**(3)**	**(13)**	**(22)**
Group result of the period/year	**38**	**157**	**254**	**232**
Result per share (in euro):				
- basic		0.0504	0.0825	0.0750
- basic from continuing operations		0.0500	0.0824	0.0742
- basic from assets held for sale		0.0004	-	0.0008
- diluted		0.0504	0.0825	0.0750
- diluted from continuing operations		0.0500	0.0824	0.0742
- diluted from assets held for sale		0.0004	-	0.0008

(1) 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.
(2) 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.

(*) For further details on the economic effects deriving from the PPA of the LGH Group on figures at December 31, 2016, reference is made to the specific paragraph “Other information - 3) IFRS 3 Revised Transactions”.

Consolidated statement of comprehensive income

Millions of euro	06 30 2017	06 30 2016	12 31 2016 Restated
Net result of the year (A)	-	-	254
Net result of the period (A)	160	267	-
Actuarial gains/(losses) on Employee's Benefits booked in the Net equity	9	(24)	(27)
Tax effect of other actuarial gains/(losses)	(3)	7	9
Total actuarial gains/(losses) net of the tax effect (B)	6	(17)	(18)
Effective part of gains/(losses) on cash flow hedges	(8)	25	31
Tax effect of other gains/(losses)	2	(6)	(8)
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	(6)	19	23
Other gains/(losses) of companies valued at equity net of the tax effect (D)	-	-	-
Total comprehensive result (A) + (B) + (C) + (D)	160	269	259
Total comprehensive result of the period/year attributable to:			
Shareholders of the parent company	157	256	237
Minority interests	3	13	22

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.

Consolidated cash-flow statement

Millions of euro	06 30 2017	12 31 2016 Restated	06 30 2016
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	**402**	**636**	**636**
Edipower demerger in favour of Cellina Energy	-	(38)	(38)
Contribution of first consolidation of LGH and other acquisitions of 2016	-	86	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	**402**	**684**	**598**
Operating activities			
Net result (**)	160	196	215
Tangible assets depreciation	175	374	173
Intangible assets amortization	34	55	24
Fixed assets write-downs/disposals	98	252	4
Result from affiliates	(4)	4	(4)
Net taxes paid (a)	*(1)*	*(168)*	*(7)*
Gross change in assets and liabilities (b)	*(50)*	*90*	*(35)*
Total change of assets and liabilities (a+b) (*)	(51)	(78)	(42)
Cash flow from operating activities	**412**	**803**	**370**
Investment activities			
Investments in tangible assets	(106)	(259)	(89)
Investments in intangible assets and goodwill	(52)	(128)	(40)
Investments in shareholdings and securities (*)	(13)	(123)	-
Disposal of fixed assets and shareholdings	-	6	2
Dividends received	-	1	1
Purchase/disposal of own shares	-	-	(37)
Cash flow from investment activities	**(171)**	**(503)**	**(163)**

(*) Cleared of balances in return of shareholders' equity and other balance sheet items.
(**) Net Result is exposed net of gains on shareholdings' and fixed assets' disposals.

Millions of euro	06 30 2017	12 31 2016 Restated	06 30 2016
FREE CASH FLOW	**241**	**300**	**207**
Financing activities			
Change in financial assets (*)	(3)	37	18
Change in financial liabilities (*)	112	(355)	(5)
Net financial interests paid	(53)	(133)	(54)
Dividends paid by the parent company	(153)	(126)	(126)
Dividends paid by the subsidiaries	(1)	(5)	(5)
Cash flow from financing activities	**(98)**	**(582)**	**(172)**
CHANGE IN CASH AND CASH EQUIVALENTS	**143**	**(282)**	**35**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	**545**	**402**	**633**

Statement of changes in Group equity

Description *Millions of euro*	Share Capital Note 13	Treasury Shares Note 14	Cash Flow Hedge Note 15
Net equity at December 31, 2015	**1,629**	**(61)**	**(25)**
Changes of the first half of 2016			
2015 result allocation			
Purchase of own shares		(37)	
Distribution of dividends			
IAS 19 reserve (*)			
IAS 32 and IAS 39 reserves (*)			19
Other changes			
Group and minorities result of the period			
Net equity at June 30, 2016	**1,629**	**(98)**	**(6)**
Changes of the second half of 2016			
Operations of own shares		44	
IAS 19 reserve (*)			
IAS 32 and IAS 39 reserves (*)			4
Other changes			
Group and minorities result of the period			
Net equity at December 31, 2016	**1,629**	**(54)**	**(2)**
Purchase Price Allocation LGH effect			
Net equity at December 31, 2016 Restated	**1,629**	**(54)**	**(2)**
Changes of the first half of 2017			
2016 result allocation			
Distribution of dividends			
IAS 19 reserve (*)			
IAS 32 and IAS 39 reserves (*)			(6)
Other changes			
Group and minorities result of the period			
Net equity at June 30, 2017	**1,629**	**(54)**	**(8)**

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

	Other Reserves and retained earnings	Result of the period/year	Total Equity pertaining to the Group	Minority interests	Total Net shareholders' equity
	Note 15	Note 16		Note 17	
	1,030	**73**	**2,646**	**613**	**3,259**
	73	(73)			
			(37)		(37)
	(126)		(126)	(5)	(131)
	(17)		(17)		(17)
			19		19
	(38)		(38)	(196)	(234)
		254	254	13	267
	922	**254**	**2,701**	**425**	**3,126**
			44		44
	(1)		(1)		(1)
			4		4
	(1)		(1)	127	126
		(30)	(30)	2	(28)
	920	**224**	**2,717**	**554**	**3,271**
	1	**8**	**9**	**(1)**	**8**
	921	**232**	**2,726**	**553**	**3,279**
	232	(232)			
	(153)		(153)	(1)	(154)
	6		6		6
			(6)		(6)
	9		9	17	26
		157	157	3	160
	1,015	**157**	**2,739**	**572**	**3,311**

Balance sheet

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

Assets

Millions of euro	06 30 2017	of which Related Parties (note 40)	12 31 2016 Restated	of which Related Parties (note 40)	06 30 2016	of which Related Parties (note 40)
NON-CURRENT ASSETS						
Tangible assets	4,979		5,129		5,013	
Intangible assets	1,709		1,704		1,347	
Shareholdings carried according to equity method	63	63	67	67	72	72
Other non-current financial assets	70	7	69	7	71	6
Deferred tax assets	297		341		285	
Other non-current assets	9		12		24	
TOTAL NON-CURRENT ASSETS	**7,127**		**7,322**		**6,812**	
CURRENT ASSETS						
Inventories	168		159		142	
Trade receivables	1,488	115	1,821	102	1,482	100
Other current assets	390		389	1	283	
Current financial assets	214	3	218	10	181	6
Current tax assets	71		70		69	
Cash and cash equivalents	545		402		633	
TOTAL CURRENT ASSETS	**2,876**		**3,059**		**2,790**	
NON-CURRENT ASSETS HELD FOR SALE	**1**		**6**		**3**	
TOTAL ASSETS	**10,004**		**10,387**		**9,605**	

Equity and liabilities

Millions of euro	06 30 2017	of which Related Parties (note 40)	12 31 2016 Restated	of which Related Parties (note 40)	06 30 2016	of which Related Parties (note 40)
EQUITY						
Share capital	1,629		1,629		1,629	
(Treasury shares)	(54)		(54)		(98)	
Reserves	1,007		919		916	
Result of the year	-		232		-	
Result of the period	157		-		254	
Equity pertaining to the Group	**2,739**		**2,726**		**2,701**	
Minority interests	572		553		425	
Total equity	**3,311**		**3,279**		**3,126**	
LIABILITIES						
NON-CURRENT LIABILITIES						
Non-current financial liabilities	3,696		3,436		3,063	
Employee benefits	348		365		348	
Provisions for risks, charges and liabilities for landfills	636	2	671	3	590	
Other non-current liabilities	98		109		88	
Total non-current liabilities	**4,778**		**4,581**		**4,089**	
CURRENT LIABILITIES						
Trade payables	1,027	29	1,384	30	1,054	47
Other current liabilities	633	7	744	8	561	7
Current financial liabilities	154		359	2	658	1
Tax liabilities	101		33		117	
Total current liabilities	**1,915**		**2,520**		**2,390**	
Total liabilities	**6,693**		**7,101**		**6,479**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		7		-	
TOTAL EQUITY AND LIABILITIES	**10,004**		**10,387**		**9,605**	

Income statement

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

Millions of euro	01 01 2017 06 30 2017	of which Related Parties (note 40)	01 01 2016 06 30 2016	of which Related Parties (note 40)	01 01 2016 12 31 2016 Restated	of which Related Parties (note 40)
Revenues						
Revenues from the sale of goods and services	2,810	203	2,180	207	4,813	409
Other operating income	108	1	143		280	
Total revenues	**2,918**		**2,323**		**5,093**	
Operating expenses						
Expenses for raw materials and services	1,774	20	1,289	39	2,968	9
Other operating expenses	148	18	109	16	253	34
Total operating expenses	**1,922**		**1,398**		**3,221**	
Labour costs	**347**	**1**	**311**	**1**	**641**	**3**
Gross operating income - EBITDA	**649**		**614**		**1,231**	
Depreciation, amortization, provisions and write-downs	**280**		**234**		**758**	**3**
Net operating income - EBIT	**369**		**380**		**473**	
Result from non-recurring transactions	**1**		**52**		**56**	
Financial balance						
Financial income	9	3	12	4	40	6
Financial expenses	105		75		194	
Affiliates	4	4	4	4	(3)	(3)
Result from disposal of other shareholdings (AFS)	-		-		-	
Total financial balance	**(92)**		**(59)**		**(157)**	
Result before taxes	**278**		**373**		**372**	
Income taxes	**119**		**106**		**120**	
Result after taxes from operating activities	**159**		**267**		**252**	
Net result from discontinued operations	**1**		**-**		**2**	
Net result	**160**		**267**		**254**	
Minorities	**(3)**		**(13)**		**(22)**	
Group result of the period/year	**157**		**254**		**232**	

Notes to the Half-yearly financial 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.

The Half-yearly financial report

The Half-yearly financial report (in the following the "Half-yearly report") of the A2A Group at June 30, 2017 is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Half-yearly report of the A2A Group at June 30, 2017 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 endorsed by the European Union in particular IAS 34. 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 Half-yearly report, the same principles used in the preparation of the consolidated annual financial report at December 31, 2016 were applied, other than the principles and interpretations described in detail in the paragraph below "Changes in international accounting standards" adopted for the first time on January 1, 2017.

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)".

This Half-yearly report at June 30, 2017 was approved on July 31, 2017 by the Board of Directors, which authorized publication, and has been subjected to limited audit 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, 2016.

Basis of preparation

The Half-yearly financial report at June 30, 2017 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 Half-yearly report are consistent with those used to prepare the annual Consolidated financial statements at December 31, 2016, except as specified below.

Changes in international accounting standards

Pursuant to IAS 8, the subsequent paragraph "Accounting standards, amendments and interpretations applicable by the Group as of the current year" indicates and briefly illustrates the amendments in force as of January 1, 2017.

The following paragraph, "Accounting standards, amendments and interpretations approved by the European Union" instead detail the accounting standards and interpretations already issued but not yet approved by the European Union and therefore not applicable for the preparation of the financial statements at June 30, 2017, any impacts of which will then be transposed as of the financial statements of the following years.

Accounting standards, amendments and interpretations applicable by the Group as of the current year

As from January 1, 2017, the European Union has not approved standards or additions to specific paragraphs of the international accounting standards already adopted by the company in previous years.

Some additions are applicable following specific paragraphs of the international accounting standards already adopted by the Group in previous years, none of which had an effect, with respect to December 31, 2016, on the Group's economic and financial results or reporting methods.

The main changes are described in the following:

- IAS 7 "Additional information in the financial statements on financial instruments". The amendment to the standard 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 financial liabilities and assets, distinguishing between changes that led to monetary outflows/inflows from non-monetary changes; said amendment is applicable from financial statements closed December 31, 2017.
- IAS 12 "Income taxes". Issued on January 19, 2016, the IASB published amendments that aim to clarify the accounting method for deferred tax assets related to debt instruments

measured at fair value (recognition of deferred taxes as a result of unrealized losses on debt instruments). The main point of the addition to the standard IAS 12 "Income taxes" is the impossibility to recognize deferred tax assets as a result of forecasts of future losses related to mark-to-market valuations. Instead, said recognition is only permitted on losses actually realized.

Accounting standards, amendments and interpretations approved by the European Union, applicable in future years

The following standards and amendments to pre-existing standards have been approved by the European Union and will be applied from 2018; therefore, they are not applicable to the half-yearly financial report at June 30, 2017.

- 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 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. 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.
  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 new model has also made it easier to apply the Hedge accounting model by eliminating the 80-125% threshold for hedge effectiveness testing in accordance with IAS 39 and providing for additional cases qualified as hedging (ex. hedging the benchmark price for a commodity supply contract).
  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 "Revenue from Contracts with Customers". 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) identification of the contract with the customer;

  (ii) identification of the performance obligations (i.e. the contractual conditions related to the transfer of goods or services to the customer);

  (iii) identification of all possible benefits incorporated in sales/service contracts;

  (iv) determination of the transaction price;

  (v) allocation of the transaction price to performance obligations so as to be able to distinguish revenues by nature in cases of multiple services;

  (vi) revenue recognition when the related performance obligations are met.

  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.

  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.

  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.

Scope of consolidation

The Half-yearly report of the A2A Group at June 30, 2017 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.

The following changes to the scope of consolidation of the A2A Group are reported:

- due to the subscription by the parent company A2A S.p.A. of the share capital increase of the company Azienda Servizi Valtrompia S.p.A., A2A S.p.A. increased its shareholding from 49% to 74.8%. Therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- acquisition of 100% of Patavina Technologies S.r.l. by A2A Smart City S.p.A.;
- exit from the scope of consolidation, with effect from January 1, 2017 of the company Bellisolina S.r.l.. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 recognized under the item Non-current assets held for sale, to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A;
- establishment, in June 2017, of A2A Security S.c.p.a..

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 therefore, the adoption of the standard had no effect on the Half-yearly financial report at June 30, 2017.

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.

In 2016, A2A S.p.A. finalized the acquisition of 51% of the share capital of LGH S.p.A..

The value of the transaction was 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.

Included in the acquisition value, A2A S.p.A. paid an amount of 9.6 million euro to minority shareholders of LGH S.p.A. related to specific earn-in clauses set at transaction closing.

Based on the initial 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, would 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.

Based on the Purchase Price Allocation concluded in June 2017, the percentage probabilities of achieving some earn-out clauses have been revised downwards, resulting in a maximum payout of 10.5 million euro to minority shareholders resulting in an acquisition value of 109.4 million euro.

In accordance with the provisions of paragraphs 65B, 65C and 65D of IFRS 3, the Group recorded the effects of the contractual earn-outs for 10.5 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 still considered probable and reliably determined at the acquisition date.

Reference is made to the paragraph "Other information" for further details on acquisitions regulated by IFRS 3 and Purchase Price Allocation processes.

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

In the first half of 2016, Aprica S.p.A. acquired 64% of the portions of LA BI.CO DUE S.r.l., a company engaged in urban sanitation services in various municipalities of the Province of Brescia.

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%.

The exercise of this option by Ecoimmobiliare S.r.l. can be made with effect from April 1, 2021 and by and not beyond June 30, 2021. If Ecoimmobiliare S.r.l. does not exercise the put option, Aprica S.p.A. shall have the right, but not the obligation, to purchase the shareholding of Ecoimmobiliare S.r.l. in LA BI.CO DUE S.r.l. from the first day following the expiration of the put option period and within, and not beyond the subsequent 90 business days.

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

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 financial position and on the profitability of LA BI.CO DUE S.r.l., linked to the award and to the extension of some agreements in the municipalities of the Province of Brescia.

The price adjustment related to the clause based on the net financial position was concluded in October 2016 by means of the payment by Aprica S.p.A. of 0.3 million euro to the minority shareholder.

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.

As a result of the agreements described in letters a), b) and c), the Half-yearly report at June 30, 2017 shows a payable to Ecoimmobiliare S.r.l., for the possible exercise of the put options on portions of LA BI.CO DUE S.r.l., less than one million euro.

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

In 2016, A2A Ambiente S.p.A. finalized the acquisition of 100% of the RI.ECO-RESMAL Group.

The price paid 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.

In January 2017, a payment of 0.8 million euro was made as price adjustment on the net financial position.

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 estimated outlay of 2.4 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 Half-yearly 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).

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 June 30, 2017 *Millions of euro* **INCOME STATEMENT**	**Bergamo Pulita 50%**	**PremiumGas 50%**	**Ergosud 50% figures at 12 31 2016**	**Metamer 50% figures at 03 31 2017**
Revenues	0.02	8.8	31.3	5.3
Gross Operating Income	**(0.03)**	**(0.3)**	**14.8**	**0.6**
% of net revenues	*(150.0%)*	*(3.4%)*	*47.3%*	*11.3%*
Depreciation, amortization and write-downs	(0.04)	-	(8.1)	(0.1)
Net Operating Income	**(0.07)**	**(0.3)**	**6.7**	**0.5**
Result for the period	**(0.07)**	**(0.3)**	**8.3**	**0.3**
BALANCE SHEET				
Total assets	**2.9**	**5.6**	**175.5**	**8.6**
Shareholders' equity	**(0.4)**	**3.5**	**66.8**	**1.7**
Net financial (debt)	**(0.7)**	**0.6**	**(86.9)**	**2.6**

Key figures at June 30, 2016 *Millions of euro* **INCOME STATEMENT**	**Bergamo Pulita 50%**	**PremiumGas 50%**	**Ergosud 50% figures at 12 31 2015**	**Metamer 50% figures at 03 31 2016**
Revenues	0.1	24.7	29.0	3.7
Gross Operating Income	**0.08**	**0.4**	**17.1**	**0.5**
% of net revenues	*80.0%*	*1.6%*	*58.9%*	*13.5%*
Depreciation, amortization and write-downs	-	-	(50.3)	(0.1)
Net Operating Income	**0.1**	**0.4**	**(33.3)**	**0.4**
Result for the period	**0.3**	**0.3**	**(25.5)**	**0.3**
BALANCE SHEET				
Total assets	**3.1**	**14.8**	**189.0**	**7.0**
Shareholders' equity	**(0.8)**	**3.2**	**62.6**	**1.8**
Net financial (debt)	**(0.4)**	**1.5**	**(96.0)**	**2.2**

Seasonal nature of the business

Given the nature of the Group's ordinary activities, the interim results can vary as the result of the meteorological conditions during the period.

In this respect reference should be made to the comments on performance by Business Unit presented below.

Summary of results sector by sector

Millions of euro	Generation and Trading		Commercial		Environment	
	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16
Revenues	1,533	1,225	794	669	496	403
- of which inter-sector	*373*	*369*	*29*	*23*	*44*	*47*
Labour costs	44	47	17	12	152	130
Gross operating income - EBITDA	186	170	77	73	137	119
% of revenues	*12.1%*	*13.9%*	*9.7%*	*10.9%*	*27.6%*	*29.5%*
Depreciation, amortization, provisions and write-downs	(71)	(100)	(10)	(9)	(44)	(41)
Net operating income - EBIT	115	70	67	64	93	78
% of revenues	*7.5%*	*5.7%*	*8.4%*	*9.6%*	*18.8%*	*19.4%*
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 period						
Gross investments (1)	11	8	3	2	38	28

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

Millions of euro	Generation and Trading		Commercial		Environment	
	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)
Tangible assets	2,019	2,090	4	4	659	639
Intangible assets	36	82	113	116	55	50
Trade receivables and current financial assets	494	709	442	557	370	373
Trade payables and current financial liabilities	462	752	234	302	311	296

(*) For further details on the financial effects deriving from the PPA of the LGH Group on figures at December 31, 2016, reference is made to the specific paragraph "Other information - 3) IFRS 3 Revised Transactions".

	Networks and Heat		Foreign		A2A Smart City		Corporate		Eliminations		Total Group	
	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16	01 01 17 06 30 17	01 01 16 06 30 16
	570	**499**	**114**	**111**	**12**	**13**	**96**	**76**	**(697)**	**(673)**	**2,918**	**2,323**
	155	*153*	*-*	*-*	*10*	*11*	*86*	*70*	*(697)*	*(673)*		
	56	**53**	**21**	**22**	**2**	**2**	**55**	**45**			**347**	**311**
	245	**227**	**12**	**35**	**3**	**3**	**(11)**	**(13)**			**649**	**614**
	43.0%	*45.5%*	*10.5%*	*31.5%*	*25.0%*	*23.1%*	*(11.5%)*	*(17.1%)*			*22.2%*	*26.4%*
	(70)	**(60)**	**(76)**	**(15)**	**(1)**	**(1)**	**(8)**	**(8)**			**(280)**	**(234)**
	175	**167**	**(64)**	**20**	**2**	**2**	**(19)**	**(21)**			**369**	**380**
	30.7%	*33.5%*	*(56.1%)*	*18.0%*	*16.7%*	*15.4%*	*(19.8%)*	*(27.6%)*			*12.6%*	*16.4%*
											1	**52**
											(92)	**(59)**
											278	**373**
											(119)	**(106)**
											159	**267**
											1	**-**
											(3)	**(13)**
											157	**254**
	89	**78**	**4**	**10**	**4**	**1**	**9**	**3**	**-**	**-**	**158**	**130**

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	Networks and Heat		Foreign		A2A Smart City		Corporate		Eliminations		Total Group	
	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)	06 30 17	12 31 16 Restated (*)
	1,672	1,716	464	568	19	16	223	179	(81)	(83)	**4,979**	**5,129**
	1,598	1,547	2	2	-	-	85	86	(180)	(179)	**1,709**	**1,704**
	439	436	256	262	10	12	180	151	(489)	(461)	**1,702**	**2,039**
	398	374	25	41	13	12	237	434	(499)	(468)	**1,181**	**1,743**

Notes to the balance sheet

At the date of the Half-yearly financial report at June 30, 2017, the A2A Group completed the Purchase Price Allocation (hereinafter "PPA") following the acquisition of 51% of the LGH Group.

As a result of the completion of the PPA (at the acquisition date), the Group restated the figures at December 31, 2016.

For further details of the transaction and the consequent financial and economic effects on the figures restated at December 31, 2016, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph "Other Information" of this Half-yearly financial report.

As a result of the Group's exercise of the EPCG sale put option, as further described in paragraph "Significant events after June 30, 2017" from the Half-yearly financial report at June 30, 2017, the company's assets and liabilities were measured at fair value. This resulted in a write-down of assets totalling 95 million euro, as further described in the Notes "1) Tangible assets", "31) Depreciation, amortization, provisions and write-downs" and "34) Financial balance".

It is noted that the consolidation scope at June 30, 2017 changed compared to December 31, 2016 Restated for to the following operations:

- subscription by the Parent Company A2A S.p.A. of the capital increase of the company Azienda Servizi Valtrompia S.p.A.. A2A S.p.A. increased its shareholding portion from 49% to 74.8%; therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 Restated was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- exit from the scope of consolidation, with effect from January 1, 2017 of the company Bellisolina S.r.l.. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 Restated recognized under the item "Non-current assets held for sale", to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A;
- on June 1, 2017, A2A, through the subsidiary A2A Smart City S.p.A., acquired 100% of Patavina Technologies S.r.l., active in the design of software and TLC systems and will favor further impetus to innovation related to Smart Cities in addition to automation of network management and control processes.

ASSETS

Non-current assets

1) Tangible assets

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period						Balance at 06 30 2017
		Investments	Other changes	Disposals and sales	Write-downs	Depreciation	Total changes	
Land	235	1	4		(27)		(22)	213
Buildings	821	3	3		(43)	(19)	(56)	765
Plant and machinery	3,703	40	25	(1)	(25)	(133)	(94)	3,609
Industrial and commercial equipment	33	4	1			(4)	1	34
Other assets	72	9	10	(1)		(9)	9	81
Landfills	73		(1)			(5)	(6)	67
Construction in progress and advances	101	45	(27)				18	119
Leasehold improvements	82	4	1			(5)		82
Leased assets	9							9
Total	**5,129**	**106**	**16**	**(2)**	**(95)**	**(175)**	**(150)**	**4,979**
of which:								
Historical cost	10,421	106	21	(7)			120	10,541
Accumulated depreciation	(4,553)		(5)	5		(175)	(175)	(4,728)
Write-downs	(739)				(95)		(95)	(834)

"Tangible assets" amounted to 4,979 million euro at June 30, 2017 (5,129 million euro at December 31, 2016 Restated).

The changes in the period recorded a decrease totalling 150 million euro as follows:

- increase of 106 million euro for investments made in the period as further described below;
- increase of 16 million euro for other changes due to the effect of the decommissioning fund and expense funds for closure and post-closure of landfills following the update of the expert report on the Monfalcone plant and the discount rates used for the estimates of the future costs of dismantling and restoration;
- decrease of 2 million euro for disposals made during the period net of accumulated depreciation;
- decrease of 95 million euro following the fair value measurement of EPCG assets following the exercise, by the A2A Group, of the EPCG sale put option in July, which led to a write-down of 60 million euro recognized under the item "Net write-downs of fixed assets" (Note 31) and discounting financial charges for 35 million euro (Note 34);
- decrease of 175 million euro for the depreciation charge for the period.

Investments may be analyzed as follows:

- for the Networks and Heat Business Unit, investments totalled 48 million euro and concerned: 28 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 and the efficiency plan for public lighting in Milan and Bergamo, 11 million euro for the development of the district heating networks in the areas of Milan, Brescia, Bergamo and Varese, 9 million euro for investments of the LGH Group;
- for the Environment Business Unit, investments of 35 million euro refer to: 19 million euro mainly for work on the plants of Silla 2, Acerra, Corteolona, Brescia, Bergamo, Giussago, Cavaglià, Bedizzole, Filago, Varese, Milano, Lacchiarella, Robassomero, Caivano e Villafalletto; 9 million euro for the acquisition of mobile means for waste collection, 3 million euro for the acquisition of collection facilities and 4 million euro for investments of the LGH Group and RI.ECO-RESMAL;
- for the Generation and Trading Business Unit, the increase was 11 million euro and concerned: 4 million euro for investments made on the hydroelectric plants, 7 million euro for works on the thermoelectric plants;
- for the Foreign Business Unit (EPCG), there was an increase of 4 million euro;
- for A2A Smart City, investments of 4 million euro concerned work on the fibre optic networks;
- for the Corporate, investments of 4 million euro concerned work on the new Data Center and the purchase of new hardware.

Tangible assets include “Leased assets” totalling 9 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at June 30, 2017 amounted to 6 million euro.

2) Intangible assets

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period					Balance at 06 30 2017
		Invest.	Recl./Other changes	Disposals/ sales	Amort.	Total changes	
Industrial patents and industrial property rights	21	4			(7)	(3)	18
Concessions, licences, trademarks and similar rights	1,046	34	17	(1)	(23)	27	1,073
Goodwill	500						500
Assets in progress	26	14	(5)			9	35
Other intangible assets	111		(24)		(4)	(28)	83
Total	**1,704**	**52**	**(12)**	**(1)**	**(34)**	**5**	**1,709**

"Intangible assets" amounted to 1,709 million euro at June 30, 2017 (1,704 million euro at December 31, 2016 Restated).

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 in the period recorded an increase totalling 5 million euro as follows:

- increase of 52 million euro for investments made in the period as further described below;
- overall decrease of 12 million euro for other changes due to the counter effect between the decrease for 31 million euro mainly related the reduction of environmental certificates of the industrial portfolio (26 million euro), the reclassification of some items from intangible assets to tangible assets (2 million euro), the decrease of contributions over previous years (2 million euro) and other negative changes of the period equal to 1 million euro offset by the increase, for 19 million euro, due to the full consolidation of the items of the company Azienda Servizi Valtrompia S.p.A.;
- decrease of 1 million euro for disposals made during the period net of accumulated depreciation;
- decrease of 34 million euro for the depreciation charge for the period.

More specifically, investments relate to the following:

- for the Networks and Heat Business Unit, investments of 41 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 25 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 9 million euro and the implementation of IT systems for 3 million euro; for investments of the LGH Group for 4 million euro;
- for the Commercial Business Unit, the increase is of 3 million euro and mainly relates to the implementation of IT systems;
- for the Environment Business Unit, the increase is of 3 million euro and mainly relates to investments of the LGH Group;
- for the Corporate, the increase is of 5 million euro and mainly relates to software implementation.

“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. In particular, the amount in the financial statements, equal to 72 million euro, refers for 48 million euro to the Customer lists of the LGH Group following the conclusion of the Purchase Price Allocation process, for 23 million euro to the Customer lists of the RI.ECO-RESMAL Groups and the company LA BI.CO DUE S.r.l., as well as 1 million euro to the value paid in previous years by subsidiaries, related to a portion of the networks and customers of the province of Brescia and the valuation of the customer portfolio of the subsidiary Aspem Energia S.r.l..

Goodwill

Goodwill at June 30, 2017 amounted to 500 million euro and did not change compared to the previous year:

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period				Balance at 06 30 2017
		Investments	Other changes	Write-downs	Total changes	
Goodwill	500	-	-	-	-	500
Total	**500**	**-**	**-**	**-**	**-**	**500**

It is noted that the values of goodwill provisionally recognized in the financial statements published at December 31, 2016 Restated were re-determined following the conclusion of the PPA process for the acquisition of 51% of the LGH Group, which resulted in the allocation to the asset and liability items of the Balance Sheet and the residual recognition of goodwill for 30 million euro.

During the PPA phase, the Cash Generating Units of the LGH Group were also revised to make the homogeneous with the CGU of the A2A Group.

For further details of the transaction and the consequent financial and economic effects on the figures restated at December 31, 2016 Restated, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph “Other Information” of this Half-yearly financial report.

The effects of the changes on the value of goodwill are detailed below:

CGU - *Millions of euro*	**Balance at 12 31 2016 Published**	**PPA Effect**	**Balance at 12 31 2016 Restated**
A2A Reti Elettriche	163	-	163
A2A Ambiente	232	-	232
A2A Reti Gas	38	-	38
A2A Gas	7	-	7
A2A Calore	21	-	21
Linea Più	6	(6)	-
Linea Ambiente	40	(40)	-
Linea Energia	9	(9)	-
Greenambiente	10	(10)	-
Linea Reti e Impianti	9	(9)	-
LGH Ambiente		30	30
Total	**535**	**(44)**	**491**
First-time Consolidation Effects			
LGH Group	13	(13)	-
Consul System	9	-	9
Total	22	(13)	**9**
Total Goodwill	**557**	**(57)**	**500**

Following the conclusion of the PPA process of LGH, the following are the new values of the CGU of the A2A Group:

CGU - *Millions of euro*	
Electricity networks	163
Environment	262
Gas networks	38
Gas	7
Heat	30
Total goodwill at June 30, 2017	**500**

During the reporting period, management conducted an analysis of the results achieved compared with the Plan, also considering the assumptions of the impairment process carried out for the 2016 financial statements with respect to the current situation. This analysis did not reveal the presence of potential impairment indicators; accordingly, the Group did not consider it necessary to perform a specific impairment test at June 30, 2017.

The impairment test is performed in any case at least annually.

3) Shareholdings and other non-current financial assets

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Shareholdings carried according to equity method	67	(4)	63	-	-
Other non-current financial assets	69	1	70	*56*	*57*
Total shareholdings and other non-current financial assets	**136**	**(3)**	**133**	***56***	***57***

The following table sets out details of the changes:

Shareholdings carried according to equity method - *Millions of euro*	**Total**
Balance at December 31, 2016 Restated	**67**
Changes in the period:	
- acquisitions and capital increases	
- valuations at equity	4
- write-downs	
- dividends received from shareholdings in companies carried at equity	(1)
- sales	
- other changes	(1)
- reclassifications	(6)
Total changes for the period	**(4)**
Balance at June 30, 2017	**63**

The change in "Shareholdings carried according to equity method" mainly refers to the positive valuation for 4 million euro of the shareholdings in ACSM-AGAM S.p.A. and other minor shareholdings, net of the reclassification, for 6 million euro, of the shareholding in Azienda Servizi Valtrompia S.p.A., following the acquisition of an additional portion of the shareholding in the company which, from March 1, 2017 is fully consolidated, as well as the negative change for 1 million euro deriving from the collection of dividends and other negative changes for 1 million euro.

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 70 million euro at June 30, 2017 (69 million euro at December 31, 2016 Restated) and an increase of 1 million euro. These assets include 57 million euro for medium/long-term financial receivables of which 12 million euro related to the LGH Group, consisting mainly of the non-current portion of financial receivables from minority shareholders and third parties, and 28 million euro related to financial receivables for medium/long-term deposits mainly of the subsidiary EPCG, as well as 13 million euro of investments in other companies; 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 2016 Restated	Changes during the period	Balance at 06 30 2017
Deferred tax assets	**341**	**(44)**	**297**

"Deferred tax assets" amounted to 297 million euro (341 million euro at December 31, 2016 Restated), resulting in a negative change of 44 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.

Deferred tax assets and liabilities at June 30, 2017 are stated 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	Consolidated financial statements at 12 31 2016 Restated	Accruals (A)	Utilizations (B)	Adjustment Rates (C)	Total (A+B+C)	IAS 39 at Net equity	IAS 19 Revised at Net equity	Other changes/ Reclass.	Consolidated financial statements at 06 30 2017
Deferred tax liabilities									
Measurement differences for tangible assets	649	5	(13)	-	(8)	-	-	-	641
Application of the leasing standard (IAS 17)	6	-	-	-	-	-	-	-	6
Application of the financial instrument standard (IAS 39)	-	-	-	-	-	-	-	-	-
Measurement differences for intangible assets	9	-	-	-	-	-	-	-	9
Deferred capital gains	-		-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	4	-	-	-	-	-	-	-	4
Goodwill	41	-	-	-	-	-	-	-	41
Other deferred tax liabilities	3	-	(5)	-	(5)	-	-	-	(2)
Total deferred tax liabilities (A)	**712**	**5**	**(18)**	**-**	**(13)**	**-**	**-**	**-**	**699**
Deferred tax assets									
Taxed risk provisions	127	6	(19)	-	(13)	-	(2)	-	112
Measurement differences for tangible assets	622	4	(13)	-	(9)	-	-	1	614
Application of the financial instrument standard (IAS 39)	26	-	-	-	-	(1)	-	-	25
Bad debts provision	12	3	(1)	-	2	-	-	1	15
Measurement differences for intangible assets	5	-	-	-	-	-	-	-	5
Grants	19	-	-	-	-	-	-	-	19
Goodwill	214	-	(19)	-	(19)	-	-	(1)	194
Other deferred tax assets	28	1	(18)	-	(17)	2	-	(1)	12
Total deferred tax assets (B)	**1,053**	**14**	**(70)**	**-**	**(56)**	**1**	**(2)**	**-**	**996**
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	**341**	**9**	**(52)**	**-**	**(43)**	**1**	**(2)**	**-**	**297**

5) Other non-current assets

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Non-current derivatives	4	(4)	-	4	-
Other non-current assets	8	1	9	-	-
Total other non-current assets	**12**	**(3)**	**9**	**4**	**-**

At June 30, 2017, this item decreased by 3 million euro compared to the balance at the end of the previous year.

"Non-current derivative instruments" recorded a value less than one million euro (4 million euro at December 31, 2016 Restated) and refer to the fair value measurement of a financial instrument at the end of the period.

"Other non-current assets" amounted to 9 million euro, an increase of 1 million euro over December 31, 2016 Restated; 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 2016 Restated	Changes during the period	Balance at 06 30 2017
- Materials	*96*	*4*	*100*
- Material obsolescence provision	*(30)*	*(2)*	*(32)*
Total materials	66	2	68
- Fuel	77	8	85
- Others	9	(1)	8
Raw and ancillary materials and consumables	**152**	**9**	**161**
Third-party fuel	**7**	**-**	**7**
Total inventory	**159**	**9**	**168**

"Inventories" amounted to 168 million euro (159 million euro at December 31, 2016 Restated), net of the relative obsolescence provision for 32 million euro (30 million euro at December 31, 2016 Restated). The increase in the obsolescence provision mainly refers to the write-down of material inventories of EPCG and of the warehouses of the power plants.

The inventories showed the following overall positive changes for 9 million euro:

- 8 million euro related to the increase in fuel stocks, which at June 30, 2017 amounted to a total of 85 million euro versus 77 million euro at December 31, 2016 Restated;
- 2 million euro relating to the increase in materials stocks, which totalled 68 million euro compared to 66 million euro at December 31, 2016 Restated;
- 1 million euro relating to the decrease in other inventories related to environmental certificates.

7) Trade receivables

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017
Trade receivables invoices issued	1,054	65	1,119
Trade receivables invoices to be issued	1,120	(385)	735
(Bad debts provision)	(353)	(13)	(366)
Total trade receivables	**1,821**	**(333)**	**1,488**

At June 30, 2017, "Trade receivables" amounted to 1,488 million euro (1,821 million euro at December 31, 2016 Restated), with a decrease of 333 million euro. In detail, the changes were as follows:

- 343 million euro due to the decrease in trade receivables from customers: this item had a balance of 1,383 million euro at the reporting date compared to that of 1,726 million euro at December 31, 2016 Restated;
- 11 million euro due to the increase in receivables from the Municipalities of Milan and Brescia: this item had an overall balance of 90 million euro (79 million euro in the previous year);
- 1 million euro due to the decrease in contracts in progress, which amounted to 3 million euro compared to 4 million euro at December 31, 2016 Restated.

The Group makes spot sales of receivables on a non-recourse basis. At June 30, 2017, 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 37 million euro in total (43 million euro at December 31, 2016 Restated). At the date of publication of this Half-yearly Financial Report, these receivables amount to 4 million euro (13 million euro at December 31, 2016 Restated). The sale is related to trade receivables. The Group has no rotating factoring programs.

The “Bad debts provision” amounted to 366 million euro, a net increase of 13 million euro compared to December 31, 2016 Restated. This provision is considered adequate to cover the risks to which it relates.

The changes in the Bad debts provision are outlined in the following table:

Millions of euro	Balance at 12 31 2016 Restated	Accruals	Utilizations	Others Changes	Balance at 06 30 2017
Bad debts provision	**353**	**16**	**(7)**	**4**	**366**

The following is the aging of trade receivables:

Millions of euro	06 30 2017	12 31 2016 Restated
Trade receivables of which:	**1,488**	**1,821**
Current	**514**	**456**
Past due of which:	**605**	**598**
- Past due up to 30 days	67	94
- Past due from 31 to 180 days	113	72
- Past due from 181 to 365 days	34	45
- Past due over 365 days	391	387
Invoices to be issued	**735**	**1,120**
Bad debts provision	**(366)**	**(353)**

8) Other current assets

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Current derivatives	**265**	**(130)**	**135**	-	-
Other current assets of which:	**124**	**131**	**255**		
- receivables from Cassa per i Servizi Energetici e Ambientali	40	99	139		
- advances to suppliers	11	1	12		
- receivables from employees	1	-	1		
- tax receivables	12	(7)	5		
- receivables related to future years/periods	14	35	49		
- receivables from Ergosud	9	(7)	2		
- receivables from social security entities	3	-	3		
- Stamp office	-	1	1		
- receivables for damage compensation	1	-	1		
- receivables for COSAP advances	5	-	5		
- sundry receivables EPCG	13	1	14		
- receivables for security deposits	1	3	4		
- receivables for RAI fee	3	5	8		
- sundry receivables for hedging	3	(3)	-		
- other sundry receivables	8	3	11		
Total other current assets	**389**	**1**	**390**	-	-

“Other current assets” show a balance of 390 million euro compared to 389 million euro at December 31, 2016 Restated, an increase of 1 million euro.

“Current derivatives” show a decrease of 130 million euro related to the decrease in commodity derivatives due to both the change in the fair value measurement at the end of the reporting period and the change in quantities covered.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 139 million euro (40 million euro at December 31, 2016 Restated), mainly refer to receivables for equalizations pertaining to both the first half of 2017 and the year 2016, outstanding receivables for equalizations pertaining to previous years, net of collections made during the reporting period, as well as receivables relating to white certificates.

Tax receivables, amounting to 5 million euro, mainly relate to tax receivables from the tax authorities for VAT, excise and withholding taxes.

Receivables from Ergosud, amounting to 2 million euro (9 million euro at December 31, 2016 Restated) 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 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Other financial assets	206	5	211	*206*	*211*
Financial assets from related parties	10	(7)	3	*10*	*3*
Financial assets from assets held for sale	2	(2)	-	*2*	*-*
Total current financial assets	**218**	**(4)**	**214**	***218***	***214***

This item had a balance of 214 million euro (218 million euro at December 31, 2016 Restated). This item mainly includes 196 million euro for financial receivables of the EPCG Group related to freely available interest-bearing bank deposits and 16 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 2016 Restated	Changes during the period	Balance at 06 30 2017
Current tax assets	**70**	**1**	**71**

"Current tax assets" amounted to 71 million euro at (70 million euro at December 31, 2016 Restated), representing an increase of 1 million euro over the previous year. This item consists of receivables from the tax authorities for IRES (34 million euro) mainly relating to requests for reimbursement as a result of IRAP deductibility for IRES, IRAP (17 million euro) mainly relating to the requests for reimbursement of previous years 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 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Cash and cash equivalents	402	143	545	*402*	*545*

"Cash and cash equivalents" at June 30, 2017 represent the sum of the bank and postal asset balances, of which 55 million euro relating to the EPCG Group.

Bank deposits include accrued interest although this had not yet been credited at the end of the period.

12) Non-current assets held for sale

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Non-current assets held for sale	6	(5)	1	*1*	-

At June 30, 2017, "Non-current assets held for sale" showed a balance of 1 million euro and refer to assets held for sale of the EPCG Group.

At December 31, 2016 Restated, this item included 4 million euro for the reclassification of assets owned by the company Bellisolina S.r.l. held for sale, pursuant to IFRS 5, 1 million euro for assets held for sale of the EPCG Group and 1 million euro for assets held for sale of the LGH Group regarding the business unit for municipal sanitation activities of the Lodi area.

EQUITY AND LIABILITIES

Equity

“Equity”, which amounted to 3,311 million euro at June 30, 2017 (3,279 million euro at December 31, 2016 Restated), is set out in the following table:

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	919	88	1,007
Group result of the period/year	232	(75)	157
Total equity pertaining to the Group	**2,726**	**13**	**2,739**
Minority interests	553	19	572
Total equity	**3,279**	**32**	**3,311**

The overall changes in “Equity” were positive for a total of 32 million euro. The result for the period produced a positive effect of 157 million euro, offset by the distribution of the dividend for 153 million euro, the positive change in the minority interests for 19 million euro, as well as the evaluations, 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”, which amounted to 54 million euro, unchanged over December 31, 2016 Restated, consist of 23,721,421 own shares held by the parent company A2A S.p.A..

15) Reserves

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017
Reserves	**919**	**88**	**1.007**
of which:			
Change in the fair value of cash flow hedge derivatives	(2)	(8)	(10)
Tax effect	-	2	2
Cash flow hedge reserves	**(2)**	**(6)**	**(8)**
Change in the IAS 19 Revised reserve - Employee Benefits	(91)	9	(82)
Tax effect	26	(3)	23
IAS 19 Revised reserve - Employee Benefits	**(65)**	**6**	**(59)**

“Reserves”, which amounted to 1,007 million euro (919 million euro at December 31, 2016 Restated), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the negative cash flow hedge reserve of 8 million euro which arises from the year-end measurement of derivatives qualifying for hedge accounting.

The balance also includes negative reserves of 59 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.

16) Result of the period

This item consists of the profit for the period of 157 million euro.

17) Minority interests

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017
Minority interests	**553**	**19**	**572**

“Minority interests” amounted to 572 million euro (553 million euro at December 31, 2016 Restated) and mainly represent the portion of capital, reserves and result pertaining to minority shareholders related to third-party shareholders of EPCG and the LGH Group.

The increase in the period of 19 million euro reflects the portions of profits and other changes due to third parties.

LIABILITIES

Non-current liabilities

18) Non-current financial liabilities

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Non-convertible bonds	2,480	301	2,781	*2,480*	*2,781*
Payables to banks	946	(39)	907	*946*	*907*
Finance lease payables	5	(2)	3	*5*	*3*
Payables to other lenders	5	-	5	*-*	*5*
Total non-current financial liabilities	**3,436**	**260**	**3,696**	***3,431***	***3,696***

"Non-current financial liabilities", which amounted to 3,696 million euro (3,436 million euro at December 31, 2016 Restated), of which 61 million euro of EPCG, increased by 260 million euro.

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

- 566 million euro, maturing in November 2019 and coupon of 4.50%, the nominal value of which is equal to 568 million euro at June 30, 2017;
- 427 million euro, maturing in January 2021 and coupon of 4.375%, the nominal value of which is equal to 430 million euro at June 30, 2017;
- 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;
- 298 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;
- 299 million euro, Private Placement maturing in March 2024 and coupon of 1.25%, the nominal value of which is equal to 300 million euro.

The increase in the non-current portion of the "Non-convertible bonds" of 301 million euro compared to December 31, 2016 Restated is due to the issue in March 2017 of the Private Placement of 300 million euro maturing in 2024.

Non-current "Payables to banks" amounted to 907 million euro, a decrease of 39 million euro compared to the previous year-end deriving mainly from the reclassification of the portions of capital maturing under the item current financial liabilities.

"Finance lease payables" amounted to 3 million euro, a decrease of 2 million euro compared to the previous year-end deriving mainly from the reclassification of the portions of capital maturing under the item current financial liabilities.

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

19) Employee benefits

At the balance sheet date, this item amounted to 348 million euro (365 million euro at December 31, 2016 Restated) with changes as follows during the period:

Millions of euro	Balance at 12 31 2016 Restated	Accruals	Utilizations	Other changes	Balance at 06 30 2017
Employee leaving entitlement (TFR)	176	14	(8)	(10)	172
Employee benefits	189	-	(5)	(8)	176
Total employee benefits	**365**	**14**	**(13)**	**(18)**	**348**

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 1 million euro and the decrease resulting from actuarial gains/losses for 9 million euro.

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

	2017	2016
Discount rate	from -0.1% to 1.5%	from 0.0% to 1.3%
Annual inflation rate	1.5%	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	2.6%	from 2.6% to 3.0%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% 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 RG48 (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 2016 Restated	Provisions	Releases	Utilizations	Other changes	Balance at 06 30 2017
Decommissioning provisions	210	-	(2)	(2)	19	225
Landfill closing and post-closing expense provisions	188	1	-	(2)	(1)	186
Tax provisions	48	1	(2)	-	-	47
Personnel lawsuits and disputes provisions	111	2	(7)	(30)	(10)	66
Other risk provisions	114	7	(5)	(5)	1	112
Provisions for risks, charges and liabilities for landfills	**671**	**11**	**(16)**	**(39)**	**9**	**636**

"Decommissioning provisions", which amounted to 225 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 period concerned releases for 2 million euro, uses for 2 million euro, to cover the expenses incurred during the reporting period and other increases for 19 million euro, which refer mainly to the effects of the update of the appraisal for the Monfalcone plant and 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 186 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 period concerned provisions of 1 million euro related to the effects of the updates of some appraisals, uses for 2 million euro, which represent the actual outlays in the period, and other changes, negative for 1 million euro, mainly relating to 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 47 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 period, for 1 million euro, were mainly related to the ICI/IMU and COSAP dispute with territorial entities as well as new tax audits opened in the period under review. Releases, for 2 million euro, mainly refer to the conclusion of some ICI/IMU disputes.

The “Personnel lawsuits and disputes provisions” amounted to 66 million euro and mainly refer to lawsuits pending with social security institutions, for 20 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 42 million euro, and with employees, for 4 million euro, to cover the liabilities that could arise from litigations in progress. Provisions for the period for 2 million euro refer to provisions relating to litigation with third parties, while releases for the period for 7 million euro mainly refer to current litigation with Social Security Institutions and with third parties. Uses for 30 million euro mainly refer to the conclusion of current litigation by the subsidiary A.S.R.A.B. S.p.A., which did not involve financial expenses for the Group. Other changes, negative for 10 million euro, mainly refer to the debt reclassification of part of the provision for litigation with Social Security Institutions that will be paid in the second half of the year.

“Other provisions”, which amounted to 112 million euro, mainly refer to provisions relating to public water derivation fees for 33 million euro, to the mobility provision for the costs arising from the corporate restructuring plan for 2 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 18 million euro, as well as other provisions for 43 million euro. Provisions for the period amounted to 7 million euro and mainly concerned the provision for public water derivation fees and provisions of EPCG. Releases for the period amounted to 5 million euro. Uses amounted to 5 million euro and mainly refer to uses of EPCG. Other changes were positive for 1 million euro.

21) Other non-current liabilities

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Other non-current liabilities	90	(5)	85	-	-
Non-current derivatives	19	(6)	13	*19*	*13*
Total other non-current liabilities	**109**	**(11)**	**98**	***19***	***13***

At June 30, 2017, this item decreased by 11 million euro compared to the balance at the end of the previous year.

"Non-current derivatives" amounted to 13 million euro and show a negative change of 6 million euro compared to the previous year-end mainly due to the change in the fair value valuation of financial instruments at period-end. "Other non-current liabilities", which showed a balance of 85 million euro, mainly refer to security deposits from customers, for 57 million euro, to liabilities pertaining to future years for 4 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 acquisitions of new investments during the previous year.

Current liabilities

22) Trade payables and other current liabilities

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Advances	3	1	4	-	-
Payables to suppliers	1,381	(358)	1,023	-	-
Total trade payables	**1,384**	**(357)**	**1,027**	**-**	**-**
Payables to social security institutions	39	10	49	-	-
Current derivatives	253	(124)	129	-	-
Other current liabilities of which:	452	3	455	-	-
- Payables to personnel	81	(10)	71	-	-
- Payables to Cassa per i Servizi Energetici e Ambientali	72	11	83	-	-
- Tax payables	58	43	101	-	-
- Payables for tax transparency	7	-	7	-	-
- Payables for energy tariff components	115	(31)	84	-	-
- Payables to third-party shareholders EPCG	20	(20)	-	-	-
- Payables to third-party shareholders LGH	5	(2)	3	-	-
- Payables for A.T.O.	6	2	8	-	-
- Payables to customers for work to be performed	12	(1)	11	-	-
- Payables to customers for interest on security deposits	3	-	3	-	-
- Payables for liabilities of competence of following years/periods	25	3	28	-	-
- Payables for auxiliary services	1	-	1	-	-
- Payables for collections to be allocated	9	-	9	-	-
- Payables to insurance companies	3	-	3	-	-
- Payables for excise compensation	6	-	6	-	-
- Payables for environmental compensation	2	1	3	-	-
- Payables for RAI fee	6	7	13	-	-
- Sundry payables	21	-	21	-	-
Total other current liabilities	**744**	**(111)**	**633**	**-**	**-**
Total trade payables and other current liabilities	**2,128**	**(468)**	**1,660**	**-**	**-**

"Trade receivables and other current liabilities" amounted to 1,660 million euro (2,128 million euro at December 31, 2016 Restated), representing a decrease of 468 million euro.

"Trade payables" amounted to 1,027 million euro and show a decrease of 357 million euro compared to the close of the previous financial year.

"Payables to social security institutions" amounted to 49 million euro (39 million euro at December 31, 2016 Restated) and relate to the Group's debt position with social security and pension institutions, related to contributions of the month of June 2017 not yet paid.

"Current derivative instruments" amounted to 129 million euro (253 million euro at December 31, 2016 Restated) and refer to the fair value valuation of commodity derivatives. The decrease is due both to the decrease in the fair value valuation of the period and to the change in the amounts covered.

"Other current liabilities" mainly refer to:

- payables to employees for 71 million euro (81 million euro at December 31, 2016 Restated), relating to payables to employees for the productivity bonus accrued during the period, as well as the expense for holidays accrued but not taken at June 30, 2017;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 83 million euro at June 30, 2017 (72 million euro at December 31, 2016 Restated) 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 period under review;
- tax liabilities for 101 million euro (58 million euro at December 31, 2016 Restated) and mainly refer to payables to the tax authorities for excise and withholding taxes;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2016 Restated;
- payables for electricity tariff components for 84 million euro at June 30, 2017 (115 million euro at December 31, 2016 Restated);
- payables for A.T.O. for 8 million euro (6 million euro at December 31, 2016 Restated) 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 11 million euro (12 million euro at December 31, 2016 Restated) refer to estimates already collected from 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 28 million euro (25 million euro at December 31, 2016 Restated) 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 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Non-convertible bonds	47	4	51	*47*	*51*
Payables to banks	303	(206)	97	*303*	*97*
Finance lease payables	2	1	3	*2*	*3*
Financial payables to related parties	2	(2)	-	*2*	*-*
Payables to other lenders	5	(2)	3	*5*	*3*
Total current financial liabilities	**359**	**(205)**	**154**	***359***	***154***

"Current financial liabilities" amounted to 154 million euro compared to 359 million euro recorded at December 31, 2016 Restated and showed a decrease of 205 million euro.

"Non-convertible bonds" showed an increase of 4 million euro mainly due to coupons accrued for interest equal to 51 million euro (47 million euro at December 31, 2016 Restated).

Current "Payables to banks" amounted to 97 million euro, a decrease of 206 million euro mainly due to the repayment of credit lines and portions of loans.

Lastly, payables to other lenders amounted to 3 million euro and showed a decrease of 2 million euro.

24) Tax liabilities

Millions of euro	Balance at 12 31 2016 Restated	Changes during the period	Balance at 06 30 2017
Tax liabilities	**33**	**68**	**101**

"Tax liabilities" amounted to 101 million euro (33 million euro at December 31, 2016 Restated) representing a net increase of 68 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 2016 Restated	Changes during the period	Balance at 06 30 2017	*of which included in the NFP*	
				12 31 2016 Restated	*06 30 2017*
Liabilities directly associated with non-current assets held for sale	7	(7)	-	*3*	-

At June 30, 2017, this item was equal to zero while at December 31, 2016 Restated, it amounted to 7 million euro and referred 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.

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	06 30 2017	12 31 2016 Restated
Bonds - non-current portion	18	2,781	2,480
Bank loans - non-current portion	18	907	946
Finance leases - non-current portion	18	5	5
Non-current amounts due to other providers of finance	18	3	5
Other non-current liabilities	21	13	19
Total medium/long-term debt		**3,709**	**3,455**
Non-current financial assets - related parties	3	(7)	(7)
Non-current financial assets	3	(50)	(48)
Financial receivables due from companies held for sale	3	-	(1)
Other non-current assets	5	-	(4)
Total medium/long-term financial receivables		**(57)**	**(60)**
Total non-current net debt		**3,652**	**3,395**
Bonds - current portion	23	51	47
Bank loans - current portion	23	97	303
Finance leases - current portion	23	3	2
Current amounts due to other providers of finance	23	3	5
Current financial liabilities - related parties	23	-	2
Financial payables in liabilities held for sale	25	-	3
Total short-term debt		**154**	**362**
Other current financial assets	9	(211)	(206)
Current financial assets - related parties	9	(3)	(10)
Financial receivables due from companies held for sale	9	-	(2)
Total short-term financial receivables		**(214)**	**(218)**
Cash and cash equivalents	11	(545)	(402)
Cash and cash equivalents included in assets held for sale	12	-	(1)
Total current net debt		**(605)**	**(259)**
Net debt		**3,047**	**3,136**

The Group's net debt includes the positive net financial position of the EPCG Group for 206 million euro (201 million euro at December 31, 2016).

Notes to the income statement

As a result of the Group's exercise of the EPCG sale put option, as further described in paragraph "Significant events after June 30, 2017" from the Half-yearly financial report at June 30, 2017, the company's assets and liabilities were measured at fair value. This resulted in a write-down of assets totalling 95 million euro, as further described in the notes "1) Tangible assets", "31) Depreciation, amortization, provisions and write-downs" and "34) Financial balance".

It is noted that the consolidation scope at June 30, 2017 changed compared to the corresponding period of the previous year due to the following operations:

- subscription by the Parent Company A2A S.p.A. of the capital increase of the company Azienda Servizi Valtrompia S.p.A.. A2A S.p.A. increased its shareholding portion from 49% to 74.8%; therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- exit from the scope of consolidation, with effect from January 1, 2017 of the company Bellisolina S.r.l.. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 recognized under the item "Non-current assets held for sale", to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A S.p.A..

In addition, the results for the first six months of the year under review incorporate the effects of the expansion of the Group's consolidation scope, which includes the LGH Group, the RI.ECO-RESMAL Group and Consul System S.p.A., acquired in the second half of 2016.

27) Revenues

Revenues for the period amounted to 2,918 million euro (2,323 million euro at June 30, 2016), of which 327 million euro related to the consolidation of companies acquired in the second half of 2016 and therefore recorded an increase of 595 million euro (+25.6%).

Details of the more significant items are as follows:

Revenues - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Revenues from the sale of goods	2,314	1,785	529	29.6%
Revenues from services	496	390	106	27.2%
Revenues from long-term contracts	-	5	(5)	(100.0%)
Total revenues from the sale of goods and services	**2,810**	**2,180**	**630**	**28.9%**
Other operating revenues	**108**	**143**	**(35)**	**(24.5%)**
Total revenues	**2,918**	**2,323**	**595**	**25.6%**

Net of the contribution from the newly acquired companies in the second half of 2016, the increase in revenues is mainly attributed to the increase in revenues from the sale of electricity and gas on the wholesale markets.

The increase in spot prices on the IPEX markets recorded in the first half-year with respect to the same period of the previous year also contributed to the higher revenues of the Group.

Further details of the main items are as follows:

Millions of euro	06 30 2017	06 30 2016	Changes	% June 2017/2016
Sale and distribution of electricity	1,381	1,118	263	23.5%
Sale and distribution of gas	663	446	217	48.7%
Sale of heat	91	87	4	4.6%
Sale of materials	24	7	17	n.s.
Sale of water	27	76	(49)	(64.5%)
Sales of environmental certificates	114	35	79	n.s.
Connection contributions	14	16	(2)	(12.5%)
Total revenues from the sale of goods	**2,314**	**1,785**	**529**	**29.6%**
Services to customers	496	390	106	27.2%
Total revenues from services	**496**	**390**	**106**	**27.2%**
Revenues from long-term contracts	**-**	**5**	**(5)**	**(100.0%)**
Total revenues from the sale of goods and services	**2,810**	**2,180**	**630**	**28.9%**
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	32	42	(10)	(23.8%)
Damage compensation	3	6	(3)	(50.0%)
Rents receivable	1	1	-	-
Contingent assets	28	11	17	n.s.
Incentives for production from renewable sources (feed-in tariff)	37	71	(34)	(47.9%)
Other revenues	7	12	(5)	(41.7%)
Other operating revenues	**108**	**143**	**(35)**	**(24.5%)**
Total revenues	**2,918**	**2,323**	**595**	**25.6%**

Revenues from water sales decreased by 49 million euro, since at June 30, 2016, the item in question included 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 for environmental certificates (green certificates and white certificates) increased by 79 million euro compared to June 30, 2016, also thanks to the contribution of companies acquired in the second half of 2016.

“Revenues from services” increased by 106 million euro, mainly as a result of revenues regarding companies acquired in the second half of 2016.

The item “Other operating revenues” decreased by 35 million euro mainly due to the recognition, at June 30, 2017, of lower revenues from incentives on net production from renewable sources due to the end of the incentive period, starting from July 1, 2016, of some plants of the Valtellina hydroelectric plant.

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" amounted to 1,922 million euro (1,398 million euro at June 30, 2016), of which 240 million euro related to the consolidation of companies acquired in the second half of 2016 and therefore recorded an increase of 524 million euro.

The main components of this item are as follows:

Operating expenses - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Expences for raw materials and consumables	1,343	943	400	42.4%
Services costs	431	346	85	24.6%
Total expenses for raw materials and services	**1,774**	**1,289**	**485**	**37.6%**
Other operating expenses	**148**	**109**	**39**	**35.8%**
Total operating expenses	**1,922**	**1,398**	**524**	**37.5%**

"Costs for raw materials and services" amounted to 1,774 million euro (1,289 million euro at June 30, 2016), of which 219 million euro related to the consolidation of companies acquired in the second half of 2016 and recorded an increase of 485 million euro.

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

- the increase of 436 million euro in the purchase of raw materials and consumables, due to the increase of 403 million euro in costs for the purchase of power and fuel, the increase of 8 million euro for the purchase of materials and the increase of 25 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 decrease in inventories of fuel and materials for 36 million euro.

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

Millions of euro	06 30 2017	06 30 2016	Changes	% June 2017/2016
Purchases of power and fuel	1,249	846	403	47.6%
Purchases of materials	45	37	8	21.6%
Purchases of water	1	1	-	-
Hedging losses on operating derivatives	4	2	2	100.0%
Hedging gains on operating derivatives	(6)	(4)	(2)	50.0%
Purchases of emission certificates and allowances	61	36	25	69.4%
Total expenses for raw materials and consumables	**1,354**	**918**	**436**	**47.5%**
Delivery and transmission costs	190	141	49	34.8%
Maintenance and repairs	78	73	5	6.8%
Other services	163	132	31	23.5%
Total service costs	**431**	**346**	**85**	**24.6%**
Change in inventories of fuel and materials	**(11)**	**25**	**(36)**	**n.s.**
Total costs for raw materials and services	**1,774**	**1,289**	**485**	**37.6%**
Leasehold improvements	59	42	17	40.5%
Concession fees distribution networks Municipality of Milan and Brescia	5	4	1	25.0%
Water derivation concession fees	32	26	6	23.1%
Contributions to territorial entities, consortia and AEEGSI	5	3	2	66.7%
Taxes and duties	19	15	4	26.7%
Damages and penalties	1	1	-	-
Contingent liabilities	13	4	9	n.s.
Other costs	14	14	-	-
Other operating expenses	**148**	**109**	**39**	**35.8%**
Total operating expenses	**1,922**	**1,398**	**524**	**37.5%**

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	06 30 2017	06 30 2016	Changes
Revenues	27	774	504	270
Operating expenses	28	(773)	(507)	(266)
Total trading margin		**1**	**(3)**	**4**

The “Trading margin” was up by 4 million euro compared to June 30, 2016. This dynamic has been affected by the good performance of certain activities such as statistical arbitrage, delta hedging, listing and proprietary trading, which have allowed almost entirely offsetting the losses due to the depreciation of foreign interconnection capacity, leading to an almost equitable result in the first half of the current year.

29) Labour costs

Excluding capitalized costs, labour costs at June 30, 2017 totalled 347 million euro (311 million euro at June 30, 2016), of which 37 million euro related to the consolidation of the companies acquired in the second half of 2016.

“Labour costs” may be analyzed as follows:

Labour costs - *Millions of euro*	06 30 2017	06 30 2016	Changes	% June 2017/2016
Wages and salaries	253	224	29	12.9%
Social security charges	90	81	9	11.1%
Employee leaving entitlement (TFR)	14	12	2	16.7%
Other costs	13	14	(1)	(7.1%)
Total labour costs before capitalizations	**370**	**331**	**39**	**11.8%**
Capitalized labour costs	(23)	(20)	(3)	15.0%
Total labour costs	**347**	**311**	**36**	**11.6%**

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

	06 30 2017	12 31 2016	06 30 2016	Changes June 2017 December 2016	Changes June 2017 June 2016
Managers	230	208	181	22	49
Supervisors	665	618	561	47	104
White-collar workers	5,747	5,770	5,245	(23)	502
Blue-collar workers	6,851	6,842	6,068	9	783
Total	**13,493**	**13,438**	**12,055**	**55**	**1,438**

At June 30, 2017, the average labour cost per capita, not considering the effects of the companies acquired in the second half of 2016, amounted to 25.5 thousand euro (25.8 thousand euro at June 30, 2016).

At June 30, 2017, the Group had 13,616 employees (of whom 2,322 work for the EPCG Group), of whom 1,336 related to the consolidation of the newly acquired companies. At June 30, 2016, the Group had 12,199 employees (of whom 2,346 work for the EPCG Group).

The item "Other labour costs" includes early retirement incentives for 1 million euro (1 million euro at June 30, 2016).

30) Gross operating income

As a result of the above movements, consolidated "Gross operating income" at June 30, 2017 amounted to 649 million euro (614 million euro at June 30, 2016), of which 50 million euro arising from the consolidation of the companies acquired in the second half of 2016.

Further details may be found in the paragraph "Results sector by sector".

31) Depreciation, amortization, provisions and write-downs

"Depreciation, amortization, provisions and write-downs" totalled 280 million euro (234 million euro at June 30, 2016), of which 26 million euro related to the consolidation of the companies acquired in the second half of 2016 (24 million euro of depreciation and amortization, 4 million euro of bad debts provision and -2 million euro of provisions for risks), representing an increase of 46 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Amortization of intangible assets	34	24	10	41.7%
Depreciation of tangible assets	175	173	2	1.2%
Net write-downs of fixed assets	60	1	59	n.s.
Total amortization, depreciation and write-downs	**269**	**198**	**71**	**35.9%**
Provisions for risks	(5)	29	(34)	n.s.
Bad debt provision on receivables recognized as current assets	16	7	9	n.s.
Total depreciation, amortization, provisions and write-downs	**280**	**234**	**46**	**19.7%**

"Depreciation, amortization and write-downs" amounted to 269 million euro (198 million euro at June 30, 2016), of which 24 million euro related to the consolidation of companies acquired in the second half of 2016 and recorded an overall increase of 71 million euro.

Amortization of intangible assets amounted to 34 million euro (24 million euro at June 30, 2016). The item recorded higher amortization of 10 million euro, of which 8 million euro relating to the consolidation of the companies acquired in the second half of 2016 and 2 million euro for the implementation of information systems.

Depreciation of tangible assets show an increase of 2 million euro compared to June 30, 2016 and includes:

- higher depreciation resulting from the consolidation of the companies acquired in the second half of 2016 for 16 million euro;
- higher depreciation of 4 million euro, mainly relating to the investments which went into production after December 31, 2016;
- lower depreciation of 12 million euro, resulting in write-downs of assets at December 31, 2016;
- lower depreciation of 6 million euro, resulting in the extension of the residual useful life of the San Filippo del Mela plant, related to the stipulation of a contract under must-run regime with Terna.

As a result of the Group's exercise of the EPCG sale put option, the company's assets and liabilities were measured at fair value. This resulted in asset write-downs totalling 60 million euro. The determination of the fair value of assets and liabilities resulted in a write-down of assets totalling 95 million euro, of which 35 million euro as a result of the discounting of the net assets that the A2A Group will receive in 7 years as of May 2018 and that were consequently recognized as financial expenses as described in paragraph "34) Financial balance".

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” shows a net effect of -5 million euro (29 million euro at June 30, 2016) due to allocations of 11 million euro made during the period, offset by the surpluses of 16 million euro of risk since the original disputes have ceased to exist.

Provisions for the period concerned 3 million euro provisions for hydroelectric fees, 3 million euro for other risks provisions relating to EPCG, 2 million euro provisions for funds for personnel lawsuits and disputes, 1 million euro provisions for tax funds, 1 million euro for expenses funds for closure and post-closure of landfills and 1 million euro for various provisions. Surpluses of risks provisions amounted to 16 million euro.

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

The “Bad debts provision” amounted to 16 million euro (7 million euro at June 30, 2016), consisting of the accrual for the period, of which 8 million euro relating to a single distribution client.

32) Net operating income

“Net operating income” amounted to 369 million euro (380 million euro at June 30, 2016).

33) Result from non-recurring transactions

The “Result from non-recurring transactions” was positive for 1 million euro. At June 30, 2016, it was positive for 52 million euro and was related to the demerger of the “Cellina Unit” of Edipower S.p.A. in favour of Cellina Energy S.r.l., effective January 1, 2016 following the demerger deed stipulated between the parties on December 28, 2015.

34) Financial balance

The “Financial balance” shows a negative balance of 92 million euro (negative for 59 million euro at June 30, 2016), of which 11 million euro resulting from the consolidation of the companies acquired in the second half of 2016.

Details of the more significant items are as follows:

Financial balance - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Financial income	9	12	(3)	(25.0%)
Financial expenses	(105)	(75)	(30)	40.0%
Affiliates	4	4	-	-
Total financial balance	**(92)**	**(59)**	**(33)**	**55.9%**

"Financial income" amounted to 9 million euro (12 million euro at June 30, 2016), of which 1 million euro from the consolidation of the newly acquired companies, and the breakdown is as follows:

Financial income - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Bank income	3	4	(1)	(25.0%)
Other financial income of which:	6	8	(2)	(25.0%)
- Financial income from the Municipality of Brescia (IFRIC 12)	*3*	*3*	-	-
- Foreign exchange gains	*1*	*1*	-	-
- Other income	*2*	*4*	*(2)*	*(50.0%)*
Total financial income	**9**	**12**	**(3)**	**(25.0%)**

"Financial expenses", which amounted to 105 million euro, of which 12 million euro from the consolidation of the companies acquired in the second half of 2016, increased by 30 million euro over June 30, 2016, and may be analyzed as follows:

Financial expenses - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**	**% June 2017/2016**
Interest on bond loans	51	61	(10)	(16.4%)
Interest charged by banks	5	4	1	25.0%
Fair value of financial derivatives	-	(3)	3	(100.0%)
Realized on financial derivatives	5	6	(1)	(16.7%)
Decommissioning costs	1	1	-	-
Other financial expenses of which:	43	6	37	*n.s.*
- Discounting charges	*37*	*3*	*34*	*n.s.*
- Financial expenses (IFRIC 12)	*2*	*2*	-	-
- Foreign exchange losses	*1*	-	*1*	*n.s.*
- Other expenses	*3*	*1*	*2*	*n.s.*
Total financial expenses before capitalizations	**105**	**75**	**30**	**40.0%**
Capitalized financial expenses	-	-		
Total financial expenses	**105**	**75**	**30**	**40.0%**

As a result of the Group's exercise of the EPCG sale put option, the company's assets and liabilities were measured at fair value. This led to the recognition of discounting charges for 35 million euro as a result of the discounting of the net assets that the A2A Group will collect in 7 years starting from May 2018.

Discounting was made using the rates corresponding to Montenegrin government bonds contracted in euro with similar maturities.

The equity method valuation of shareholdings was positive for 4 million euro (positive for 4 million euro at June 30, 2016), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

35) Income taxes

Income taxes - *Millions of euro*	**06 30 2017**	**06 30 2016**	**Changes**
Current IRES	56	69	(13)
Current IRAP	20	13	7
Effect of differences - taxes of previous years	-	2	(2)
Total current taxes	**76**	**84**	**(8)**
Deferred tax assets	56	48	8
Deferred tax liabilities	(13)	(26)	13
Total losses/gains for income taxes	**119**	**106**	**13**

"Income taxes" in the period in question equalled 119 million euro (106 million euro at June 30, 2016).

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).

36) Net result from discontinued operations

The "Net result from discontinued operations" was 1 million euro (no value at June 30, 2016) and is related to the gain on the sale of the company Bellisolina S.r.l..

37) Result of minorities

The “Result of minorities” is negative for the Group for 3 million euro and mainly includes the portion attributable to minority interests of the LGH Group. In the corresponding period of the previous year, the item showed a negative balance for the Group for 13 million euro.

38) Group result of the period

The “Group result of the period” was positive for 157 million euro (positive for 254 million euro at June 30, 2016).

Earnings per share

39) Earnings per share

	01 01 2017 06 30 2017	01 01 2016 06 30 2016
Earnings (loss) per share (in euro)		
- basic	0.0504	0.0825
- basic from continuing operations	0.0500	0.0824
- basic from assets held for sale	0.0004	-
- diluted	0.0504	0.0825
- diluted from continuing operations	0.0500	0.0824
- diluted from assets held for sale	0.0004	-
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,095,458,548
- diluted	3,109,183,856	3,095,458,548

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 12, 2017, Amsa S.p.A., a subsidiary of A2A S.p.A., signed a contract with the Municipality of Milan for the management of environmental protection services for the period January 1, 2017 - February 8, 2021.

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 06 30 2017	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:	**10,004**	**61**	**29**	**76**	**3**	**18**	**1**	**-**	**188**	**1.9%**
Non-current assets	*7,127*	*53*	*13*	-	-	*4*	-	-	*70*	*1.0%*
Shareholdings	63	53	10	-	-	-	-	-	63	100.0%
Other non-current financial assets	70	-	3	-	-	4	-	-	7	10.0%
Current assets	*2,876*	*8*	*16*	*76*	*3*	*14*	*1*	-	*118*	*4.1%*
Trade receivables	1,488	8	13	76	3	14	1	-	115	7.7%
Other current assets	390	-	-	-	-	-	-	-	-	-
Current financial assets	214	-	3	-	-	-	-	-	3	1.4%
TOTAL LIABILITIES OF WHICH:	**6,693**	**21**	**4**	**5**	**-**	**8**	**-**	**-**	**38**	**0.6%**
Non-current liabilities	*4,778*	*1*	*1*	-	-	-	-	-	*2*	*0.0%*
Provisions for risks and charges	636	1	1	-	-	-	-	-	2	0.3%
Current liabilities	*1,915*	*20*	*3*	*5*	-	*8*	-	-	*36*	*1.9%*
Trade payables	1,027	13	3	5	-	8	-	-	29	2.8%
Other current liabilities	633	7	-	-	-	-	-	-	7	1.1%
Current financial liabilities	154	-	-	-	-	-	-	-	-	-

Income statement *Millions of euro*	Total 06 30 2017	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	**2,918**	**1**	**22**	**161**	**3**	**16**	**1**	**-**	**204**	**7.0%**
Revenues from the sale of goods and services	2,810	1	22	160	3	16	1	-	203	7.2%
Other operating revenues	108	-	-	1	-	-	-	-	1	0.9%
OPERATING EXPENSES	**1,922**	**29**	**1**	**1**	**2**	**5**	**-**	**-**	**38**	**2.0%**
Expenses for raw materials and services	1,774	17	1	-	2	-	-	-	20	1.1%
Other operating expenses	148	12	-	1	-	5	-	-	18	12.2%
LABOUR COSTS	**347**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**0.3%**
AMORTIZATION, DEPRECIATION, PROVISIONS AND WRITE-DOWNS	**280**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
FINANCIAL BALANCE	**(92)**	**4**	**-**	**-**	**-**	**3**	**-**	**-**	**7**	**(7.6%)**
Financial expenses	105	-	-	-	-	-	-	-	-	-
Financial income	9	-	-	-	-	3	-	-	3	33.3%
Affiliates	4	4	-	-	-	-	-	-	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.

* * *

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.

Significant non-recurring events and transactions

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

At the date of the Half-yearly financial report at June 30, 2017, the A2A Group completed the Purchase Price Allocation (hereinafter “PPA”) following the acquisition of 51% of the LGH Group. As a result of the completion of the PPA (at the acquisition date), the Group restated the figures at December 31, 2016. For further details of the transaction and the consequent financial and economic effects on the figures restated at December 31, 2016, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph “Other Information” of this Half-yearly financial report.

As a result of the Group’s exercise of the EPCG sale put option, from the Half-yearly financial report at June 30, 2017, the company’s assets and liabilities were measured at fair value. This resulted in a write-down of assets totalling 95 million euro, as further described in the Notes “1) Tangible assets”, “31) Depreciation, amortization, provisions and write-downs” and “34) Financial balance”.

Guarantees and commitments with third parties

Millions of euro	06 30 2017	12 31 2016
Guarantees received	639	654
Guarantees provided	1,141	1,113

Guarantees received

Guarantees received amounted to 639 million euro (654 million euro at December 31, 2016) and include 260 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 379 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 1,141 million euro (1,113 million euro at December 31, 2016), of which for obligations undertaken in the loan agreements of 267 million euro. These guarantees have been issued by banks for 587 million euro, insurance companies for 156 million euro and the parent company A2A S.p.A., as parent company guarantee, for 398 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 June 30, 2017

Reference should be made to the specific section of this Half-yearly financial report for a description of subsequent events.

2) Information on treasury shares

At June 30, 2017, A2A S.p.A. held 23,721,421 treasury shares (26,917,609 at December 31, 2015), equal to 0.757% of the share capital consisting of 3,132,905,277 shares, unchanged compared to December 31, 2016.

At June 30, 2017, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

In 2016, the A2A Group finalized the following acquisitions of shareholdings, which fall within the scope of IFRS 3, for which at December 31, 2016, the Purchase Price Allocation had not yet been concluded:

- 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 within twelve months from acquisition. 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).

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 4, 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 included 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, paid up to a maximum of 13.9 million euro included in the provisional acquisition value of LGH S.p.A. of 112.8 million euro recorded at December 31, 2016 and regulated by specific and well-identified earn-out clauses.

On June 30, 2017 was the completion of the final allocation of the price paid by A2A S.p.A. at fair value of assets and liabilities for the purchase of 51% LGH Group (Purchase Price Allocation – PPA).

The purpose of the PPA process is to allocate, at the acquisition date, the cost of the business combination to the assets, liabilities and contingent liabilities of the acquiring company.

The valuation, carried out by an independent expert, is based on projections of the economic and financial plans and the assumption of realization of such plans.

For the purpose of accounting the results of the Purchase Price Allocation process, the acquisition method was used with the recognition of full goodwill.

In order to identify the assets and liabilities involved in the transaction, the criteria for identifying tangible and intangible assets provided for respectively in IAS 38 and IAS 16, as well as IFRS 13 that provides the definition of fair value of an asset as the price for the sale of an asset or payable for the transfer of a liability in a regular transaction in the main market at the valuation date, at current market conditions, irrespective of whether said price is directly observable or is estimated using another market technique.

Assets and liabilities identified following compliance with the above criteria, were valued using methods that correlate the capital value of the asset to the ability to generate cash flows for the remuneration of third-party lenders and shareholders.

Operating assets were valued using:

i) income method (defined useful life of assets);
ii) Unlevered Discounted Cash Flow, used for waste-to-energy plants and landfills, which is based on future cash flows, discount rate (WACC) and useful life;
iii) market value.

Non-operating assets (land and buildings) were valued at market value (cadastral records of assets valued); lastly, customer lists were evaluated through the Multi Period Excess Earnings Method (MPEE), residual method based on the principle that since the entire income of the acquired company must be allocated to the assets identified in the PPA, the income attributable to the dominant strategic asset (the customer network) can be obtained by difference, deducting from the total income the ordinary remuneration of all other tangible and intangible assets.

The completion of the Purchase Price Allocation changed the acquisition value (at December 31, 2016, amounting to 112.8 million euro), recording a negative adjustment to the earn-in clauses of 0.5 million euro and a further negative adjustment to the earn out clauses of 3.4 million euro; defining the new acquisition price of 108.9 million euro. In the PPA, the value of shareholders' equity of LGH pertaining to minorities was also set at 86 million euro.

The Purchase Price Allocation process resulted in the reallocation of goodwill recorded for the LGH Group at the acquisition date and related deferred taxes for a net amount of 87 million euro, resulting in adjusted equity of 109.2 million euro.

The difference between the total theoretical purchase price, using the full goodwill of 194.9 million euro and equity net of goodwill eliminated resulted in a difference of 85.7 million euro to be reallocated, which was restated as shown below:

a) revaluation of tangible and intangible assets for 83.2 million euro (net of the portions due to third-party shareholders);
b) reduction of financial assets for 0.6 million euro;
c) reduction of net working capital for 2.5 million euro;
d) reduction of provisions for 2.1 million euro (net of the portions due to third-party shareholders);
e) reduction of deferred tax liabilities for 22.5 million euro (net of the portions due to third-party shareholders).

Lastly, residual goodwill of 30 million euro was recognized.

Below is an analytical statement of the effects of the PPA and the restatement of the Balance Sheet and Income Statement figures of the LGH Group at December 31, 2016.

Millions of euro	
Price paid	89.8
Earn-in Earn-out price Adj (NFP Adj)	22.9
Price at closing	**112.8**
Earn-in Adj	(0.5)
Earn-out Adj	(3.4)
Total price Adj	**108.9**
Fair value Minority interests	86.0
Price due for 100%	**194.9**
PPA Allocation	
Price at 100%	194.9
Equity net Goodwill	109.2
Difference to be allocated	**85.7**
Adjustment tangible assets (*)	27.4
Adjustment intangible assets (*)	55.8
Adjustment financial assets	(0.6)
Adjustment NWC	(2.5)
Adjustment provisions (*)	(2.1)
Greater value allocated	**78.0**
Net deferred taxes	22.5
Total	**55.5**
Goodwill	30.0

(*) net of the portions of third-party shareholders

LGH - Balance sheet Post Purchase Price Allocation *Millions of euro*	**12 31 2016**	**PPA Adjustments**	**12 31 2016 Restated**
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	342	49	391
Intangible assets	200	37	237
Goodwill	74	(44)	30
Shareholdings carried according to equity method	3	-	3
Other non-current financial assets	18	-	18
Deferred tax assets	35	-	35
Other non-current assets	3	-	3
TOTAL NON-CURRENT ASSETS	**676**	**42**	**718**
CURRENT ASSETS			
Inventories	20	-	20
Trade receivables	181	-	181
Other current assets	14	-	14
Current financial assets	55	-	55
Current tax assets	5	-	5
Cash and cash equivalents	26	-	26
TOTAL CURRENT ASSETS	**300**	**-**	**300**
NON-CURRENT ASSETS HELD FOR SALE	**1**	**-**	**1**
TOTAL ASSETS	**978**	**42**	**1,020**

LGH - Balance sheet Post Purchase Price Allocation *Millions of euro*	**12 31 2016**	**PPA Adjustments**	**12 31 2016 Restated**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	189	-	189
Reserves	4	-	4
Result of the year	(15)	15	-
Equity pertaining to the Group	**178**	**15**	**193**
Minority interests	32	2	34
Total equity	**210**	**17**	**227**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	410	-	410
Deferred tax liabilities	21	22	43
Employee benefits	19	-	19
Provisions for risks, charges and liabilities for landfills	76	3	79
Other non-current liabilities	15	-	15
Total non-current liabilities	**541**	**25**	**566**
CURRENT LIABILITIES			
Trade payables	141	-	141
Other current liabilities	47	-	47
Current financial liabilities	35	-	35
Tax liabilities	2	-	2
Total current liabilities	**225**	**-**	**225**
Total liabilities	**766**	**25**	**791**
LIABILITIES DIRECTLY ASSOCIATED TO NON-CURRENT ASSETS HELD FOR SALE	**2**	**-**	**2**
TOTAL EQUITY AND LIABILITIES	**978**	**42**	**1,020**

LGH - Income statement Post *Purchase Price Allocation* *Millions of euro*	01 01 2016 12 31 2016	PPA Adjustments	01 01 2016 12 31 2016 Restated
Revenues			
Revenues from the sale of goods and services	193	-	193
Other operating revenues	5	-	5
Total revenues	**198**	**-**	**198**
Operating expenses			
Expenses for raw materials and services	131	-	131
Other operating costs	12	-	12
Total operating expenses	**143**	**-**	**143**
Labour costs	**24**	**-**	**24**
Gross operating income - EBITDA	**32**	**-**	**32**
Depreciation, amortization, provisions and write-downs	**41**	**(17)**	**24**
Net operating income - EBIT	**(9)**	**17**	**8**
Result from non-recurring transactions	**-**	**-**	**-**
Financial balance			
Financial income	1	-	1
Financial expenses	10	-	10
Affiliates	1	(1)	-
Result from disposal of other shareholdings (AFS)	-	-	-
Total financial balance	**(10)**	**(1)**	**(11)**
Result before taxes	**(20)**	**18**	**(2)**
Income taxes	**(1)**	**3**	**2**
Result after taxes from operating activities	**(19)**	**15**	**(4)**
Net result from discontinued operations	**2**	**-**	**2**
Net result	**(16)**	**15**	**(2)**
Minorities	**1**	**-**	**1**
Group result of the year	**(15)**	**15**	**-**

As a result of the above changes, the following is a comparison of the Statement of Financial Position and the Consolidated Income Statement published at December 31, 2016 and the figures restated at the same date.

Consolidated balance sheet *Millions of euro*	12 31 2016 Published	PPA Effects	12 31 2016 Restated
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	5,080	49	5,129
Intangible assets	1,724	(20)	1,704
Shareholdings carried according to equity method	67	-	67
Other non-current financial assets	69	-	69
Deferred tax assets	363	(22)	341
Other non-current assets	12	-	12
TOTAL NON-CURRENT ASSETS	**7,315**	**7**	**7,322**
CURRENT ASSETS			
Inventories	159	-	159
Trade receivables	1,821	-	1,821
Other current assets	388	1	389
Current financial assets	218	-	218
Current tax assets	70	-	70
Cash and cash equivalents	402	-	402
TOTAL CURRENT ASSETS	**3,058**	**1**	**3,059**
NON-CURRENT ASSETS HELD FOR SALE	**6**	-	**6**
TOTAL ASSETS	**10,379**	**8**	**10,387**

Consolidated balance sheet *Millions of euro*	12 31 2016 Published	PPA Effects	12 31 2016 Restated
EQUITY AND LIABILITIES			
EQUITY			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	918	1	919
Group net result of the year	224	8	232
Equity pertaining to the Group	**2,717**	**9**	**2,726**
Minority interests	554	(1)	553
TOTAL EQUITY	**3,271**	**8**	**3,279**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	3,436	-	3,436
Employee benefits	365	-	365
Provisions for risks, charges and liabilities for landfills	668	3	671
Other non-current liabilities	112	(3)	109
Total non-current liabilities	**4,581**	**-**	**4,581**
CURRENT LIABILITIES			
Trade payables	1,384	-	1,384
Other current liabilities	744	-	744
Current financial liabilities	359	-	359
Tax liabilities	33	-	33
Total current liabilities	**2,520**	**-**	**2,520**
Total liabilities	**7,101**	**-**	**7,101**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**7**	**-**	**7**
TOTAL EQUITY AND LIABILITIES	**10,379**	**8**	**10,387**

Consolidated income statement *Millions of euro*	01 01 2016 12 31 2016 Published	PPA Effects	01 01 2016 12 31 2016 Restated
Revenues			
Revenues from the sale of goods and services	4,813	-	4,813
Other operating revenues	280	-	280
Total revenues	**5,093**	**-**	**5,093**
Operating expenses			
Expenses for raw materials and services	2,968	-	2,968
Other operating costs	253	-	253
Total operating expenses	**3,221**	**-**	**3,221**
Labour costs	**641**	**-**	**641**
Gross operating income - EBITDA	**1,231**	**-**	**1,231**
Depreciation, amortization, provisions and write-downs	**775**	**(17)**	**758**
Net operating income - EBIT	**456**	**17**	**473**
Result from non-recurring transactions	**56**	**-**	**56**
Financial balance			
Financial income	40	-	40
Financial expenses	194	-	194
Affiliates	(4)	1	(3)
Result from disposal of other shareholdings (AFS)	-	-	-
Total financial balance	**(158)**	**1**	**(157)**
Result before taxes	**354**	**18**	**372**
Income taxes	**117**	**3**	**120**
Result after taxes from operating activities	**237**	**15**	**252**
Net result from discontinued operations	**2**	**-**	**2**
Net result	**239**	**15**	**254**
Minorities	**(15)**	**(7)**	**(22)**
Group result of the year	**224**	**8**	**232**

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 S.p.A. 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..

As mentioned in the note "Scope of consolidation", the purchase price allocation process related to Consul System S.p.A. will be completed within the timeline provided by IFRS 3. Consequently, following the completion of the purchase price allocation process and the possible allocation of values provisionally allocated to goodwill, the Group will restate in the annual financial statements at December 31, 2017, the figures for the financial statements at December 31, 2016, with reference to both the Balance Sheet and the Income Statement, including any adjustments to the amount of the impairment recorded in accordance with IFRS 3.

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 June 30, 2017 refer to assets held for sale of the EPCG Group. While at December 31, 2016, they included the reclassification of assets owned by Bellisolina S.r.l. sold in early 2017, in compliance with a provision of the Competition and Market Protection Authority, following the acquisition of 51% of the share capital of the LGH Group by A2A S.p.A., of the assets held for sale of the EPCG Group, and of the assets and liabilities held for sale of the LGH Group related to the municipal sanitation business segment of the Lodi area.

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 June 30, 2017 *Millions of euro* ASSETS AND LIABILITIES HELD FOR SALE	EPCG Group
Non-current assets	1
Current assets	-
Total assets	**1**
Non-current liabilities	-
Current liabilities	-
Total liabilities	**-**

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, 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, the Board of Directors of A2A S.p.A. sets the Group's commodity risk limits approving the PaR and VaR proposed (prepared in the Risk Committee) in conjunction with approval of the Budget/Business Plan; Group 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, if exceeded.

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 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 June 30, 2017 was 2.7 million euro (8.1 million euro at December 31, 2016).

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 June 30, 2017 was -0.1 million euro (-0.2 million euro at December 31, 2016).

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 June 30, 2017 was 3.5 million euro (4.8 million euro at December 31, 2016).

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 June 30, 2017 was 9.623 million euro (10.851 million euro at December 31, 2016).

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

Millions of euro	06 30 2017		12 31 2016	
Profit at Risk (PaR)	***Worst case***	***Best case***	***Worst case***	***Best case***
Confidence level 99%	**(9.623)**	**11.544**	**(10.851)**	**13.759**

This means that with a 99% probability the A2A Group expects not to have changes in fair value exceeding 9.623 million euro in the fair value of its entire portfolio of financial instruments at June 30, 2017 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 3 days 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 3 days, the maximum estimated loss on the derivatives in question was 0.239 million euro at June 30, 2017 (3.108 million at December 31, 2016). 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	06 30 2017		12 31 2016 Restated	
Value at Risk (VaR)	***VaR***	***Stop loss***	***VaR***	***Stop loss***
Confidence level 99%, holding period 3 days	**(0.239)**	**(0.722)**	**(3.108)**	**(13.215)**

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 June 30, 2017, the structure of gross debt is as follows:

Millions of euro	06 30 2017			12 31 2016		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	2,933	3,079	80%	2,643	2,800	74%
Floating rate	917	771	20%	1,152	995	26%
	3,850	**3,850**		**3,795**	**3,795**	

(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 June 30, 2017, the following are the hedging instruments for interest rate risk:

Millions of euro

Hedging instrument	**Hedged asset**	**at 06 30 2017**		**at 12 31 2016**	
		Fair value	**Notional**	**Fair value**	**Notional**
IRS+Collar	Fixed rate loan	-	-	-	-
IRS	Floating rate loan	(1.2)	21.7	(4.6)	60.7
Collar	Floating rate loan	(12.3)	123.8	(14.8)	133.3
Total		**(13.5)**	**145.5**	**(19.4)**	**194.0**

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

Accounting treatment	Derivatives	Notional		Fair Value assets		Notional		Fair Value liabilities	
		at 06/30/2017	at 12/31/2016	at 06/30/2017	at 12/31/2016	at 06/30/2017	at 12/31/2016	at 06/30/2017	at 12/31/2016
Cash flow hedge	Collar	-	-	-	-	123.8	133.3	(12.3)	(14.8)
Cash flow hedge	IRS	-	-	-	-	21.7	60.7	(1.2)	(4.6)
Total				**-**	**-**			**(13.5)**	**(19.4)**

Derivatives on interest rates at June 30, 2017 refer to the following loans:

Loan	**Derivatives**	**Accounting**
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at June 30, 2017 amounting to 123.8 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 June 30, 2017, the fair value was negative for 12.3 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Energia loan with Unicredit: maturity May 2021, residual balance at June 30, 2017 amounting to 19.9 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At June 30, 2017, the fair value was negative for 0.9 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 June 30, 2017 amounting to 4.2 million euro, at floating rate.	IRS on 43% of the amount of the loan until maturity thereof. At June 30, 2017, 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 provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected annually at December 31, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations.

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	06 30 2017 (*base case*: -13.5)		12 31 2016 (*base case*: -19.4)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(2.5)	2.4	(3.6)	3.3

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 June 30, 2017, the following are the hedging instruments for exchange rate risk:

Hedging instrument	Hedged asset	06 30 2017		12 31 2016	
		Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	0.3	98.0	3.9	98.0
Currency Forward	Future purchases in foreign currency	-	-	0.1	0.8
Total		**0.3**	**98.0**	**4.0**	**98.8**

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 June 30, 2017, the fair value of the hedge was positive for 0.3 million euro. This fair value would improve by 19.1 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 15.7 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 06 30 2017	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				06 30 2019	06 30 2020	06 30 2021	06 30 2022	After
Bonds	2,832	51	2,781	298	566	427	497	993
Finance lease payables	6	3	3	1	1	1	-	-
Financial payables to related parties	-	-	-	-	-	-	-	-
Bank loans	1,012	100	912	93	150	92	92	485
TOTAL	**3,850**	**154**	**3,696**	**392**	**717**	**520**	**589**	**1,478**

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.

06 30 2017 *Millions of euro*	1-3 months	4-12 months	After 12 months
Bonds	2	93	3,203
Payables and other financial liabilities	6	102	981
Total financial flows	**8**	**195**	**4,184**
Payables to suppliers	370	68	13
Total trade payables	**370**	**68**	**13**

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**

At June 30, 2017, the Group had a total of 1,177 million euro, as follows: (i) revolving committed credit lines for 600 million euro maturing in 2019, unused; (ii) unused long-term financing for a total of 32 million euro; (iii) cash and cash equivalents totalling 545 million euro, 439 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 1602 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 June 30, 2017 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 June 30 equal to 2,832 million euro), loans (book value at June 30 equal to 910 million euro) and revolving committed bank lines 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) 2,427 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) 305 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. 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 795 million euro, excluding EPCG, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), of which 671 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 7 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 A2A gencogas S.p.A. for a book value of 34 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 47 million euro, and two loans with International Development Association-World Bank (SDR) for a total book value of 3 million euro, which provide for financial covenants.

The loan of 20 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 2017 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 1.90.

Therefore, at June 30, 2017, the total book value of loans that contain financial covenants amounts to 104 million euro.

With reference to the revolving committed bank lines available, the line for 600 million euro maturing November 2019 includes 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 June 30, 2017, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Financial covenants at June 30, 2017

Company	Bank	Level of reference	Level recognized	Date of recognition
A2A	Pool RCF	NFP/Ebitda <=4.0	2.4	06/30/2017
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	2.93	06/30/2017
Linea Energia	Unicredit	Residual debt/Equity < 1.90	1.1	06/30/2017

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 June 30, 2017

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	Balance sheet value (b)	Progressive effect to income statement at 06 30 2017 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IAS 39		24		93	28	(13)	
- not considered hedges as per IAS 39							
Total derivatives on interest rates	**-**	**24**	**-**	**93**	**28**	**(13)**	**-**
Exchange rate risk management							
- considered hedges as per IAS 39 on commercial transactions on financial transactions					98		
- not considered hedges as per IAS 39 on commercial transactions on financial transactions							
Total exchange rate derivatives	**-**	**-**	**-**	**-**	**98**	**-**	**-**

(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:						**2.7**	**-**
- Electricity	TWh	54.4	1.7			1.8	
- Oil	Bbl						
- Coal	Tons	9.7	146,000			0.4	
- Natural Gas	TWh						
- Natural Gas	Millions of cubic metres	5.5	26.6			(0.2)	
- Exchange rate	Millions of dollars						
- CO_2 Emission rights	Tons	14.5	3,011,000			0.7	
B. Considered fair value hedges as per IAS 39						**-**	**-**
C. Not considered hedges as per IAS 39 of which:						**3.5**	**(1.1)**
C.1 Hedge margin						**(0.1)**	**0.2**
- Electricity	TWh	0.5	0.3				
- Oil	Bbl						
- Natural Gas	MWh						
- Natural Gas	Millions of cubic metres						
- CO_2 Emission rights	Tons	0.5	120,000			(0.1)	0.2
- Exchange rate	Millions of dollars						
C.2 Trading transactions						**3.6**	**(1.3)**
- Electricity	TWh	1,747.6	48.2	6.9	0.2	2.5	(1.8)
- Natural Gas	TWh	549.3	31.0	1.6		1.1	0.5
- CO_2 Emission rights	Tons	0.9	180,000				
- Environmental Certificates	MWh						
- Environmental Certificates	Tep						
Total						**6.2**	**(1.1)**

(*) 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 June 30, 2017

The following table shows the balance sheet figures at June 30, 2017, for derivative transactions.

Effects on the balance sheet

Millions of euro	Notes	
ASSETS		
NON-CURRENT ASSETS		**-**
Other non-current assets - Derivatives	5	-
CURRENT ASSETS		**135**
Other current assets - Derivatives	8	135
TOTAL ASSETS		**135**
LIABILITIES		
NON-CURRENT LIABILITIES		**13**
Other non-current liabilities - Derivatives	21	13
CURRENT LIABILITIES		**129**
Trade payables and other current liabilities - Derivatives	22	129
TOTAL LIABILITIES		**142**

Effect on the income statement

The following table sets out the income statement figures at June 30, 2017 arising from the management of derivatives.

Thousands of euro	Notes	Realized in the period	Fair value change in the period	Amounts recognized in the income statement
REVENUES	27			
Revenues from the sale of goods				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		19	147	166
Total revenues from the sale of goods		**19**	**147**	**166**
OPERATING EXPENSES	28			
Expenses for raw materials and services				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IAS 39		2	-	2
- not considered hedges as per IAS 39		(6)	(148)	(154)
Total expenses for raw materials and services		**(4)**	**(148)**	**(152)**
Total recognized in gross operating income (*)		**15**	**(1)**	**14**
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		-	-	-
Total		**-**	**-**	**-**
Total financial income		**-**	**-**	**-**
Financial expenses				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IAS 39		(5)	-	(5)
- not considered hedges as per IAS 39		-	-	-
Total		**(5)**	**-**	**(5)**
Total financial expenses		**(5)**	**-**	**(5)**
TOTAL RECOGNIZED IN FINANCIAL BALANCE		**(5)**	**-**	**(5)**

(*) The figures do not include the effect of the net presentation of the negotiation margin of trading activities

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 June 30, 2017, 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 share-holdings measured at cost	Amount as stated in the consolidated balance sheet at 06 30 2017	Fair value at 06 30 2017 (*)
		Income statement	Shareholders' 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					57		57	57
Total other non-current financial assets	3						**70**	
Other non-current assets	5				9		9	9
Trade receivables	7				1,488		1,488	1,488
Other current assets	8	132	3		255		390	390
Current financial assets	9				214		214	214
Cash and cash equivalents	11				545		545	545
Assets held for sale	12				1		1	1
LIABILITIES								
Financial liabilities								
Non-current and current bonds	18 and 23				2,832		2,832	2,832
Other non-current and current financial liabilities	18 and 23				1,018		1,018	1,018
Other non-current liabilities	21		13		85		98	98
Trade payables	22				1,027		1,027	1,027
Other current liabilities	22	129			504		633	633

(*) 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 includes the financial assets and liabilities for which fair value is based on (unmodified) prices quoted for similar instruments on active official or over-the-counter markets;
- Level 2: this level includes the financial assets and liabilities for which fair value is based on directly or indirectly observable market inputs other than Level 1 inputs;
- Level 3: this level includes the financial assets and liabilities for which fair value is calculated using inputs not based on observable 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 current assets	8	133	1	1	135
TOTAL ASSETS		**133**	**14**	**1**	**148**
Other non-current liabilities	21	-	13	-	13
Other current liabilities	22	129	-	-	129
TOTAL LIABILITIES		**129**	**13**	**-**	**142**

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%	0.01
Commodity Derivatives	Correlation underlying interconnection capacity abroad	1%	0.00
Commodity Derivatives	Underlying interconnection capacity zonal Italy	1%	0.03

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 of 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 244 municipalities		2017 - 2029	

NETWORKS AND HEAT CONCESSIONS

Networks concessions

	Geographical area	Activities in concession	Concession expiry	Concessionaire
Networks	Milan	Gas distribution	Tender on ATEM(1) basis underway	Municipality
	Brescia		The new concessions in various ATEM(1) will be awarded for a period of 12 years through a public tender process	
	Bergamo			
	Varese			
	Cremona			
	Lodi			
	another 296 municipalities			
	Milano e 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 84 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 2023 and 2032 - 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 the dispute 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.
- 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.

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 was filed on November 23, 2016, ruling on the rejection of the appeal and application of compound interest.

The hearing on the recourse related to the second recovery was held on February 7, 2017. On June 28, 2017, Sentence no. 16109/2017 was filed, by which – in accordance with the foregoing – the appeal was dismissed.

Disputes relating to the recovery of State aid have thus been concluded, however with no further charges for the Company, since all the sums requested were already been paid for a while back.

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 multiple council chambers from December 18, 2014 and until February 21, 2017 to verify the conditions of a settlement or transaction.

At the last 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 by Consult Latina in guarantee for the payment by A2A, has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina; to date, no damages have been claimed in any action, while Redengas has re-initiated enforcement action to release the shares from the pledge. Any damages ascertained in favour of Redengas would result in additional encumbrance 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. After said hearing, it established the new terms and scheduled a new hearing for clarification of conclusions for November 30, 2017.

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.

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 September 21, 2017 for hearing of two texts of the PM.

The Group has not allocated any provision as it considers being the aggrieved party in the proceedings and that the economic effects at the end of the proceedings will be neutral.

ASM Novara S.p.A. dispute

In March 2013, Pessina Costruzioni initiated arbitration proceedings against A2A to declare the failure to comply with the shareholder agreements of ASM NOVARA and to sue A2A for damages. On June 30, 2015, the Arbitration 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. The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal.

On November 23, 2016, the Court of Appeals of Milan filed the Sentence 4337/16 declaring the grounds for appeal of the award filed inadmissible and unfounded, with the consequent absorption of incidental claims.

In the terms, A2A appealed to the Cassation appealing against the chapter of the sentence that rejected the first plea for invalidity of the award and the chapter that individually rejected chapters 5, 6 and 7 relating to the liquidation of the damage equitably. Pessina appeared in court rejecting all the grounds and requesting confirmation of the sentence.

Effectiveness and execution of the award

On May 11, 2016, following invalidity of the effectiveness suspension of the award ordered by the Court of Appeal and the outcome of enforcement actions, A2A paid to Pessina Costruzioni 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 June 30, 2017, the Group set aside risk provisions for the total amount of 32.6 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 requests 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.

Investigation related to EPCG service contracts

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

As part of the management of EPCG by A2A S.p.A., also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

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

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

For the years 2013, 2014, 2015, 2016 and for the 1st half of 2017, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

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

At the beginning of 2014, the local "Party of People with Disabilities and Pensioners" proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

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

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. Investigative measures are still covered by investigation confidentiality. Based on as currently known, the former CFO is accused - along with two previous EPCG Italian managers appointed by A2A, and three Montenegrin officials of EPCG - of abuse of office in the management of service contracts stipulated by EPCG. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 7, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest, the company also monitored the possibility of extension of the investigation to A2A S.p.A.. At June 30, 2017, this event did not occur, but in the following weeks it emerged from press reports in Montenegro, and lastly with the notification in Podgorica on July 25, 2017, in the hands of the defendant appointed for this purpose by A2A, that the shares held by A2A in EPCG have been the subject of a precautionary measure of seizure. This precautionary measure has been challenged by A2A S.p.A. in due time (i.e. by August 2, 2017) in the forms and locations provided by local law. From the precautionary measure, there was also evidence that the proceedings in question were extended to A2A on July 3, 2017.

Based on the assessments made, the foregoing and the information available to date, A2A believes that the risk of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as possible. Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in certain terms the amount of said indemnities or penalties, direct or indirect.

Only approximately, and as broad reference, it is in fact possible to indicate that the amount of the alleged claim for compensation that can be hypothetically made by EPCG (which, moreover, on the basis of a resolution of its Board of Directors on March 28, 2017 at the beginning of April stated to the Montenegrin Public Prosecutor not to consider at present the conditions for own constitution as aggrieved party in the proceedings) could amount to 4.34 million euro, taking into account the amount of services actually paid by EPCG to A2A S.p.A.. The amount of the penalties contemplated by the Montenegrin law on the liability of legal persons could theoretically – in the extreme variability of the local law with an unclear discipline – be significantly greater (from 2 to 100 times the amount of the alleged damage, as stated in the precautionary measure), even though it is appropriate to consider that there is no sound case-law on the matter and that A2A can deploy significant formal and substantive defence elements in the proceedings.

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

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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 has proposed a timely appeal against all the deeds notified. 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 Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 7, 2017 and the subsequent actions are being evaluated. 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 favourable 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. (now A2A 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.

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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 the first half of 2017 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.

* * *

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

Attachments to the notes to the Half-yearly financial report

1 - Statement of changes in tangible assets

Tangible assets *Millions of euro*	Net book at 12 31 2016 Restated	Changes during the period	
		Investments	Changes in category
Land	235	1	
Buildings	821	3	8
Plant and machinery	3,703	40	16
Industrial and commercial equipment	33	4	
Other assets	72	9	7
Landfills	73		
Construction in progress and advances	101	45	(32)
Leasehold improvements	82	4	1
Leased assets	9		
Total tangible assets	**5,129**	**106**	**-**

Tangible assets *Millions of euro*	Net book value at 12 31 2015	Changes during the period			
		Investments/acquisitions			Changes in category
		Effect before consolidation of LA BI.CO DUE S.r.l.	Investments	Total investments/ acquisitions	
Land	266			-	
Buildings	913	1	3	4	1
Plant and machinery	3,608		35	35	40
Industrial and commercial equipment	24		3	3	
Other assets	56		7	7	6
Landfills	23			-	4
Construction in progress and advances	103		31	31	(52)
Leasehold improvements	72	1	8	9	1
Leased assets	2			-	
Total tangible assets	**5,067**	**2**	**87**	**89**	**-**

	Changes during the period							Net book value at 06 30 2017
	Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the period	
	Gross value	Accumulated amortization	Gross value	Accumulated amortization				
	4				(27)		(22)	213
	(5)				(43)	(19)	(56)	765
	9		(3)	2	(25)	(133)	(94)	3,609
	1					(4)	1	34
	7	(4)	(4)	3		(9)	9	81
	(1)					(5)	(6)	67
	5						18	119
	1	(1)				(5)	-	82
							-	9
	(21)	**(5)**	**(7)**	**5**	**(95)**	**(175)**	**(150)**	**4,979**

	Changes during the period							Net book value at 06 30 2016
	Other changes		Write-downs	Disposals/Sales		Amortization	Total changes for the period	
	Gross value	Accumulated amortization		Asset value	Accumulated amortization			
							-	266
				(3)	1	(19)	(16)	897
	18		(1)	(35)	33	(135)	(45)	3,563
						(3)	-	24
	1			(5)	5	(8)	6	62
	19					(3)	20	43
	(3)						(24)	79
						(4)	6	78
						(1)	(1)	1
	35	**-**	**(1)**	**(43)**	**39**	**(173)**	**(54)**	**5,013**

2 - Statement of changes in intangible assets

Intangible assets *Millions of euro*	Net book value at 12 31 2016 Restated	Changes during the period	
		Acquisitions	Changes in category
Industrial patent and intellectual property rights	21	4	1
Concessions, licences, trademarks and similar rights	1,046	34	4
Goodwill	500		
Assets in progress	26	14	(6)
Other intangible assets	111		1
Total intangible assets	**1,704**	**52**	**-**

Intangible assets *Millions of euro*	Net book value at 12 31 2015	Changes during the period	
		Acquisitions	Changes in category
Industrial patent and intellectual property rights	26	2	
Concessions, licences, trademarks and similar rights	799	25	11
Goodwill	482		
Assets in progress	20	13	(11)
Other intangible assets	21		
Total intangible assets	**1,348**	**40**	**-**

Changes during the period							Net book value at 06 30 2017
Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the period	
Gross value	Accumulated amortization	Asset value	Accumulated amortization				
(1)					(7)	(3)	18
13		(5)	4		(23)	27	1,073
						-	500
1						9	35
(25)					(4)	(28)	83
(12)	**-**	**(5)**	**4**	**-**	**(34)**	**5**	**1,709**

Changes during the period							Net book value at 06 30 2016
Reclassifications/Other changes		Disposals/Sales		Write-downs	Amortization	Total changes for the period	
Gross value	Accumulated amortization	Asset value	Adjustments accumulated amortization				
					(7)	(5)	21
(1)		(3)	2		(16)	18	817
						-	482
(1)						1	21
(14)					(1)	(15)	6
(16)	**-**	**(3)**	**2**	**-**	**(24)**	**(1)**	**1,347**

3 - List of companies included in the consolidated financial statements

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	28,600
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 (Grecia)	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 06 30 2017	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
68.78%	68.78%	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 Scope of consolidation	Registered office	Currency	Share capital *(thousands)*
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
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939
PATAVINA TECHNOLOGIES S.r.l.	Padova	Euro	12
A2A SECURITY SOCIETÀ CONSORTILE PER AZIONI	Milan	Euro	50

(*) The percentage does not take into account the put option.

% of shareholding consolidated by Group at 06 30 2017	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
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
40.80%	80.00%	MF Waste S.r.l.	Line-by-line consolidation
74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
100.00%	100.00%	A2A Smart City S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A. (47.60%) A2A Calore & Servizi S.r.l. (2.70%) Amsa S.p.A. (9.50%) Unareti S.p.A. (19.10%) A2A Energiefuture S.p.A. (2%) A2A gencogas S.p.A. (4.10%) A2A Ambiente S.p.A. (4.10%) A2A Ciclo Idrico S.p.A. (10.90%)	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
GESI 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 06 30 2017 *(thousands)*	Valuation method
	50.00%	A2A Alfa S.r.l.	-	Equity
	50.00%	A2A gencogas S.p.A.	-	Equity
	50.00%	A2A S.p.A.	-	Equity
	50.00%	A2A Energia S.p.A.	2,257	Equity
	49.00%	A2A S.p.A.	739	Equity
	47.00%	A2A S.p.A.	2,213	Equity
	45.00%	A2A S.p.A.	2	Equity
	40.00%	A2A S.p.A.	660	Equity
	40.00%	A2A S.p.A.	10	Equity
	33.33%	A2A Energia S.p.A.	111	Equity
	24.29%	A2A S.p.A.	769	Equity
	23.94%	A2A S.p.A.	41,660	Equity
	20.00%	A2A Calore & Servizi S.r.l.	672	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.	7,067	Equity
	49.00%	Linea Più S.p.A.	3,041	Equity
	50.00%	LD Reti S.r.l.	167	Equity
			63,093	

5 - List of available-for-sale financial assets

Company name	Shareholding %	Shareholder	Carrying value at 06 30 2017 *(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 Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
L.E.A.P. S.c.a.r.l.	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. in liquidation	3.00%	A2A Ambiente S.p.A.	
Prva banka Crne Gore A.D. Podgorica (*)	19.76%	EPCG	

Company name	Shareholding %	Shareholder	Carrying value at 06 30 2017 *(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. (5.97%) Linea Reti e Impianti S.r.l. (0.10%)	
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.	
GAL-GOLEM	2.00%	Azienda Servizi Valtrompia S.p.A.	
MORINA S.r.l.	5.00%	Azienda Servizi Valtrompia S.p.A.	
Total other financial assets			**10,586**
Total available-for-sale financial assets			**12,867**

(*) 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.

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

Generation and Trading Business Unit

Remuneration of production capacity availability

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

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

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

The final design involves an auction in which operators awarded acquire the right to receive a bonus (in €/MW/year) and the obligation to offer all the capacity awarded in the energy (MGP) and services (MSD) markets, returning to the counterparty Terna the difference - if positive - between the benchmark prices and a strike price (in €/MWh). It is technically a "one-way difference contract".

Initially, the Capacity Market involved three-year auctions with a four-year planning horizon. By way of Resolution 95/2015/I/eel, the Authority proposed to the Ministry of Economic Development (MiSE) to reduce to 1 year the period between the conduct of the auction and delivery, also introducing contracts with one-year duration (first implementation phase).

In April 2015, the European Commission initiated an investigation to ascertain whether capacity remuneration mechanisms are compatible with the State Aid framework and ensure adequate security in electricity supplies without distorting competition in the single market.

In August 2015, the Italian Government informally informed DG Competition of the capacity remuneration mechanism set out in Resolution ARG/elt 98/11. Over the last two years, there have been many discussions between DG Competition and DG Energy towards MiSE, Authority and Terna.

In November 2016, the Commission closed the investigation, recognizing that the remuneration of capacity in energy only markets is necessary to provide long-term price signals to the new capacity investment system.

In the period from October 2016 to February 2017:

- Terna published 3 DCO on the discipline of detail whose main new elements are:
  - first implementation: opening also to production units of less than 10 MVA, renewable generation (which does not receive incentives from the GSE nor waives them) and MSD-enabled applications;
  - regime phase: in addition to as stated in the first implementation phase, direct participation of foreign resources, duration of the annual (and not three-year) contract, limited appreciation of the flexibility features of resources accessing the mechanism (at present only one flexible resource selection priority in the event of multiple offers at the marginal price);
  - modification of the Terna demand curve that is simplified and made compliant with European standards. The new curve is particularly influenced by government choices in terms of both the maximum acceptable spending and the level of safety chosen (function of the Loss of Load Expectation parameter - LOLE, which represents the maximum duration for loss of load acceptable at country level. This parameter is determined by the MiSE);
- the Authority publishes 1 DCO on the obligations of contractualized plants in which the offer of capacity on MGP at values lower or equal to the strike price is more incentivized and the maximum of the premium (cap) is set at 75,000 €/MW/year.

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

In the meantime, the European Commission has already approved the capacity remuneration mechanisms of the United Kingdom (capacity obligations), France (exchange certificates) and Germany (Network Reserve).

Next steps: MiSE, Authority and Terna are working on the notification of the Italian mechanism to the Commission and at the same time finalizing some key aspects, including strike price and LOLE.

Terna is expected to ban the auction for the first implementation phase at the end of 2017 with delivery in 2018.

The contribution of the capacity payment for 2017 is estimated at around 17 million euro.

Finally, it should be noted that:

- by means of Resolution 134/2016/R/eel, the Authority imposed on Terna the recalculation, by April 30, 2016, of the S amount for the years 2010 and 2011. The net balance of these adjustments amounted to about 2.1 million euro to be paid in 12 monthly instalments of the same amount as of April 29, 2016.
- In application of Resolutions 398/2017/R/eel and 418/2017/R/eel, Terna liquidated a total of 18 million euro at June 30, 2017 for S 2015 and CAP1 2016 components while liquidation of the S 2016 component is still pending.

Remuneration of plants essential for the safety of the electricity system

By way of Resolution 803/2016/R/eel, the 220-kV plant of the San Filippo del Mela plant (groups 2, 5 and 6) was contractualized by Terna under the must-run regime with reintegration of costs for the five-year period 2017-2021.

The Resolution establishes that group 1 at 150 kV plays a back-up role in the event of unavailability of group 2. The new Sorgente-Rizziconi power line connecting Sicily with the mainland could, in fact, not always be available (e.g. during maintenance) and the market of the Sicily area is still short at the moment in terms of supply.

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

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

At June 30, the receivables still to be collected by Terna and related to the must-run of previous years amounted to 79.5 million euro (2014, 2015 and 2016 balances).

Plants in conservation and Terna requests for reactivation

At the request of Terna, in the winter of 2016 and to cope with the shutdown of nuclear plants in France, the following thermoelectric plants were reactivated:

- Ponti sul Mincio (in conservation from October 22, 2016 and reactivated on December 14, 2016);
- Chivasso 2 (in conservation from September 30, 2013 and reactivated on February 17, 2017).

In March 2017, and in view of possible system criticalities in the summer of 2017, Terna also requested information on the timing of reactivation of the plants in Brindisi (units 3 and 4), in conservation since September 2015, and of Sermide 3, in conservation since January 1, 2016.

A2A declared:

- the unavailability of Brindisi to operate as a result of the Integrated Environmental Authorization (IEA) requirements that provide for emission limits that cannot be respected without significant investment, which would imply extremely long times;
- with reference to Sermide 3, the possibility of restoring its full technical capacity, subject to unforeseen events, within 120 days (July 2017), but that can only be managed as back-up of the 800 MW unit because of insufficient staff.

Reactivation requests were made by Terna pursuant to Law 290 of 2003 (article 1-*quinquies*, paragraph 1) requiring owners to maintain the state of perfect efficiency of generation plants with nominal power greater than 10 MVA. Since the implementing ministerial decree has never been adopted in respect of such requirement, the state of conservation of the plants (or cold reserve) is not regulated at present.

There are contacts with the Authority, Terna and MiSE to verify whether a form of compensation for incremental costs related to reactivation is applicable, as well as the elimination of obstacles to the exit of the plants from the market (conservation and disposal).

Conferment of gas transport capacity for thermoelectric plants (CCGT)

The conferment of the gas transport capacity, today mostly on an annual basis for each thermal year, represents one of the most significant fixed costs that the CCGTs shall incur (around 6,000 €/MW and with increasing tariffs).

The Authority has adopted Resolution 512/2017/R/Gas that completes the set of rules of the pilot project related to the conferment of gas capacity to the delivery points of the transport network that feed thermoelectric plants. Said intervention, for admission of the Authority, is necessary to meet the increased demands for flexibility of thermoelectric plants linked to the significant growth of renewable sources.

The following is a summary of the main aspects of the resolution that will have effect as of October 1:

- in addition to the daily capacity product, a monthly capacity product is proposed for a fee equal to 2 times the annual re-proportioned monthly fee;
- the multiplier coefficient for the daily product is reduced (from 10 to 7);
- the CMT fee for the remuneration of the metering service performed by transport companies is calculated and invoiced on a monthly basis;
- there is a possibility for those who require infra-annual conferment to the delivery points that are the subject of the pilot project to request equal or less conferment to the corresponding exit point, applying fees for infra-annual products determined on the basis of the same multipliers provided at the points of delivery.

The general reform of capacity conferment to all points of exit and delivery of the gas transport network (as well as thermoelectric, civil and industrial) will be the subject of a subsequent DCO that will consider the outcomes of both the pilot project and the new tariff provisions contained in European Regulation (EU) 460/2017 of March 17, 2017, as well as the different price elasticity of the capacity demand of the different types of users.

Valuation of electrical imbalances

Period July 2012-August 2014 (excluding June 2014)

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

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

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

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

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

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

However, the impact of the repayment concerned only cash as some operators appealed against Resolution 333/16/R/eel by invoking the suspension that was denied. The meeting of the Lombardy Regional Administrative Court (TAR), scheduled for April 13, 2017, was postponed to 2018.

Definition of the new regulations as of August 1, 2016

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

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

In particular, these measures modify the valorisation of imbalances, differentiating it if it is a production unit (relevant, irrelevant, powered by non-programmable or renewable sources or unauthorized other than that powered by renewable sources) or consumption units, with the application of the single price or single-dual price mixed regime and providing for different deductible thresholds.

In terms of impacts for the A2A Group, a potential reduction in the cost of imbalance with respect to thermoelectric plants is expected as a result of the exclusion from the calculation of the price of the secondary reserve, while no cost increase is expected for relevant renewable sources.

Pending the discipline of imbalances under regime that is likely to be implemented as of 2019 and that is expected to include nodal imbalance prices, by way of Resolution 419/2017/R, the Authority has introduced:

- from July 1, 2017, the macro-zone non-arbitrage fees, also to eliminate the distortions that derive from the determination of macro-zonal imbalance prices in the presence of market prices determined at zonal level;
- from September 1, 2017, the resumption of the single-price valorisation of unbalances for all unauthorized production units and a new method of calculating the zonal sign implemented by Terna that is less predictable.

First opening of MSD to demand/accumulation systems/production units not yet authorized

By way of Resolutions 300/2017/R/eel and 372/2017/R/eel, the Authority order a first opening of MSD through specific pilot projects with voluntary authorization, upon request, FER (non-programmable, relevant and irrelevant), programmable units that are currently unauthorized and accumulation systems. In general, the bill establishes:

- that UP and UC can participate individually or through different types of aggregation: only production (UVAP), only consumption (UVAC) or mixed (UVA/UVAN). Relevant UP can aggregate with each other and/or other irrelevant UP and eventual UC only if they are all under the same node of the national transmission network (UVAN). Both UVAC and UVAP may provide for the presence of UC/UP inserted into different dispatching contracts with the need for explicit consent by the dispatching user (UdD);
- a specific time table for submission of projects by Terna to the Authority: by June 30, 2017 for the UVAC pilot project and by July 31, 2017 for the UVAP pilot project;
- among the main features of the pilot projects:
  - possibility for operators to propose additional Terna pilot projects for the provision of individual services but also of services which are not remunerated to date;
  - offer obligations and methods in line with those currently envisaged for UP already authorized;
  - UC must be connected in HV, MV or LV but treated on a per hour basis;
  - reduced role of distributors in this first phase;
  - no forms of economic incentive are provided for pilot projects.

The first project implemented concerns UVAC (single consumption plants or multiple plants located in the same province or set of provinces) and consists of 2 activities:

1. participation of UVAC in MSD for the provision of the service of upward replacement Tertiary Reserve (RTs) and balancing starting June 2017. The expected remuneration is limited to activating resources on MSD (€/MWh);

2. eventual participation in the term supply by Terna of RTs and balancing by UVAC authorized for MSD in the North and Centre-North area for the period June-September 2017. This is a downward auction with fixed remuneration (base: 30,000 €/MW/year) and variable remuneration (€/MWh activated) with strike price of 400 €/MWh.

On July 1, 2017, 46 MW were assigned out of 500 MW auctioned.

To seize the opportunities offered by the new regulatory framework, a task force was set up within the A2A Group for the implementation of UVAC and UVAP projects.

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

In implementation of Directive 2009/28/EC with Legislative Decree no. 28/2011, the incentive schemes have been defined aimed at achieving the production targets from renewable sources by 2020, then implemented by Ministerial Decrees of July 6, 2012 and June 23, 2016, which apply in respect of electricity plants powered by renewable sources other than photovoltaic plants.

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

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

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

In 2017, the value of the incentive is 107.34 €/MWh.

The same methodology applies to plants that benefit from TLR GC whose fixed value is 84.34 €/MWh.

As of January 1, 2016, incentives are paid quarterly by the GSE by the second quarter following the reference one and on the basis of the signing of an Agreement and upon registration and validation of the plants on the GSE portal. The A2A Group signed agreements with the GSE for all its incentivized plants.

The feed-in disbursed by the GSE to A2A S.p.A. for incentivized plants at June 30, 2017 amounted to 34.5 million euro.

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

At June 30, 2017, the Group has a stock of 654,992 including GC and GC TLR.

Large hydroelectric derivation concessions

Changes in legislation over the past few years, despite having introduced rules to allow the conduct of tenders, have in real terms led to the continuation by the present holders of the exercise of existing large derivation hydroelectric concessions even if they have formally expired, including certain of these held by A2A S.p.A.[(1)].

Article 37, paragraph 4 of Law 134/2012 converting Decree Law no. 83/2012, the "Growth Decree", confirmed the period of 5 years before the expiry of the concession as being the time limit within which a tender must be called for reassignment and set the term of new concessions in 20 years, extendible to 30 years depending on the size of the investments according to the criteria established by an implementing Ministerial Decree, not yet issued. In addition, a special transitional regime (accelerating) is established for calling tenders for concessions which have already expired or which expire on or before December 31, 2017 (those which were unable to comply with the 5 years for calling the tender). These tenders must be called within 2 years of the effective date of the above Ministerial Decree.

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

The Government, as part of the formal default notice received from the European Commission affirming the opposition of Italian legislation with the principles and rules of EU law, decided to

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

report to the Commission a future amendment to said rules, as part of an overall reorganization of the sector.

In terms of regional regulations, the Lombardy Region, first by Law no. 19/2010 and then by Law no. 35/2014 amended Regional Law no. 26/2003, inserting article 53-bis, which governs the temporary continuation of the exercise for expired concessions and the imposition of an additional fee.

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

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

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

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

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

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

This DGR was adopted despite the pending appeal filed by the National Government to the Constitutional Court to the Regional Law no. 22/2015. The arguments put forward by the Government are identical to those of the operators and A2A, which appealed the previous regional resolutions of “temporary continuation of exercise” of its concessions under the principle of homogeneity of fees on the national territory as a condition relating to competition (art. 37, paragraph 7, Law 134/2012), and since the "Bersani Decree" (Legislative Decree no. 79/99, art. 12, paragraph 8-bis) is clear in determining that the exercise of the expired concessions continued, until the new assignment, from the outgoing concession at unchanged conditions, without requiring any regional measure.

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

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

With Council Resolution no. 13993 of December 28, 2016, the Lombardy Region has finally determined for the period January 1, 2011 - December 31, 2016, the amounts due by way of additional fees relating to major hydroelectric derivations expired and authorized for the temporary continuation, quantifying the amounts on the basis of the unit amount of the additional charge to the extent of 20 euro/kilowatts of average annual nominal power, previously defined by way of recognition in aforementioned Regional Council Resolution no. 5130 of May 9, 2016 (about 8.9 million euro payable by A2A S.p.A.).

Efficient Utility Systems

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

Attainment of qualification as SEU or SEESEU, issued by the GSE, allows the recognition of facilitated tariff conditions on the electricity consumed and not withdrawn from the network, limited to the variable parts of the general system costs, as required by Legislative Decree no. 115/08.

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

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

By clarification of June 12, 2015, the Authority specified that the generation auxiliary services refer to the ancillary services as per the Unipede definition (now Eurelectric) and therefore also plants subservient to production such as, for example, fuel handling, heating, lighting and office systems directly related to the exercise of the power plant. The value of the SEUs and the Authority's clarification on auxiliary services is twofold because it allows:

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

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

- with DCO 255/2016/R/eel, the Authority, pursuant to art. 3 of Decree Law no. 210/2015 (so-called Milleproroghe 2015), proposed with effect from January 1, 2016, a reform of the general charges of the electricity system applied to non-domestic customers according to three different options for the allocation of the same between the fixed component (€/year), capacity component (€/kW), and variable component (€/kWh);
- Decree Law no. 244/2016 (so-called Milleproroghe 2017) established the deferral to January 1, 2018 of the aforementioned reform of general charges and established that *"the variable parts of the general charges of the system are applied to the electricity withdrawn from public networks with obligation of connection of third parties".*

By way of Resolution 481/17/R/eel, the Authority also defined the structure of the future method of calculating the charges between a fixed portion, a capacity portion and a variable portion.

The opportunities for the A2A Group deriving from the existence of the SEU are widened in light of the extension of the configurations in which exemption from these charges is obtained.

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

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

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

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

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

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

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

With Resolutions 342/16/E/eel and 459/2016/E/eel, the Authority initiated two proceedings for the adoption of measures to promote competition and ensure the proper functioning of markets, through the adoption of prescriptive measures or also through asymmetric regulation measures against certain conduct by dispatching users in the wholesale electricity market, which could have negative effects on energy markets and potentially configurable as market abuse pursuant to the REMIT.

The conduct of users might include:

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

For the A2A Group, the proceedings concerned:

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

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

- filed the proceeding against A2A Energia S.p.A., which was notified Annex A to the Resolution, as there were no conditions for the adoption of prescriptive measures nor to initiate sanctioning proceedings;
- communicated, in relation to A2A Trading S.r.l. (now A2A S.p.A.), that although there were no conditions for the adoption of prescriptive measures nor, a fortiori, of temporary measures of asymmetric regulation, it is not possible to exclude the initiation of sanctioning proceedings.

In fact, by way of Resolution 178/2017/S/eel, the Authority initiated the sanctioning proceedings against A2A S.p.A. (former A2A Trading S.r.l.) for violation of art. 14.6 of Resolution 111/06 (diligent programming) while violations pursuant to REMIT have been excluded. The sanctioning proceedings will be adopted within 180 days of the date of notification of the Resolution (March 29, 2017).

On May 2, A2A S.p.A. sent the documentation required by the Resolution (composition of the production plant of non-programmable renewable sources for the purpose of applying specific source-based deductions in the evaluation of violations in programming) and on May 27, a spontaneous brief pursuant to art. 14 of the Regulation of sanctioning proceedings.

Lastly, with the subjection of the San Filippo del Mela plant to the must-run regime with reinstatement of costs, in accordance with Resolution 803/2016/R/eel, the proceeding initiated against A2A Energiefuture S.p.A. pursuant to Resolution 459/2016/R/eel was also filed.

MIFID II (Directive 2014/65/EU)

Directive 2014/65/EU - also known as MIFID II - reviews and replaces MIFID I (Directive 2004/39/EC) with a view to developing a single market for financial services in Europe where transparency and protection of investors are ensured.

MIFID II extends its scope of application to previously unregulated financial instruments (commodities) and will also concern those who currently operate on several financial markets, including over the counter transactions. Member States will have to transpose the directive into their national law by July 3, 2017 and from January 1, 2018, MIFID II will be fully implemented.

As far as the energy market is concerned, the Directive and its regulations apply to financial instruments both on regulated markets and OTC as well as to emission allowances (EUA) and wholesale energy products that are derivative contracts, with the exception of those with the obligation of physical delivery. The definition of “Physical delivery obligation” is central to identifying which instruments are outside the scope of the financial instruments and therefore not subject to the MIFID II obligations.

In order to obtain the exemption to operate as an investment firm, companies that operate on commodity derivatives will have to pass the ancillary test to demonstrate that the trading activity is ancillary to the main one.

MIFID II will therefore apply at strategic level in order not to exceed certain thresholds to be exempt and at operational level, requiring action on processes, procedures, and IT infrastructures also for annual reporting and notification of the exemption.

Commercial Business Unit

Competition Bill, SIMILE Protection and PLACET offer: termination of price protections

At the hearing of October 7, 2015, the Chamber approved the annual Bill for the market and competition (Competition Bill).

The "Energy" part includes a series of provisions that decreed the end of the gas protection and greater electricity protection from July 1, 2019 and include provisions on comparability of offers, promotion of buying groups, monitoring by the Authority on the degree of liberalization of the two sectors, establishment of a suppliers list, etc..

There were many amendments proposed already in 2016 on electric customer treatment modalities (domestic and BT Other Uses) that, as of July 1, 2019, will still be served by the established supplier. Based on the current wording of the text, as amended at the Chamber on May 22, it is no longer required to carry out competitive procedures by territorial area to identify suppliers for customers that have not chosen an operator on the free market (auctions are still envisaged – as at present – for the safeguarding service).

The measure is currently in the Senate for final approval.

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

By way of Resolution 369/2016/R/eel, the transitional mechanism was introduced of the SIMILE Protection (TS - Similar to a provision of Italian Free Market of Electricity) offered by vendors selected by the Sole Purchaser and which may voluntarily be adhered to by customers still under greater protection, by means of a portal managed by the Sole Purchaser. The mechanism is characterized by contractual and economic conditions defined by the Authority less the application of a one-time bonus (€/POD) freely defined by operators.

Subsequently, the Authority provided for consultation its guidelines on the offer called PLACET (offer at Free Price at Equivalent Protection Conditions), precisely defining the contractual conditions and the structure and breakdown of the price that all free market sellers will have to provide to domestic and non-domestic customers as of January 1, 2018.

Functional Unbundling and Brand Unbundling

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

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

A2A Energia S.p.A. appealed art. 17.9 of Resolution 296/2015/R/com that introduces an obligation for sellers to use information channels, physical and personal spaces separated between sale on the free market and greater protection service without providing coverage of the costs. A postponement of the hearing was requested (previously scheduled for May 12), considering that Resolution 659/2015/R/eel provided that, under the first annual update of the RCV (from 2017), account would be taken of the costs relating to debranding between free market and greater protection. In implementation of said provision, the Authority, through data collection, requested to provide details on any costs incurred in 2015 by the companies exercising the greater protection service for the fulfilment of the obligations of brand unbundling. Subsequently, as part of the annual collection for updating the RCV component for 2018, it anticipated that a specific request will be made for information regarding the costs incurred in implementing TIUF provisions.

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

Lastly, it is noted that Enel, Enel Distribuzione and Enel Servizio Elettrico, with three separate requests, had appealed against Resolution 296/2015/R/com, contesting the Authority's competence regarding brand unbundling. At the end of April 2016, the Lombardy Regional

Administrative Court rejected said appeals both regarding brand unbundling between distribution and sales and between free market and greater protection service, recognizing the competence of the Authority to legislate in regard, power conferred by Legislative Decree no. 193/11 in line with EU regulations. A final decision is pending by the State Council to which Enel Group companies have appealed.

Charge of the RAI fee in the electricity bill

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

For the implementation of the above, the MiSE, jointly with the Ministry of Finance, issued the Decree laying down the "Regulations implementing article 1, paragraph 154 of Law no. 208 of December 28, 2015 (RAI fee in the bill)", which envisages, inter alia, that companies responsible for fee collection will be paid the costs of 14 million euro for 2016 and another 14 million euro for 2017.

By way of Resolution 291/2017/R/eel, the Authority defined the criteria for allocating this flat-rate contribution, distinguishing between contributions to cover investments and cover operating costs: in fact, a partly fixed and partly variable structure is provided based on the amount of fees to be collected and considering the differences in cost structure and economies of scale that characterize operators of different sizes. The amounts owed to each company will be calculated directly by the Single Buyer and communicated to the Revenue Agency.

Economic conditions of the electricity sales service in:

a) Greater Protection

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

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

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

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

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

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

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

On February 16, at the Lombardy Regional Administrative Court (TAR), a hearing was held during which the appellants, in light of the decisions taken by the Authority with Resolution 575/2016, declared the lack of interest in the appeal such that the TAR declared inadmissibility thereof (Codacons found that with the prescriptive measures, the Authority is obtaining the total resources to be recovered in favour of the users).

Therefore, A2A Energia S.p.A. is making adjustments to the tariffs of the third quarter of 2016 to previously invoiced customers by applying updates in the second quarter of 2016, both in the market of greater protection and in the free market for those charges whose formula is aligned with regulated rates.

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

- the PE fee of the PED to cover the costs of purchasing electricity for customers under greater protection is determined ex-ante on the basis of the quarterly average of the prices determined in the spot energy market (MGP and MPI), appropriately weighted with the level of usage of different types of customers in the quarter of reference, the estimate of the cost of operation of the Sole Buyer, and taking into account the estimate of financial expenses related to the purchase and sale of electricity. The PE fee will be subject to a mechanism for equalization of procurement costs, as already provided currently;
- the PD fee of the PED is determined as a quarterly average of dispatching fees applicable under the TIS, weighted with the profile of the customers belonging to each type of contract (except for non-domestic customers, for which the methodology of the monthly estimate is confirmed).

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

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

b) Free Market

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

Economic conditions of the gas protected service:

a) revision of the economic conditions

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

- the component covering wholesale procurement costs (C_{mem}) will remain defined under the current formula for updating, i.e. on the basis of quarterly OTC forward prices recorded at the TTF hub, maintaining the current procedures for the recognition of logistics costs;
- the CCR component to cover the costs for activities related to the wholesale procurement and coverage of certain risks was revised upward;
- the application of the GRAD component is extended to December 31, 2017, reformulated in order to maintain the expected revenue unchanged.

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

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

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

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

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

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

Due to the incapacity of the account specially opened with CSEA (Energy and Environmental Services Fund) to cover the mechanism and updated by the CPR component paid by end users, the disbursements of the amounts to operators have suffered long delays.

On March 31, 2017, CSEA liquidated the second tranche (which should have been liquidated in December 2015) and paid an advance on the third tranche (which should have been liquidated in October 2016).

c) application of a reduction coefficient to the QE component (Resolution ARG/gas 89/10)

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

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

In March 2013, the Lombardy Regional Administrative Court ruled in favour of the requesting companies, cancelling the provisions of resolution ARG/gas 89/10 and related subsequent (233/10, 77/11, 84/11 and 132/11), judgement then appealed before the Council of State by the Authority. The Council of State, with Sentence no. 4825 of November 18, 2016, confirmed the decision of the Regional Administrative Court (TAR).

In compliance with the provisions of the administrative judges, with DCO 463/2017 the Authority placed in consultation the re-determination, as of now, of coefficient k, to 0.943 for the 2010/12 two-year period. However, the reasons behind this recalculation remain incomplete and the procedures to recover the amounts recalculated in favour of the sales companies still need to be defined.

d) removal of the invariance threshold (Resolution ARG/gas 106/09)

By way of Resolution ARG/gas 192/08, the Authority intervened by adopting urgent measures to modify the criteria for updating the economic conditions of supply of natural gas by removing the invariance threshold as of the three-year period January-March 2009 (the goal was to immediately transfer any reductions to end customers, and not just those exceeding the range of the invariance threshold).

The Resolution had also imposed conduct for retailers, forcing the renegotiation of sales contracts in order to adapt the relevant updating criteria to the aforementioned provisions. Lastly, the resolution had envisaged the introduction of systems for compensation of charges not otherwise recoverable incurred by retailers (if buyer counterparties had not adapted the contracts) and wholesalers (if the adaptation made had resulted in economic losses in the reference quarter). The mechanism would have been defined by a subsequent provision, but the Resolution had already provided that intra-group items would be excluded because of the typically non-market logics underlying the prices of intra-group contracts.

By way of subsequent Resolution ARG/gas 106/09, the mechanism criteria of the request to be submitted to CSEA (Energy and Environmental Services Fund) for reimbursement of charges not otherwise recoverable were specified, confirming the exclusion of intra-group items and the limitation of access to the mechanism only to wholesalers that had losses in the reference quarter (and not also lower profits).

In 2010, following the appeal filed by A2A Energia S.p.A., the Regional Administrative Court (TAR) had annulled Resolution ARG/gas 106/09, with reference to the exclusion from offsetting intra-group items (due to indiscriminate exclusion in the absence of adequate technical justifications) and also with regard to claims concerning the admission to the mechanism only of wholesalers for which, in the reference quarter, revenues did not allow covering costs, and not also those that had achieved a reduction in profits because of the apparent discrimination against companies.

The Authority had appealed against said sentence, but did not undertake any subsequent action.

In 2016, after 5 years, the State Council, recognizing the ultra-five-year annulment of the appeal proposed by the Authority, finalized the aforementioned sentence of the Regional Administrative Court (TAR) such that A2A Energia S.p.A. re-submitted its request to CSEA (Energy and Environmental Services Fund) for reimbursement of charges not otherwise recoverable.

Dissemination of the electricity bill

By way of Resolution 279/2017/R/com, the Authority introduced a mechanism aimed at incentivizing the dissemination of the electronic bill for customers under protection regime.

The data available to the regulator collected during the updates of the QVD and RCV components had revealed, on one hand, the limited dissemination of the non-paper bill and, on the other hand, that the cost avoided was lower than the discount applied. Moving from this evidence, by way of the provision in question, the Authority introduced, for the years 2016 and 2017, a voluntary participation mechanism aimed at incentivizing sellers of electricity and gas to customers served under protection regime to disseminate the use of electronic bills.

Said mechanism is voluntary and conditioned upon the achievement of a minimum level of customers to whom the discount is applied, following which there is partial reintegration of the difference between the discount applied and the aforementioned cost avoided. The amount of reintegration increases if the minimum threshold level is exceeded until reaching a second target level of 50% of customers served for 2016, following which the seller is entitled to receive full reintegration.

The impact for 2017 for A2A Energia S.p.A. is substantially irrelevant.

Environment Business Unit

Biomethane

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

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

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

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

The Ministerial Decree draft also introduces the definition of advanced biomethane (i.e. biogas obtained from the Organic Fraction of Municipal Solid Waste - OFMSW) for which a regime of “dedicated withdrawal” is recognized for a period of 10 years by the GSE. The biomethane producer is entitled to the physical withdrawal of advanced biomethane produced at the natural gas market price (average price at PSV) reduced by 5% and to the recognition of the CIC with a fixed value of 375 euro. This incentive scheme applies up to a maximum annual quantity that can be withdrawn by the GSE, published annually, and equal to approximately the annual obligation of feed-in of advanced biofuels in the transport sector, as of 2018.

A2A Ambiente S.p.A. is interested in the definition of a certain regulatory framework on advanced biomethane for some investment projects that are about to be started related to the transformation of biogas into biomethane that can be used for transport, biogas, in turn, obtained from waste decomposition, thus “closing the circle” of differentiated collection that already sees the company engaged in the collection of Organic Fraction of Municipal Solid Waste (OFMSW).

Closure of the proceedings initiated by the Authority and the GSE on the site of Corteolona (PV)

Following an inspection by GSE on July 5 and 6, 2012 at the site of Corteolona (PV), some problems arose with regard to the biogas plants Piazzola Biogas 1 (incentivized with two conventions under CIP 6/92 Provision) and Manzola Furnace (incentivized with GC – IAFR 1900).

Biogas 1 Area

By letter dated January 26, 2016, the Authority challenged the procedures for determining the energy eligible for recognition of CIP 6/92 incentives, as it would have led to lower valorisation of consumption of auxiliary services for the part of the biogas recovered from the sludge plant. A2A Ambiente, after having requested access to the proceedings, reiterated that the electricity consumption of the sludge treatment plant is not to be construed as auxiliary services since it would still apply even in the absence of biogas energy recovery.

By way of Resolution 260/2016/E/efr, the Authority accepted the observations of A2A Ambiente, formalizing for the period up to December 31, 2011 objections regarding the energy for auxiliary services of 36% of the one initially indicated in the note of January 2016 (the amount of the reimbursement is approximately 70,000 euro versus 190,000/200,000 euro estimated).

By way of Resolution 262/2017/E/Efr, the Authority closed the reimbursement of CIP 6/92 amounts on the plant for the period from 2012 up to the expiry of the incentive component (estimated reimbursement of approximately 30,000 euro).

Manzola Furnace (IAFR 1900)

By letter dated January 25, 2016, GSE disputed against the company:

a) the procedures for determining the electricity produced, as it would have led to lower valorisation of consumption of auxiliary services for the part of the biogas recovered from the sludge plant;
b) some plant modifications carried out in 2010 that it does not believe were previously notified and that could change the IAFR qualification already issued.

A2A Ambiente, having requested access to the proceedings, provided the information requested by GSE also requesting a recalculation of the percentage of consumption attributable to auxiliary services of 3% (instead of 7% as calculated by GSE).

By letter dated May 8, 2017, GSE communicated the outcome of the inspection closing the proceedings:

a) the energy eligible for incentives must be determined from the date of entry into service (July 18, 2006) by reducing from the energy produced the percentage of 3% (and not 7%) of auxiliary services and transformation losses; the energy eligible for incentives must also be determined by decreasing the portion of auxiliary services of the sludge plant (as determined in the aforementioned resolutions of the Authority) starting from 2010;
b) considering that the "*plant complex must be considered as a single plant*", it is established that incentives through GC should expire on the expiry date of Agreement I CIP 6 (July 31, 2017 instead of July 17, 2018).

The overall impact is estimated as reimbursement to CSEA (Energy and Environmental Services Fund) of around 730,000 euro.

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

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

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

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

Consolidated Environment Law

Legislative Decree no. 152 of April 3, 2006 ("Regulations on environmental matters") as subsequently amended, most recently by Legislative Decree no. 205/10 which dictates measures implementing Directive 2008/98/EC on waste, acts as the reference legislation for the environment sector.

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

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

Industrial emissions

Legislative Decree March 4, 2014 no. 46 on provisions on industrial emissions implementing Directive 2010/75/EU (also referred to as IED – Industrial Emission Directive) introduced new regulations having an effect on all industrial plants, with new limits on atmospheric emissions and increased and tighter controls. By way of implementing this provision, starting January 1, 2016, also the regulations to be followed by waste-to-energy plants, dictated by Legislative Decree 133/05, was introduced by Legislative Decree 152/06 in the text dictated by Legislative Decree 46/14.

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

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

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

Directive December 16, 2015 no. 274 – New Integrated Environmental Authorization (IEA) Directive

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

Law February 25, 2016 no. 21 – Extension SISTRI

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

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

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

DGR (Regional Council Resolution) Lombardy Region April 18, 2016, no. X/5065 - Integrated Environmental Authorization (IEA): reference report

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

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

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

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

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

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

As provided by art. 205, paragraph 3-quater of the Environmental Consolidated Act, issue of "Guidelines on the calculation of the percentage of differentiated collection of municipal and assimilated solid waste" with Ministerial Decree May 26, 2016. These guidelines are intended to provide guidance and criteria for the calculation of the differentiated percentage of municipal and assimilated waste reached in each municipality, in order to standardize, throughout the country, the method of calculating the same. It also states that "*the contents of the guidelines are intended as provisions to which the individual regions shall abide in the formulation of their own method to calculate and check the percentages of differentiated collection for the achievement of the objectives set by the national legislation in force*".

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

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

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

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

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

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

In particular, said new criteria provide indications on ten different issues:
1. identification of the production capacity of the facility
2. terminology clarification of Annex VIII to Part II of the Legislative Decree no. 152/06
3. installation parts managed separately
4. successive stages to final cessation of activities
5. sites not subject to presentation of the reference report
6. non-compliance emerging from the self-monitoring of the operator
7. start of review procedures for adaptation to the BAT conclusions
8. production of meal for animal feed
9. various obligations (“tabular” limits, record keeping, signage affixing, entry in registers, ...) for plants equipped with IEA
10. clarification on experimentation activities.

Among the explanations provided, it is useful to cite the case of IEA companies engaged in waste treatment that can make use of the simplified regime pursuant to art. 216 of Legislative Decree 152/06. In this case, for IEA released and updated, activities are subject to explicit authorization, and no longer “simplified” regime, and are therefore not subject to payment of the registration fee and provision of the financial guarantee provided for the simplified regime. These conditions are therefore required only transiently if, after the issue of the IEA, the operator shall make changes in the waste treatment activities that benefit temporarily from the simplified regime, until the next update of the IEA.

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

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

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

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

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

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

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

This Directive, in order to tend to achieve levels of air quality that do not give rise to significant negative impacts and significant risks to human health and the environment, establishes commitments for reduction of emissions for the anthropogenic atmospheric emissions of Member States of sulfur dioxide (SO_2), nitrogen oxides (NO_x), non-methane volatile organic compounds (NMVOC), ammonia (NH3), and fine particulate matter (PM2.5) and imposes the development, adoption and implementation of national programs for the control of atmospheric pollution and monitoring and reporting on the above pollutants and other pollutants. This standard applies to emissions of polluting substances in Annex I and coming from all sources in the territory of Member States, in their exclusive economic zones and pollution control zones.

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

Ministerial Decree December 22, 2017 – National inspections plan

In Official Journal January 10, 2017, no. 7 Ministerial Decree December 22, 2016 "Adoption of the National inspections plan of plants, companies, intermediaries and traders in compliance with art. 34 of Directive 2008/98/EC, and of waste delivery, recovery and disposal" was published.

The National Inspection Plan shall, together with the Inspection Plans drawn up in the other Member States, contribute to the harmonization at European level of the methods to guarantee inspections of facilities, companies, intermediaries and traders in accordance with article 34 of Directive 2008/98/EC as well as inspections of shipments of waste and related recovery or disposal.

Therefore, specific waste flows were identified considered to be of particular interest based on criteria mainly related to the classification and level of hazard of waste, the risk of contamination, the quantities handled and the risks associated with particular destinations or origins; this selection therefore identifies the priority areas for carrying out the inspections provided for in the Plan.

The list of waste flows identified, classified according to the respective EWC codes and incoming/outgoing handling with respect to the national territory, is provided in Annex I together with the minimum number of inspections required.

Inspections at plants, companies, intermediaries and traders at least ensure the existence and validity of the waste management activity authorization documentation as well as verification of the suitability of the waste management sites and facilities. Said inspections are coordinated, as far as technically possible, with those provided by environmental regulations on plants authorized with Integrated Environmental Authorization (IEA) or pursuant to articles 208-216 of Legislative Decree no. 152/2006 and with those provided by regulations regarding prevention of the risk of relevant accidents.

Ministerial Decree October 13, 2016, no. 264 – Regulation establishing indicative criteria to facilitate the demonstration of the existence of requirements for the qualification of production waste as by-products and not as waste

This regulation, in force since March 2, 2017, defines some methods by which the holder can demonstrate fulfilment of the general conditions of article 184-*bis* of Legislative Decree 152/2006 in order to favour and facilitate use as by-products of substances and objects deriving from a production process; it also ensures greater uniformity in the interpretation and application of the definition of waste.

The requirements and conditions to exclude production waste from the scope of application of waste regulations are assessed and ascertained in light of all the circumstances and must be fulfilled in all phases of waste management, from production to use in the same process or in a subsequent one.

However, the foregoing is without prejudice to the special provisions adopted for the management of specific types and categories of waste, including regulations on handling land and rocks from excavations.

Annex 1 lists, for specific categories of production waste, a list of the main rules governing the use of such waste, as well as a number of operations and activities that may constitute normal industrial practices.

Law February 27, 2017 no. 19 – Approval Decree Law Milleproroghe (Thousand extensions) 2017

In Official Journal February 28, 2017, no. 49 was final approval of the conversion law of Decree Law December 30, 2016, no. 244. In particular, in relation to SISTRI, art.12, paragraph 1 is confirmed without modifications, with reference to 2018 of the penalties and simultaneous dual regime (electronic and paper MUD) until December 31, 2017.

Ministerial Decree March 6, 2017, no. 58 – Accounting procedures and Integrated Environmental Authorization (IEA) tariffs

In Official Journal May 11, 2017, no. 108 Ministerial Decree March 6, 2017, no. 58 “Regulation on methods, also accounting, and tariffs to be applied in relation to the investigations and controls provided for in Title III-*bis* of Part Two, as well as the remuneration of members of the Investigation Board referred to in article 8-bis”.

The rule contains the procedures for calculating the preliminary tariffs and controls of plants subject to Integrated Environmental Authorization (IEA). Since May 26, the new tariffs have been in force for plants/projects of state competence, while for those of regional/provincial competence, the regions have until November 7, 2017 to adjust the tariffs with their own measure (until the issuing of the regional measure, the current tariffs continue to apply).

Regulation EEC/EU June 8, 2017, no. 997 – Council Regulation (EU) 2017/99 of June 8, 2017 amending Annex III to Directive 2008/98/EC of the European Parliament and of the Council with regard to the hazard characteristic HP 14 Ecotoxicity

Regulation EU 997/2017 amending Annex III to Directive 2008/98/EC of the European Parliament and of the Council as regards the attribution of the “ecotoxic” hazard characteristic (HP14) has been published in OJEU no. 150 of June 14, 2017. The regulation illustrates the methodology to be adopted for assessing of said characteristic.

It is specified that it will no longer be possible to adopt the ADR criteria, which were provisionally permitted by Italian (but not European) legislation, and that the Regulation will enter into force on July 4, 2017 but will apply from July 5, 2018.

Networks and Heat Business Unit

2016 final and 2017 provisional reference tariffs for the distribution and metering of natural gas

By way of Resolution 146/2017/R/gas, the Authority approved the 2016 definitive reference tariffs (based on final investments in 2015, disposals in 2015 and contributions in 2015), while by way of Resolution 220/2017/R/gas, the 2017 provisional reference tariffs were approved (based on pre-final investments in 2016 and parametric estimate contributions in 2016).

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

RAB value Unareti S.p.A. pursuant to Resolution 220/2017/R/gas *(Millions of euro)*	
Cap. Centralized	48
RAB Distribution	800
RAB Metering	112
Total	**960**

By February 2018, the 2017 definitive reference rates will be published, which will consider final investments in 2016, disposals in 2016 and actual contributions in 2016.

2017 reference tariffs for the transport and metering of natural gas

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

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

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

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

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

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

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

Functional Unbundling and Brand Unbundling

By means of resolution 296/2015/R/com (TIUF), the Authority confirmed its guidance on brand unbundling by attributing to the Independent Operator the responsibility for the proper implementation of regulation in regard including the obligation of separation of the brand and communication policies (including the company name, the company, sign and any other distinguishing element) with respect to the sale company (avoiding the risk of confusion in the end customer) and the use of information channels, physical and personal spaces separate from those of the sales activity.

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

In the current month of June, a consultation was held on the methods to recover the costs incurred by operators in order to comply with the provisions (DCO 307/2017/R/com). In general, the Authority intends to base itself on the cost data of operators, possibly deducting the costs already recognized by other regulatory mechanisms. For smaller distributors, simplified mechanisms based on a parametric logic will be provided.

Assignment and performance of the natural gas distribution service

Following the reform of the means of allocating the natural gas distribution service, 177 “Minimum Territorial Ambits” were defined (Ministerial Decree January 19, 2011 and Ministerial Decree October 18, 2011), for which tenders will be called for the allocation of the service in accordance with the requirements of the Tender regulation (Ministerial Decree November 12, 2011 no. 226, as subsequently integrated and amended). Regulations have also been adopted to protect the jobs of the employees of the operators involved in the restructuring of the sector (Ministerial Decree April 21, 2011).

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

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

Decree Law 210/2015 (Milleproroghe 2016), granted a further extension of deadlines for the publication of tender notices by Contracting Stations and the penalizations previously envisaged of the defaulting ones were eliminated.

As part of the tasks entrusted by the legislator to the regulator, the Authority, by Resolution 571/2014/R/gas amended the service contract scheme for the distribution of natural gas (however, said amendment was not implemented by the MiSE in the type of contract currently in force), and lastly, by Resolution 407/2015/R/gas, amended the provisions adopted by Resolution 310/2014/R/gas in the determination of the VIR, in relation to the methodological aspects for identifying cases with discrepancy between VIR and RAB greater than 10%.

By way of Resolution 344/2017/R/gas, the Authority, in line with as will be expected following the final approval of the Competition Bill[(2)], introduced simplifications of the VIR-RAB deviation analysis process prior to the publication of the tender notice only applicable if the local authority can demonstrate the exclusive application of the Guidelines April 7, 2014 for the purpose of the evaluation of the VIR. In these cases, 1) the local Entity must not submit the detailed documentation, but only make such documentation available at the request of the Authority; 2) the Authority shall randomly, within the following 30 days, request the detailed documentation.

The recent Ministerial Decree containing the New Guidelines on White Certificates for the period 2017-2020 also partially solved the uncertainty regarding the coverage in terms of the tariff contribution of the certificates generated by the energy efficiency projects proposed in the tender for assignment of the management of the natural gas distribution service based on ATEM. In particular, the Ministerial Decree provided that any certificates issued with respect to these projects and cancelled by GSE in the reference year will also reduce, by the same amount, the overall savings obligations for the following year. However, there are some remaining uncertainties, including the territorial constraint of the interventions offered as part of the tender.

Lastly, it is noted that the standard on gas distribution tenders introduced in the correction of the Procurement Code, published in the Official Journal on May 5, confirms the validity of the activity carried out so far by Contracting Stations in the production of tender documents. The maximum duration of 12 years of assignments awarded by tender also remains unchanged.

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

However, with Sentence no. 10286 of October 14, 2016, the Lazio Regional Administrative Court (TAR) rejected said appeal as it deemed as unfounded the pleas raised by the company in relation to non-compliance with the provisions established by the free will of the parties,

(2) The Competition Bill currently in the Senate for final approval involves the adoption of measures to simplify the assessment of gas distribution tenders: a) the pre-notification of the tender to the Authority will no longer be required if: 1) the Local Authorities certify that the VIR estimate is consistent with the MiSE Guidelines; 2) the difference between VIR and RAB does not exceed 8% aggregate and 20% in the single municipality of the area; b) the Authority will have to identify a simplified procedure to assess the tenders if drawn up in accordance with the typical tender, regulation and typical service contract.

the criteria for the definition of price lists, the deduction of contributions and the reduction of the useful life of meters up to G6. Instead, the complaints concerning the right granted to the municipalities to sell the grid and on the scores for investments in energy efficiency were deemed inadmissible for lack of current interest. In January 2017, Unareti S.p.A. appealed against this sentence before the Council of State.

Area tenders for the natural gas distribution service

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

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

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

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

2016 final and 2017 provisional reference tariffs for the distribution and metering of electricity

By way of Resolutions 188/2017/R/eel and 199/2017/R/eel, the Authority approved the 2016 definitive tariffs for electricity distribution and metering activities, while by way of Resolutions 286/2017/R/eel and 287/2017/R/eel, it approved the 2017 provisional tariffs for the same activities. In particular:

- the 2016 final one considers investments until 2015 including those related to commercialization activities (the costs of which were previously recognized on a pre-final parametric basis), divestments in 2015 and contributions in 2015;
- the 2017 provisional tariffs consider investments made until 2016 pre-final, disposals in 2015 and estimate contributions in 2016.

Tariffs are defined considering the WACC in force since 2016 (Resolution 583/2015/R/com-TIWACC) equal to 5.6% and based on the tariff regulation of Resolution 654/2015/R/eel (TIT 2016 - 2019).

Value of RAB Unareti S.p.A. *(Millions of euro)* (*)	
RAB Distribution	532
RAB Metering	72
Total	**604**

(*) Company estimates.

By February 2018, the 2017 definitive reference rates will be published (which will consider final investments in 2016, disposals in 2016 and actual contributions in 2016).

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

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

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

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

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

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

By way of Resolution 127/2017/R/eel, following the disservice affecting Central Italy, the Authority introduced changes to quality regulation:

- eliminating the limit of 300 euro/user; the indemnity will thus continue to increase for every further block of 4 hours of interruption up to a maximum of 240 hours (i.e. 60 blocks of 4 hours);
- providing that in the event of disruptions caused by force majeure, after 72 hours of suspension and up to a maximum of 240 hours, the indemnity will be paid directly by the distribution company (or by Terna) and not charged to the Exceptional Events Fund at CSEA (Energy and Environmental Services Fund) (however, exclusionary clauses are provided, albeit very restrictive).

The TIQE 2016-2023 also contains initiatives aimed at increasing the resilience of the national electrical system. In particular, it was envisaged that by March 31, 2017, the distribution companies serving more than 50,000 users would send to the Authority a work plan aimed at the adoption of regulatory measures appropriate to achieve this objective. The plan must:

- contain, in addition to a technical examination, elements of cost and benefit in light of the effects of severe and persistent meteorological events that have occurred in the last 15 years;
- be coordinated with both the development plans of the distribution network elaborated by each operator as well as with the development plans of the RTN managed by Terna and with the underlying/interconnected distribution networks of competence of other operators.

At the conclusion of a first tranche of the work of a specific technical table, involving Terna, CEI, RSE, distributors with more than 50,000 POD (including Unareti S.p.A.), Decision 2/2017 DIEU was issued by way of which the document "*Guidelines for presentation of Work Plans for increasing resilience of the electricity system – part one*" was approved. This document contains the methodology for identifying priority actions to address the issue of network holding as well as the methodology (and parameters to be used) to estimate the costs and related benefits associated with such interventions.

At the end of March, Unareti S.p.A. submitted to the Authority its own work plan containing a first technical analysis, as well as an assessment of the relative costs and benefits of the interventions considered appropriate for increasing the resilience of the electricity grid, focusing in particular on phenomena of heavy rainfalls and floods, or phenomena that have a major impact on the continuity of service of the networks operated by the company.

LV electricity 2.0 meters and related smart metering systems

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

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

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

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

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

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

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

- a deadline has not been defined, at least initially, for the presentation of the plan for the commissioning of 2G smart meters and for an obligation to start the replacement thereof;
- it clarified the administrative path to be followed and documents to be submitted to the Authority if a distributor intends to initiate a plan for entry into service of 2G smart meters;
- it identified the method of access to a fast track type of valuation procedure (duration of 90 days) as an alternative to the ordinary evaluation (duration of 180 days) if certain limits are

complied with for the difference in cost between 2G and 1G meters (otherwise, the plans for entry into service will be subjected to a careful cost/benefit analysis);

- it confirmed the methodology of Total Expenditure (TOTEX)[3] for the recognition of costs, even if limited - in the initial phase - only to capital costs;
- defined the mechanisms for the optimization of plans for the commissioning of 2G smart meters, regarding which the tariff recognition of both existing meters and 2G is by means of standard vectors developed by assuming that no 1G meter installed today is disposed of before the end of its useful life (and, therefore, that the 2G meters are only installed in replacement of fully depreciated 1G meters). This way, taking into account the difference between standard costs and actual/market costs of 2G meters, as well as the possible economies of scale that can be activated, it might be possible to anticipate/postpone the installation plan so as to minimize stranded costs; if the operators consider as insufficient the incentive for early replacement, there would be the risk to have a country with "2 speeds" with the major cities (Milan and Brescia, Rome, Turin) excluded from the possibility of benefiting from advantages - also commercial - offered by the new meters.

By way of Resolution 222/2017/R/eel, and after an intense discussion involving several stakeholders, the Authority approved the e-distribution plan, currently in the early phases of initiation. This plan presents costs comparable to those that would be incurred in case of replacement of 1G meters with 2G meters, corrected to take account of the benefits derived from the new 2G features: this allowed rapid approval of the plan (fast track, with a duration of 90 days instead of 180 ordinary days)[4].

Considering the physical and financial elements of Unareti S.p.A., a first general estimate of the potential plan to be submitted to the Authority would consist of replacing about 1.2 million meters (the deadline for submitting the Plan to the Authority would be May 15, 2019. For 2018, the 1G cost recognition mechanism has not yet been defined, which could also be discouraged and therefore, implicitly stimulate the start of the mass plan).

(3) The Authority intends to develop, with effect from 2020, i.e. the second part of the V electricity regulatory period, a methodology for cost recognition based on total expenditure.
(4) The e-distribution plan, with duration of 15 years, envisages the replacement of the current 1G smart meters with the new 2G meters over a period of 8 years (about 35.5 million meters for an estimated investment of about 3.1 billion euro with an average cost of around 87 euro (meter and installation) and a subsequent maintenance phase of 7 years during which it is assumed that about 6 million meters will be replaced for about 1 billion euro (average price of about 196 euro; the higher cost is due to the absence of economies of scale related to the methods of mass installation of the first phase).

Network Code (CADE) and general system expenses

With Sentence no. 243 of January 31, 2017, the Lombardy Regional Administrative Court (TAR), in acceptance of appeals filed by some sales companies and AIGET, declared Decree 268/2015/R/eel (CADE) illegitimate in so far as it provides that guarantees that sellers are required to provide to the distributor must cover the general system charges (OGS) in addition to the charges for the transport service (in this sense, by reiterating the reasons given by the State Council with Sentence no. 2182 of 2016 that had previously annulled Resolution 612/2013/R/eel).

This ruling clarifies that end customers are the subjects of the electricity supply chain obliged, from a legal and economic point of view, to incur OGS, highlighting the absence of rules that provide the conferment to traders of the obligation on end customers and in this context, not conferring to the Authority the power to integrate contracts between distributor and seller.

The Authority:

- by way of Resolution 79/2017/C/eel, has notified its appeal against the rulings of the Lombardy Regional Administrative Court (TAR) on January 31, 2017 (the hearing is expected to be held in the third quarter of 2017);
- by way of Resolution 109/2017/R/eel, intervenes with some transitional provisions modifying the CADE, including:
  - reducing the quantification of guarantees presented by traders to distributors (by 5.6% and, with exclusive reference only to components A, applying a further reduction of 4.9%);
  - initiating a procedure aimed at identifying mechanisms to recognize adequate compensation to transport users and distributors for the possible failure to collect tariff components covering OGS. This mechanism will be defined by December 2017.

The dispute related to the OGS also included and was partially superimposed by the non-fulfilment of the company GALA, a customer of Unareti S.p.A., entered into regime of prior agreement on April 3, 2017. On June 19, 2017, as a result of the insolvency of the company and in the absence of reliable guarantees, Unareti S.p.A. terminated the contract for electricity transport with effect from July 13, 2017.

In order to protect its interests, the company is requesting that the Regulator:

- review the rules of the guarantees required for access to distribution networks in the direction of alignment with the provisions of the Gas Transport Network Code issued by Snam Rete Gas and the Network Transmission, Dispatch, Development and Security Code prepared by Terna, in order to effectively protect operators and the entire system;
- ensure prompt follow-up of the proceedings initiated with Resolution 109/2017 involving the introduction of mechanisms to recognize adequate and proportionate compensation to

distributors with respect to the possible failure to collect OGSs that some sales companies are no longer paying to distributors as they are not collected from end customers;

- start the reintegration mechanism even in case of non-compliance with transport charges. The tariff discipline, while recognizing the risk of non-collection of turnover that on average characterizes the activities of distributors (with the beta parameter within the WACC), is inadequate with respect to the occurrence of serious conduct as mentioned above. The need to adopt additional coverage measures in case of exceptional situations of arrears is covered by the same Authority and must be implemented as soon as possible (in this regard, reference is made to the *Consideration* on page 3 of Resolution 609/2015).

Integrated Billing Law (TIF)

By Resolution 463/2016/R/com as amended, the Authority approved:

a. the Integrated Billing Law (TIF), which defines the provisions on billing of the period of the retail service to final customers of electricity and gas, integrating them with the provisions on closing billing (already defined by Resolution 100/2016/R/com);

b. specific interventions, related to both metering and the discipline of payment in instalments, and intended to make the current regulatory provisions coherence to the new discipline of the TIF. In particular, with reference to the electricity distribution service, it provides the increased frequency of recording metering data for single-tariff electricity meters not remotely managed, defines an obligation to encode the reasons for not recording the reading, in order to ascertain the methods of conduct of the service by distribution companies and lastly, introduces indemnities to end customers in the event of delay in providing the metering data. In particular, in the absence of consultation, a specific indemnity of 10 euro was introduced in case of non-provision on the part of the electricity distributor, for two consecutive months, of the actual metering data in the case of withdrawal points by bands (art. 17). Compensation will not be applied if non-compliance with the discipline is due to unforeseeable circumstances and force majeure.

Following the requests and claims received, by way of Resolution 738/2016/R/com, the Authority made some minor changes to the TIF in relation to the aforementioned aspects. However, further contacts are ongoing with the Authority's offices in order to further clarify certain aspects of application relating, in particular, to the scope of application of the indemnities and reasons for exclusion.

New method of defining the tariff contribution granted to distributors under the energy efficiency certificates mechanism

White Certificates (WC), also known as Energy Efficiency Certificates (TEE), are negotiable certificates that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions.

The system of WC was introduced by Ministerial Decrees July 20, 2004 as amended, and provides for electricity and natural gas distributors to reach annual quantitative targets for primary energy savings, expressed in Tonnes of Oil Equivalent (TOE) saved. One certificate is equivalent to 1 TOE.

Electricity and gas distributors can fulfil their obligation by directly realizing energy efficiency projects that entitle GSE to issue WC or by purchasing WC from other entities that generate them on the market (typically Energy Service Company – ESCO).

The Authority defines the procedures for determining and disbursing the tariff contribution to be recognized to the distributors subject to the obligations.

Following the entry into force of Ministerial Decree MED January 11, 2017, setting national quantitative targets for energy savings for the years 2017 to 2020 and the approval of the new WC Guidelines, and considering the results of the investigation conducted by the same regulator on the abnormal trend in prices of WC between June 2016 and March 2017, by way of Resolution 435/2017/E/efr, the Authority revised the rules for determining the tariff contribution.

The Resolution established:

- a reference contribution, replacing the current estimate contribution, which takes account of the weighted average (on volumes of market transactions and bilateral agreements) of the definitive contributions of the previous two years of obligation, establishing a transitional period for the year of obligation 2017, which is expected to attribute a greater weight to the 2016 final contribution compared to 2015;
- a significant session reference price, S(t), equal to the weighted average price of transactions carried out during a market session and concluded at a price within the range of ±12% with respect to the reference price of the previous session (therefore, a maximum value in absolute terms has not been set);
- some changes to the parameters γ and β that define parameter “k” of correlation between the values of market exchanges and the reference contribution. In detail, the value of γ remains unchanged for the next year of obligation 2017 and fixed at 4 €/WC from 2018, while the parameter β increased from 0.85 to 0.9;

- the payment of an advance equal to the definitive contribution of the previous year on November 30, to be applied to a WC limit that may be delivered by distributors;
- the adoption of the criterion of competence (instead of the current of cash), from the year of obligation 2017, for the disbursement of the definitive contribution. The criterion of cash will be applied only to recovery of objectives related to the years of obligation 2015 and 2016.

The table below shows the objectives and obligations of energy saving for Italy and for electricity and gas distributors for the years 2017-2020:

		National Energy Saving Targets (Mtep/year)	Targets for distributors of electricity[1] Millions of WC	Targets for distributors of gas[1] Millions of WC	Minimum target[2] (%)	Period to compensate the residual obligatory portion[2] (no. years)
Ministerial Decree December 28, 2012	2013	4.60	3.03	2.48	50%	2
	2014	6.20	3.71	3.04	50%	2
	2015	6.60	4.26	3.49	60%	2
	2016	7.60	5.23	4.28	60%	2
Ministerial Decree January 11, 2017	2017	7.14	2.39	2.95	60%	1
	2018	8.32	2.49	3.08	60%	1
	2019	9.71	2.77	3.43	60%	1
	2020	11.19	3.17	3.92	60%	1

(1) Obliged entities: electricity and gas distributors with more than 50,000 final customers connected to their distribution network.
(2) Minimum target and compensation period: obliged entity that achieves its own obligation portion of less than 100%, however still equal to at least the minimum target set by Ministerial Decree (50% or 60%) can compensate the residual portion in the two-year period (n+2) or in the following year (n+1) without incurring penalties, in accordance with Ministerial Decree.

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism. By May 30, 2017, it cancelled all the remaining 2015 (80,336 WC) and 60% of the 2016 obligation (i.e. 290,937 WC out of 484,895 WC).

Pending the publication of the specific Authority Determination, it is possible to estimate a 2016 final contribution of 191.40 €/WC against an estimated value of 118.37 €/WC.

Integrated Water Service (SII):

a) Duration of assignments

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

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

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

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

b) Tariff regime

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

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

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

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

The hearing is still waiting to be scheduled by the Lombardy Regional Administrative Court (TAR).

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

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

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

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

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

For A2A Ciclo Idrico S.p.A., the values of the parameter theta already applied for the years 2012-2015 are confirmed, while for the period 2016-2019, the Resolution established an 8.5% annual increase and a maximum amount of balances to be reported in years subsequent to 2019 of 11.4 million euro.

In DCO 251/2017/R/idr, the Authority illustrates the first qualitative guidelines regarding the completion of the simplification and rationalization process of the SII fee structure, aimed at:

- identifying the annual discounted consumption band for resident households in accordance with the provisions of Prime Ministerial Decree of October 13, 2016 implementing article 60 of Law 221/2015 (Environmental Connection);
- providing some signs of efficiency and effectiveness in terms of resource and environmental conservation in compliance with the "polluter pays" principle;
- favouring universal access to water and the social and economic sustainability of user fees.

In particular, a general structure of the tariff is proposed for resident households *per capita*. Considering the currently applied articulations, from a point of view of progressive reallocation of charges to users, the Authority is inclined to provide that the maximum fees are to be allocated to resident households in a general structure already covered by MTI-2 regulation and up to now considered optional.

In DCO 422/2017/R/idr, the Authority also sets out further aspects of definition of the collection and treatment tariff for industrial waste water, following in-depth analysis and considering the comments received in response to the previous DCO (299/2014/R/idr and 620/2014/R/idr) and the discipline of unbundling being implemented.

The Authority seeks to pursue the dual purpose of:

- overcoming the disparities in treatment between discharges having the same pollutant profile;
- avoid creating cross-subsidies between the different types of users that are associated with different environmental impacts, while at the same time seeking efficient and non-distorting allocation of costs.

A trinomial tariff is proposed that exceeds the tariff regulation provided by the EGA of Brescia. New tasks are envisaged for the operator in terms of qualitative measurement and verification of discharges and also that the determinations can be carried out by other accredited bodies.

c) Contractual quality

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

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

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

d) Standard agreement

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

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

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

e) Accounting Unbundling Integrated Text

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

In particular, the following accounting separation regimes are envisaged:

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

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

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

f) Metering activities

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

The measure, confirming the general approach of the DCO 42/2016/R/idr, introduces, with effect from January 1, 2017, a first set of provisions concerning utility metering, deferring to subsequent rulings the discipline relating to the metering of industrial users authorized to discharge into the public sewer, the theme of the water balance and definition of levels of performance of the metering service. In particular, the regulation imposes on the operators of the water service the responsibility for the metering service, involving obligations of installation of meters and periodic collection (based on consumption) of metering. Obligations are also introduced for the collection of self-reading of meters and archiving (5 years) and provision of consumption by the parties concerned.

By way of Resolution 43/2017/R/idr, the Authority rejected the request for derogation from the application of art. 7.4 of Resolution 218/2016/R/idr presented by the major operators, including A2A Ciclo Idrico S.p.A. and ASVT S.p.A., in agreement with their EGA, by requesting compliance by December 31, 2017.

Article 7.4, letter (i) states that in carrying out planned metering collection activities, operators shall be required to provide preliminary information to final users of the metering collection attempts by informing them of the day and time intervals staff will pass to collect metering data. Such communication must be provided within a time interval between 5 and 2 working days prior to the date of the collection attempt, in the form reserved only to the users involved, by e-mail or SMS or by telephone or preferred method indicated by the user.

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

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

By way of Resolution 638/2016/R/idr, the Authority initiated the procedure for the adoption of directives to reduce arrears in the SII.

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

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

DCO 470/2017/R/idr illustrates the guidelines for defining the criteria and operating modalities for the implementation of the social water bonus discipline and its quantification in favour of resident households in a documented state of economic-social difficulty. The guidelines consider both the provisions of Prime Ministerial Decree of October 13, 2016 and the observations made by subjects to DCO 251/2017/R/idr on the reform of the criteria for the allocation of fees to be applied to the users.

The Authority intends to introduce uniform rules for the entire national territory and is aiming to ensure that the social water bonus is quantified by each operator by applying the facilitated tariff to the minimum consumption band, considering the actual number of persons making up the household. The Authority is also oriented to identifying in the operator the subject that simultaneously verifies the eligibility requirements and issues the bonus by immediately providing the user with the result of the request for access and reducing the time for disbursement of the benefit.

In December 2016, A2A Ciclo Idrico S.p.A. had already voluntarily activated the Water Bonus (as required by Resolution 16/2016 of the EGA of Brescia, which had approved "previous items"), which will allow families in economic difficulty to reduce spending on SII serving a sum equivalent to the cost of 55 litres per day, equivalent to 20 cubic meters per year. The amounts discounted by the company will be excluded from recognition of costs for tariff purposes.

The State Council judges that the Authority's water tariff method complies with the results of the popular referendum of 2011

In May 2017, the Council of State, by Decision no. 02481/2017, reiterated the full validity of the tariff method (MTT) by means of which the Authority defined the criteria for SII tariffs in 2012 (and starting base for subsequent years).

Administrative judges, rejecting appeals against the sentence of the Regional Administrative Court (TAR) that had already affirmed compliance of the regulation to the popular consultation of 2011, have in fact definitively rejected the argument by which the Authority, through its tariff regulation, reintroduced the criterion of "Adequacy of the remuneration of invested capital", eliminated following the referendum.

In particular, the sentence, also made on the basis of expert technical advice requested by the Council of State to a third panel of experts, reiterated among the various elements that the tariff methodology adopted by the Authority appears in line with the dictated referendum and with the principle of full cost recovery, in itself fully compatible with the outcome of the referendum.

The correctness of the Authority's conduct for all the other aspects of the appeals was also reiterated.

Authority's activities in the district heating/district cooling (district heat) sector

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

After the first recognition in 2014 (Resolution 411/2014/R/tlr), the Authority proceeded with two additional data collections in 2015 for the establishment of a database of operators and methods to determine and update prices applied to users (Resolution 578/2015/R/tlr). In February 2016, A2A Calore & Servizi S.r.l. received a further request for information on the costs of heat metering and accounting systems.

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

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

- The European and national regulatory reference framework, with regard to the installation requirements of supply meters, individual meters and distributors;
- the classification of metering systems for thermal energy and domestic hot water and the technical requirements and minimum performance of supply and individual meters to be installed (with eventual remote reading), also after December 31, 2016;

- the criteria for the evaluation of the technical and economic feasibility of the installation of individual meters for heat and domestic hot water, the installation of which is always obligatory in the case of new connections in new buildings and in the case of major renovations (with hydronic systems and horizontal configuration). In other cases, instead, the installation must be preceded by an evaluation of the technical and economic feasibility according to criteria the definition of which is entrusted to the Authority by Legislative Decree no. 102/2014.

With a statement dated September 23, 2016, the Authority stated that due to the changes introduced in article 9, paragraph 1, of aforementioned Legislative Decree no. 102/2014, the definition of the technical and performance requirements of individual meters (renamed sub-meters by Legislative Decree July 18, 2016, no. 141) and the criteria for assessing the technical and economic feasibility of their installation in buildings with several property units and multifunctional buildings served by district heating and cooling networks are no longer among the Authority's competences.

Regarding the supply meters, in view of the regulatory changes introduced, the Authority considered it appropriate to not adopt the regulatory measures on the minimum requirements of meters already covered by DCO 252/2016/R/tlr, postponing to a new consultation (including definition of remote metering).

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

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

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

In the first half of 2017, the Authority published:

a) Resolution 282/2017/R/tlr relating to the "sub-billing" service designed to ensure maximum transparency for the final customer regarding the characteristics of the service offered and the related costs by providing annual contracts and safeguarding competition in the market for the provision of the service;
b) DCO 112/2017/R/tlr and 378/2017/R/tlr relating to the criteria for determining the connection fees and methods by which users can exercise the right to deactivate the supply and disconnect from the network;
c) DCO 46/2017/R/tlr and 438/2017/R/tlr regarding the provisions related to the start-up, management and termination of the contractual relationship.

The implementing measures of the DCO referred to in letters (b) and (c) above are expected in the third quarter of 2017 and will mostly have management, organizational and information impacts.

White Certificates and district heating incentives

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

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

Part of the WC issued in 2016 was used by May 30, 2017 to fulfil the obligation of Unareti S.p.A., while the remaining part will be accounted for in the Income Statement when the WC will be sold to third parties.

At June 30, 2017, the warehouse at A2A Calore & Servizi S.r.l. was equal to 75,542 WC.

Foreign Business Unit

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

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

EPCG

Production

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

More specifically, in September 2011 the Government issued a regulatory deed ("Decree on the Tariff System for the Establishment of Preferential Prices of Electricity from Renewable Sources of Energy and Efficient Co-generations"), by means of which it determined incentivizing tariffs for the purchase of electricity to support the production of energy from renewable energy sources (FER). The 2010 and 2016 Energy Laws provide incentive measures for energy from renewable sources. FER Energy Producers that qualify as Privileged Producers stipulate with the Market Operator (COTEE) of Power Purchase Agreements at a regulated price. The incentive measures consist of guaranteed prices, guaranteed purchase and exemption from the dispatching cost for 12 years.

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

In operation since April is the Krnovo Green Energy wind plant, which EPCG contractualized until official recognition as Privileged Producer.

Transmission and distribution tariffs/sales prices

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

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

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

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

It is noted that in January 2016, the new Energy Act came into force, which established the tariffs for 2017 and a regulatory framework for the three-year period 2017-2019. The legislative amendments with respect to the previous Energy Act have a significant impact on the operation of EPCG - FU Supply and a positive impact on the revenues of EPCG, as the tariffs for distribution, although down 5% in 2017 compared to the 2016 value, are expected to increase by about 3% per year in the period 2017-2019. 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 new law abolishes, from January 1, 2017, the role of the public supplier and therefore, EPCG becomes market supplier. In addition, the price of electricity for industrial users is established according to market conditions, while for domestic and small users, annual caps were established relating to the increase in electricity prices at least in force until greater competition will develop in the sector and no later than 2019.

Electricity market

The agreement was formalized between the EPCG market operator, the CGES network operator and the COTEE market operator for the establishment of the Montenegrin Electricity Market.

Scenario and market

Macroeconomic scenario

Overview

In the first half of 2017, the recovery of global economic activity continued. The outlook for global growth is being consolidated thanks to the boost of expansive policies in the major advanced economies and the acceleration in the economies of emerging countries.

Growth beyond expectations in the United States. The Bureau of Economic Analysis revised GDP growth upwards in the first quarter of 2017, raising it to +1.4% from the previous +1.2% as a result of a higher increase in consumption spending and exports.

In Japan, GDP grew by 1.0% in the first quarter of 2017, slower than the preliminary estimate of +2.2% (Source: Economic and Social Research Institute of the Japanese Cabinet Office).

China's GDP rose in the second quarter of 2017 to 6.9%, better than analysts' estimates (6.8%) and confirms the first quarter figure. Growth was driven by retail sales, industrial production and investment recovery.

In India, economic growth slowed in the first quarter of 2017, to 6.1% (from 7.0% in the previous quarter); this dynamic is mainly attributable to the slowdown in private consumption. In the same period, Russia's GDP stood at 0.2% -0.4%, benefiting from the recovery of oil prices (source: Bank of Russia). GDP in Brazil shows a slight recovery in the first quarter of 2017, to +1.0% from 0.9% in the fourth quarter of 2016.

According to preliminary estimates made by the Istat, Insee and Ifo research institutes, the Eurozone GDP is expected to reach 0.5% in the second quarter of 2017, thanks to the recovery of private and public consumption, favoured by the increase in available income and the positive labour market conditions.

In Italy, the strengthening of economic activity continues. According to the estimate contained in the Bank of Italy's "Economic Bulletin", GDP is expected to reach 0.4% in the second quarter of 2017 due to the recovery of domestic demand and improved consumer confidence.

Regarding the Eurozone, Eurostat reported that inflation on an annual basis was estimated at 1.3% in June 2016, down from 1.4% in May, direct consequence of the decline in energy prices.

In Italy, inflation averaged 1.4% in the first half of 2017, slowing down, however, in June 2017: according to preliminary estimates published by Istat, the consumer price index (NIC) rose by 1.2%, down from 1.4% in May. The deceleration is attributable, in line with as observed in the Eurozone, to the return of the increases that had affected energy goods and food products in recent months.

At its meeting on July 20, 2017, the Governing Council of the ECB decided to keep the reference rate at the historical minimum of 0.00% and to extend the Quantitative Easing to the current monthly rate of 60 billion euro until the end of December 2017, or even longer, until there is a permanent adjustment in the evolution of prices, consistent with the inflation target of close to 2%. Confirming expectations, at the meeting held June 14, the Federal Reserve raised the target range for the rate on federal funds (1.00% - 1.25%) by 25 basis points after the hike to 0.75% - 1.00% decided in March, underlining the improvement in labour market conditions and signs of recovery in investments. With said hike, interest rates in the United States returned to above 1% for the first time since 2008, the year when the financial crisis broke out.

In the second quarter of 2017, appreciation of the euro exchange rate against the dollar continued (+3% quarterly change). In the first half of 2017, the EUR/USD exchange rate stood at 1.08 dollars, down 3% over the corresponding period of 2016.

Outlook

Favourable economic indications show gradual consolidation of growth prospects related to a recovery in investments, manufacturing and labour market activities in most advanced and emerging countries. However, several risk factors remain, including the growing protectionist impulses that in many advanced economies could turn into regulatory barriers to growth, the persistence of low inflation and wages at global level, and the uncertainty related to future relations between the United Kingdom and the European Union. Lastly, the threat remains of the strengthening of geopolitical tensions, especially in the Middle East: in June, Bahrain, Egypt, Saudi Arabia and the United Arab Emirates interrupted any diplomatic relations with Qatar, accusing it of supporting Islamic extremism.

According to the OECD publication, in June's Economic Outlook, world GDP is expected to grow by 3.5% this year and accelerate to +3.6% in 2018, driven by growth in industrial production and employment recovery, as well as trade flows. Another contribution to growth comes from the exit from the recessionary phase of Russia and Brazil.

Among the major advanced economies, US expansion has been revised downwards by the International Monetary Fund (IMF) compared to the estimate formulated in April: GDP is expected to grow by 2.1% in 2017 and 2018 and slip to a modest +1.7% within the next five years. This change in estimates is influenced by the fact that many details of the US tax reform and cut in public spending promised by the US President Donald Trump, have not yet been decided.

In Japan, GDP is expected to reach 1.4% in 2017 and 1% in 2018.

With regard to China, the IMF raised the estimate on economic growth for 2017, bringing it to 6.7% (+6.6% in April), while for the three-year period 2018-2020, it expects average growth of 6.4%. India's expansion rates are expected to increase to 7.3% this year and to 7.7% in 2018. The World Bank revised economic forecasts for Russia upwards: GDP is expected to reach 1.3% this year and 1.4% in 2018 and 2019; growth of 0.5% is expected in Brazil this year to then accelerate to 1.6% in 2018.

Macroeconomic projections for the Eurozone, formulated by Eurosystem experts in June, forecast annual GDP growth of 1.9% in 2017, 1.8% in 2018 and 1.7% in 2019. Compared to March, growth forecasts have been revised upwards since the current positive dynamic in the cycle increases the likelihood of stronger economic recovery than expected. German GDP was revised upwards (+2.0% in 2017 and +1.7% in 2018 respectively from +1.6% and +1.5%) as was also French GDP (+1.6% in 2017 and +1.7% in 2018 from +1.4% and +1.5%). There was also a significant leap for Spain (+3.0% in 2017 and +2.6% in 2018 from +2.5% and +2.1%).

With regard to Italy, the Bank of Italy estimates GDP growth to 1.4% for 2017, up from January (+0.9%), to a more moderate +1.3% in 2018 and +1.2% in 2019. The main factors considered in preparing the forecast are related to the joint benefits of a moderately expansive budget policy, exceptionally accommodating monetary policy and low commodity prices.

According to OECD forecasts, Eurozone inflation is expected to reach 1.5% in the current year (from 0.2% in 2016) to then fall to 1.3% in 2018 and rise to 1.6% in 2019. Compared to March projections, the outlook for overall inflation shows a downward revision, mainly due to lower oil prices. Uncertainty remains high in particular as regards the future of relations between the United Kingdom and the European Union, as well as public debt that has not yet been sufficiently reduced.

In Italy, according to the estimate contained in the "Macroeconomic projections of the Bank of Italy", consumer inflation will remain modest: it is expected to reach 1.4% in the current year and 1.1% in 2018, and then rise to 1.6% in 2019, due to a moderate acceleration in salaries.

The Governing Council of the ECB considers that a high level of monetary adjustment remains necessary to ensure a stable inflation adjustment to the 2% target; therefore, official rates are expected to remain at current levels for a prolonged period of time and well beyond the horizon of net asset purchases. On the other hand, inflation has not yet shown convincing signs of recovery and a gradual increase is expected in the medium term.

Members of the Federal Open Market Committee (FOMC) confirmed the forecast for a further increase in interest rates in 2017 and three in 2018 and 2019. The Federal Reserve expects that economic conditions will evolve in such a way as to ensure a gradual increase in interest rates so as to strengthen the labour market and bring inflation close to 2%.

The trends in the levels of interest rate and therefore the roles of central banks will be decisive for the exchange rates of the single currency. In addition to the moves of central banks, Trump's ability to implement his ambitious election program, the consistency of reforms and the dynamics of inflation within the Eurozone, will have an important role in determining the exchange rate between the two currencies.

Energy market trends

The price of oil in the second quarter of 2017, after the recovery of prices recorded in the first quarter of the year, remains anchored at around 50 dollars a barrel. The power of OPEC to condition this threshold upwards remains limited by high stock and the reduction in US shale oil production costs, also favoured by the elimination of many environmental constraints by the Trump administration.

On average, in the first half of 2017, the price of Brent stood at 52.8 $/bbl, showing an increase of 29% compared to the same period of the previous year (41.0 $/bbl). On May 25, at the meeting held in Vienna, OPEC member countries alongside Russia extended until March 2018 the agreement for a total cut of production of 1.8 million barrels per day, to relaunch prices. This agreement did not yield the hoped-for effect, with the price remaining below 50 $/bbl.

Forecasts by leading analysts and investment banks remain for a Brent price that is expected to reach 55 $/bbl on average for the year and around 58 $/bbl in 2018.

Regarding the world oil demand, the US Energy Information Administration (EIA) agency has increased its estimates for 2017 and 2018. According to the EIA, demand this year will reach 98 million barrels a day and in 2018 there will be a further global growth of 1.4 million barrels a day for a total of 99.4 million barrels, close to the threshold of 100 million. After a first quarter of 2017 considered mediocre by EIA, the second quarter surprised analysts with an accelerating demand of 1.5 million barrels a day due to a combined increase in US and German requests.

As regards coal, there was a first period of the year characterized by prices significantly higher. The average price of coal in the first half of 2017 stood at 77.5 $/tonne, an increase of 65% over the figure reported in the same period the previous year (47.0 $/tonne). The price of coal, which in the medium term remains driven by oil and energy strategies in Asian countries, mainly from China, is expected to reach around 77 $/tonne on average per year; the same price is expected for 2018 (source: Ref).

Electricity

As far as the national electricity market is concerned, in Italy in the period January-May 2017, there was a net requirement of 127,238 GWh (source: Terna), in line with the same period of 2016.

Net production of electricity reached 112,869 GWh, up 3.9%. The reduced water availability led to a significant decrease in production from hydroelectric sources, which stood at 13,939 GWh, a decrease of 12.1% compared to the period January-May 2016. Thermoelectric production increased by 8.6% over the same period of 2016, reaching 78,687 GWh, benefiting from reduced hydraulicity levels and stiffer temperatures recorded in the first months of the year.

As for renewable sources, there was a discordant trend in the period January-May 2017: photovoltaic was up by 13.3% compared to the corresponding period of 2016; on the other hand, there was a decrease in both wind power (-13.1%) and, to a lesser extent, geothermal production (-1.8%).

National production, excluding pumping, accounted for 87.9% of the demand for electricity, while net imports satisfied the remainder.

In terms of electricity prices, the Base Load PUN (Single National Price) in the first half of 2017 rose by 38.2%, amounting to 51.2 €/MWh against 37.0 €/MWh in the first half of 2016. The price showed a discordant trend over the six-month period: starting from high January values (72.24 €/MWh and conditioned by the stoppage of some French nuclear plants), it fell in April and May (respectively 42.8 €/MWh and 43.0 €/MWh) to then rise again in June to 48.9 €/MWh. Upward trend also for average prices in high load time slots (+40.4% for the Peak Load PUN reaching 57.4 €/MWh). The price in low load time slots (Off-Peak PUN) recorded an increase of 36.5% to 47.7 €/MWh. For the current year, forward curves indicate Base Load PUN prices with average values close to 50 €/MWh.

Natural Gas

In the first half of 2017, the demand for natural gas in Italy increased by 9.6% compared to the same period in 2016, amounting to 39,154 Mcm (source: Snam Rete Gas).

The recovery mainly concerned consumption of the thermoelectric sector, which reached 12,180 Mcm and showed an increase of 20.0% compared to the first half of 2016, benefiting from the increase in electricity demand and the simultaneous decline in hydroelectric production due to reduced hydraulicity. Industrial sector consumption confirms the recovery phase and reached 7,218 Mcm, with an increase of 6.2% compared to the first half of 2016. Consumption of the residential and commercial sector also grew in the first half of 2017 (+4.1%), despite a slight slowdown in June (-3.8% compared to June 2016).

On the supply side, imports of natural gas continue to grow reaching 35,450 Mcm (+13.0% over the same period of 2016), while national production declined by 4.9%. Imports represented around 93.2% of requirements net of changes in stocks, while national production covered the remainder. Analysing imports by entry point, there was a sharp halt for Algerian gas, offset by a jump in contributions from North Europe and Russia.

Regarding prices, the price of gas to the TTF for the first half of 2017 amounted to 17.0 €/MWh, up 31.1% over the first half of 2016.

The price of gas to the PSV showed a discordant trend in the half-year, which, from the high values in January equal to 22.8 €/MWh (due to the harsh weather conditions across Europe), declined in March reaching 17.8 €/MWh and then slightly rose in the second quarter of the year, reaching an average of 18.1 €/MWh. Specifically, the average price of gas to the PSV for the first half of 2017 amounted to 19.3 €/MWh, up 32.1% compared to the first half of 2016. For 2017, forward curves indicate prices with average values close to 19 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 2.2 €/MWh for the reporting period, up compared to the differential of the first half of 2016 (1.6 €/MWh). The gas market to the PSV tends to confirm a structural spread over the TTF for the year 2017, averaging around 2.6 €/MWh and revealing a short market dependent on imports from North and Eastern Europe. For the years 2017 and 2018, a reconfirmation of spreads above 2 €/MWh is expected (source: Ref).

Results
sector by sector

Results sector by sector

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

Generation and Trading Business Unit

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

Commercial Business Unit

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

Environment Business Unit

The activities of the Environment Business Unit relates to the management of the integrated waste cycle, which ranges from collection and street sweeping to the treatment, disposal and recovery of materials and energy.

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

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

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

(1) Total installed capacity of 8.8 GW.

Networks and Heat Business Unit

The activities of the Networks and Heat Business Unit mainly consists of the technical and operational management of networks for the distribution of electricity, the transport and distribution of natural gas and the management of the entire integrated water cycle (water captation, aqueduct management, water distribution, sewerage network management, purification). It is also aimed at the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group) through district heating networks and ensures the operation and maintenance of cogeneration plants and district heating networks. Also included are activities relating to the management service of third-party heating plants (heat management services), public lighting, traffic regulation systems, the management of votive lights and systems design services.

Foreign Business Unit

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

A2A Smart City

The company is the reference operator within the A2A Group for the provision of telecommunications services. In particular, it provides services related to the management of fixed and mobile telephony and data transmission lines as well as services related to the management and development of infrastructure in support of communication. A2A Smart City is also a major provider in the realization and management of video surveillance and access control systems.

Corporate

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

(2) Total installed capacity of 0.9 GW.

Generation and Trading Business Unit

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

Quantitative data - electricity sector

GWh SOURCES	06 30 2017	06 30 2016	Changes	% 2017/2016
Net production	**6,415**	**5,985**	**430**	**7.2%**
- thermoelectric production	4,775	3,722	1,053	28.3%
- hydroelectric production	1,640	2,262	(622)	(27.5%)
- photovoltaic production	-	1	(1)	(100.0%)
Purchases	**24,742**	**21,494**	**3,248**	**15.1%**
- stock exchange	4,149	4,847	(698)	(14.4%)
- wholesalers	1,731	1,863	(132)	(7.1%)
- Trading/Service portfolio	18,862	14,784	4,078	27.6%
TOTAL SOURCES	**31,157**	**27,479**	**3,678**	**13.4%**
USES				
Sales to Group Retailers	2,994	3,041	(47)	(1.5%)
Sales to other wholesalers	3,387	3,122	265	8.5%
Sales on the stock exchange	5,914	6,532	(618)	(9.5%)
Trading/Service portfolio	18,862	14,784	4,078	27.6%
TOTAL USES	**31,157**	**27,479**	**3,678**	**13.4%**

The sales figures are stated gross of any losses.

The Group's electricity output in the first half of 2017 amounted to 6,415 GWh, to which should be added purchases of 24,742 GWh for a total availability of 31,157 GWh.

Thermoelectric production was up compared to the first half of the previous year mainly due to the greater quantities produced by the CCGT plants following the stoppage at the nuclear power plants in France and the high temperatures recorded in June in the current year. This increase was partially offset by the decline in hydroelectric production due to the low precipitations that characterized the first half of the current year, the lower quantities produced by the Monfalcone plant for planned maintenance in April, carried out in advance with respect to the previous year, and the lower production of the San Filippo del Mela plants, deriving from the lower demand for electricity recorded in Sicily compared to the first half of 2016. In fact, the connection cable between Sicily and the rest of Italy has only been in operation since May 28 of last year.

Purchases of electricity amounted to 24,742 GWh (21,494 GWh at June 30, 2016): fewer purchases on the wholesale markets and on the stock exchange were offset by higher volumes traded as part of trading activities.

During the reporting period, higher sales were recorded on wholesale markets (+8.5%) and lower sales were recorded on the stock exchange (-9.5%) and to the Commercial Business Unit (-1.5%).

The amount of electricity traded in the trading context recorded an increase of 27.6%.

Overall in the period under review, electricity sales of the Generation and Trading Business Unit reached a total of 31,157 GWh (27,479 GWh at June 30, 2016).

Quantitative data - gas sector

Millions of cubic metres	06 30 2017	06 30 2016	Changes	% 2017/2016
SOURCES				
Procurement	1,858	1,252	606	48.4%
Withdrawals from stock	39	97	(58)	(59.8%)
Internal consumption/GNC	(7)	(6)	(1)	16.7%
Trading/Service portfolio	1,936	1,524	412	27.0%
TOTAL SOURCES	**3,826**	**2,867**	**959**	**33.4%**
USES				
Commercial Business Unit uses	717	679	38	5.6%
Thermoelectric uses	742	393	349	88.8%
Heat and Environment Business Unit uses	56	48	8	16.7%
Wholesalers	375	223	152	68.2%
Trading/Service portfolio	1,936	1,524	412	27.0%
TOTALE USI	**3,826**	**2,867**	**959**	**33.4%**

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

The volume of gas sold in the first half of 2017 amounted to 3,826 million cubic meters, up 33.4% over the corresponding period of 2016 (2,867 million cubic meters).

In particular, there was an increase in volumes of gas managed as part of the Trading Portfolio (+412 million cubic meters) due to an increase in intermediation activities, volumes sold for thermoelectric uses (+88.8%), volumes sold to wholesalers (+68.2%), as well as volumes of gas sold to the Commercial Business Unit (+5.6%).

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	1,533	1,225	308	25.1%
Gross Operating Margin	186	170	16	9.4%
% of Revenues	12.1%	13.9%		
Depreciation, amortizations, provisions and write-downs	(71)	(100)	29	(29.0%)
Net Operating Income	115	70	45	64.3%
% of Revenues	7.5%	5.7%		
Investments	11	8	3	37.5%
FTE	1,110	1,135	(25)	(2.2%)
Labour costs	44	47	(3)	(6.4%)

Revenues amounted to 1,533 million euro, an increase of 308 million euro over the same period of the previous year, mainly due to the higher sales of electricity and gas traded in the wholesale markets and the favourable trend of the energy scenario, which has led to an increase in spot and forward prices.

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 186 million euro, up 16 million euro on the first six months of the previous year.

Net of the non-recurring items - down by around 13 million euro compared to the first half of 2016 - the Gross Operating Margin of the Generation and Trading Business Unit was up by around 29 million euro. The increased demand on the domestic market, favored in the first months of the year by the decline in quantities imported from France (due to both the shutdown of some nuclear plants and the significant fall in temperatures in the first half of January) and in June 2017, by the exceptional heat wave, has led to a significant increase in electricity prices, both on the MGP and on the dispatching market. This scenario was beneficial for all the Group's plants, and in particular the gas ones - CCGT - which recorded strong growth in margins, however penalizing the gas forward market in relation to forward sales. Moreover, the growth of the gas portfolio margin thanks to the efficiency of the purchasing policies contributed to the excellent performance of the Generation and Trading Business Unit. On the other hand, the lower feed-in tariff revenues have contributed negatively to the lower hydroelectric production due to the poor hydraulicity recorded in the first half of 2017, mainly attributable to the Valtellina plants, as well as the different structure of the must-run regime recognized to the San Filippo del Mela plant.

Depreciation, amortization, provisions and write-downs totalled 71 million euro (100 million euro at June 30, 2016). The decrease of 29 million euro is mainly attributable to the lower depreciation of the Monfalcone plant due to the write-down of the plant at the end of 2016, lower provisions for risks to cover contractual costs, as well as the release of tax provisions for the Udine and Mese plants in the first half of 2017, for litigation concluded definitively.

As a result of the above changes, Net Operating Income amounted to 115 million euro (70 million euro in the first half of 2016).

In the period in question, the Investments amounted to around 11 million euro and mainly concerned the extraordinary maintenance interventions at the hydroelectric plants of Mese, Calabria and Valtellina for around 4 million euro and the thermoelectric plants of Monfalcone, Gissi, Chivasso and Piacenza for around 7 million euro.

In the first half of 2017, there was a decrease of 25 FTE compared to the same period of 2016: net of the contribution of LGH of about 29 FTE, the decrease of 54 FTE in the first half of the current year compared to the same period of 2016 is mainly due to the efficiency plan of the generation sector.

Commercial Business Unit

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

Quantitative data

Electricity Sales	06 30 2017	06 30 2016	Changes	% 2017/2016
Electricity Sales Free Market (GWh)	2,999	2,973	26	0.9%
Electricity Sales under Greater Protection Scheme (GWh)	928	1,016	(88)	(8.7%)
Total Electricity Sales (GWh)	**3,927**	**3,989**	**(62)**	**(1.6%)**

POD Electricity spot at 06 30	06 30 2017	06 30 2016	Changes	% 2017/2016
POD Electricity Free Market (#/1000)	397	264	133	50%
POD Electricity under Greater Protection Scheme (#/1000)	653	697	(44)	(6%)
Total POD Electricity (#/1000)	**1,050**	**961**	**89**	**9%**

Gas Sales	06 30 2017	06 30 2016	Changes	% 2017/2016
Gas Sales Free Market (Mcm)	552	373	179	48.0%
Gas Sales under Greater Protection Scheme (Mcm)	353	291	62	21.3%
Total Gas Sales (Mcm)	**905**	**664**	**241**	**36.3%**

PDR Gas spot at 06 30	06 30 2017	06 30 2016	Changes	% 2017/2016
PDR Gas Free Market (#/1000)	405	235	170	72%
PDR Gas under Greater Protection Scheme (#/1000)	890	849	41	5%
Total PDR Gas (#/1000)	**1,295**	**1,084**	**211**	**19%**

The amounts of sales are stated gross of losses.

In the reporting period, the Commercial Business Unit recorded 3,927 GWh of electricity sales (-1.6% compared to the first half of 2016) and 905 million cubic metres of gas sales (+36.3% compared to the same period of the previous year).

The reduction in the electricity sector can mainly be attributed to the lower quantities sold to customers served under the protected regime following transition thereof to the free market, and to large customers, partially offset by the increase in sales to the mass-market customer base and the contribution of LGH.

Growth in the gas sector is mainly due to a greater number of redelivery points served on the free market and larger volumes sold to large customers, as well as the contribution of the LGH Group.

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	794	669	125	18.7%
Gross Operating Margin	77	73	4	5.5%
% of Revenues	9.7%	10.9%		
Depreciation, amortizations, provisions and write-downs	(10)	(9)	(1)	11.1%
Net Operating Income	67	64	3	4.7%
% of Revenues	8.4%	9.6%		
Investments	3	2	1	50.0%
FTE	580	467	113	24.2%
Labour costs	17	12	5	41.7%

Revenues amounted to 794 million euro (669 million euro at June 30, 2016), an increase of 18.7%: net of the contribution of the LGH Group of 139 million euro, there was a decrease in revenues mainly related to lower quantities of electricity sold to large customers compared to the same period of the previous year.

The Gross Operating Margin of the Commercial Business Unit amounted to 77 million euro, up by 4 million euro with respect to the same period of 2016, thanks to both the contribution deriving from the gas sector margin for the greater volumes sold and the contribution of the consolidation of the LGH Group. This increase was partially absorbed by the lower margins recorded in the electricity segment relative to sales to large customers, mainly due to higher cost for imbalances.

Depreciation, amortization, provisions and write-downs totalled 10 million euro (9 million euro in the first half of 2016).

As a result of the above changes, Net Operating Income amounted to 67 million euro (64 million euro in the same period of the previous year).

In the period in question the Investments of the Commercial Business Unit amounted to around 3 million euro and mainly concerned development and evolution maintenance on hardware and software platforms to support marketing and invoicing activities.

In the first half of 2017, there was an increase of 113 FTE over the same period of 2016: net of the contribution of LGH of around 91 FTE, the increase of 22 FTE is mainly due to new entries aimed at maintaining the service levels in the Contact Center area and strengthening the Marketing and Sales area.

Environment Business Unit

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

Quantitative data

	06 30 2017	06 30 2016	Changes	% 2017/2016
Waste collected (Kton)	800	678	122	18.0%
Residents served (#/1000)	3,562	2,859	703	24.6%
Waste disposed of (Kton)	1,763	1,224	539	44.0%
Electricity sold (GWh)	923	825	98	11.9%
Heat sold (GWht)*	751	692	59	8.5%

(*) Quantities at the plant entrance.

In the first half of 2017, the quantity of waste collected, amounting to 800 thousand tonnes, was up (+18%) compared to the same period of the previous year. Net of waste collected related to the LGH Group (133 thousand tonnes), the quantities are substantially in line. Also the amount of waste disposed of, equal to 1.8 million tonnes at June 30, 2017, increased (+539 thousand tonnes) compared to the first half of 2016: in addition to the greater quantities deriving from the consolidation of the LGH Group (366 thousand tonnes), greater disposals were recorded at the treatment plants of the new companies acquired by the A2A Group in the second half of 2016.

The quantities of electricity sold were up 98 GWh compared to the first half of 2016, thanks to the contribution of the LGH Group (+108 GWh) and heat production was also up (+59 thermal GWh) thanks to both the contribution of the LGH Group (+42 GWht) and due to higher quantities required by the district heating sector.

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	496	403	93	23.1%
Gross Operating Margin	137	119	18	15.1%
% of Revenues	27.6%	29.5%		
Depreciation, amortizations, provisions and write-downs	(44)	(41)	(3)	7.3%
Net Operating Income	93	78	15	19.2%
% of Revenues	18.8%	19.4%		
Investments	42	28	14	50.0%
FTE	5,685	4,827	858	17.8%
Labour costs	152	130	22	16.9%

In the first half of the year, the Business Unit recorded revenues of 496 million euro (403 million euro at June 30, 2016), up by 93 million euro compared to the first half of the previous year, mainly due to the consolidation of the newly acquired companies.

The Gross Operating Margin of the Environment Business Unit amounted to 137 million euro, up by 18 million euro compared to the same period of the previous year.

A contribution to the growth of the margins in the period in question came from the waste treatment and disposal sector, in particular:

- the results of the LGH Group and the new companies acquired, RI.ECO-RESMAL;
- the good performance of the disposal of urban waste and similar waste, mainly attributable to the positive dynamic of the contribution prices;
- the greater contributions at the inert lots landfill in Corteolona. The activities, suspended in 2016 due to environmental analyses of the water table, resumed after the decision by ARPA (Regional Agency for Environmental Protection) to exclude the landfill from the perimeter of the remediation area.

Whereas, the collection sector was essentially in line mainly thanks to the contribution of the LGH Group, which in the period in question recorded a Gross Operating Margin of 3 million euro in this segment.

Depreciation, amortization, provisions and write-downs amounted to 44 million euro (41 million euro in the first half of 2016).

As a result of these changes, Net Operating Income totalled 93 million euro (78 million euro in the first half of 2016).

Investments in the period came to 42 million euro and mainly concerned development and maintenance work on the waste-to-energy plants (14 million euro), treatment plants and landfills (7 million euro), the purchasing of waste collection vehicles and containers mainly following the award of contracts to serve new Municipalities (13 million euro), as well as the acquisition of the stakes held by third parties in the company MF Waste (4 million euro) and the company Green Ambiente (1 million euro).

Excluding the consolidation of the LGH Group (+651 FTE), there was an increase of 207 FTE, due to changes in the perimeter in the two comparison years for about 278 FTE (award of new tenders for collection and municipal sanitation and acquisition of the new companies active in the collection sector in 2016), partially offset by a reduction of 71 FTE, mainly due to the efficiency plant of the collection sector and the sale of resources for the transfer of assets within the Group.

Networks and Heat Business Unit

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

Quantitative data - Networks

	06 30 2017	06 30 2016	Changes	% 2017/2016
Electricity distributed (GWh)	5,773	5,466	307	5.6%
Gas distributed (Mcm)	1,410	1,039	371	35.7%
Gas transported (Mcm)	201	195	6	3.1%
Water distributed (Mcm)	33	31	2	6.5%
RAB Electricity (M€)(1)	645	608	37	6.1%
RAB Gas (M€)(2)	1,160	971	189	19.5%

(1) A2A estimates.
(2) Provisional figures, underlying the calculation of allowed revenues for the period.

Electricity distributed was 5.8 TWh, an increase (+5.6%) over the first half of 2016 due to the high temperatures recorded in June and the contribution of LGH. The quantities of gas distributed totalled 1,410 million cubic metres, up 35.7% (1,039 million cubic metres at June 30, 2016), mainly due to the contribution of the LGH Group. The water distributed amounted to 33 million cubic metres, up 6.5% compared to the corresponding period of the previous year.

Quantitative Data - Heat

GWht SOURCES	06 30 2017	06 30 2016	Changes	% 2017/2016
Plants in:	**757**	**613**	**144**	**23.5%**
- Lamarmora	281	258	23	8.9%
- Famagosta	55	59	(4)	(6.8%)
- Tecnocity	38	42	(4)	(9.5%)
- Other plants	383	254	129	50.8%
Purchases from:	**1,005**	**915**	**90**	**9.8%**
- Third parties	243	211	32	15.2%
- Other Business Units	762	704	58	8.2%
TOTAL SOURCES	**1,762**	**1,528**	**234**	**15.3%**
USES				
Sales to end customers	1,552	1,332	220	16.5%
Distribution losses	210	196	14	7.1%
TOTALE USES	**1,762**	**1,528**	**234**	**15.3%**

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

The heat sales of the Business Unit amounted to 1,762 GWh, up 15.3% compared to the first half of 2016 thanks to the contribution of the LGH Group and the higher sales deriving from the commercial development.

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	570	499	71	14.2%
Gross Operating Margin	245	227	18	7.9%
% of Revenues	43.0%	45.5%		
Depreciation, amortizations, provisions and write-downs	(70)	(60)	(10)	16.7%
Net Operating Income	175	167	8	4.8%
% of Revenues	30.7%	33.5%		
Investments	98	78	20	25.6%
FTE	2,388	2,182	206	9.4%
Labour costs	56	53	3	5.7%

The revenues of the Networks and Heat Business Unit in the first half of 2017 stood at 570 million euro (499 million euro at June 30, 2016).

This trend was affected, in addition to the consolidation of the LGH Group for 54 million euro and the contribution of the new company specializing in energy efficiency and acquired in 2016

(Consul System) for 30 million euro, also by the higher revenues related to the cancellation of the obligation for white certificates. These positive contributions were partly counterbalanced by the presence in the first half of 2016 of previous tariff items of 51.4 million euro recognized to A2A Ciclo Idrico S.p.A..

The Networks and Heat Business Unit recorded a Gross Operating Margin of 245 million euro, up by 18 million euro compared to the first half of 2016.

Net of the non-recurring items (-16 million euro) which regarded both the first half of 2017 (35 million euro, of which 30 million euro came from Energy Efficiency Certificates recognized for projects carried out in previous years) and the half-year of the same period of the previous year (51 million euro, mainly due to the recognition of tariff increases to A2A Ciclo Idrico S.p.A. for the years 2007-2011), the Gross Operating Margin of the Networks and Heat Business Unit was up by 34 million euro compared to the first half of 2016.

This performance is mainly due to:

- consolidation of LGH (from August 2016) for 14 million euro;
- contribution of 3 million euro from Consul System, a company specializing in energy efficiency acquired in October 2016;
- greater margins relating to district heating and heat management activities for about 5 million euro mainly attributable to the greater quantities of heat sold both due to the commercial development and the low temperatures recorded at the end of the 2016/2017 season and a more favourable scenario (heat prices related to the rising price of gas and the increase in the prices of electricity from co-generation);
- greater revenues due to the optimization of the white certificates portfolio for 4 million euro;
- higher margins relating to the aqueduct, purification and sewage services for about 3 million euro following the tariff increases recognized by AEEGSI.

Depreciation, amortization, provisions and write-downs amounted to 70 million euro (60 million euro in the same period of the previous year). The increase of 10 million euro is mainly attributable to the contribution of LGH (totalling 7 million euro).

As a result of the above changes, Net Operating Income amounted to 175 million euro (167 million euro in the first six months of 2016).

Investments in the period in question amounted to 98 million euro and regarded:

- in the electricity distribution sector, development and maintenance work on plants and, in particular, the connection of new users, maintenance on secondary substations, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (31 million euro, of which 2 million euro relate to the LGH Group);

- in the gas distribution sector, development and maintenance work on plants relating to the connection of new users, the replacement of medium and low pressure pipes and meters and gas smart meters (32 million euro, of which 6 million euro relate to the LGH Group);
- in the integrated water cycle sector, work carried out on the water transportation and distribution network and the sewerage networks and purification plants (17 million euro);
- in the public lighting sector, work carried out to replace lighting systems with LED equipment in the Municipalities managed (1 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 17 million euro (of which 5 million euro related to the LGH Group).

Net of the consolidation of the LGH Group (+244 FTE), there was a decrease of 38 FTE in the first half of 2017 attributable to the effect of the mobility plan activated at the end of the previous year, partially offset by the contribution of Consul System and Azienda Servizi Valtrompia S.p.A..

Foreign Business Unit

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

Quantitative data - Electricity Production and Sale

GWh	06 30 2017	06 30 2016	Changes	% 2017/2016
SOURCES				
Production	**984**	**1,494**	**(510)**	**(34.1%)**
- thermoelectric production	496	412	84	20.4%
- hydroelectric production	488	1,082	(594)	(54.9%)
Imports and other sources	**740**	**395**	**345**	**87.3%**
- imports	673	348	325	93.4%
- other sources	67	47	20	42.6%
TOTAL SOURCES	**1,724**	**1,889**	**(165)**	**(8.7%)**
USES				
Domestic market consumption	1,240	1,160	80	6.9%
Distribution losses	204	205	(1)	(0.5%)
Transmission losses	-	69	(69)	(100.0%)
Other uses	24	14	10	71.4%
Exports	256	441	(185)	(42.0%)
TOTALE USES	**1,724**	**1,889**	**(165)**	**(8.7%)**

The total availability of the EPCG Group in the first half of 2017 was 1,724 GWh (1,889 GWh at June 30, 2016).

The increase in imports (+93%) and the higher thermoelectric production (496 GWh in the period in question, an increase of 20% compared to the first half of 2016) contributed to fulfil the demand, offsetting the lower production from hydroelectric sources (488 GWh, down by 55% compared to the first half of 2016).

Electricity sales of the EPCG Group on the domestic market amounted to 1,240 GWh, an increase of 6.9% over the first half of the previous year, while quantities exported amounted to 256 GWh, a decrease of 42% over the first half of 2016.

Quantitative data - Electricity distribution

GWh	06 30 2017	06 30 2016	Changes	% 2017/2016
Electricity distributed*	1,101	1,044	57	5.5%

(*) Data net of distribution losses.

Moreover, in the period in question, the electricity distributed on the medium and low voltage network in Montenegro amounted to 1,101 GWh (up by 5.5% on June 30, 2016).

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	114	111	3	2.7%
Gross Operating Margin	12	35	(23)	(65.7%)
% of Revenues	10.5%	31.5%		
Depreciation, amortizations, provisions and write-downs	(76)	(15)	(61)	n.s.
Net Operating Income	(64)	20	(84)	n.s.
% of Revenues	(56.1%)	18.0%		
Investments	4	10	(6)	(60.0%)
FTE	2,353	2,388	(35)	(1.5%)
Labour costs	21	22	(1)	(4.5%)

Revenues amounted to 114 million euro (111 million euro at June 30, 2016).

Gross Operating Margin amounted to 12 million euro, down by 23 million euro compared to the same period of the previous year. The lower hydroelectric production caused by the poor hydraulicity recorded in the first half of 2017 and the increase in consumption following the particularly harsh temperatures in the first two months of 2017, led to an abrupt and exceptional increase in the prices of electricity in the region and consequently the higher cost of imports, necessary to meet the domestic demand.

Depreciation, amortization, provisions and write-downs amounted to 76 million euro, up 61 million euro compared to the first half of the previous year: this change is mainly attributable to the recognition in the first half of 2017 of write-downs of assets for a total of 60 million euro.

As a result of the above changes, Net Operating Income was negative for 64 million euro (positive for 20 million euro in the first six months of 2016).

Investments, amounting to 4 million euro, mainly refer to work to replace traditional meters with remotely controlled meters (2 million euro), maintenance work on the primary and secondary distribution network (1 million euro), as well as maintenance work on the thermoelectric plant in Pljevlja and the hydroelectric plants in Perucica and Piva (for a total of around 1 million euro).

A2A Smart City

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	12	13	(1)	(7.7%)
Gross Operating Margin	3	3	-	-
% of Revenues	25.0%	23.1%		
Depreciation, amortizations, provisions and write-downs	(1)	(1)	-	-
Net Operating Income	2	2	-	-
% of Revenues	16.7%	15.4%		
Investments	4	1	3	n.s.
FTE	74	70	4	5.7%
Labour costs	2	2	-	-

In the first half of 2017 the revenues of the company A2A Smart City came to 12 million euro, down by 1 million euro compared to the same period of the previous year due to lower revenues linked to video surveillance activities for the Municipality of Milan.

The Gross Operating Margin amounted to 3 million euro, in line with the first half of 2016.

Depreciation, amortization, provisions and write-downs amounted to 1 million euro, in line with the first half of the previous year.

Net of Depreciation, amortization, provisions and write-downs, Net Operating Income amounted to 2 million euro, in line with the first half of the previous year.

Investments in the period, amounting to 4 million euro, mainly refer to work on the telecommunication networks.

In the first half of 2017, there was an increase of 4 FTE over the same period of 2016.

Corporate

Economic data

Millions of euro	01 01 2017 06 30 2017	01 01 2016 06 30 2016	Changes	% 2017/2016
Revenues	96	76	20	26.3%
Gross Operating Margin	(11)	(13)	2	(15.4%)
% of Revenues	(11.5%)	(17.1%)		
Depreciation, amortizations, provisions and write-downs	(8)	(8)	-	-
Net Operating Income	(19)	(21)	2	(9.5%)
% of Revenues	(19.8%)	(27.6%)		
Investments	9	3	6	n.s.
FTE	1,206	934	272	29.1%
Labour costs	55	45	10	22.2%

In the first half of 2017, revenues of Corporate came to 96 million euro, up by 20 million euro compared to the same period of the previous year mainly due to the consolidation of LGH (15 million euro).

Gross Operating Margin was negative for 11 million euro, however up overall by 2 million euro compared to June 30, 2016.

Depreciation, amortization, provisions and write-downs amounted to 8 million euro, in line with the first half of the previous year.

Net of Depreciation, amortization, provisions and write-downs there was a Net Operating Loss of 19 million euro (negative for 21 million euro at June 30, 2016).

Investments in the period, amounting to 9 million euro, mainly refer to work on the IT systems.

Net of the consolidation of the LGH Group (+206 FTE), there was an increase of 66 FTE in the Business Unit, due to the insertion of resources for the transfer of assets from other Business Units of the Group and the strengthening of the information technology business.

Risks and uncertainties

Risks and uncertainties

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

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

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

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

It is noted that in terms of greater estimated impact on the Group, the main types of risk are the following, in order of importance:

- legislative and regulatory amendments;
- energy scenario;
- economic and social context;
- Business Interruption;
- climate changes.

Risk of legislative and regulatory amendments

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

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

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

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

Since January 2017, the structure also oversees the regulatory risk for Linea Group Holding, in order to monitor and manage impacts in a coordinated manner.

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

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

The Institutional and Regulatory Committee was also set up, composed of the Chairman and CEO of the Group, as well as the Institutional Relations Manager and the Regulatory Affairs and Market Manager. This Committee meets periodically involving from time to time the Managers of the Business Units concerned, and the Managers of the staff structures in order to transfer to them the new legislation and regulations, take a corporate position on evolving standards and collect the requests of the business to convey them to the stakeholders of reference.

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

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

- the rules governing the terms and conditions of large hydroelectric derivation concessions;
- tenders concerning the granting of concessions for the gas distribution service;
- the integrated water service reform not only from the tariff point of view but also for aspects of service quality, measurement and unbundling;
- the regulatory provisions concerning the abandonment of the protection regimes for customers of the electricity and gas sectors;
- the implementation of the capacity market discipline and management of the plants in conservation;
- the achievement of energy savings under the White Certificates Mechanism and the impacts on the development of district heating due to the start of sector regulation by the Electricity, Gas and Water Authority.

Energy scenario risk (commodity price risk)

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

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

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

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

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

Economic and social context risk

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

In consideration of the context of the energy markets in which production plants are located, with particular reference to thermoelectric plants, although there has been a gradual improvement in balancing the energy demand/supply ratio, it is noted that, at the A2A Group, there was further advancement in activities and projects designed to ensure flexibility of operation, efficiency and availability at times when these requirements are required for production units. These include, in particular, the planning of flexible investments in combined cycle plants, modernization of plants and machinery, re-negotiation of service contracts with turbojet manufacturers, structural cost reduction programs.

Also regarding the production of energy from thermoelectric sources, it is noted that the Group pays particular attention, by means of stable and cooperative dialogue, through the organizational structure Institutional and Territorial Relations, with institutions, local authorities and communities, to the issues of risk regarding the manufacturing sites that use or used fossil fuels (Monfalcone, Brindisi, San Filippo del Mela). This monitoring is designed to ensure a proper perception of the plants as well as to pursue the possibility of a future realization of projects for adaptation and conversion according to innovative and cutting-edge technologies.

With reference to the future realization of new plants, the extension of existing ones or the provision of new services to the territories, and in particular, to waste-to-energy plants, waste recovery and waste water treatment plants included in the Company's Business Plan, it is noted that, also due to incorrect perception of works, forms of opposition and amplified protests could be promoted through the use of social networks, with potential impact on the realization and/or timing of development programs. To oversee the issue, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities, also through participation in public debates, special press conferences and communication and awareness campaigns, as well as through the organization of multi-stakeholder forums, designed to promote dialogue with the territory. The forum was established with the aim of identifying solutions that can respond in a targeted and effective manner to the needs and expectations of stakeholders and that allow promoting the environmental, economic and social sustainability activities carried out by the Company and the Group and services provided in the territory.

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

Lastly, we confirm the issue related to the potential impacts on the profitability of the Acerra plant as a result of possible criticalities that may emerge after the conclusion of the CIP/6 tariff regime.

An element of uncertainty that cannot be ignored for a proper analysis of the economic and social context is represented by the "Brexit": on June 23, 2016, the UK expressed itself through a referendum to decide whether to stay in the European Union. More than 30 million people have voted, and 51.9% opted for "leave". The outcome of the British referendum has definitely increased uncertainty about the Eurozone economic outlook: while the short-term effects, related mainly to foreign trade, is expected to be contained, the medium-term effects will be conditioned by the nature of future agreements between the United Kingdom and the European Union.

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

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

Accordingly, in consideration of the business operated by the A2A Group in the country and in other EU and non-EU countries, it is not believed that the Group is exposed to particular risks deriving from the Brexit.

Country risk

The A2A Group also operates in foreign countries characterized, for historical and cultural reasons, by a lower degree of political, social and economic stability than the OECD countries. A2A is exposed to the risks of possible negative developments in the political, social and macroeconomic framework that can produce situations such as decline in economic activity, financial difficulties of local governments, high levels of inflation, sharp devaluation of local currency, unpredictable changes in legislative and regulatory scenarios up to the potential risks of nationalization and/or expropriation of local assets or of non-convertibility and/or non-transferability of local currency that may temporarily or permanently affect the ability of the Group to operate under satisfactory economic conditions and/or the value of A2A assets.

With reference to the shareholding held in the Montenegro-based electricity company EPCG, on July 1, 2017, the A2A Group exercised the sale put option on all of the A2A S.p.A. shares, equal to 41.75% of the share capital of EPCG at an agreed price of 250 million euro. The sale will be in seven annual, equivalent instalments starting from May 2018. The Government of Montenegro, a contractual counterparty to the exercise of the put option, has creditworthiness, as published by major rating agencies, equal to B+.

Business interruption risk

The Group operates production sites and operationally and technologically complex services (power plants, waste disposal plants, cogeneration plants, distribution networks, waste collection and sanitation services, delivery services of drinking water, etc.), the malfunction or accidental damage of which could determine the unavailability and, consequently, result in economic losses and also possible reputational damage due to the interruption of services provided.

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

Safeguarding the Group's plants and infrastructure involves adopting and continuously updating procedures for maintenance, aimed at identifying and preventing potential critical situations, also amongst other things on the basis of specific engineering analyses carried out by dedicated technical staff, all in line with best practices. It also provides for periodic review of plants and networks, redesign of plant parts that over time have highlighted structural problems, sharing of operational experiences between production sites in order to spread the best and most innovative practices in the Group in terms of maintenance, as well as the provision of specific training courses for technical personnel. In addition, the A2A Group makes widespread use of instruments for the control and remote control of technical parameters for the monitoring and timely detection of any anomalies as well as having a back-up of the components needed to guarantee operational continuity, where possible. The integration process between the specialist engineering teams in the A2A Group has led to a strengthening of the skills relating to plant performance analyses.

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

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

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

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

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

The A2A Group takes an active part in projects for the development of the electricity network from a "smart grid" standpoint, meaning by this a network with which it is possible to exchange information on energy flows and manage demand peaks more efficiently, thus reducing the risk of interruption. In particular, the Networks and Heat Business Unit is engaged in the development of new solutions for the so-called smart grids, where through the introduction of digital technology new features are realized to address the increasing complexity resulting from the deployment of distributed generation sources connected to the LV networks and to better meet the demands of the Regulator and the expectations of customers.

Operative means of regulating the customer's consumption during specific time bands have been successfully tested in the district heating sector; these are designed to avoid excessive peaks in the use of installed power with the resulting possibility of critical matters arising regarding the optimal working of the networks. Also being studied are interventions for strengthening of power plants of the district heating network whose capacity is most exploited, construction interventions of new heat transport routes aimed at improving the network structure, revamping of existing networks to limit corrosion, the construction of new electrical boilers to keep in reserve to cope with peaks of heat demand by the users served, and the realization of thermal storage at some of the Company's sites. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting interventions for repairs. Measures to be implemented over the following years and designed to ensure the continuity of the district heating service are also underway for situations in which there is a temporary interruption of the supply of heat to the network by the waste-to-energy plants of the Group.

A risk issue that is important and that is transversal to all business areas required to manage plants and infrastructure, is the one related to the unauthorized physical access of external personnel to the Group, which could impede the smooth running of operations with potential impact on the safety of operating personnel, unauthorized third parties, the sites and their surroundings, as well as economic impacts resulting from the need to have to interrupt production activities. To mitigate these possible events, we note the implementation of signal convergence activities from the sites and infrastructures of the Group companies at the A2A Security Control Room. In addition, the Security Policy has recently been issued, and procedures are in place to regulate control of access to plants and surveillance services. Further interventions are being evaluated and have already been partly realized such as studies on the situation of gas plants to increase their safety level, strengthening of anti-intrusion alarm system and the installation of control systems for badge access, infra-red cameras and systems. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the management of all security aspects in order to ensure the protection of human and material resources, industrial assets and information managed by the A2A Group.

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

Climate change risk

Risks related to climate change refer to the possibility that the production and consumption of products (electricity, gas for heating) and services (district heating) provided by the Group may be negatively affected by unfavourable conditions, such as the scarcity of rainfall or particularly mild temperatures in the hot season, with consequent negative effects on expected profitability. With reference to the Generation and Trading Business Unit, low rainfall would result in a lower availability of water resources compared to expected values (based on statistical estimates). To ensure optimum exploitation of available water resources, even in the presence of periods characterized by particular deficiency, we note organizational monitoring structure consisting of business units dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants. It is also noted that the diversification of the plant portfolio of the A2A Group naturally contributes to the mitigation of this risk, where, in case of a sharp decline in hydroelectric production, energy demand tends to be met even through increased thermoelectric production. As regards the Networks and Commercial Business Units, milder winter temperatures than expected would result in lower demand, on the part of end users, of gas and heat used for heating. The structure consists of company business units devoted to the constant updating of demand forecasts in relation to the expected trend of temperatures as well as the consequent management and optimization of the production/supply of heat; it is also highlighted that new initiatives are being studied to provide heat power to be allocated to district heating users at more economical conditions than gas utilization, by recovering heat from plants and infrastructures of the Group and third parties, such as treatment facilities, aqueducts and steel mills.

Interest rate risk

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates. In order to provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected annually at December 31, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations. The section "Other information/Interest rate risk" of the Financial Report illustrates the effects on the change in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

Credit risk

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

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities.

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

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

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

Liquidity risk

Liquidity risk regards the Group's timely ability to meet its payment commitments. To hedge this risk, the Group ensures the maintenance of adequate financial resources, as well as a liquidity buffer sufficient to meet unexpected commitments. At June 30, 2017, the Group contracted revolving committed credit lines for 600 million euro, unused. It also has unused long-term bank financing for a total of 32 million euro and cash and cash equivalents totalling 545 million euro. The management of liquidity risk is pursued by the Group also by maintaining a Bond Issue Program (Euro Medium Term Note Programme) sufficiently large and partially unused as to enable the Company to timely resort to the Capital market. As of today, this program amounts to 4 billion euro, of which 1,602 million euro still available.

Covenants compliance risk on debt

This risk exists if the loan agreements provide for the option by the lender, upon the occurrence of certain events, to request early repayment of the loan, thus entailing a potential liquidity risk for the Group. The section “Other information/Covenants compliance risk” of the Consolidated Financial Statements illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. At June 30, 2017, the book value of these loans amounted to 104 million euro. Lastly, at June 30, 2017, there was no situation of non-compliance with the covenants of the A2A Group companies.

Environmental risk

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

To monitor these potential risk events, the Group has implemented various actions: procedures for design and construction of deposit and storage sites of waste materials to prevent pollution phenomena, monitoring systems and the presence of static and dynamic barriers enabling to detect pollution phenomena attributable to the same sites, systems for prevention and/or abatement of polluting concentrations in gaseous emissions, water purification plants for discharges of energy production and waste treatment plants, systems for continuous/period measurement of polluting concentrations in emissions. With regard to the issue concerning the management of reservoirs, with specific reference to maintenance/removal of the sediments and the corresponding possible negative effects on water and on the local area, it is noted that there are controlled and specific arrangements for the execution of drainage operations to minimize the effects on the environment.

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

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

The Group is significantly involved in preventing such risks and has adopted a policy document entitled "Policy for the Quality, Environment and Safety of the A2A Group" which is the tool which now sets out the Group's approach to such questions. This document, which is widely distributed both internally and externally, explains the values which underlie the Group's operations and which the Environment, Health and Safety Organizational Structure is committed to disseminating and sharing as guidance for the day-to-day work of all concerned.

The Environment, Health and Safety Organizational Structure also supports senior management in establishing company policy in these areas, checking that this is implemented properly in compliance with the rules applicable in all areas and internal processes. The main activities of the structure consist in the definition of guidelines, oversight of Environment and Safety regulations and dissemination thereof within the Group and in conducting regular audits, both in terms of regulatory compliance and compliance with company procedures.

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

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

In addition, the organizational structure Enterprise Risk Management, in coordination with the organizational structures Environment, Health and Safety, dialogues with the Business Unit managers to support the identification and study of possible environmental risks even in the implementation of the new standard ISO14001:2015. As mentioned above, the environmental management systems in place, thus allow identifying and overseeing the environmental aspects related to the activities and processes while minimizing risk on the environment due to the normal activities of the Group.

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

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

Other issues of environmental risk concern the possible future introduction of more restrictive regulations that may require investments for adjustments of plants or review of production processes. To deal with this issue, the Group has adopted a monitoring policy of regulatory amendments, collaborative dialogue with the institutions (Ministry of Environment and Protection of Land and Sea, Regions, etc.), as well as of active participation in trade associations and work groups set up at these entities. This is also in order to always be in line with the best available techniques regarding the environment and to efficiently plan any new investments that may be necessary. In this context, the Group participates, for example, in work tables for the definition of the BREF (Best Available Techniques Reference Document) for LCP (Large Combustion Plants) and for Waste Management.

The process of updating the Organizational and Management Model as per Legislative Decree no. 231/2001 with reference to the introduction of environmental offences following the enactment of Law 68/2015 has been completed for some Group companies and is in progress at the other Group companies.

From the perspective of having a constant evolution of the systems controlling environmental risk, the Group has joined the ARPA (Regional Agency for the Protection of the Environment) Lombardy Project, whose purpose is to improve the efficiency of the system for controlling the more significant emissions also in the light of technical developments in the sector, by connecting all the Emission Monitoring Systems (SMEs) to a single control center.

The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, meaning against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations.

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

Information technology risks

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

The process within the Group of integrating and consolidating its ICT systems, determined on the basis of the changes in corporate structures which have taken place in previous years, has led to a number of important objectives being reached. Following the integration of distribution support systems on a single platform, the program for the convergence of the main systems supporting commercial activities has also been completed. In areas where there are still inadequacy and fragmentation of systems and platforms used, in consequence of which there may be inefficiencies in the implementation of business processes such as billing and credit management, it is noted that activities have been started for the definition and subsequent implementation of plans to integrate the platforms used. The Group will continue to develop its information system structure and improve its efficiency by drawing up a dedicated general architectural strategic plan.

The Group, in addition to defining outsourcing contracts for ICT services that envisage clearly defined service level agreements, has a Disaster Recovery procedure that, albeit not fully tested, in case of unavailability of one of the two CEDs (Data Processing Centre), guarantees the partial recovery of data and information relating to business activities on the alternative CED. It is also highlighted that oversights are currently present for availability of suppliers and resources within the Group to deal with logical attacks, virus attacks and system crashes. Further activities were also initiated aimed at increasing the reliability and continuity levels of provision of ICT services, such as the implementation of infrastructure improvement projects of the Brescia CED and transportation of the current Data Center of Milan to the infrastructures of a supplier that guarantees high levels of security and efficiency. We also note the structuring of the Business Continuity Plan aimed at constituting the tool by means of which the Group is prepared to cope with further scenarios of unavailability of services for the most critical areas; this project will be developed in several phases involving the takeover of the infrastructure, its migration and stabilization, and lastly, the architectural revision and security of systems. Considering the importance of the activities carried out daily on the Power Exchange, particular attention is paid to the oversight of systems for interfacing with the Market and activities have been completed that guarantee the continuity of operations for generation and energy bidding areas, in case of failure of one of the CEDs. A specific control was developed in 2012 to support trading activities.

Data confidentiality and security are subject to specific controls by the Group, through internal policies, tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access sensitive information. To further improve the oversight in place, the alignment is being performed between the model of organizational roles and model of technical roles of Segregation of Duties implemented in the systems; said verification will be followed by the implementation of profiles designed to strengthen security aspects for critical information systems. Consistent with this work, it is planned to gradually adopt identity management and access control tools designed to ensure increasingly effective control over the processing of data critical for the business as well as additional access control systems at the Group CEDs. A team has been set up to prevent and monitor any possible hacking into the Group's information systems and specific applications solutions have been acquired to manage and control information security.

As further control of this specific risk issue the Group carries out annual vulnerability assessments, both internally and externally. Lastly, a multi-year master plan of safety initiatives approved by Top Management was elaborated, which defines the actions to be taken to gradually improve the maturity level of safety up to making it adequate to the business services provided by the Group. In this regard, specific policies have been prepared on the use of mobile devices, which are increasingly used today for carrying out business activities.

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

Lastly, it is noted that insurance coverage is being evaluated specific for ICT aimed at mitigating the potential indirect damages as a result of the unavailability of systems and applications as well as those related to violations and intrusions into corporate systems.

With reference to Linea Group Holding, acquired in the second half of 2016, the main ICT risk issues are related to possible inefficiencies in the billing process related to the inadequacy of CRM and Billing systems, the unavailability of core applications due to the absence of a disaster recovery system, issues relating to the management of distribution networks for deficiencies of supporting information systems. In order to oversee these issues, to date a dedicated ICT Risk Framework and an ICT Risk Matrix were defined, thanks to which the IT applications existing in the LGH Group were mapped and the controls to achieve a reduction of the residual risk were identified.

Health and safety risk

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

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

The prevention measures adopted aim for a “zero risk” objective through the Quality, Environment and Safety Policy (which provides for a program to upgrade the personnel safety management system to comply with ISO14001 and OHSAS18001 standards), encouraging a constant rise in the level of safety in the workplace. In particular, in this respect, the use of additional models for measuring the Environment, Health and Safety risk at the level of single plant is being started.

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

A gradual enhancement of the organizational control structure is planned, which among other things carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this respect, specific training plans have been established for each business position and responsibility and a start has been made to these training courses. In addition, the Leader in Health and Safety – LiHS training programs are being implemented and progressively extended, which envisage at all levels emotional involvement on the issue of security and the dissemination of security culture through leaders identified within the operating areas.

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

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

A system for the analysis and control of accidents and injuries has been developed, in order to support the process of constant improvement in safety matters. This system is active at the main Group companies and provides for periodic reporting, which by means of increasingly detailed specific indices and information will provide support for identifying the causes of accidents and injuries and taking corrective and mitigating action.

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

Regarding safety, a further issue is connected to the safety risks for employees working in direct contact with the public and/or citizens, for example in activities related to the recovery of arrears, checks on the correctness of recycling, substitutions/removal of meters. To manage these risks, the Group carries out specific training activities for its staff.

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

Sustainability responsible management

Sustainability responsible management

In recent years, issues related to sustainable development have been at the heart of the political agendas of the most important world leaders, driven by increasingly widespread awareness and pressure from public opinion.

In November 2015, the Board of Directors of A2A S.p.A. established the Committee for the Territory and Sustainability and decided to implement a demanding Corporate Social Responsibility program, based on four pillars: the publication of the Sustainability Report and gradual transformation into the Integrated Report; definition of a Sustainability Policy and Plan and the consequent introduction of sustainability objectives in the management incentive system; extension of the stakeholder engagement model based on multi-stakeholder forum and territorial sustainability reports; development of internal training programs aimed at consolidating a shared approach to sustainability.

On May 15, 2017, the A2A Shareholders' Meeting approved the first Integrated Financial Statements of the Group, prepared referring to the Integrated Reporting Framework (IR Framework) outlined by the International Integrated Reporting Council (IIRC). The document refers to the principles of the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative (GRI) and the Electric Utilities Sector Supplement – G4 Standard Disclosure.

Adopting the principles of the Integrated Report entails the objective of presenting the way in which an organisation creates value over time. It was therefore decided to adopt a structure for the financial statements based on the various types of capital, which constitute the variables that determine how value is created. Through the analysis of the types of capital that influence, and are in turn influenced by, the Company's activities, A2A aims to provide a clear account of the existing, necessary integration between economic and social and environmental aspects in company decision-making processes, but also in the definition of the Group's strategy, governance and business model.

The document also included monitoring of the actions of the 2016-2020 Sustainability Plan, which defines, along with the Sustainability Policy, the Group's strategic lines for achieving the United Nations Sustainable Development Goals of 2030.

In early 2017, the stakeholder listening activity continued with the forumAscolto of Milan, held on January 30, 2017. The goal was to collect ideas and proposals for those who live in the city daily to make it better, more liveable and efficient. For the first time, all citizens were able to take part in this challenge, thanks to a specially dedicated web platform (www.forumascoltoa2a.eu), on which it was possible to upload ideas, vote, share and comment also on Facebook. The day's work resulted in 9 ideas, while A2A received 42 proposals on the online platform. Based on an evaluation of the feasibility of the proposals and the shared value generated, A2A has developed projects on four areas of intervention: mobility, urban design, public lighting and fight against food waste.

In May, two projects developed by the Valtellina forum last year were concluded: the Scuola Energetica project, to promote the theme of energy efficiency in some technical institutes in the province of Sondrio and the inauguration of the Ciclovia dell'Energia, the new panoramic cycling-trekking trail that crosses the A2A hydroelectric plants in the area.

Energy Bank, the social responsibility project promoted by A2A with the AEM Foundation and the ASM Foundation, in collaboration with the Cariplo Foundation, continues. The 36 projects admitted to the second phase of the joint call, promoted by the Cariplo Foundation and Banco dell'energia Onlus, have been selected to help alleviate and combat poverty and social vulnerability through interventions that can intercept early fragile people and families and encourage their reactivation through personalized measures. Among the selected project ideas, the interventions that will receive the contribution of promoting entities, amounting to a total of 2 million euro, will be identified.

Certification of the condensed half-yearly financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

Certification of the condensed half-yearly 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 58 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 the condensed half-yearly financial statements in the first half-year of 2017.

2. It is also certified that:

2.1 the condensed half-yearly 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 of 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 half-yearly report on operations includes a reliable analysis of the references to the significant events occurred in the first six months of the year and their incidence on the condensed half-yearly financial statements, as well as a description of the main risks and uncertainties for the remaining six months of the year. The half-yearly report on operations also includes a reliable analysis of the information regarding transactions with related parties.

Milan, July 31, 2017

Luca Camerano (For the Board of Directors)	Andrea Eligio Crenna (Manager in charge of preparing the corporate accounting documents)

Independent Auditors' Report

Building a better working world

A2A S.p.A.

Interim condensed consolidated financial statements as of 30 June 2017

Review report on the interim condensed consolidated financial statements

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Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the consolidated balance sheet as of 30 June 2017, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in group equity and the consolidated cash-flows for the period then ended and the related notes of A2A S.p.A. and its subsidiaries (the "A2A Group"). The Directors of A2A S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of A2A Group as of 30 June 2017 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis of matter

We draw attention to paragraph "Other information – Transaction as per IFRS 3 revised" of the notes to the interim condensed consolidated financial statements which describes the reasons that led the Directors to restate some comparative figures of the previous fiscal year and the related effects.
Our conclusions are not qualified in respect of this matter.

Milan, 2 August 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