a2a
SHAPING THE FUTURE TODAY

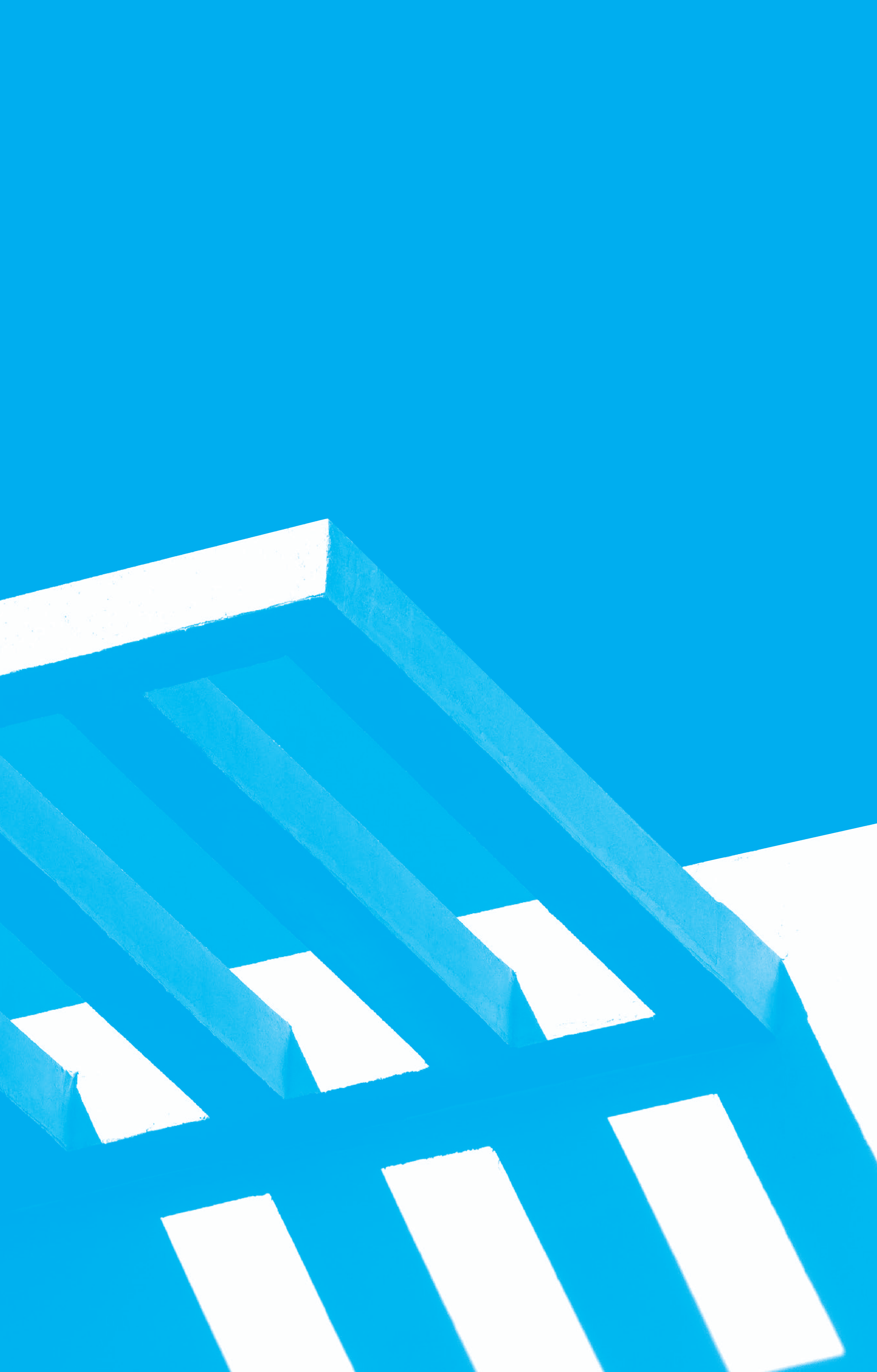
Half-yearly financial report June 30, 2018

Half-yearly financial report at June 30, 2018

These Financial Statements are available at the website
www.a2a.eu

Contents

This is a translation of the Italian original "Relazione finanziaria semestrale al 30 giugno 2018" 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

BOARD OF DIRECTORS

CHAIRMAN
Giovanni Valotti

DEPUTY CHAIRMAN
Alessandra Perrazzelli

CEO AND GENERAL MANAGER
Luca Camerano

DIRECTORS
Giambattista Brivio
Giovanni Comboni
Enrico Corali
Luigi De Paoli
Alessandro Fracassi
Maria Chiara Franceschetti
Guadiana Giusti
Secondina Giulia Ravera
Norberto Rosini

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Giacinto Gaetano Sarubbi

STANDING AUDITORS
Maurizio Leonardo Lombardi
Chiara Segala

ALTERNATE AUDITORS
Sonia Ferrero
Stefano Morri

INDEPENDENT AUDITORS

EY S.p.A.

1
Key figures of the A2A Group

Business Units

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

These sectors are in turn attributable to the "Business Units" specified in the following scheme identified following the reorganization made by management:

Generation and Trading

- Thermoelectric and hydroelectric plants
- Energy Management

Market

- Sale of Electricity and Gas
- Energy efficiency
- Electric mobility
- Public lighting

Waste

- Waste collection and street sweeping
- Treatment
- Disposal and energy recovery

Networks and District Heating

- Electricity networks
- Gas networks
- Integrated water cycle
- District Heating services
- Heat management services

International

- Provision of know-how and technologies for the construction of waste pre-treatment plants

A2A Smart City

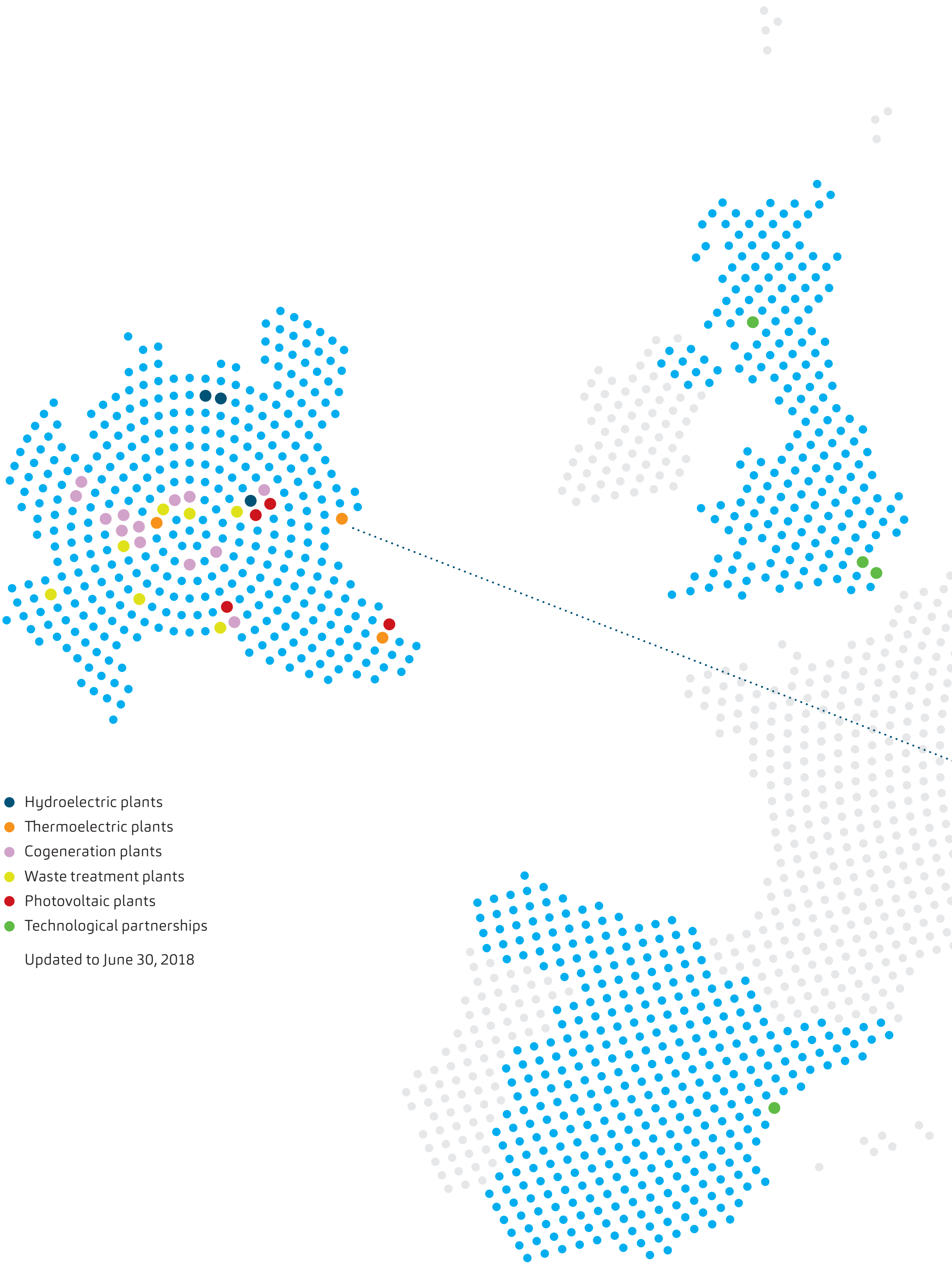
- Telecommunication services

Corporate

- Corporate services

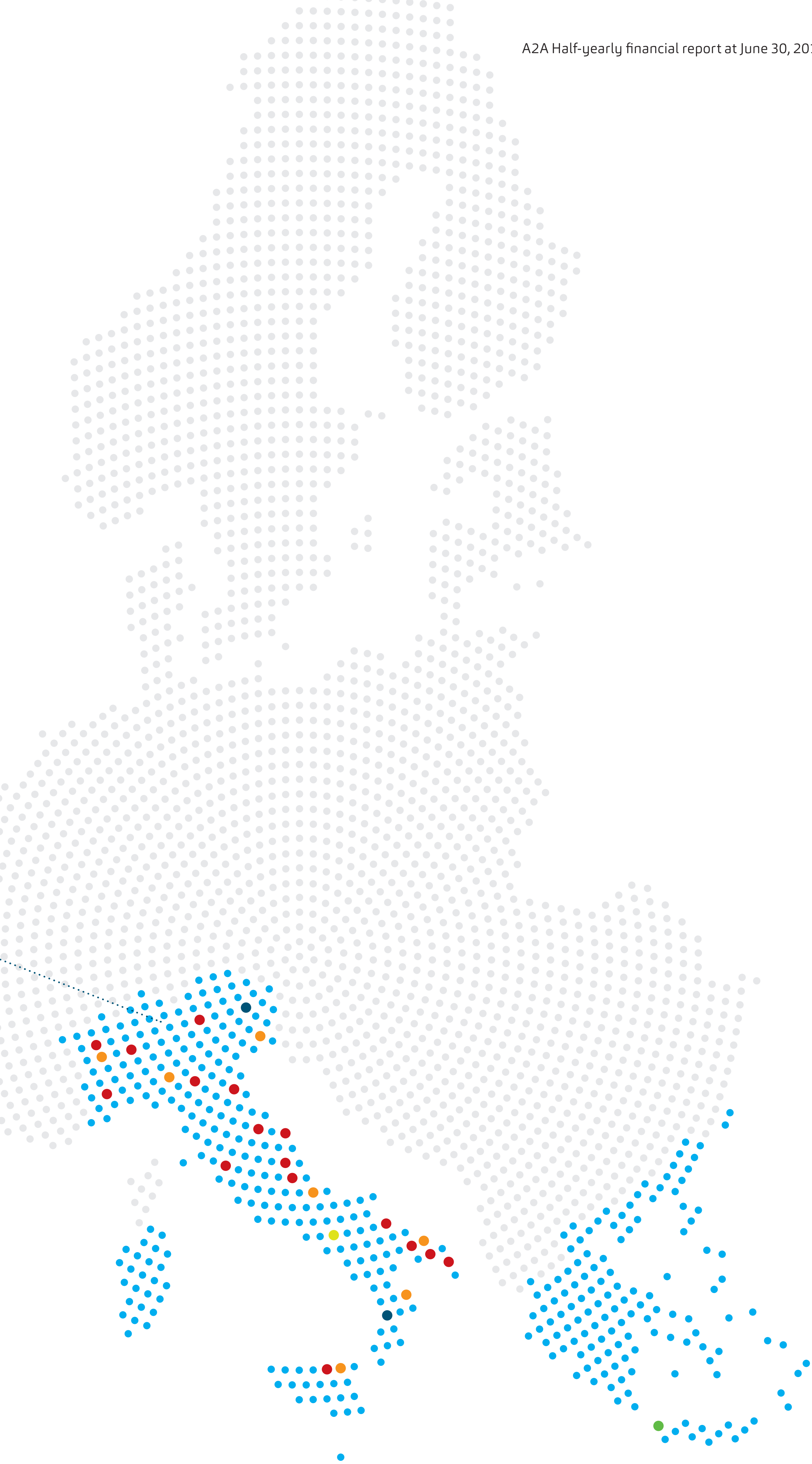
This breakdown into Business Units reflects the organization of financial reports regularly analyzed by management and the Board of Directors in order to manage and plan the Group's business.

Geographical areas of activity

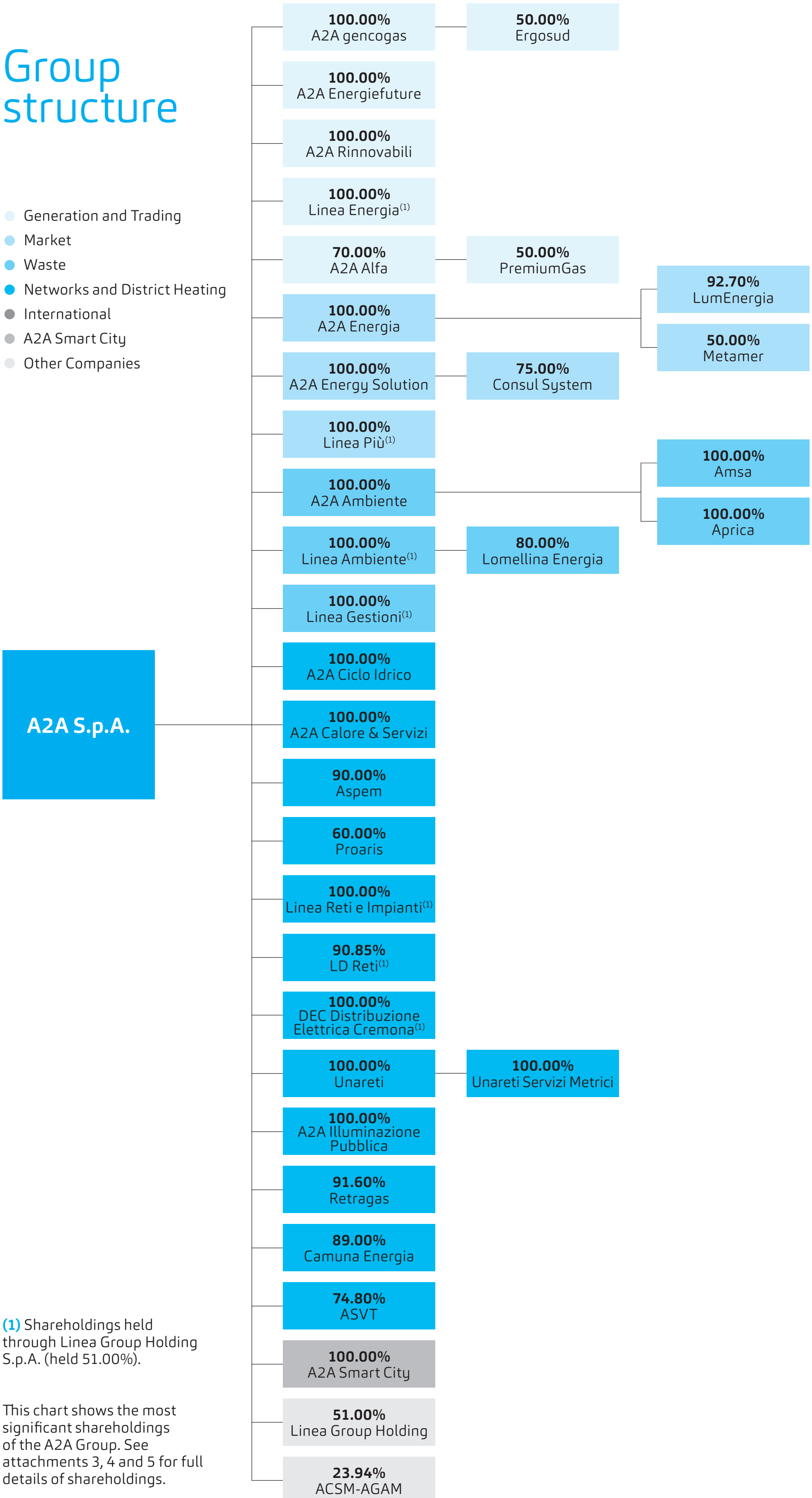


- Hydroelectric plants
- Thermoelectric plants
- Cogeneration plants
- Waste treatment plants
- Photovoltaic plants
- Technological partnerships

Updated to June 30, 2018



Group structure



(1) Shareholdings held through Linea Group Holding S.p.A. (held 51.00%).

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, 2018 (**)

3,081
millions of euro

REVENUES

657
millions of euro

GROSS OPERATING INCOME

267
millions of euro

RESULT OF THE PERIOD

Income statement figures *millions of euro*	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Reported
Revenues	**3,081**	**2,804**
Operating expenses	(2,090)	(1,841)
Labour costs	(334)	(326)
Gross operating income - EBITDA	**657**	**637**
Depreciations, amortization, provisions and write-downs	(221)	(204)
Net operating income - EBIT	**436**	**433**
Result from non-recurring transactions	6	-
Financial balance	(54)	(59)
Result before taxes	**388**	**374**
Income taxes	(120)	(119)
Net result from discontinued operations	4	(94)
Minorities	(5)	(4)
Group result of the period	**267**	**157**
Gross operating income/Revenues	**21.3%**	**22.7%**

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

Balance sheet figures *millions of euro*	06 30 2018	12 31 2017
Net capital employed	**6,134**	6,239
Equity attributable to the Group and minorities	**3,104**	3,013
Consolidated net financial position	**(3,030)**	(3,226)
Consolidated net financial position/Equity attributable to the Group and minorities	**0.98**	1.07

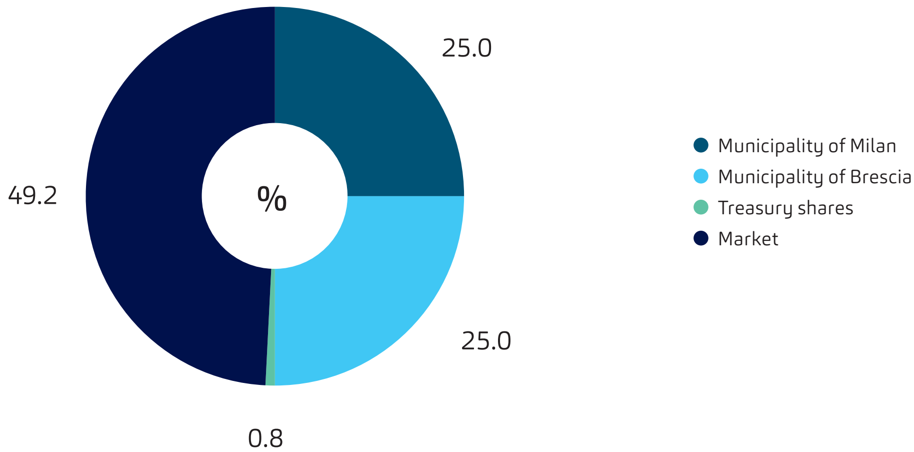
Financial data *millions of euro*	01 01 2018 06 30 2018	01 01 2017 06 30 2017
Net cash flows from operating activities	**584**	422
Net cash used in investing activities	**(175)**	(171)
Free cash flow (Cash Flow Statement figure)	**409**	251

Key indicators	06 30 2018	12 31 2017
Average 6-month Euribor	**(0.272%)**	(0.247%)
Average price of Brent (US$/bbl)	**71.1**	52.8
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	**53.8**	51.2
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	**60.5**	57.4
Average price of coal (Euro/tonne)	**72.8**	72.9
Average price of gas to the PSV (*) (Euro/MWh)	**22.4**	19.3
Average price of emission certificates EU ETS (**) (Euro/tonne)	**12.1**	5.0

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

Group's key operational indicators	06 30 2018	06 30 2017
Generation and Trading		
Thermoelectric production (GWh)	**5,865**	4,775
Hydroelectric production (GWh)	**2,086**	1,640
Electricity sold to wholesale customers (GWh)	**5,231**	3,387
Electricity sold on the Power Exchange (GWh)	**6,435**	5,914
Market		
Electricity sold to retail customers (GWh)	**5,133**	3,927
POD Electricity (#/1000)	**1,064**	1,047
Gas sold to retail customers (Mcm)	**986**	905
PDR Gas (#/1000)	**1,287**	1,295
Waste		
Waste collected (Kton)	**838**	800
Residents served (#/1000)	**3,528**	3,562
Waste disposed of (Kton)	**1,755**	1,786
Electricity sold by waste-to-energy (GWh)	**889**	923
Networks and District Heating		
Electricity distributed (GWh)	**5,878**	5,773
Gas distributed (Mcm)	**1,510**	1,410
Water distributed (Mcm)	**32**	33
RAB Electricity (M€)	**631**	645
RAB Gas (M€)	**1,194**	1,171
Heat sales (GWht)	**1,646**	1,552
Cogeneration production (GWh)	**194**	162

Shareholdings (*)



(*) Source CONSOB for Stakes higher than 3% (update at June 30, 2018).

Key figures of A2A S.p.A.	**06 30 2018**	**12 31 2017**
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 S.p.A. in figures (Italian Stock Exchange)

Market capitalisation at June 30, 2018 (millions of euro)	**4,652**	
Share capital at June 30, 2018 (shares)	**3,132,905,277**	

	First six months of 2018	Last 4 quarters
Average market cap (millions of euro)	**4,767**	**4,689**
Average daily volumes (shares)	**11,415,441**	**10,105,672**
Average price (€/share)	**1.52**	**1.50**
Maximum price (€/share)	**1.69**	**1.69**
Minimum price (€/share)	**1.39**	**1.38**

Source: Bloomberg

A2A stock is also traded on the following platforms: Aquis, BATS, BlockMatch, Chi-X, Equiduct, ITG Posit, Liquidnet, Sigma-X, Turquoise, UBS MTF.

On May 23, 2018 A2A distributed a dividend equal to 0.0578 euro per share.

A2A forms part of the following indices

FTSE MIB
STOXX Europe
EURO STOXX
MSCI Europe Small Cap
WisdomTree International
S&P Global Mid Small Cap

Ethical Indices

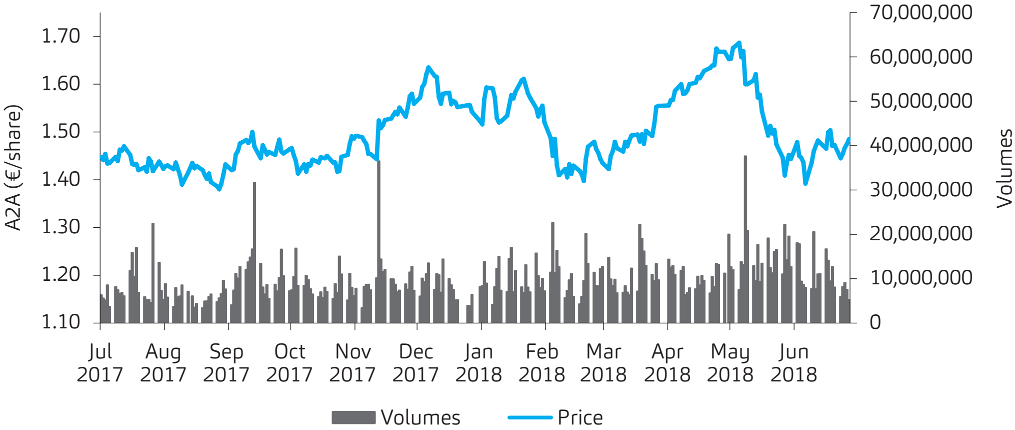
ECPI Euro ESG Equity
Ethibel Sustainability Index Excellence Europe
EURO STOXX Sustainability Index
Euronext Vigeo Europe 120
Standard Ethics Italian Index

Source: Bloomberg and company information

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

In 2017 A2A was also included in the LEADERSHIP section of the CDP Water questionnaire assessment relative to the matter of water as a resource, whilst it obtained a B rating on the climate change questionnaire.

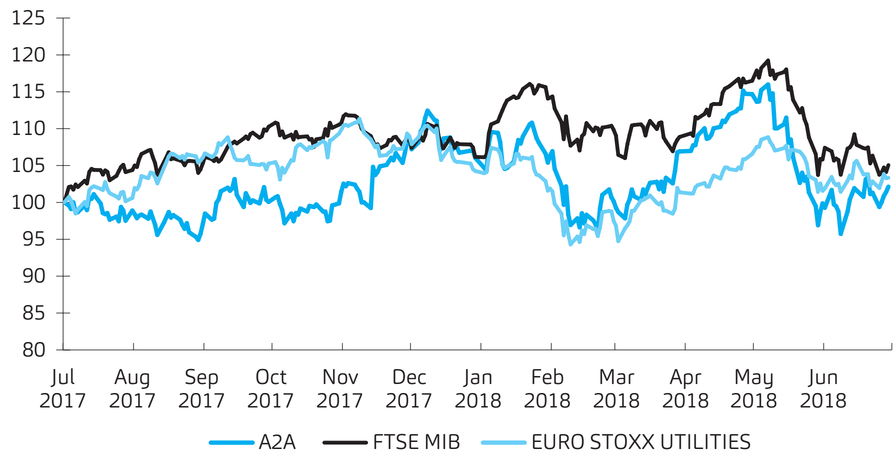
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price June 30, 2017 = 100)

Historical volatility in the last 4 quarters:
A2A: 20.0%
FTSE MIB: 14.4%



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	Baa2
	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, 2017, while for the Balance Sheet, the comparative values refer to December 31, 2017.

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 margin

Gross operating margin is an alternative indicator of operating performance, calculated as the sum of "Net operating margin" 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 of non-current assets sold and the results from the sale of equity investments in unconsolidated subsidiaries and associated companies and other non-operating income/expenses.

This indicator is positioned 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.

Net fixed capital

Net fixed capital is determined as the algebraic sum of:

- tangible assets;
- intangible assets;
- capex accounted for using the equity method 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 twelve 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 “Shareholders’ 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 financial position/Net debt

Net financial position/Net debt is an indicator of the financial structure, calculated as the sum of net financial position beyond one year and net financial position within one year. Specifically, total net financial position beyond one year 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.

Capex in tangible and intangible assets

Capex 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.

2
Consolidated results and report on operations

Summary of results, assets and liabilities and financial position

Results

As a result of the reclassification for the purposes of IFRS 5 of the economic items of the EPCG Group, the values at June 30, 2017 have been restated following the change in the consolidation method of the EPCG Group which, due to the exercise of the put option on the entire shareholding package held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, led to a change in the allocation of the investment held in EPCG from ongoing investment to investment intended for sale in accordance with the provisions of IFRS 5.

It is also noted that the economic figures at June 30, 2018 are not consistent with the corresponding period of the previous year due to the following extraordinary transactions that were completed in the second half of 2017 and in the first half of 2018:

- establishment, in July 2017, of the company A2A Rinnovabili S.p.A., which progressively acquired a portfolio of 19 companies owning photovoltaic plants, of which 13 companies acquired in the second half of 2017 and 6 companies in the first few months of 2018;
- line-by-line consolidation of LumEnergia S.p.A., as a result of the increase to 92.7%, starting from July 2017, of the investment held by the subsidiary A2A Energia S.p.A.. At June 30, 2017, the companies was consolidated using the equity method;
- establishment and line-by-line consolidation, in the second half of 2017, of the consortium A2A Security S.c.p.a., of the company A2A Energy Solutions S.r.l. and of the company A2A IDRO4 S.r.l.;
- establishment and line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A., in order to provide environmental sanitation services;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

The results of the A2A Group for the period ended June 30, 2018 are set out below, with comparative figures for the corresponding period of the previous year:

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	Changes
Revenues	**3,081**	**2,804**	**277**
of which:			
- Revenues from the sale of goods and services	*2,969*	*2,696*	*273*
- Other operating income	*112*	*108*	*4*
Operating expenses	(2,090)	(1,841)	(249)
Labour costs	(334)	(326)	(8)
Gross operating income - EBITDA	**657**	**637**	**20**
Depreciation, amortization and write-downs	(213)	(196)	(17)
Provisions	(8)	(8)	-
Net operating income - EBIT	**436**	**433**	**3**
Result from non-recurring transactions	**6**	**-**	**6**
Net financial charges	(58)	(63)	5
Affiliates	4	4	-
Result before taxes	**388**	**374**	**14**
Income taxes	(120)	(119)	(1)
Result after taxes from operating activities	**268**	**255**	**13**
Net result from discontinued operations	4	(94)	98
Minorities	(5)	(4)	(1)
Group result of the period	**267**	**157**	**110**

(*) The values at June 30, 2017 include the effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

In the first half of 2018, the A2A Group's Revenues totaled 3,081 million euro, up 277 million euro on the same period of the previous year (+10%). This increase was mainly driven by revenues from the sale of electricity on wholesale markets and the IPEX (the Italian power exchange) as a result of larger sales volumes, increased sales of electricity on the free market, particularly to large customers, and greater revenues from green certificates.

The **Gross Operating Margin** rose by 20 million euro in the first half of 2018 (+3%) reaching 657 million euro.

Net of the non-recurring items in the two periods considered (26 million euro in 2018, 45 million in 2017), the Group reported Gross Operating Margin before non-recurring items in the first half of 2018 up 39 million euro compared to the same period of 2017 (+7%).

The following table highlights the composition by Business Unit:

millions of euro	06 30 2018	06 30 2017 Restated	Delta	Delta %
Generation and Trading	225	186	39	21.0%
Market	111	122	(11)	(9.0%)
Waste	136	137	(1)	(0.7%)
Networks and District Heating	192	200	(8)	(4.0%)
A2A Smart City	4	3	1	33.3%
International	-	(1)	1	n.s.
Other Services and Corporate	(11)	(10)	(1)	(10.0%)
Total	**657**	**637**	**20**	**3.1%**

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 225 million euro, up 39 million euro on the first six months of the previous year.

Gross Operating Margin before non-recurring items increased by 33 million euro (non-recurring items 7 million euro in the first half of 2018 and 1 million euro in the first half of 2017).

This Business Unit positive results were due to the sale of the entire long position in green certificates, the increase in thermoelectric and hydroelectric production, the sound results on the ancillary service market and the contribution of the newly-acquired photovoltaic companies (the most recent acquisition was in February 2018).

These positive trends more than offset the adverse effects of the high natural gas price, which affected both the profit margins on CCGT production (the clean spark spread was down substantially: -70%) and the profit margin on the natural gas portfolio due to higher procurement costs.

The Market Business Unit's Gross Operating Margin of 111 million euro included non-recurring income of 16 million euro (net non-recurring income of 35 million euro in the first half of 2017), which generated an increase of 8 million euro (+9%) in the Gross Operating Margin from continuing operations on the same period of 2017. In the first half of the year, the contribution margin of the electricity and natural gas segments rose by over 10 million euro thanks to the increase in the number of mass market customers (+86 thousand on the end of 2017) and larger electricity and natural gas sales volumes to large customers on the free market. Growth in the retail energy sector was only partly offset by higher marketing and external communication costs to attract new customers. Furthermore, the New Energy Solutions sector remarkably contributed to the Gross Operating Margin increase (+6 million euro) on account of the energy efficiency certificate portfolio optimization.

The Waste Business Unit's Gross Operating Margin totaled 136 million euro, substantially in line with the same period of the previous year (137 million euro at June 30, 2017).

Gross Operating Margin was up 1 million euro, net of non-recurring items (+4 million euro in the first half of 2017, +2 million euro in the first half of 2018).

The positive contribution deriving from the management of the industrial treatment plants (WTE in Filago and greater transfers to the landfill of inertized lots of Corteolona), the positive trend in the prices of transfer of waste similar to urban waste, as well as the greater disposal in some urban treatment plants, more than offset the lower margins recorded as a result of lower disposals at the Grottaglie landfill and - in the collection segment - lower revenues from recycled paper as a result of the decline in sales prices and higher disposal costs of collected waste (multi-materials and bulky).

Networks and District Heating Business Unit's Gross Operating Margin was 192 million euro, down on the first six months of 2017 (200 million euro in the period ended June 30, 2017).

The performance was due to the positive contribution of the water service, absorbed by the lower profit margins of the electricity, natural gas and district heating distribution segments. In particular, the decrease in allowed electricity distribution revenues and other gas distribution revenues offset the positive water tariffs increase, approved by the Water Regulator. Lastly, the district heating sector recorded a decrease in unit margins mainly due to the increase in coal costs.

The Gross Operating Margin of the International Business Unit was zero in the current year (it was negative for 1 million euro in the first half of 2017).

In the first half of 2018, A2A Smart City recorded Gross Operating Margin of 4 million euro, an increase of about 1 million euro over the corresponding period of the previous year. The increase in profit margins was mainly due to projects kicked off in the second half of 2017 for the construction of infrastructure to lay optical fiber cables in Milan and Brescia.

"**Depreciation, amortization, provisions and write-downs**" amounted in total to 221 million euro (204 million euro at June 30, 2017), of which: 213 million euro relating to amortization for the first half of 2018 (196 million euro in the comparative half-year) and provisions for risks and write-downs of receivables for 8 million euro, unchanged compared to the first half of 2017.

Amortization of intangible assets amounted to 38 million euro (34 million euro at June 30, 2017). The item recorded higher amortization of 4 million euro, of which 1 million euro relating to the consolidation of the companies operating in the photovoltaic sector acquired in the second half of 2017 and in the first half of 2018, 2 million euro relating to the effects of the Purchase Price Allocation of the companies acquired in the previous year and 1 million euro relating to the implementation of information systems.

Depreciation of tangible assets amounted to 175 million euro, an increase of 13 million euro compared to the first half of 2017, mainly due to:

- higher depreciation, for 5 million euro, resulting from the change in the useful life of the assets related to the electricity grid;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired in the second half of 2017 and in the first half of 2018 for 4 million euro;
- higher depreciation of 2 million euro, mainly relating to the investments which went into production after June 30, 2017;
- higher depreciation, for 2 million euro, related to the implementation of hardware (New Data Center).

Provisions for risks showed a net effect of -5 million euro (-8 million euro at June 30, 2017) due to allocations in the period of 13 million euro, offset by the surpluses of 18 million euro since some ongoing disputes have ceased to exist.

Provisions for the period concerned, for 4 million euro, the provision for public water derivation fees, for 6 million euro provisions for legal disputes provisions, for 1 million euro provisions for taxes and for 2 million euro other provisions. Surpluses of risks provisions amounted to 18 million euro.

The Bad debt provision amounted to 13 million euro (16 million euro at June 30, 2017), consisting of the evaluation of the creditworthiness for the period.

As a result of these changes, "**Net Operating Income**" amounted to 436 million euro (433 million euro at June 30, 2017), an increase of 3 million euro over the first half of 2017.

The "**Result from non-recurring transactions**" amounted to 6 million euro (no value at June 30, 2017) and is related to the gain deriving from the sale of the investment held in the company Rudnik Uglja ad Pljevlja.

"**Net financial charges**" amounted to 58 million euro (63 million euro at June 30, 2017), of which 4 million euro related to the consolidation of the companies acquired in the second half of 2017 and in 2018. Financial management benefits from higher financial income recorded in the reference period compared to June 30, 2017 for 5 million euro.

The result from "**Affiliates**" was positive for 4 million euro and unchanged compared to the comparative period, 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 120 million euro (119 million euro at June 30, 2017).

The "**Net result from discontinued operations**" is positive for 4 million euro (negative for 94 million euro at June 30, 2017) and includes the discounting proceeds to adjust the value of equity investment of EPCG at fair value value following the new collection plan as further described below. In the corresponding period of the previous year, the fair value adjustment of the value of the investment in EPCG had led to a write-down of 95 million euro, adjusted for 1 million euro by the income deriving from 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 267 million euro (positive for 157 million euro at June 30, 2017).

Balance sheet and financial position

It is noted that compared to the end of the previous year, the scope of consolidation changed for the following transactions:

- acquisition completed by A2A Rinnovabili S.p.A. of a group of companies that own 5 photovoltaic plants in Italy;
- establishment and line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A.. The company will acquire 30% of Gelsia Ambiente S.r.l. in July 2018 and will hold the urban sanitation contract to be subcontracted to the shareholders;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

Net fixed assets

"**Net fixed assets**" amounted to 5,703 million euro, down 77 million euro on December 31, 2017.

Changes are detailed below:

- Tangible fixed assets decreased by 34 million euro due to:
  - the first-time consolidation of A2A Rinnovabili S.p.A. acquisitions, accounting for an increase of 32 million euro;
  - investments amounting to 116 million euro, essentially in the Networks and District Heating Business Unit for 46 million euro, the Waste Business Unit for 37 million euro and the Generation and Trading Business Unit for 22 million euro. Investments of around 11 million euro were then recorded, divided between the Corporate Business Unit, Market Business Unit and A2A Smart City;
  - decrease of 1 million euro following sales of assets in the period, net of accumulated depreciation;
  - decrease of about 6 million euro due to the net reclassification balance from/to other financial statements items and changes in the asset categories;
  - depreciation of the period totaling 175 million euro.
- Intangible fixed assets decreased by 48 million euro with respect to December 31, 2017, due to:
  - the effect of first-time consolidation in the half year, which generated an increase of 10 million euro (goodwill of 9 million euro and other intangible fixed assets of 1 million euro);
  - capex of 71 million euro, mainly in the Networks and District Heating Business Unit (62 million euro) and the Corporate Business Unit (6 million euro), with the residual capex of 3 million euro divided between the Waste and Market Business Units;
  - decrease totaling 89 million euro as a result of other changes due to the reduction in environmental certificates in the industrial portfolio (86 million euro) and other changes and reclassifications (3 million euro);
  - sales of assets, net of accumulated amortization, for 2 million euro;
  - decrease due to amortization of the period of 38 million euro.
- Equity investments and other non-current financial assets, at 66 million euro, decreased by 5 million euro compared to December 31, 2017. This decrease includes 7 million euro due to the sale of the equity investment in Rudnik Uglja to Pljevlja, the collection of dividends totaling 1.5 million euro and fair value gains of 4 million euro on equity investments, mainly in ACSM-AGAM S.p.A..
- Other non-current assets amounted to 125 million euro, showing a net increase of 8 million euro on December 31, 2017. The change is mainly due to the effects of the first-time consolidation of companies in the half year.
- Deferred tax assets amounted to 289 million euro (301 million euro at December 31, 2017) and, net of 1 million euro for the first-time consolidation of the semester acquisitions, showed a decrease of 12 million euro.

- Provisions for risks, changes and liabilities for landfills showed a decrease of 18 million euro. Changes in the period are due to: the net decrease of 8 million euro in the provision for tax disputes, mainly following the subsidiary A2A Ambiente S.p.A.'s release of 7.5 million euro in relation to a dispute with the Puglia Region; the decrease of 4 million euro in the provision for landfill risks following over-accruals as a result of actuarial assessments; net accruals of 7 million euro to the provisions mainly for legal disputes, accruals for hydroelectric concession surcharges; utilizations of 8 million euro in the period and other decreases of 5 million euro, mainly in connection with changes in the decommissioning provisions due to the updating of discount rates.

- Employee benefits decreased by roughly 12 million euro and include net payments totaling 9 million euro in the period, actuarial adjustments of 18 million euro recognized in accordance with IAS 19 and increases of 15 million euro due to accruals of the period.

Working capital

"**Working capital**" amounted to 271 million euro, an increase of 36 million euro over December 31, 2017. The main changes are detailed below:

- Inventories showed an increase of 51 million euro mainly due to the net increase in fuel and natural gas stocks.

- Trade receivables amounted to 1,330 million euro, a decrease of 341 million euro compared to December 31, 2017. The changes, net of the effects of the first consolidations for 3 million euro, were due to: a reduction of 207 million euro related to lower intermediation of the trading portfolio compared to December 2017; a reduction of 186 million euro due to trends linked to seasonality, as opposed to the increase in feed-in tariffs and invoices to be issued for green certificates of 56 million euro. There were also further negative changes amounting to 4 million euro.

- Other current assets amounted to 438 million euro, an increase of 222 million euro compared to December 31, 2017. Net of the effect of the first 2018 consolidation positive for 2 million euro, the changes refer to: current derivative instruments which show a total increase of 75 million euro due to the change in the fair value measurement at the end of the period considered and to the change in the quantities covered; other receivables for current assets, an overall increase of 103 million euro, the changes of which are an increase of 120 million euro in receivables from the Energy and Environmental Services Fund mainly due to the increase in white certificates of 127 million euro, offset by a reduction of 7 million euro in the tariff and insurance components, as well as a reduction of 18 million euro in advances paid to suppliers and other increases for 1 million euro. There was also an increase of 42 million euro in prepayments, mainly due to the water derivation fees paid in the first half of 2018.

- Trade payables amounted to 1,015 million euro, a decrease of 366 million euro compared to the end of the previous year. The changes were due to: a reduction of 330 million euro mainly related to lower intermediation in the trading portfolio due to seasonality and lower payables for components and gas transport; a reduction of 21 million euro due to trends in green certificates and further decreases of 15 million euro.

- Other current liabilities amounted to 670 million euro and show an increase of 149 million euro compared to December 31, 2017, essentially due to the increase in current derivative instruments of 74 million euro, related to the fair value measurement of the commodity derivatives outstanding at the end of the year and the increase in payables for excise duties on gas and electricity for 61 million euro; in addition, there were higher payables to the Energy and Environmental Services Fund relating to the tariff components invoiced and not yet paid for 9 million euro and further increases for 5 million euro.

- Assets and liabilities for current taxes amounted to 10 million euro, which, compared to a credit position of 103 million euro at December 31, 2017, show a decrease of 113 million euro.

"**Non-current assets held for sale**" at June 30, 2018 showed a balance of 160 million euro and refer to the fair value of the investment in EPCG, 28.6% held by A2A S.p.A. (41.75% at December 31, 2017).

The decrease compared to December 31, 2017 is due to the collection in the half-year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders' Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

The consolidated **"Capital employed"** at June 30, 2018 amounted to 6,134 million euro and was covered by Equity for 3,104 million euro and the Net Financial Position for 3,030 million euro.

Shareholders' equity

The net change in Shareholders' equity was positive for a total of 91 million euro. The net profit for the period generated a positive effect of 267 million euro, offset by the dividends distribution of 180 million euro. Furthermore, the fair value gain on the measurement of cash flow hedges (10 million euro) and the net increase in minority interests (2 million euro) affected shareholders' equity, as well. The total impact of the first-time application of IFRS 9 on shareholders' equity attributable to the Group, net of deferred taxes, was a negative 4 million euro and was mainly due to the restatement of the opening bad debt provision at January 1, 2018.

The "**Net financial position**" amounted to 3,030 million euro (3,226 million euro at December 31, 2017). The cash flow generated in the period was positive and amounted to 156 million euro, after the payment of dividends for 180 million euro and investments in the half-year for 187 million euro.

The change in the scope of consolidation also led to a positive adjustment of the "Net financial position" for a total of 40 million euro, attributable for 68 million euro to the collection of the first tranche relating to the put option on EPCG (refer to as described in the paragraph "Non-current assets held for sale"), for 13 million euro to the collection deriving from the sale of the investment in Rudnik Uglja ad Pljevlja and for 41 million euro to the new acquisition carried out by A2A Rinnovabili S.p.A. in the first half.

millions of euro	06 30 2018	12 31 2017	Changes
CAPITAL EMPLOYED			
Net fixed capital	**5,703**	**5,780**	**(77)**
- Tangible assets	4,572	4,606	(34)
- Intangible assets	1,815	1,863	(48)
- Shareholdings and other non-current financial assets (*)	66	71	(5)
- Other non-current assets/liabilities (*)	(125)	(117)	(8)
- Deferred tax assets/liabilities	289	301	(12)
- Provisions for risks, charges and liabilities for landfills	(607)	(625)	18
- Employee benefits	(307)	(319)	12
of which with counter-entry to equity	*(49)*	*(47)*	
Working capital	**271**	**235**	**36**
- Inventories	198	147	51
- Trade receivables and other current assets (*)	1,768	1,887	(119)
- Trade payables and other current liabilities (*)	(1,685)	(1,902)	217
- Current tax assets/tax liabilities	(10)	103	(113)
of which with counter-entry to equity	*(56)*	*(39)*	
Non-current assets held for sale (*)	**160**	**224**	**(64)**
of which with counter-entry to equity	*160*	*224*	
TOTAL CAPITAL EMPLOYED	**6,134**	**6,239**	**(105)**
SOURCES OF FUNDS			
Shareholders' equity	**3,104**	**3,013**	**91**
Total financial position beyond one year	3,453	3,488	(35)
Total financial position within one year	(423)	(262)	(161)
Total Net Financial Position	**3,030**	**3,226**	**(196)**
of which with counter-entry to equity	*23*	*29*	
TOTAL SOURCES	**6,134**	**6,239**	**(105)**

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

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (***)
NET FINANCIAL POSITION AT THE BEGINNING OF THE PERIOD	**(3,226)**	**(3,136)**
First-time consolidation contribution	**(40)**	**-**
Effect of change in EPCG consolidation method	**-**	**(206)**
Net result (**)	266	161
Depreciation/amortization	213	196
Write-downs/disposals of tangible and intangible assets	3	3
Affiliates	(4)	(4)
Held for sale activities write off	-	95
Net interest for the year	58	63
Net interest paid	(54)	(53)
Net taxes paid	-	(1)
Changes in assets and liabilities (*)	100	(38)
Cash flow from operating activities	**582**	**422**
Investments in tangible and intangible assets	(187)	(158)
Investments in shareholdings and securities	(1)	(13)
Disposals of fixed assets and shareholdings	13	-
Dividends received from shareholdings	2	-
Net cash flows from investment activities	**(173)**	**(171)**
Free cash flow	**409**	**251**
Dividends paid by the parent company	(180)	(153)
Dividends paid by the subsidiaries	-	(1)
Other non-monetary changes	(4)	(10)
Cash flow from dividend distribution and other changes	**(184)**	**(164)**
Changes in financial assets/liabilities with counter-entry to equity	11	2
NET FINANCIAL POSITION AT THE END OF THE PERIOD	**(3,030)**	**(3,253)**

(*) Excluding balances with counter-entry to equity.
(**) The net result is stated excluding gains on the disposal of shareholdings.
(***) The values at June 30, 2017 include the effects of the reclassification for IFRS 5 purposes of EPCG Group items.

Significant events during the period

A2A completed the third acquisition in six months in the photovoltaic sector: the installed capacity increases to 54 MW

On February 28, 2018, the A2A Group through the subsidiary A2A Rinnovabili S.p.A. completed the acquisition, from a fund managed by IMPAX (AIFM) Limited – part of Impax Asset Management Group Plc, of 5 photovoltaic plants with a total capacity equal to 15.7 MW.

Of the five photovoltaic plants acquired by A2A, three are located in Apulia, one in Lazio and one in Emilia-Romagna.

The Board of Directors of A2A S.p.A. has taken a framework resolution for the issue of bonds

Taken on March 1, 2018 was a resolution authorizing the issuance of one or more non-subordinated bonds, unsecured and non-convertible, for the MTN program up to a maximum total of 1 billion euro, by April 30, 2020.

Income from the issue of bonds may be used, inter alia, to finance and/or refinance the Group's investments and/or to maintain adequate levels of liquidity, as well as to be used for one or more liability management operations. The decision falls within the context of the A2A Group's medium-term financial strategy also aimed at ensuring efficient management of the Group's repayment profiles, extending the average life of the debt and supporting the rating.

The Board of Directors of A2A S.p.A. has approved the 2017 results

On March 20, 2018, was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Giovanni Valotti, approved the drafts of the Separate financial statements and of the Consolidated annual financial report at December 31, 2017.

The Board of Directors of A2A S.p.A. also approved the tenth annual report on the Group's sustainability performance, which this year represents for the first time the non-financial Consolidated Statement pursuant to Legislative Decree 254/2016, the Italian law that established the mandatory reporting of non-financial performance for large companies of public interest, implementing Directive 2014/95/EU.

The ordinary shareholders' meeting of A2A S.p.A. is scheduled on first call on April 27, 2018 and on second call on April 30, 2018.

The Board of Directors of A2A S.p.A. has examined and approved the A2A Group's 2018-2022 Stategic Plan

The 2015-2017 three-year plan, which is updated annually, is univocally recognizable in the 3R&3D strategic design, and has been completed. The 2015-2017 plan has achieved the strategic objectives of industrial relaunch, external growth, an active role in the energy market and the redesign of the Group's profile. In parallel, the financial targets have been exceeded: since 2014, EBITDA has grown by 187 million euro, the NFP/EBITDA ratio has fallen to 2.7x, the ROI has exceeded 11%, and dividends have increased steadily up to 5.8 euro cents per share in 2017, with a percentage change of over 60%.

The A2A Group presented a new 2018-2022 Plan that focuses on three strategic guidelines ("TEC"): 1. T - Transformation: strengthening and change of the reference businesses, included in the four business lines of A2A; 2. E - Excellence: organization agility, operational excellence and process efficiency; 3. C - Community: attraction and valorization of our people, and full involvement of the external ecosystem. The three guidelines are supported by a strong base represented by Sustainability, the inspiring principle of development.

EPCG Put Option: agreement with the Government of Montenegro

On April 27, 2018, the Government of Montenegro approved the agreement negotiated with A2A S.p.A. for the accelerated execution of the put option on the entire shareholding in EPCG, exercised on July 3, 2017, which will be implemented in 4 tranches in the period between May 1, 2018 and July 31, 2019, instead of the seven years originally envisaged by the Shareholders' Agreement of August 29, 2016.

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

On April 27, 2018, the Ordinary Shareholders' Meeting of A2A S.p.A. approved the 2017 financial statements.

Furthermore, the following resolutions have been adopted:

- approval of the proposal made by the Board of Directors to distribute a dividend of 0.0578 euro per ordinary share to be paid as from May 23, 2018 (ex-dividend no. 21 May 21, 2018) and record date May 22, 2018;
- vote in favour of the first part of the 2018 Remuneration Report;
- approval of the adjustment of the fee for the audit of the accounts and of the activities related to the additional activities (revision of the "Non-financial annual declaration pursuant to Legislative Decree 254/2016") communicated by EY S.p.A., approving for this purpose an annual supplement of 15,000.00 euro of the fees due to EY S.p.A. for each financial year starting from the revision of the "Non-financial annual declaration pursuant to Legislative Decree 254/2016" at December 31, 2017;
- authorized – subject to revocation of the resolution authorizing the purchase and disposal of treasury shares adopted by the Ordinary Meeting of May 15, 2017, to the extent not already used – the Administrative Body to carry out transactions for the purchase and disposal of treasury shares, according to the purposes, procedures and terms expressly established.

Moody's has improved the rating of A2A from BAA3 to BAA2 with stable outlook

The rating agency Moody's Investors Service (Moody's) improved, on April 27, 2018, the "long-term issuer" and "senior unsecured debt" ratings from Baa3 to Baa2. Moody's also improved the "long-term EMTN" rating to (P)Baa2 from (P)Baa3.

The outlook of ratings is stable.

Moody's has positively assessed the company's well-diversified business structure, flexibility and strong liquidity profile along with the continuous improvement of its financial structure.

The Board of Directors of A2A S.p.A. has examined and approved the quarterly Information as at March 31, 2018

On May 10, 2018 was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Valotti, examined and approved the results as at March 31, 2018.

Below are the main results achieved by the Group:

- Gross Operating Margin amounted to 408 million euro, up 4% compared to March 31, 2017 restated;
- Group net profit of 173 million euro (180 million euro at March 31, 2017), due to the higher tax burden;
- Capex totaled 76 million euro, up 43% compared to the first quarter of 2017;
- Cash generation for 90 million euro. The net financial position decreased to 3,176 million euro, despite the impact of 41 million euro of the M&A transactions concluded in February 2018.

A2A and ACSM-AGAM signed agreement with the Municipality of Garbagnate Milanese for requalification of public lighting systems in the territory

On May 21, 2018, the Municipality of Garbagnate Milanese announced that it had signed an agreement with A2A and ACSM-AGAM for the installation of 4,200 LED lights, managed by remote control, replacement of 1,900 poles, realization of 5.3 km of new power lines and upgrading of all 70 existing electrical panels.

These interventions, which will bring to the Municipality concerned a saving of about 65% on public lighting costs, have a value for the A2A Group of around 11.5 million euro with a duration of 20 years.

Significant events after June 30, 2018

Project of industrial and corporate partnership between multi-utilities: A2A, ACSM-AGAM, Aspem, AEVV and Lario Reti Holding

On July 1, 2018, the Merger and Demerger transactions were effective between ACSM-AGAM, Aspem, AEVV, Lario Reti Holding and A2A S.p.A., which constituted the multi-utility of the North. From July 1, the accounting and tax effects will also commence and as a result, the A2A Group will fully consolidate, starting from that date, the new ACSM-AGAM Group.

The main steps of the project that led to the establishment of the multi-utility of the North are described below.

On January 23, 2018, the Boards of Directors of ACSM-AGAM S.p.A., Aspem S.p.A., AEVV S.p.A., AEVV Energie S.r.l., Lario Reti Holding S.p.A., ACEL Service S.r.l., Lario Reti Gas S.r.l. and A2A S.p.A. approved the industrial and corporate partnership project outlined in the non-binding letter of intent signed on April 1, 2017.

The aggregation project consists of the following phases:

- merger by incorporation into ACSM-AGAM of A2A IDRO4, Aspem, AEVV Energie, ACEL Service, AEVV and Lario Reti Gas;
- partial demerger of A2A Energia S.p.A. in favour of ACSM-AGAM mainly concerning a business unit consisting of contractual relationships with customers in the province of Varese in the energy sector;
- reorganization of ACSM-AGAM consisting in the rationalization of the assets received following the merger and demerger above, through the execution of various contributions in newly established companies (fully controlled by ACSM-AGAM) or in other existing companies already controlled by ACSM-AGAM or of which the latter became a partner following the merger.

On the basis of the exchange ratios described in the merger plan, the shareholding structure of ACSM-AGAM will be as follows: A2A will hold 38.91%, Lario Reti Holding will hold 23.05%, the Municipality of Monza will hold 10.53%, the Municipality of Como will hold 9.61%, the Municipality of Sondrio will hold 3.3% and the Municipality of Varese 1.29%. A reduction of free float to around 13% is expected.

The reality resulting from the project will be a listed operator with the presence of A2A, as a reference shareholder.

The scope of the combination includes companies that achieve, at 2016 aggregate values, revenues of 421 million euro, EBITDA of approximately 80 million euro and net profit of approximately 30 million euro. The aggregate net financial position is approximately 80 million euro, with an workforce of approximately 800 employees.

The economic-financial forecasts following the merger foresee EBITDA at the end of the plan (2021) included in a range between 90 and 120 million euro.

On March 12, 2018, the Municipalities of Como, Monza, Sondrio and Varese, shareholders of the entities involved in the Aggregation Project, adhered to the Aggregation Project, signing the related contractual documents. Furthermore, also on the same date, the positive opinion on the exchange ratio of the Merger and the Demerger was released by the independent expert.

On May 16, 2018, the Extraordinary Meeting of ACSM-AGAM approved: (i) the merger by incorporation into ACSM-AGAM of A2A IDRO4 S.r.l., ACEL Service, AEVV Energie, Aspem, AEVV and LRG; (ii) the partial demerger of A2A Energia S.p.A. for the benefit of ACSM-AGAM concerning the business unit consisting of energy customers located in the Province of Varese, together with an increase in capital serving the Merger and Demerger exchange ratio, for 120,724,700 euro, through the issue of a total of 120,724,700 ordinary shares; (iii) modification of some of the Company's articles of association.

On the basis of the exchange ratio of the Merger and Demerger described above, A2A obtains voting rights in excess of 30% of the voting rights exercisable in the ACSM-AGAM meeting, thus exceeding the threshold of TOB (Takeover Bid) mandatory pursuant to article 106 of the TUF Consolidated Finance Act (Legislative Decree no. 58/1998).

Therefore, after the extraordinary meeting of ACSM-AGAM and as the whitewash mechanism was not applicable, A2A and the agents acting jointly (LRH, Municipality of Como, Monza, Sondrio and Varese) will be jointly bound to promote a takeover bid on all the shares of ACSM-AGAM not held by the aforementioned parties (approximately 13.31% of the capital post-Merger). The bid will be promoted by A2A and LRH on behalf of all the parties required to do so.

The unit price of the TOB will coincide with the value attributed to an ACSM-AGAM share for the purpose of determining the exchange ratio of the Merger and will be 2.47 euro.

If, after the transaction, the float is reduced to such an extent that it does not allow for regular trading, the parties will rebuild a suitable float to allow the listing of the shares of ACSM-AGAM on the MTA Electronic Stock Exchange to be maintained.

On June 25, 2018 was the stipulation of the deed of merger by incorporation into ACSM-AGAM of A2A IDRO4 S.p.A., Aspem, AEVV Energie, ACEL Service, AEVV and LRG and the partial demerger of A2A Energia S.p.A. for the benefit of ACSM-AGAM (mainly concerning the mass market customers business unit of the province of Varese), implementing merger and demerger resolutions taken by the competent bodies of each of the aforementioned companies.

Filing of the TOB by A2A S.p.A. and Lario Reti Holding S.p.A.

On July 20, 2018, A2A S.p.A. and Lario Reti Holding S.p.A. (the Bidders) communicated that they have submitted to CONSOB - pursuant to and for the purposes of articles 102, 106, paragraph 1, and 109, of Legislative Decree no. 58 of February 24, 1998, as subsequently amended and supplemented (the TUF) and article 37-ter of the Issuers' Regulation - the bid document (the Bid Document) relating to the total obligatory takeover bid pursuant to articles 102, 106, paragraph 1, and 109 of the TUF (the Bid) concerning the maximum number of 26,264,874 ordinary shares of ACSM AGAM S.p.A. (the Issuer).

The participants in the Bid will be paid a cash amount of 2.47 (two point four seven) euro for each share of the Issuer brought into the Bid.

The maximum overall value of the Bid, in the case of total acceptance of the Bid, is equal to 64,874,238.78 euro.

The Bid is not aimed at revoking the listing of the Issuer's ordinary shares.

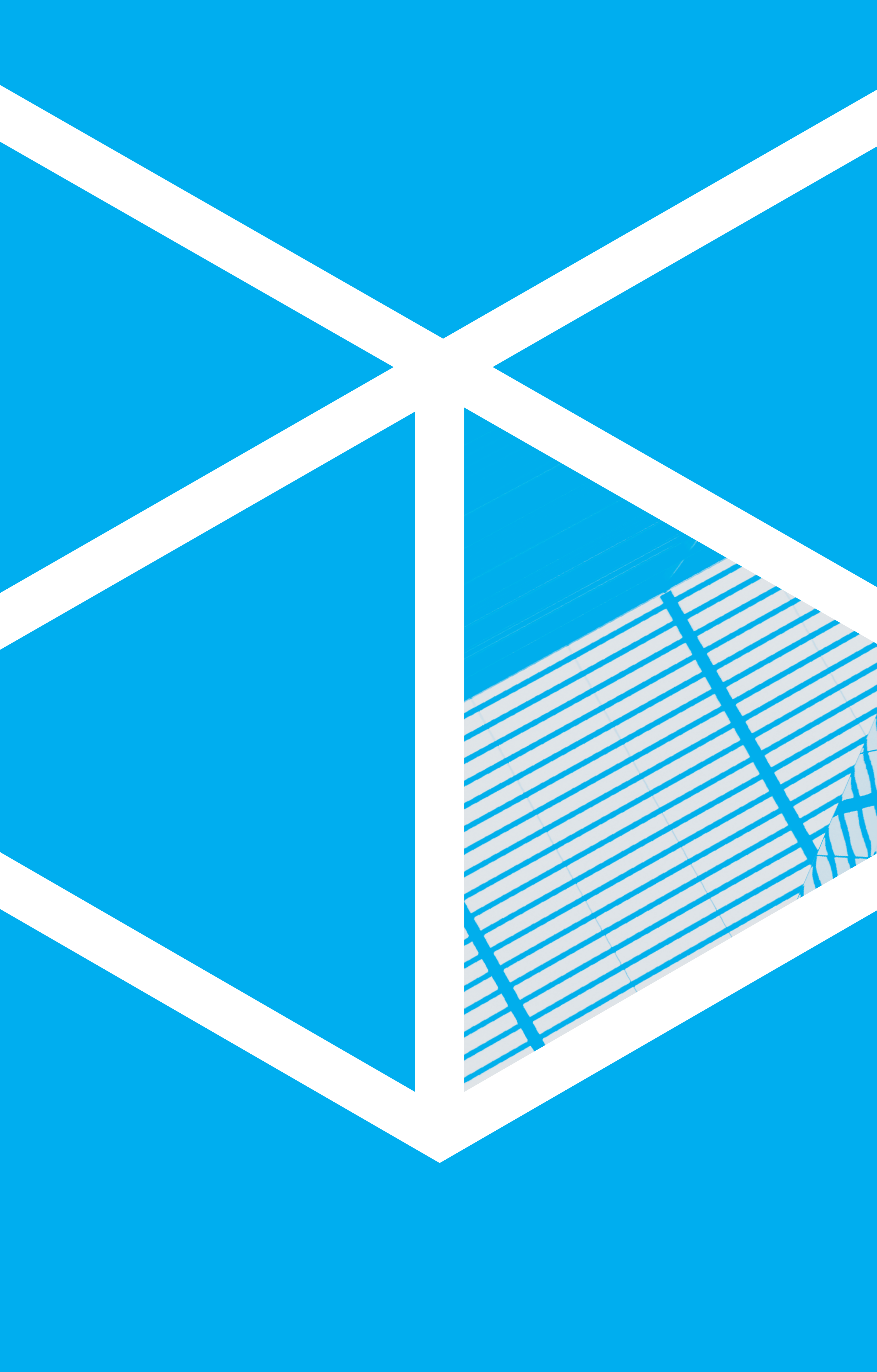
The Bid Document will be published once approved by CONSOB, by the end of the preliminary period pursuant to article 102, paragraph 4, of the TUF.

Outlook for operations

The first half of 2018 ended with strong results that are substantially in line with the Group's forecasts. Although the energy market is volatile, no significant changes are expected in the Generation business unit's results, since the Group has hedged nearly all its positions in hydroelectric production. Similarly, the results of the other business units are in line with the forecasts published at the beginning of the year. The Group therefore expects to confirm the outlook it provided in past months, with Gross Operating Margin between 1,150-1,180 million euro (plus non-recurring items generating additional income of 20-30 million euro) and net profit of around 400 million euro.

Moreover, in addition to these forecasts, following the successful completion of the merger of the Northern Italian multi-utility company, the full consolidation of the ACSM-AGAM Group beginning on July 1, 2018 will benefit gross and net profit margins.

Similarly, the Group confirms its forecast cash flow generation of about 100 million euro.



3 Consolidated financial statements

Consolidated balance sheet (1-2)

Assets

millions of euro	Note	06 30 2018	12 31 2017
NON-CURRENT ASSETS			
Tangible assets	1	4,572	4,606
Intangible assets	2	1,815	1,863
Shareholdings carried according to equity method	3	58	63
Other non-current financial assets	3	41	44
Deferred tax assets	4	289	301
Other non-current assets	5	10	8
Total non-current assets		**6,785**	**6,885**
CURRENT ASSETS			
Inventories	6	198	147
Trade receivables	7	1,330	1,671
Other current assets	8	438	216
Current financial assets	9	6	8
Current tax assets	10	67	107
Cash and cash equivalents	11	859	691
Total current assets		**2,898**	**2,840**
NON-CURRENT ASSETS HELD FOR SALE	12	**160**	**224**
TOTAL ASSETS		**9,843**	**9,949**

(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 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

millions of euro	Note	06 30 2018	12 31 2017
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,125	1,010
Result of the year	16	-	293
Result of the period	16	267	-
Equity pertaining to the Group		**2,967**	**2,878**
Minority interests	17	137	135
Total equity		**3,104**	**3,013**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,473	3,501
Employee benefits	19	307	319
Provisions for risks, charges and liabilities for landfills	20	607	625
Other non-current liabilities	21	148	148
Total non-current liabilities		**4,535**	**4,593**
Current liabilities			
Trade payables	22	1,015	1,381
Other current liabilities	22	670	521
Current financial liabilities	23	442	437
Tax liabilities	24	77	4
Total current liabilities		**2,204**	**2,343**
Total liabilities		**6,739**	**6,936**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**-**	**-**
TOTAL EQUITY AND LIABILITIES		**9,843**	**9,949**

Consolidated income statement (1-2)

millions of euro	Note	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)
Revenues			
Revenues from the sale of goods and services		2,969	2,696
Other operating income		112	108
Total revenues	26	**3,081**	**2,804**
Operating expenses			
Expenses for raw materials and services		1,972	1,698
Other operating expenses		118	143
Total operating expenses	27	**2,090**	**1,841**
Labour costs	28	**334**	**326**
Gross operating income - EBITDA	29	**657**	**637**
Depreciation, amortization, provisions and write-downs	30	**221**	**204**
Net operating income - EBIT	31	**436**	**433**
Result from non-recurring transactions	32	**6**	**-**
Financial balance			
Financial income		11	6
Financial expenses		69	69
Affiliates		4	4
Result from disposal of other shareholdings (AFS)		-	-
Total financial balance	33	**(54)**	**(59)**
Result before taxes		**388**	**374**
Income taxes	34	**120**	**119**
Result after taxes from operating activities		**268**	**255**
Net result from discontinued operations	35	**4**	**(94)**
Net result		**272**	**161**
Minorities	36	**(5)**	**(4)**
Group result of the period	37	**267**	**157**
Result per share (in euro):			
- basic		0.0859	0.0504
- basic from continuing operations		0.0845	0.0808
- basic from assets held for sale		0.0014	(0.0304)
- diluted		0.0859	0.0504
- diluted from continuing operations		0.0845	0.0808
- diluted from assets held for sale		0.0014	(0.0304)

(*) The values at June 30, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

(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 39.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40 as required by Consob Communication DEM/6064293 of July 28, 2006.

Consolidated statement of comprehensive income

millions of euro	06 30 2018	06 30 2017 Restated
Net result of the period (A)	**272**	**161**
Actuarial gains/(losses) on employee's benefits booked in the Net equity	3	9
Tax effect of other actuarial gains/(losses)	(1)	(3)
Total actuarial gains/(losses) net of the tax effect (B)	**2**	**6**
Effective part of gains/(losses) on cash flow hedges	14	(8)
Tax effect of other gains/(losses)	(4)	2
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**10**	**(6)**
Other gains/(losses) of companies valued at equity net of the tax effect (D)	**-**	**-**
Total comprehensive result (A) + (B) + (C) + (D)	**284**	**161**
Total comprehensive result attributable to:		
Shareholders of the parent company	**279**	**157**
Minority interests	**(5)**	**(4)**

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.

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Consolidated cash-flow statement

millions of euro	06 30 2018	12 31 2017
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	**691**	**402**
Change in EPCG consolidation method	-	(55)
Contribution of first consolidation of acquisitions of 2018/2017	4	7
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	**695**	**354**
Operating activities		
Net result (**)	266	297
Tangible assets depreciation	175	338
Intangible assets amortization	38	72
Fixed assets write-downs/disposals	3	43
Result from affiliates	(4)	(5)
Held for sale activities write off	-	86
Net financial interests	58	139
Net financial interests paid	(54)	(115)
Net taxes paid (a)	*-*	*(192)*
Gross change in assets and liabilities (b)	*100*	*203*
Total change of assets and liabilities (a+b) (*)	100	11
Cash flow from operating activities	**582**	**866**
Investment activities		
Investments in tangible assets	(116)	(306)
Investments in intangible assets and goodwill	(71)	(148)
Investments in shareholdings and securities (*)	(1)	(23)
Disposal of fixed assets and shareholdings	13	-
Dividends received	2	2
Cash flow from investment activities	**(173)**	**(475)**
FREE CASH FLOW	**409**	**391**

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

(**) Net Result is exposed net of gains on shareholdings' and fixed assets' disposals.

millions of euro	06 30 2018	12 31 2017
Financing activities		
Changes in financial assets		
Monetary changes:		
Issuance of loans	-	-
Proceeds from loans	3	7
Other monetary changes	-	(10)
Total monetary changes	**3**	**(3)**
Non-monetary changes:		
Other non-monetary changes	2	5
Total non-monetary changes	**2**	**5**
Total changes in financial assets (*)	**5**	**2**
Changes in financial liabilities		
Monetary changes:		
Borrowings/bonds issued	32	743
Repayment of borrowings/bond	(102)	(613)
Lease payments	(2)	(2)
Dividends paid by the parent company	(180)	(153)
Dividends paid by the subsidiaries	-	(2)
Other monetary changes	1	(3)
Total monetary changes	**(251)**	**(30)**
Non-monetary changes:		
Amortized cost valuations	5	-
Other non-monetary changes	(4)	(26)
Total non-monetary changes	**1**	**(26)**
Total changes in financial liabilities (*)	**(250)**	**(56)**
Cash flow from financing activities	**(245)**	**(54)**
CHANGE IN CASH AND CASH EQUIVALENTS	**164**	**337**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	**859**	**691**

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 12.31.2016 Restated	**1,629**	**(54)**	**(2)**
Changes of the first half of 2017			
2016 result allocation			
Distribution of dividends			
IAS 19 reserve (*)			
Cash Flow Hedge reserves (*)			(6)
EPCG Equity method			
Other changes			
Group and minorities result of the period			
Net equity at 06.30.2017 Restated (**)	**1,629**	**(54)**	**(8)**
Changes of the second half of 2017			
IAS 19 reserve (*)			
Cash Flow Hedge reserves (*)			(12)
Other changes			
Group and minorities result of the period			
Net equity at 12.31.2017	**1,629**	**(54)**	**(20)**
IFRS 9 - first application			
Net equity at January 1, 2018	**1,629**	**(54)**	**(20)**
Changes of the first half of 2018			
2017 result allocation			
Distribution of dividends			
IAS 19 reserve (*)			
Cash Flow Hedge reserves (*)			10
Other changes			
Group and minorities result of the period			
Net equity at 06.30.2018	**1,629**	**(54)**	**(10)**

(*) These form part of the statement of comprehensive income.
(**) The values at June 30, 2017 include the effects of the reclassification for IFRS 5 purposes of EPCG Group items.

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	Other Reserves and retained earnings Note 15	Result of the period/year pertaining to the Group Note 16	Total Equity pertaining to the Group	Minority interests Note 17	Total Net shareholders' equity
	921	**232**	**2,726**	**553**	**3,279**
	232	(232)	-		-
	(153)		(153)	(1)	(154)
	6		6		6
			(6)		(6)
			-	(420)	(420)
	8		8	(2)	6
		157	157	3	160
	1,014	**157**	**2,738**	**133**	**2,871**
	6		6		6
			(12)	1	(11)
	10		10	(2)	8
		136	136	3	139
	1,030	**293**	**2,878**	**135**	**3,013**
	(4)		**(4)**		**(4)**
	1,026	**293**	**2,874**	**135**	**3,009**
	293	(293)	-		-
	(180)		(180)		(180)
	2		2		2
			10		10
	(6)		(6)	(3)	(9)
		267	267	5	272
	1,135	**267**	**2,967**	**137**	**3,104**

Detail of the balance sheet highlighting the first-time consolidation effect of 2018 acquisitions

(NO GAAP MEASURES)

millions of euro	Note	Consolidated at 12 31 2017	First-time consolidation effect A2A Rinnovabili Group acquisitions 2018	Changes during the period	Consolidated at 06 30 2018
ASSETS					
NON-CURRENT ASSETS					
Tangible assets	1	4,606	32	(66)	4,572
Intangible assets	2	1,863	10	(58)	1,815
Shareholdings carried according to equity method	3	63	-	(5)	58
Other non-current financial assets	3	44	-	(3)	41
Deferred tax assets	4	301	1	(13)	289
Other non-current assets	5	8	-	2	10
TOTAL NON-CURRENT ASSETS		**6,885**	**43**	**(143)**	**6,785**
CURRENT ASSETS					
Inventories	6	147	-	51	198
Trade receivables	7	1,671	3	(344)	1,330
Other current assets	8	216	2	220	438
Current financial assets	9	8	-	(2)	6
Current tax assets	10	107	-	(40)	67
Cash and cash equivalents	11	691	4	164	859
TOTAL CURRENT ASSETS		**2,840**	**9**	**49**	**2,898**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**224**	**-**	**(64)**	**160**
TOTAL ASSETS		**9,949**	**52**	**(158)**	**9,843**
LIABILITIES					
NON-CURRENT LIABILITIES					
Non-current financial liabilities	18	3,501	36	(64)	3,473
Employee benefits	19	319	-	(12)	307
Provisions for risks, charges and liabilities for landfills	20	625	-	(18)	607
Other non-current liabilities	21	148	5	(5)	148
TOTAL NON-CURRENT LIABILITIES		**4,593**	**41**	**(99)**	**4,535**
CURRENT LIABILITIES					
Trade payables	22	1,381	1	(367)	1,015
Other current liabilities	22	521	-	149	670
Current financial liabilities	23	437	3	2	442
Tax liabilities	24	4	-	73	77
TOTAL CURRENT LIABILITIES		**2,343**	**4**	**(143)**	**2,204**
TOTAL LIABILITIES		**6,936**	**45**	**(242)**	**6,739**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**-**	**-**	**-**	**-**
TOTAL LIABILITIES		**6,936**	**45**	**(242)**	**6,739**

Consolidated balance sheet

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

Assets

millions of euro	06 30 2018	of which Related Parties (note 39)	12 31 2017	of which Related Parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	4,572		4,606	
Intangible assets	1,815		1,863	
Shareholdings carried according to equity method	58	58	63	63
Other non-current financial assets	41	7	44	8
Deferred tax assets	289		301	
Other non-current assets	10		8	
Total non-current assets	**6,785**		**6,885**	
CURRENT ASSETS				
Inventories	198		147	
Trade receivables	1,330	112	1,671	102
Other current assets	438		216	
Current financial assets	6		8	
Current tax assets	67		107	
Cash and cash equivalents	859		691	
Total current assets	**2,898**		**2,840**	
NON-CURRENT ASSETS HELD FOR SALE	**160**	**160**	**224**	**224**
TOTAL ASSETS	**9,843**		**9,949**	

Equity and liabilities

millions of euro	06 30 2018	of which Related Parties (note 39)	12 31 2017	of which Related Parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,125		1,010	
Result of the year	-		293	
Result of the period	267		-	
Equity pertaining to the Group	**2,967**		**2,878**	
Minority interests	137		135	
Total equity	**3,104**		**3,013**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,473		3,501	
Employee benefits	307		319	
Provisions for risks, charges and liabilities for landfills	607	2	625	2
Other non-current liabilities	148		148	
Total non-current liabilities	**4,535**		**4,593**	
Current liabilities				
Trade payables	1,015	30	1,381	32
Other current liabilities	670	7	521	7
Current financial liabilities	442	2	437	1
Tax liabilities	77		4	
Total current liabilities	**2,204**		**2,343**	
Total liabilities	**6,739**		**6,936**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**-**		**-**	
TOTAL EQUITY AND LIABILITIES	**9,843**		**9,949**	

Consolidated income statement

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

millions of euro	01 01 2018 06 30 2018	of which Related Parties (note 39)	01 01 2017 06 30 2017 Restated (*)	of which Related Parties (note 39)
Revenues				
Revenues from the sale of goods and services	2,969	217	2,696	103
Other operating income	112	1	108	1
Total revenues	**3,081**		**2,804**	
Operating expenses				
Expenses for raw materials and services	1,972	4	1,698	20
Other operating expenses	118	17	143	18
Total operating expenses	**2,090**		**1,841**	
Labour costs	**334**	**1**	**326**	**1**
Gross operating income - EBITDA	**657**		**637**	
Depreciation, amortization, provisions and write-downs	**221**		**204**	
Net operating income - EBIT	**436**		**433**	
Result from non-recurring transactions	**6**	**6**	**-**	
Financial balance				
Financial income	11	3	6	3
Financial expenses	69		69	
Affiliates	4	4	4	4
Result from disposal of other shareholdings (AFS)	-		-	
Total financial balance	**(54)**		**(59)**	
Result before taxes	**388**		**374**	
Income taxes	**120**		**119**	
Result after taxes from operating activities	**268**		**255**	
Net result from discontinued operations	**4**	**4**	**(94)**	**(95)**
Net result	**272**		**161**	
Minorities	**(5)**		**(4)**	
Group result of the period	**267**		**157**	

(*) The values at June 30, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

4
Notes to the Half-yearly financial report

General information

A2A S.p.A. is a company with legal personality organized under the laws of the Italian Republic which operates, also through its subsidiaries ("Group"), both in Italy and abroad.

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.

This Half-yearly financial report has been prepared in abbreviated form pursuant to IAS 34 and contains the obligatory information required by the same.

Half-yearly financial report

The Half-yearly financial report (hereinafter the "**Half-year report**") of the A2A Group at June 30, 2018 is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Half-year report of the A2A Group at June 30, 2018 has been prepared:

- in compliance with Legislative Decree 58/1998 (art. 154-ter) as amended and with the Issuers' Regulations published by Consob;
- in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union 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-year report, the same principles used in the preparation of the consolidated annual financial report at December 31, 2017 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, 2018.

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 financial report at June 30, 2018 was approved on July 31, 2018 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. In particular, it is noted that the item "Result from non-recurring transactions" is intended to include gains/losses recognized as a result of fair value measurement net of sale costs and other non-operating expenses/income. 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, 2017.

Basis of preparation

The Half-yearly financial report at June 30, 2018 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-year report are consistent with those used to prepare the annual consolidated financial statements at December 31, 2017, except as specified below.

It is noted that on the occasion of the closing of the 2018 half-year report, the A2A Group decided to estimate the tax for the period for all Group companies by adopting the tax rate criterion based on the best estimate of the Group's weighted average rate expected for the entire year.

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, 2018.

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, 2018, 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, 2018, applicable to the Group are the following standards or additions to specific paragraphs of the international accounting standards already adopted by the company in previous years.

- IFRS 9 "Financial instruments": this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available- for-sale financial assets" and "held-to-maturity investments" disappear. Classification within the two categories is carried out on the basis of an entity's business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity's business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.

  All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).

  An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.

  IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity's business model. In this case the effects of the reclassification are applied prospectively.

  The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

  i. the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;

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

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

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

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

In 2017, the A2A Group carried out an in-depth analysis of the financial instruments in the portfolio impacted by the application of IFRS 9 and the write-down of receivables from customers according to the new logic (expected losses). The analysis ended with the identification of non-significant impacts on the valuation of financial assets and liabilities and on the method used to calculate the Group's provision for risks on receivables.

The Group has adopted the new standard starting from January 1, 2018, without restating the comparative figures. The consequent impacts are not significant both on the valuation of financial assets and liabilities and on the calculation method of the provision for risks on receivables.

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

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

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

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

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

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

The provisions of IFRS 15, following the amendments made with the amendment issued respectively on September 11, 2015 and April 12, 2016, will be effective for years beginning on or after January 1, 2018. The A2A Group applied IFRS 15 using the modified retrospective approach in order to present comparative figures.

The impacts on the consolidated financial statements are not significant. In the first few months of 2018, the information systems were also modified in order to recognize operating revenues in compliance with the standard introduced.

- IFRIC 22 "Transactions in foreign currency and recognition of prepayments or collections": approved on April 3, 2016, the interpretation of IAS 21 "Transactions in foreign currency" aims to clarify the date on which to use the exchange rate for the purpose of recording the non-monetary asset/liability relating to transactions in foreign currency. Specifically, the recognition of the advance asset/liability must be carried out at the exchange rate on the day of payment/collection of the advance and in the same terms the "derecognition" of the same, once the transaction is concluded with the recognition of the related sales revenues, will take place at the same exchange rate with which the non-monetary asset/liability was recorded. There were no effects on the Group's economic and equity situation.

- IAS 40 "Property Investments": approved on March 15, 2018, the amendment introduced clarifies when an entity must transfer ownership of the properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. There were no effects on the Group's economic and equity situation.

- IFRS 2 "Share-based payments": approved on February 27, 2018 some amendments to the standard, which deal with two main areas: the classification of a share-based payment transaction settled net of obligations for withholding tax; accounting if a change in the terms and conditions of a share-based payment transaction changes its classification from settled in cash to settled with equity instruments. The adoption of the standard does not have any impact on the A2A Group as no share-based payments are envisaged.

- IFRS 4 "Insurance contracts": published in the Official Journal of the European Union in November 2017, the amendment to this standard that allows companies that issue insurance contracts to defer the application of IFRS 9 for the accounting of financial investments aligning the date of first application with that of IFRS 17, expected in 2021 (deferral approach) and at the same time eliminating from the income statement some distorting effects deriving from the early application of IFRS 9 with respect to the application of IFRS 17 (overlay approach). No economic-financial impact on Group disclosures.

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

- IFRS 16 "Leases": the standard issued by the IASB on January 13, 2016 and approved by the European Union in November 2017, fully replaces all the previous IFRS accounting requirements for the accounting of leases (IAS 17 and IFRIC 4). The standard applies to all contracts concerning the right to use an asset for a certain period of time in exchange for a specific fee. IFRS 16 sets, for lessees, a single accounting model for all leases (with specific cases of exclusion and exemption), eliminating the distinction between operating and financial leasing. The accounting forecasts for lessors remain substantially unchanged compared to the previous provisions.

  The initial recognition, for the lessee, involves the recording of assets equal to the right to use the asset and a financial liability corresponding to the present value of the future fees to be paid. The subsequent valuation involves the recognition of the amortization of the right of use on the basis of IAS 16 (or alternative valuation method) and the discounting of the financial liability created during initial recognition using a discount rate defined in the leasing contract. Financial expenses and depreciation/amortization are recognized separately in the income statement.

  The new standard will be in force for the financial years closed from January 1, 2019, with early application permitted on condition that the new IFRS 15 is already adopted or is applied on the same date as the first application of the IFRS 16 in question.

  The analyses are underway to identify impacts and changes to the economic and financial situation of the A2A Group, which will be concluded in time to correctly adopt the standard in question starting from the financial statements closed from January 1, 2019.

- IFRS 9 "Financial instruments": approved on March 26, 2018 and applicable starting January 1, 2019, an addition that allows valuing at amortized cost the expenses related early repayment of financial instruments that were previously measured at fair value through profit and loss.

Scope of consolidation

The Half-year report of the A2A Group at June 30, 2018 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. 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:

- acquisition and line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A., wholly owned by A2A S.p.A.;
- establishment and line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A.. The company will acquire 30% of Gelsia Ambiente S.r.l. in July 2018 and will hold the urban sanitation contract to be subcontracted to the shareholders;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

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, through its companies, 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).

Group investments that are considered joint ventures pursuant to IFRS 11 are accounted for 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-year report at June 30, 2018.

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.

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) 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, some earn-outs 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.

In August 2017, Aprica S.p.A. paid 0.1 million euro following the awarding and extension of the agreements with the Municipalities of Rovato and Gambara.

In April 2018, Aprica S.p.A. paid an additional 0.1 million euro following the signing of the contract for the public integrated urban waste management service in the Municipality of Travagliato.

As a result of the agreements described, the Half-year report at June 30, 2018 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 1 million euro.

d) 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.

e) 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 2.2 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.

In accordance with the provisions of IFRS 3, at December 31, 2017, the Group completed the Purchase price allocation process, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

f) Earn-out on the purchase of “special purpose vehicles” from the Re Energy fund and from Novapower S.p.A.

By contract, there are price adjustments of non-significant amounts both in favour of the seller and in favour of the buyer upon the occurrence of certain conditions.

In accordance with the provisions of IFRS 3, at December 31, 2017, the Group completed the Purchase price allocation process, allocating to other intangible assets the difference between the amount transferred, measured in accordance with IFRS 3, and the net fair value attributed to assets acquired and liabilities undertaken.

Consolidation procedures

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. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Half-year 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.

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 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, 2018 *millions of euro*	Bergamo Pulita 50%	PremiumGas 50%	Ergosud 50% (figures at 12 31 2017)	Metamer 50% (figures at 03 31 2018)
INCOME STATEMENT				
Revenues	0.02	0.02	33.4	7.9
Gross operating income	**(0.03)**	**(0.17)**	**14.1**	**0.7**
% of net revenues	*n.s.*	*n.s.*	*42.3%*	*8.5%*
Depreciation, amortization and write-downs	0.33	-	(7.9)	(0.1)
Net operating income	**0.30**	**(0.08)**	**6.2**	**0.6**
Result for the year	**0.17**	**(0.17)**	**3.7**	**0.4**
BALANCE SHEET				
Total assets	**2.5**	**4.8**	**162.3**	**10.2**
Net equity	**0.24**	**1.8**	**66.5**	**2.5**
Net (debt)	**1.31**	**0.2**	**(77.2)**	**1.6**

Key figures at June 30, 2017 *millions of euro*	Bergamo Pulita 50%	PremiumGas 50%	Ergosud 50% (figures at 12 31 2016)	Metamer 50% (figures at 03 31 2017)
INCOME STATEMENT				
Revenues	0.02	8.8	31.3	5.3
Gross operating income	**(0.03)**	**(0.3)**	**14.8**	**0.6**
% of net revenues	*n.s.*	*n.s.*	*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 year	**(0.07)**	**(0.25)**	**8.3**	**0.3**
BALANCE SHEET				
Total assets	**2.92**	**5.6**	**175.5**	**8.6**
Net equity	**(0.42)**	**3.5**	**66.8**	**1.7**
Net (debt)	**(0.70)**	**0.6**	**(86.9)**	**2.6**

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		MARKET		WASTE	
	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)
Revenues	**1,758**	**1,533**	**1,009**	**916**	**508**	**496**
- of which inter-sector	*470*	*374*	*125*	*111*	*47*	*44*
Labour costs	**46**	**44**	**22**	**20**	**155**	**152**
Gross operating income - EBITDA	**225**	**186**	**111**	**122**	**136**	**137**
% of revenues	*12.8%*	*12.1%*	*11.0%*	*13.3%*	*26.8%*	*27.6%*
Depreciation, amortization, provisions and write-downs	**(85)**	**(71)**	**(11)**	**(12)**	**(37)**	**(44)**
Net operating income - EBIT	**140**	**115**	**100**	**110**	**99**	**93**
% of revenues	*8.0%*	*7.5%*	*9.9%*	*12.0%*	*19.5%*	*18.8%*
Result from non-recurring transactions						
Financial balance						
Result before taxes						
Income taxes						
Result after taxes from operating activities						
Net result from discontinued operations						
Minorities						
Group result of the period						
Gross investments (1)	**22**	**11**	**5**	**3**	**38**	**37**

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

(*) The values at June 30, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

It should be noted that the income statement data from January 1 to June 30, 2017 have been reallocated to make them homogeneous to the results by "Business Unit" from January 1 to June 30, 2018.

	NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated (*)
	590	**539**	**22**	**12**	**105**	**102**	**3**	**-**	**(914)**	**(794)**	**3,081**	**2,804**
	158	*163*	*14*	*10*	*100*	*92*	*-*	*-*	*(914)*	*(794)*		
	51	**53**	**4**	**2**	**55**	**54**	**1**	**1**			**334**	**326**
	192	**200**	**4**	**3**	**(11)**	**(10)**	**-**	**(1)**			**657**	**637**
	32.5%	*37.1%*	*18.2%*	*25.0%*	*(10.5%)*	*(9.8%)*	*-*	*-*			*21.3%*	*22.7%*
	(77)	**(68)**	**(2)**	**(1)**	**(9)**	**(8)**	**-**	**-**			**(221)**	**(204)**
	115	**132**	**2**	**2**	**(20)**	**(18)**	**-**	**(1)**			**436**	**433**
	19.5%	*24.5%*	*9.1%*	*16.7%*	*(19.0%)*	*(17.6%)*	*-*	*-*			*14.2%*	*15.4%*
											6	**-**
											(54)	**(59)**
											388	**374**
											(120)	**(119)**
											268	**255**
											4	**(94)**
											(5)	**(4)**
											267	**157**
	108	**90**	**6**	**4**	**8**	**9**	**-**	**-**			**187**	**154**

millions of euro	GENERATION AND TRADING		MARKET		WASTE	
	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)
Tangible assets	2,053	2,080	34	32	665	670
Intangible assets	66	86	110	113	47	51
Trade receivables and current financial assets	461	673	623	585	346	358
Trade payables and current financial liabilities	513	792	253	322	319	319

(*) It should be noted that the balance sheet data at December 31, 2017 have been reallocated to make them homogeneous to the results by "Business Unit" at June 30, 2018.

	NETWORKS AND DISTRICT HEATING		INTERNATIONAL		A2A SMART CITY		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)	06 30 2018	12 31 2017 (*)
	1,689	1,696	-	-	36	22	172	184	(77)	(78)	**4,572**	**4,606**
	1,648	1,611	-	-	2	1	93	93	(151)	(92)	**1,815**	**1,863**
	298	375	4	1	19	17	144	147	(559)	(477)	**1,336**	**1,679**
	365	314	3	1	21	12	546	533	(563)	(475)	**1,457**	**1,818**

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Note that the consolidation perimeter at June 30, 2018 has changed with respect to December 31, 2017 due to the following transactions:

- acquisition and line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A., wholly owned by A2A S.p.A..
- establishment and line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A.. The company will acquire 30% of Gelsia Ambiente S.r.l. in July 2018 and will hold the urban sanitation contract to be subcontracted to the shareholders;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period					Balance at 06 30 2018
			Invest.	Other changes	Disposals and sales	Amort.	Total changes	
Land	113							113
Buildings	606		2	3		(17)	(12)	594
Plant and machinery	3,459	21	50	7	(1)	(132)	(76)	3,404
Industrial and commercial equipment	36		4			(4)	-	36
Other assets	98		5	14		(12)	7	105
Landfills	66			1		(2)	(1)	65
Construction in progress and advances	95		47	(32)			15	110
Leasehold improvements	83		8	2		(5)	5	88
Leased assets	50	11		(1)		(3)	(4)	57
Total	**4,606**	**32**	**116**	**(6)**	**(1)**	**(175)**	**(66)**	**4,572**
of which:								
Historical cost	10,070	32	116	(6)	(18)		93	10,194
Accumulated depreciation	(4,725)				17	(175)	(159)	(4,883)
Write-downs	(739)							(739)

At June 30, 2018, “Tangible assets” amounted to 4,572 million euro (4,606 million euro at December 31, 2017) and include the first-time consolidation effect relating to the acquisitions of the period for a total of 32 million euro.

The changes for the period, net of the above effect, recorded a decrease of 66 million euro as follows:

- increase of 116 million euro for capex made in the period as further described below;
- net decrease of 6 million euro for other changes as follows: decrease, for 7 million euro, of the decommissioning provision and of the closure and post-closure provisions for landfills, following the update of the appraisal estimates and discount rates used for estimates of future dismantling and restoration expenses; other negative changes of the LGH Group for 1 million euro; an increase of 2 million euro following the reclassification from intangible assets to tangible assets;
- decrease of 1 million euro for disposals made during the period net of accumulated depreciation;
- decrease of 175 million euro for the depreciation charge for the period.

Capex may be analyzed as follows:

- capex in the Networks and District Heating Business Unit totalled 46 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; 13 million euro for the development of district heating networks in the areas of Milan, Brescia and Bergamo; 1 million euro for capex of the Aspem Group; 4 million euro for capex of the LGH Group;
- for the Waste Business Unit, capex of 37 million euro referred to: 22 million euro mainly for work on the plants of Brescia, Cavaglià, Acerra, Silla 2, Corteolona, Muggiano, Bergamo, Filago; 8 million euro for the acquisition of mobile means for waste collection; 2 million euro for the acquisition of collection facilities and 5 million euro for capex of the LGH Group;

- for the Generation and Trading Business Unit, the increase was 22 million euro and concerned: 6 million euro for capex made on the hydroelectric plants, 16 million euro on the thermoelectric plants;
- for the Market Business Unit, the increase amounted to 3 million euro and concerns for 2 million euro, the lighting efficiency plan with led in the municipalities of Lainate, Garbagnate and Stradella and for 1 million euro, works on the electric vehicle charging network;
- for A2A Smart City S.p.A., capex of 6 million euro mainly concerned work on the fibre optic networks;
- for the Other Services and Corporate Business Unit, capex amounting to 2 million euro regarded 1 million euro works on buildings in the areas of Brescia and Milan and 1 million euro works on the New Data Center.

Tangible assets include "Leased assets" totalling 57 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at June 30, 2018 amounted to 54 million euro.

2) Intangible assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period					Balance at 06 30 2018
			Invest.	Recl./Other changes	Disposals/ Sales	Amort.	Total changes	
Industrial patents and industrial property rights	19		4	1		(6)	(1)	18
Concessions, licences, trademarks and similar rights	1,130		50	6	(2)	(26)	28	1,158
Goodwill	457	9					-	466
Assets in progress	40		17	(10)			7	47
Other intangible assets	217	1		(86)		(6)	(92)	126
Total	**1,863**	**10**	**71**	**(89)**	**(2)**	**(38)**	**(58)**	**1,815**

At June 30, 2018, "Intangible assets" amounted to 1,815 million euro (1,863 million euro at December 31, 2017) and include the first-time consolidation effect relating to the acquisitions of 2018 for a total of 10 million euro.

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 S.p.A..

The changes for the period, net of the above effect, recorded an overall decrease of 58 million euro as follows:

- increase of 71 million euro for capex made in the period as further described below;
- an overall decrease of 89 million euro for other changes due, for 86 million euro to the reclassification of environmental certificates of the industrial portfolio, for 2 million euro to reclassifications from intangible assets to tangible assets, for 1 million euro to other negative reclassifications;
- decrease of 2 million euro for disposals made during the period net of accumulated depreciation;
- decrease of 38 million euro for the depreciation charge for the period.

More specifically, capex of intangible assets relate to the following:

- for the Networks and District Heating Business Unit, capex of 62 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 34 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 17 million euro; the implementation of IT systems for 3 million euro and for capex of the LGH Group for 8 million euro;
- increase of 2 million euro in the Market Business Unit mainly relates to the implementation of IT systems;

- increase of 1 million euro in the Waste Business Unit mainly relates to the implementation of IT systems;
- increase of 6 million euro in the Other Services and Corporate Business Unit mainly relate to the implementation of information systems.

“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 reported in the financial statements, amounting to 67 million euro, is mainly attributable for 43 million euro to the Customer lists of the LGH Group, for 21 million euro to the Customer lists of the RI.ECO-RESMAL Groups and the company LA BI.CO DUE S.r.l. and for 2 million euro to the Customer Lists of the company LumEnergia S.p.A..

Goodwill

At June 30, 2018, goodwill amounted to 466 million euro:

CGU *millions of euro*	Balance at 12 31 2017	Changes during the period				Balance at 06 30 2018
		First-time consolid. acquis. 2018	PPA Effect	Write-downs	Total changes	
A2A Reti Elettriche	129					129
A2A Ambiente	262					262
A2A Reti Gas	38					38
A2A Gas	7					7
A2A Calore	21					21
Total	**457**	**-**	**-**	**-**	**-**	**457**
First-time Consolidation Effects						
SPV ex Gruppo Impax		9			9	9
Total	**-**	**9**	**-**	**-**	**9**	**9**
Total Goodwill	**457**	**9**	**-**	**-**	**9**	**466**

In the first half of 2018, the A2A Group finalized, through its subsidiary A2A Rinnovabili S.p.A., the acquisition from the Impax Phoebus Holdings S.r.l. fund of 4 companies active in the photovoltaic sector, of which a holding company that holds 100% of two special purpose vehicle that own two photovoltaic plants and 3 special purpose vehicles that own three plants active in photovoltaic energy production.

This acquisition is part of the provisions of IFRS 3 and at June 30, 2018, the Purchase Price Allocation has not yet been completed, which will be completed in the timing envisaged by the standard.

This acquisition led to the provisional recognition of goodwill of 7.6 million euro. Furthermore, following the consolidation of these companies, a further 1.4 million euro of goodwill already recorded for an acquired company entered the scope of consolidation.

The A2A Group conducts the impairment test at least once a year.

In the first half of 2018, management conducted a careful analysis of the results achieved compared with the 2018-2022 plan, also considering the assumptions and results of the impairment process carried out for the 2017 financial statements. Said analysis did not reveal any elements such to consider likely and/or material permanent losses in the value of assets, in addition to as reported in the 2017 financial statements; consequently, the Group did not consider it necessary to conduct a specific impairment test at June 30, 2018.

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Shareholdings carried according to equity method	63		(5)	58	-	-
Other non-current financial assets	44		(3)	41	*36*	*33*
Total shareholdings and other non-current financial assets	**107**	**-**	**(8)**	**99**	***36***	***33***

The following table sets out details of the changes:

Shareholdings carried according to equity method *millions of euro*	TOTAL
Balance at December 31, 2017	**63**
Changes during the period:	
- acquisitions and capital increases	
- valuations at equity	4
- write-downs	
- dividends received from shareholdings in companies carried at equity	(2)
- sales	(7)
- other changes	
- reclassifications	
Total changes for the period	**(5)**
Balance at June 30, 2018	**58**

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 sale of the shareholding in Rudnik Uglja ad Pljevlja for 7 million euro, as well as the negative change for 2 million euro deriving from the collection of dividends and other changes.

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

At June 30, 2018, "Other non-current financial assets" showed a balance of 41 million euro (44 million euro at December 31, 2017) and refer for 33 million euro to medium/long-term financial receivables of which 16 million euro related to the LGH Group, consisting mainly of the non-current portion of financial receivables from minority shareholders and third parties, and 4 million euro related to the subsidiary A2A Illuminazione Pubblica S.r.l. with respect to the Municipality of Brescia, concerning the management of public lighting in application of IFRIC 12, and 8 million euro of investments in other companies; for details, reference is made to annex no. 5 "List of available-for-sale financial assets".

4) Deferred tax assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018
Deferred tax assets	**301**	**1**	**(13)**	**289**

"Deferred tax assets" amounted to 289 million euro (301 million euro at December 31, 2017) and, net of the 1 million euro increase arising from the first-time consolidation of the companies acquired in the first half of 2018, show a decrease of 13 million euro. This item consists of the net balance of IRES and IRAP deferred tax assets and liabilities arising from changes and accruals made solely for fiscal purposes. The recoverability of "Deferred tax assets" recorded in the financial statements is considered likely, as the future plans envisage taxable income sufficient to use the deferred tax assets.

At June 30, 2018, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net ("offsetting") as per IAS 12 standards.

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

	Consoli-dated financial statements 12 31 2017	First consolid. effects	Accruals (A)	Utiliza-tions (B)	Adjust. Rates (C)	Total (A+B+C)	IFRS 9 at Equity Net	IAS 19 Revised at Equity Net	Other changes/ Reclass.	Consoli-dated financial statements 06 30 2018
Detail of deferred tax assets and liabilities										
Deferred tax liabilities										
Measurement differences for tangible assets	633	-	-	(1)	-	(1)	-	-	(44)	588
Application of financial lease standard (IAS 17)	6	-	-	-	-	-	-	-	-	6
Application of the financial instrument standard (IFRS 9)	-	-	-	-	-	-	-	-	-	-
Measurement differences of intangible assets	22	-	-	-	-	-	-	-	-	22
Deferred capital gains	-	-	-	-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	4	-	-	-	-	-	-	-	-	4
Goodwill	41	-	-	-	-	-	-	-	-	41
Other deferred tax liabilities	(41)	-	-	-	-	-	-	-	44	3
Total deferred tax liabilities (A)	**665**	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**664**
Deferred tax assets										
Taxed risk provisions	96	-	-	-	-	-	-	(1)	-	95
Measurement differences for tangible assets	628	-	-	-	-	-	-	-	-	628
Application of the financial instrument standard (IFRS 9)	5	-	-	-	-	-	(4)	-	-	1
Bad debts provision	13	-	-	-	-	-	-	-	-	13
Measurement differences for intangible assets	5	-	-	-	-	-	-	-	-	5
Grants	20	-	-	-	-	-	-	-	-	20
Goodwill	183	-	-	-	-	-	-	-	-	183
Other deferred tax assets	16	1	1	(10)	-	(9)	-	-	-	8
Total deferred tax assets (B)	**966**	**1**	**1**	**(10)**	**-**	**(9)**	**(4)**	**(1)**	**-**	**953**
NET EFFECT DEFERRED TAX ASSETS/ LIABILITIES (B-A)	**301**	**1**	**1**	**(9)**	**-**	**(8)**	**(4)**	**(1)**	**-**	**289**

5) Other non-current assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Non-current derivatives instruments	-		2	2	-	2
Other non-current assets	8		-	8	-	-
Total other non-current assets	**8**	**-**	**2**	**10**	**-**	**2**

At June 30, 2018, this item increased by 2 million euro compared to the end of the previous year.

"Non-current derivative instruments" recorded a value of 2 million euro (no value at December 31, 2017) and refer to the fair value measurement of a financial instrument.

"Other non-current assets" amounted to 8 million euro, unchanged over December 31, 2017 and 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 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018
- Materials	*71*		*3*	*74*
- Material obsolescence provision	*(20)*		*-*	*(20)*
Total materials	51	-	3	54
- Fuel	91		48	139
- Others	1		1	2
Raw and ancillary materials and consumables	**143**	**-**	**52**	**195**
Third-party fuel	**4**	**-**	**(1)**	**3**
Total inventory	**147**	**-**	**51**	**198**

"Inventories" amounted to 198 million euro (147 million euro at December 31, 2017), net of the relative obsolescence provision for 20 million euro, unchanged compared to December 31, 2017.

Inventories show a total increase of 51 million euro, as detailed below:

- 48 million euro related to the increase in fuel stocks, which at June 30, 2018 totalled 139 million euro;
- 3 million euro related to the increase in fuel stocks, which totalled 54 million euro;
- 1 million euro relating to the increase in other inventories related to environmental certificates;
- 1 million euro for the reduction, compared to December 31, 2017, of fuel inventories held by third parties.

7) Trade receivables

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018
Trade receivables invoices issued	929	1	(142)	788
Trade receivables invoices to be issued	897	2	(196)	703
(Bad debts provision)	(155)	-	(6)	(161)
Total trade receivables	**1,671**	**3**	**(344)**	**1,330**

At June 30, 2018, “Trade receivables” amounted to 1,330 million euro (1,671 million euro at December 31, 2017), with a decrease of 344 million euro, net of the first-time consolidation effect of acquisitions in 2018, positive for 3 million euro. In detail, the changes were as follows:

- for 338 million euro, the net decrease in trade receivables from customers, which at June 30, 2018 showed a balance of 1,240 million euro;
- for 5 million euro, the decrease in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 78 million euro (83 million euro in the previous year);
- for 1 million euro, the decrease in receivables from associates, which had a balance of 10 million euro at June 30, 2018 compared to 11 million euro at the previous year-end;
- contractual activities unchanged compared to December 31, 2017 and amounted to 2 million euro.

Note that the Group occasionally performs non-recourse credit assignments. At June 30, 2018 the receivables that have not yet expired, assigned by the Group outright and written-off from the assets in compliance with the requirements of IFRS 9, amounted to a total of 3 million euro (33 million euro at December 31, 2017). At the date of publication of this Half-year report, these receivables amount to 3 million euro (10 million euro at December 31, 2017). The disposal was related to trade receivables. The Group has no rotating factoring programs.

The “Bad debts provision” amounted to 161 million euro and shows a net increase of 6 million euro compared to December 31, 2017. 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 2017	First-time consolid. effect acquisitions 2018	Accruals	Utilizations	Other changes	Balance at 06 30 2018
Bad debts provision	**155**	**-**	**13**	**(12)**	**5**	**161**

It is noted that the first application of IFRS 9 led to the restatement of the opening bad debt provision at January 1, 2018, up 5 million euro.

The balancing entry of this change is a shareholders’ equity reserve.

The following is the aging of trade receivables:

millions of euro	12 31 2017	06 30 2018
Trade receivables of which:	**1,671**	**1,330**
Current	**615**	**476**
Past due of which:	**314**	**312**
- Past due up to 30 days	56	43
- Past due from 31 to 180 days	67	66
- Past due from 181 to 365 days	37	44
- Past due over 365 days	154	159
Invoices to be issued	**897**	**703**
Bad debts provision	**(155)**	**(161)**

8) Other current assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Current derivatives	**96**		**75**	**171**	**-**	**-**
Other current assets of which:	**120**	**2**	**145**	**267**	**-**	**-**
- receivables from Cassa per i Servizi Energetici e Ambientali	49		120	169		
- advances to suppliers	25		(18)	7		
- receivables from employees	1		-	1		
- tax receivables	6	1	(2)	5		
- receivables related to future years/periods	14		42	56		
- receivables from Ergosud	2		-	2		
- receivables from social security entities	3		-	3		
- Stamp office	1		-	1		
- receivables for damage compensation	1		-	1		
- receivables for COSAP advances	3		-	3		
- receivables for security deposits	1		1	2		
- receivables for RAI fee	3		4	7		
- sundry receivables for hedging	-		-	-		
- other sundry receivables	11	1	(2)	10		
Total other current assets	**216**	**2**	**220**	**438**	**-**	**-**

“Other current assets” showed a balance of 438 million euro compared to 216 million euro at December 31, 2017, an increase of 220 million euro, net of the first-time consolidation effect of acquisitions in 2018, positive for 2 million euro.

“Current derivatives” evidenced an increase of 75 million euro related to the increase 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 the Cassa per i Servizi Energetici e Ambientali, amounting to 169 million euro (49 million euro at December 31, 2017), refer to receivables for equalizations pertaining to both 2018 and to outstanding receivables for equalizations pertaining to previous years, net of collections made in the half-year, 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 excise and withholding taxes.

Receivables from Ergosud S.p.A. amounting to 2 million euro refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by ARERA Resolutions no. ARG/elt 194/10 and no. 117/10.

9) Current financial assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Other financial assets	7		(1)	6	*7*	*6*
Financial assets from related parties	1		(1)	-	*1*	*-*
Total current financial assets	**8**	**-**	**(2)**	**6**	***8***	***6***

"Current financial assets" amounted to 6 million euro (8 million euro at December 31, 2017) and mainly refer to the LGH Group's financial receivables from minority and third-party shareholders.

10) Current tax assets

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018
Current tax assets	**107**	**-**	**(40)**	**67**

"Current tax assets" amounted to 67 million euro (107 million euro at December 31, 2017) and consist of receivables from the tax authorities for IRES (31 million euro) mainly relating to requests for reimbursement as a result of IRAP deductibility for IRES, IRAP (17 million euro) mainly relating to the requests for reimbursement as a result of the recognition of the status of industrial holding for A2A S.p.A. in 2015 and for Robin Tax (19 million euro) relating to the credit requests for reimbursement/compensation.

The negative change, for 40 million euro, is essentially due to the recognition of taxes for the period in question.

11) Cash and cash equivalents

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Cash and cash equivalents	**691**	**4**	**164**	**859**	***691***	***859***

"Cash and cash equivalents" at June 30, 2018 represent the sum of the Group's active bank and postal balances; the positive change related to the first-time consolidation effect of 2018 acquisitions was equal to 4 million euro.

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

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12) Non-current assets held for sale

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Non-current assets held for sale	**224**	-	(64)	**160**	-	-

“Non-current assets held for sale” at June 30, 2018 showed a balance of 160 million euro and refer to the fair value of the investment in EPCG, 28.6% held by A2A S.p.A. (41.75% at December 31, 2017).

The decrease compared to December 31, 2017 is due to the collection in the half-year under review by virtue of a new agreement negotiated with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

EQUITY AND LIABILITIES

EQUITY

"Equity", which amounted to 3,104 million euro at June 30, 2018 (3,013 million euro at December 31, 2017), is set out in the following table:

millions of euro	Balance at 12 31 2017	Changes during the period	Balance at 06 30 2018
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	1,010	115	1,125
Group result of the period	293	(26)	267
Total equity pertaining to the Group	**2,878**	**89**	**2,967**
Minority interests	135	2	137
Total equity	**3,013**	**91**	**3,104**

The change of the Shareholders' equity was overall positive for 91 million euro. The net profit for the period generated a positive effect of 267 million euro, offset by the distribution of 180 million euro in dividends. Furthermore, the fair value gain on the measurement of cash flow hedges (10 million euro) and the net increase in minority interests (2 million euro) also affected shareholders' equity. The total impact of the first-time application of IFRS 9 on shareholders' equity attributable to the Group, net of deferred taxes, was a negative 4 million euro and was mainly due to the restatement of the opening bad debt provision at January 1, 2018.

13) Share capital

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

14) Treasury shares

"Treasury shares" amounted to 54 million euro and refer to 23,721,421 treasury shares held by the parent company A2A S.p.A., equal to 0.757% of the share capital composed of 3,132,905,277 shares, unchanged compared to the closing date of December 31, 2017.

At June 30, 2018, no treasury shares were held through subsidiaries, finance companies or nominees.

15) Reserves

millions of euro	Balance at 12 31 2017	Changes during the period	Balance at 06 30 2018
Reserves	**1,010**	**115**	**1,125**
of which:			
Change in the fair value of cash flow hedge derivatives and fair value Bond	(27)	14	(13)
Tax effect	7	(4)	3
Cash flow hedge reserves	**(20)**	**10**	**(10)**
Change in the IAS 19 Revised reserve - Employee Benefits	(72)	3	(69)
Tax effect	19	(1)	18
IAS 19 Revised reserve - Employee Benefits	**(53)**	**2**	**(51)**

“Reserves”, which amounted to 1,125 million euro (1,010 million euro at December 31, 2017), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 10 million euro, which refers to the year-end measurement of derivatives qualifying for hedge accounting, and the fair value measurement of the Bonds in foreign currency net of the tax effect.

The balance also includes negative reserves of 51 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.

Lastly, the item includes the equity reserve deriving from the first application of IFRS 9, and in particular the impairment of trade receivables according to the expected losses model.

16) Result of the period

This item consists of the profit for the period of 267 million euro.

17) Minority interests

millions of euro	Balance at 12 31 2017	Changes during the period	Balance at 06 30 2018
Minority interests	**135**	**2**	**137**

“Minority interests” amounted to 137 million euro (135 million euro at December 31, 2017) and mainly represent the portion of capital, reserves and result pertaining to minority shareholders related to minority shareholders of the LGH Group.

The net increase in the period of 2 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 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Non-convertible bonds	2,650	-	6	2,656	*2,650*	*2,656*
Payables to banks	807	24	(67)	764	*807*	*764*
Finance lease payables	40	11	(2)	49	*40*	*49*
Payables to other lenders	4	1	(1)	4	*4*	*4*
Total non-current financial liabilities	**3,501**	**36**	**(64)**	**3,473**	***3,501***	***3,473***

"Non-current financial liabilities" amounted to 3,473 million euro (3,501 million euro at December 31, 2017), with a decrease of 64 million euro, net of the first-time consolidation effect of acquisitions in 2018 for 36 million euro.

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

- 510 million euro, maturing in November 2019 and coupon of 4.50%, the nominal value of which is equal to 511 million euro;
- 350 million euro, maturing in January 2021 and coupon of 4.375%, the nominal value of which is equal to 351 million euro;
- 498 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;
- 299 million euro, Private Placement maturing in December 2024 and coupon of 1.25%, the nominal value of which is equal to 300 million euro;
- 295 million euro, maturing in December 2027 and coupon of 1.625%, the nominal value of which is equal to 300 million euro;
- 108 million euro, Private Placement in yen maturing in August 2036 and fixed rate of 5.405%, the nominal value of which is equal to 14 billion yen.

The net increase in the non-current component of "Non-convertible bonds", equal to 6 million euro compared to December 31, 2017, is mainly due to the change in the ECB rate applied to the Bond in yen.

Non-current "Payables to banks" amounted to 764 million euro, a decrease of 67 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2018 equal to 24 million euro and to the reclassification under current liabilities of the portions of capital maturing within the following year.

"Payables for finance leases" amounted to 49 million euro, a decrease of 2 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2018 equal to 11 million euro.

Lastly, "Payables to other lenders" amounted to 4 million euro and referred mainly to the LGH Group.

The following table shows the comparison, for each long-term debt category, between the book value and the fair value, including the portion falling due in the next 12 months. For listed debt instruments, the fair value is determined using stock prices, while for unlisted securities the fair value is determined using valuation models for each category of financial instrument and using market data relating to the closing date of the financial year, including the credit spreads of the A2A Group.

millions of euro	Nominal value	Book value	Current portion	Non-current portion	Fair value
Bonds	2,970	3,006	350	2,656	3,166
Bank Loans	853	852	86	767	814
Leasing	50	50	5	46	52
Total	**3,873**	**3,908**	**441**	**3,469**	**4,033**

* The valuation does not include the non-financial payable and lease of LGH and RI.ECO-RESMAL (nominal value 7 million euro).

19) Employee benefits

The balance on this item amounted to 307 million euro (319 million euro at December 31, 2017) with changes as follows during the period:

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Accruals	Utilizations	Other changes	Balance at 06 30 2018
Employee leaving entitlement (TFR)	168	-	15	(5)	(16)	162
Employee benefits	151	-	-	(4)	(2)	145
Total employee benefits	**319**	**-**	**15**	**(9)**	**(18)**	**307**

The change in the period is attributable for 15 million euro due to the provisions of the period, for 9 million euro to the decrease relating to the net disbursements in the half-year, for 18 million euro to the net decrease mainly related to actuarial valuations for the period, which include the increase deriving from the service cost for 1 million euro, the increase deriving from the interest cost for 2 million euro and the decrease deriving from actuarial gains/losses for 6 million euro.

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

	2018	2017
Discount rate	from 0.0% to 1.6%	from 0.0% to 1.3%
Annual inflation rate	1.5%	1.5%
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%	2.6%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% to 5.0%	from 4.0% 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 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) AS62 (Electricity and gas discount) 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 2017	First-time consolid. effect acquisitions 2018	Accruals	Releases	Utilizations	Other changes	Balance at 06 30 2018
Decommissioning provisions	226		-	-	(2)	(4)	220
Landfill closing and post-closing expense provisions	188		-	(4)	(2)	(1)	181
Tax provisions	50		1	(9)	(1)	-	41
Personnel lawsuits and disputes provisions	61		6	(3)	(2)	-	62
Other risk provisions	100		6	(2)	(1)	-	103
Provisions for risks, charges and liabilities for landfills	**625**	**-**	**13**	**(18)**	**(8)**	**(5)**	**607**

"Decommissioning provisions", which amounted to 220 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 uses for 2 million euro, to cover the expenses incurred during the reporting period and other changes, down for 4 million euro, mainly related to the discounting of the 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 181 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 reference 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 releases for 4 million euro related to the effects of the updates of the discounting rates of some landfills that are no longer operative, 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 41 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 in question. Releases for 9 million euro, mainly refer to the update of the Ecotassa dispute concerning the disposal of waste carried out at landfills of third parties, as well as the conclusion of other disputes over direct and indirect taxes. Lastly, uses amounted to 1 million euro and represent actual disbursements for the period in question.

The “Personnel lawsuits and disputes provisions” amounted to 62 million euro and mainly refer to lawsuits pending with Social Security Institutions, for 12 million euro, related to social security contributions for which specific disputes are pending, to lawsuits with third parties, for 46 million euro, and with employees, for 4 million euro, for the liabilities that could arise from litigations in progress. Provisions for the period for 6 million euro essentially refer to provisions relating to litigation with third parties, while releases for the period for 3 million euro mainly refer to current litigation with Social Security Institutions. Uses, for 2 million euro, refer to disputes with third parties.

“Other risk provisions”, which amounted to 103 million euro, refer to provisions relating to public water derivation fees for 40 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, as well as other provisions for 45 million euro.

Provisions for the period amounted to 6 million euro and mainly concerned the provision for public water derivation fees and other provisions. Uses amounted to 1 million euro and mainly refer to disbursements for the period for environmental risks and to the expenses related to the mobility provision, while releases amounted to 2 million euro.

21) Other non-current liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Other non-current liabilities	125	-	8	133	-	-
Non-current derivatives instruments	23	5	(13)	15	*23*	*15*
Total other non-current liabilities	**148**	**5**	**(5)**	**148**	***23***	***15***

At June 30, 2018, this item showed a decrease of 5 million euro compared to the previous year, excluding the first-time consolidation effects of acquisitions in 2018, positive for 5 million euro.

“Other non-current liabilities”, which showed a balance of 133 million euro, refer to security deposits from customers, for 53 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 77 million euro, which mainly include the effect of entry of earn-out clauses envisaged in the contracts signed for the acquisitions of new investments in the three-year period 2016-2018.

“Non-current derivative instruments” amounted to 15 million euro and, net of the 5 million euro increase deriving from the first-time consolidation effect of 2018 acquisitions, showed a decrease of 13 million euro deriving from the fair value measurement of financial instruments at the end of the period examined.

CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Advances	2		-	2		
Payables to suppliers	1,379	1	(367)	1,013		
Total trade payables	**1,381**	**1**	**(367)**	**1,015**	**-**	**-**
Payables to social security institutions	38		-	38	-	-
Current derivatives	86		74	160		
Other current liabilities of which:	397	-	75	472	-	-
- Payables to personnel	69		1	70		
- Payables to Cassa per i Servizi Energetici e Ambientali	85		9	94		
- Tax payables	80		55	135		
- Payables for tax transparency	7		-	7		
- Payables for energy tariff components	85		(1)	84		
- Payables to third-party shareholders LGH	-		3	3		
- Payables for A.T.O.	7		-	7		
- Payables to customers for work to be performed	11		3	14		
- Payables to customers for interest on security deposits	3		-	3		
- Payables for auxiliary services	1		-	1		
- Payables for collections to be allocated	8		-	8		
- Payables to insurance companies	4		-	4		
- Payables for excise compensation	6		-	6		
- Payables for environmental compensation	2		1	3		
- Payables for RAI fee	6		7	13		
- Sundry payables	23		(3)	20		
Total other current liabilities	**521**	**-**	**149**	**670**	**-**	**-**
Total trade payables and other current liabilities	**1,902**	**1**	**(218)**	**1,685**	**-**	**-**

“Trade payables and other current liabilities” amounted to 1,685 million euro (1,902 million euro at December 31, 2017), representing a decrease of 218 million euro, excluding the first-time consolidation effect of acquisitions in 2018 for 1 million euro.

“Trade payables” amounted to 1,015 million euro and compared to the closing of the previous year, represent a decrease of 367 million euro, excluding the first-time consolidation effect of acquisitions in 2018 for 1 million euro.

“Payables to social security institutions” amounted to 38 million euro, unchanged compared to December 31, 2017, and relate to the Group’s debt position with social security and pension institutions, related to contributions of the month of June 2018 not yet paid.

“Current derivative instruments” amounted to 160 million euro (86 million euro at December 31, 2017) and refer to the fair value valuation of commodity derivatives. The increase was 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 70 million euro (69 million euro at December 31, 2017), 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, 2018;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 94 million euro (85 million euro at December 31, 2017) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the year under review;
- liabilities for 135 million euro (80 million euro at December 31, 2017) and mainly refer to payables to the tax authorities for excise, withholding taxes and VAT;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2017;
- payables for electricity tariff components for 84 million euro (85 million euro at December 31, 2017);
- payables for ATO for 7 million euro, unchanged compared to December 31, 2017 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 14 million euro (11 million euro at December 31, 2017) related 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 compared to December 31, 2017;
- 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 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018	*of which included in the NFP*	
					12 31 2017	*06 30 2018*
Non-convertible bonds	345	-	5	350	*345*	*350*
Payables to banks	82	-	2	84	*82*	*84*
Finance lease payables	5	1	(1)	5	*5*	*5*
Financial payables to related parties	1	-	1	2	*1*	*2*
Payables to other lenders	4	2	(5)	1	*4*	*1*
Total current financial liabilities	**437**	**3**	**2**	**442**	**437**	**442**

"Current financial liabilities" amounted to 442 million euro compared to 437 million euro recorded at December 31, 2017 and, net of the first-time consolidation effect of acquisitions in 2018 equal to 3 million euro, showed an increase of 2 million euro.

"Non-convertible bonds" showed an increase of 5 million euro mainly due to coupons accrued for interest equal to 51 million euro (47 million euro at December 31, 2017).

Current "Payables to banks" amounted to 84 million euro and showed an increase of 2 million euro mainly due to the repayment of portions of loans offset by the classification of the payable from non-current financial liabilities.

"Payables for financial leases" amounted to 5 million euro, a decrease of 1 million euro excluding the first-time consolidation effect of acquisitions in 2018 equal to 1 million euro.

"Payables to other lenders" amounted to 1 million euro, a decrease of 5 million euro excluding the first-time consolidation effect of acquisitions in 2018 equal to 2 million euro.

24) Tax liabilities

millions of euro	Balance at 12 31 2017	First-time consolid. effect acquisitions 2018	Changes during the period	Balance at 06 30 2018
Tax liabilities	**4**	**-**	**73**	**77**

"Tax liabilities" amounted to 77 million euro (4 million euro at December 31, 2017) representing an increase of 73 million euro over the previous year-end.

Net debt

25) 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	Note	12 31 2017	First-time consolid. effect acquisitions 2018	06 30 2018
Bonds - non-current portion	18	2,650	-	2,656
Bank loans - non-current portion	18	807	24	764
Finance leases - non-current portion	18	40	11	49
Non-current amounts due to other providers of finance	18	4	1	4
Other non-current liabilities	21	23	5	15
Total medium/long-term debt		**3,524**	**41**	**3,488**
Non-current financial assets - related parties	3	(8)	-	(7)
Non-current financial assets	3	(28)	-	(26)
Other non-current assets	5	-	-	(2)
Total medium/long-term financial receivables		**(36)**	**-**	**(35)**
Total non-current net debt		**3,488**	**41**	**3,453**
Bonds - current portion	23	345	-	350
Bank loans - current portion	23	82	-	84
Finance leases - current portion	23	5	1	5
Current amounts due to other providers of finance	23	4	2	1
Current financial liabilities - related parties	23	1	-	2
Total short-term debt		**437**	**3**	**442**
Other current financial assets	9	(7)	-	(6)
Current financial assets - related parties	9	(1)	-	-
Financial receivables due from companies held for sale	9	-	-	-
Total short-term financial receivables		**(8)**	**-**	**(6)**
Cash and cash equivalents	11	(691)	(4)	(859)
Total current net debt		**(262)**	**(1)**	**(423)**
Net debt		**3,226**	**40**	**3,030**

The Group’s net financial position includes the effect of the first consolidation of the 2018 acquisitions for 40 million euro.

Pursuant to IAS 7 "Cash Flow Statement", the following are the changes in financial assets and liabilities:

millions of euro	12 31 2017	Cash flow	Non-cash flow			06 30 2018
			First-time consolid. effect acquisitions 2018	Change in fair value	Other changes	
Bonds	2,995	4	-	4	3	3,006
Financial payables	943	(75)	39	-	2	909
Other liabilities	23	-	5	(13)	-	15
Financial assets	(44)	3	-	-	2	(39)
Other assets	-	-	-	(2)	-	(2)
Net liabilities deriving from financing activities	**3,917**	**(68)**	**44**	**(11)**	**7**	**3,889**
Cash and cash equivalents	(691)	(164)	(4)	-	-	(859)
Net debt	**3,226**	**(232)**	**40**	**(11)**	**7**	**3,030**

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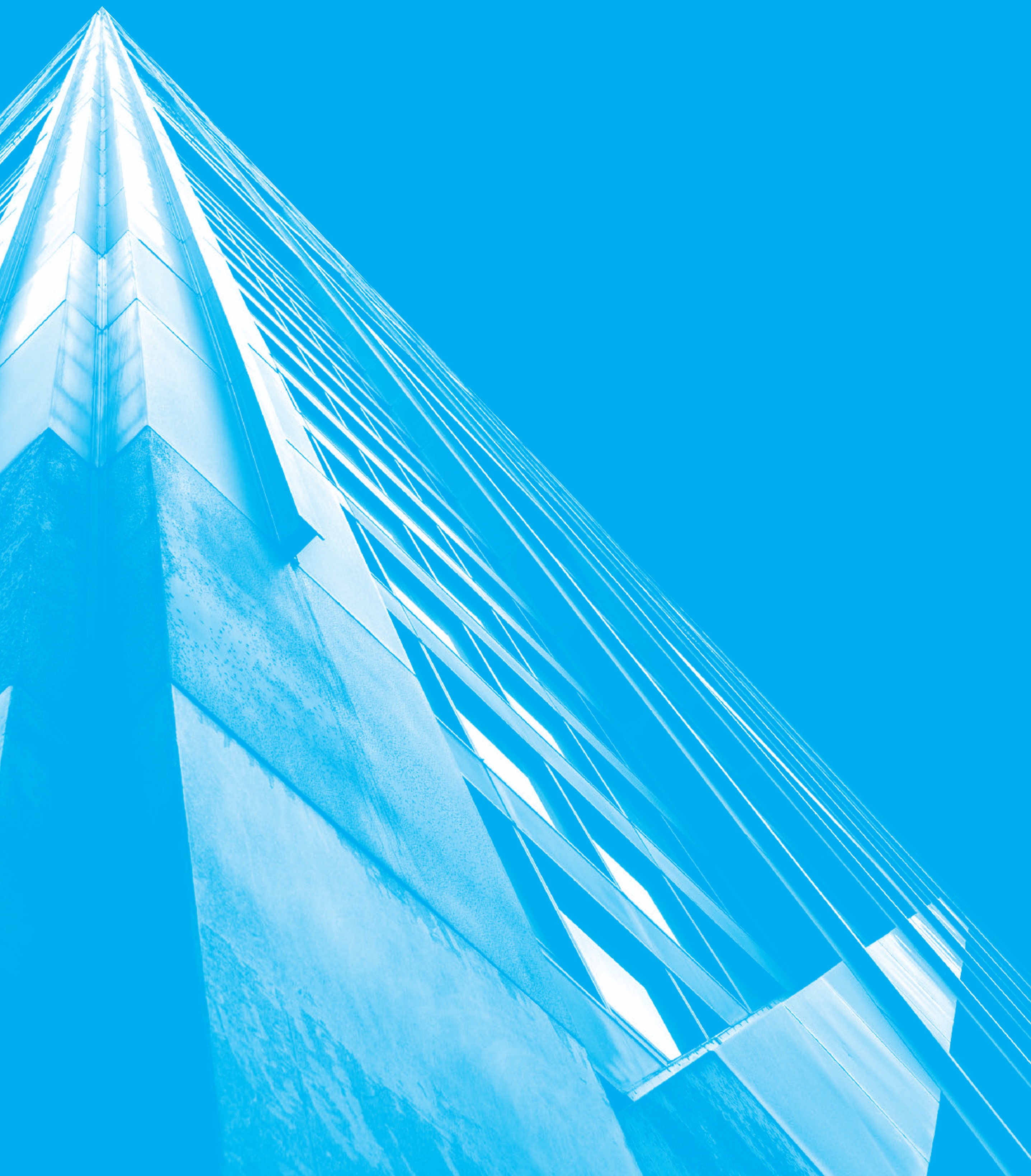


Notes to the income statement

As a result of the reclassification for the purposes of IFRS 5 of the economic items of the EPCG Group, the values at June 30, 2017 have been restated following the change in the consolidation method of the EPCG Group which, due to the exercise of the put option on the entire shareholding package held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, led to a change in the allocation of the investment held in EPCG from ongoing investment to investment intended for sale in accordance with the provisions of IFRS 5.

The following changes to the scope of consolidation of the A2A Group at June 30, 2018 are reported:

- acquisition and line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A., wholly owned by A2A S.p.A.;
- establishment and line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A., in order to provide environmental sanitation services;
- sale of the shareholding of 39.49% in Rudnik Uglja ad Pljevlja previously consolidated using the equity method.

Moreover, the economic figures at June 30, 2018 are not consistent with the corresponding period of the previous year due to the following transactions that were completed in the second half of 2017:

- establishment, in July 2017, of the company A2A Rinnovabili S.p.A., which progressively acquired a portfolio of 19 companies owning photovoltaic plants, of which 13 companies acquired in the second half of 2017 and 6 companies in the first few months of 2018;
- line-by-line consolidation of LumEnergia S.p.A., as a result of the increase to 92.7%, starting from July 2017, of the investment held by the subsidiary A2A Energia S.p.A.. At June 30, 2017, the companies was consolidated using the equity method;
- establishment and line-by-line consolidation, in the second half of 2017, of the consortium A2A Security S.c.p.a., of the company A2A Energy Solutions S.r.l. and of the company A2A IDRO4 S.r.l..

26) Revenues

Revenues for the period totalled 3,081 million euro (2,804 million euro at June 30, 2017 Restated) and therefore increased by 277 million euro (+9.9%).

Details of the more significant items are as follows:

Revenues *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Revenues from the sale of goods	2,481	2,200	281	12.8%
Revenues from services	487	496	(9)	(1.8%)
Revenues from long-term contracts	1	-	1	n.s.
Total revenues from the sale of goods and services	**2,969**	**2,696**	**273**	**10.1%**
Other operating revenues	**112**	**108**	**4**	**3.7%**
Total revenues	**3,081**	**2,804**	**277**	**9.9%**

The increase in revenues recorded in the first half of 2018 compared to the same period of the previous year is mainly attributable to the increase in quantities sold to large electricity customers and to forward sales on the IPEX and forward electricity markets.

Further details of the main items are as follows:

millions of euro	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Sale and distribution of electricity	1,424	1,267	157	12.4%
Sale and distribution of gas	728	664	64	9.6%
Sale of heat	100	91	9	9.9%
Sale of materials	20	24	(4)	(16.7%)
Sale of water	30	26	4	15.4%
Sales of environmental certificates	165	114	51	44.7%
Connection contributions	14	14	-	0.0%
Total revenues from the sale of goods	**2,481**	**2,200**	**281**	**12.8%**
Services to customers	487	496	(9)	(1.8%)
Total revenues from services	**487**	**496**	**(9)**	**(1.8%)**
Revenues from long-term contracts	**1**	**-**	**1**	**n.s.**
Total revenues from the sale of goods and services	**2,969**	**2,696**	**273**	**10.1%**
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	43	32	11	34.4%
Damage compensation	5	3	2	66.7%
Rents receivable	1	1	-	0.0%
Contingent assets	11	28	(17)	(60.7%)
Incentives for production from renewable sources (feed-in tariff)	43	37	6	16.2%
Other revenues	9	7	2	28.6%
Other operating revenues	**112**	**108**	**4**	**3.7%**
Total revenues	**3,081**	**2,804**	**277**	**9.9%**

Revenues for environmental certificates (green certificates and white certificates) increased by 51 million euro, compared to June 30, 2017 Restated, mainly due to the sale of the long position of green certificates in the A2A Group portfolio (generated up to December 31, 2015), as well as for the retroactive recognition starting from the financial year 2013, by the GSE, of the incentives for some plants of the Friuli hydroelectric plant.

The item "Other operating revenues" showed an increase of 4 million euro mainly due to higher revenues for the reinstatement of generation costs incurred for the San Filippo del Mela plant (essential plant) pursuant to Resolution 803/2016 for 11 million euro, higher revenues linked to incentives on net production from renewable sources, for 6 million euro, mainly deriving from companies operating in the photovoltaic sector acquired by A2A Rinnovabili S.p.A. starting from the second half of 2017, and lower contingent assets for 17 million euro.

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".

27) Operating expenses

"Operating expenses" amounted to 2,090 million euro (1,841 million euro at June 30, 2017 Restated), therefore representing an increase of 249 million euro.

The main components of this item are as follows:

Operating expenses *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Raw materials and consumables	1,499	1,284	215	16.7%
Service costs	473	414	59	14.3%
Total expenses for raw materials and services	**1,972**	**1,698**	**274**	**16.1%**
Other operating expenses	**118**	**143**	**(25)**	**(17.5%)**
Total operating expenses	**2,090**	**1,841**	**249**	**13.5%**

"Total costs for raw materials and services" amounted to 1,972 million euro (1,698 million euro at June 30, 2017 Restated), increasing by 274 million euro.

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

- the increase of 252 million euro in the purchase of raw materials and consumables, mainly due to the increase of 232 million euro in costs for the purchase of power and fuel, the increase of 18 million euro for expenses related to the purchase of environmental certificates and the increase of 4 million euro for the purchase of materials;
- an increase of 59 million euro in costs for delivery, subcontracted work and services;
- the decrease in inventories of fuel and materials for 37 million euro.

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

millions of euro	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Purchases of power and fuel	1,424	1,192	232	19.5%
Purchases of materials	47	43	4	9.3%
Purchases of water	1	1	-	0.0%
Hedging losses on operating derivatives	9	4	5	n.s.
Hedging gains on operating derivatives	(13)	(6)	(7)	n.s.
Purchases of emission certificates and allowances	79	61	18	29.5%
Total expenses for raw materials and consumables	**1,547**	**1,295**	**252**	**19.5%**
Delivery and transmission costs	220	179	41	22.9%
Maintenance and repairs	79	78	1	1.3%
Other services	174	157	17	10.8%
Total service costs	**473**	**414**	**59**	**14.3%**
Change in inventories of fuel and materials	(48)	(11)	(37)	n.s.
Total expenses for raw materials and services	**1,972**	**1,698**	**274**	**16.1%**
Leasehold improvements	43	59	(16)	(27.1%)
Concession fees distribution networks Municipality of Milan and Brescia	5	5	-	0.0%
Water derivation concession fees	34	32	2	6.3%
Contributions to territorial entities, consortia and ARERA	5	3	2	66.7%
Taxes and duties	17	17	-	0.0%
Damages and penalties	2	1	1	100.0%
Contingent liabilities	6	13	(7)	(53.8%)
Other costs	6	13	(7)	(53.8%)
Other operating expenses	**118**	**143**	**(25)**	**(17.5%)**
Total operating expenses	**2,090**	**1,841**	**249**	**13.5%**

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 2018	06 30 2017 Restated	CHANGE
Revenues	26	459	774	(315)
Operating expenses	27	(457)	(773)	316
Total trading margin		**2**	**1**	**1**

The total amount of Revenues and Costs of Commodity Trading activity decreased by 40% (YoY) as a consequence of a substantial decrease in the volumes traded in the trading activity on foreign electricity markets.

28) Labour costs

Net of capitalized expenses, labour costs at June 30, 2018 amounted to 334 million euro (326 million euro at June 30, 2017 Restated).

"Labour costs" may be analyzed as follows:

Labour costs *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Wages and salaries	249	241	8	3.3%
Social security charges	85	81	4	4.9%
Employee leaving entitlement (TFR)	15	14	1	7.1%
Other costs	15	13	2	15.4%
Total labour costs before capitalizations	**364**	**349**	**15**	**4.3%**
Capitalized labour costs	(30)	(23)	(7)	30.4%
Total labour costs	**334**	**326**	**8**	**2.5%**

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

	06 30 2018	06 30 2017 Restated	CHANGE
Managers	180	174	6
Supervisors	614	572	42
White-collar workers	4,721	4,644	77
Blue-collar workers	5,817	5,779	38
Total	**11,332**	**11,169**	**163**

The average labour cost per capita at June 30, 2018 amounted to 29.47 thousand euro (29.19 thousand euro at June 30, 2017 Restated).

The item "Other labour costs" includes early retirement incentives for a value less than 1 million euro (1 million euro at June 30, 2017 Restated).

29) Gross operating income

As a result of the above changes, consolidated "Gross operating margin" at June 30, 2018 amounted to 657 million euro (637 million euro at June 30, 2017 Restated).

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

30) Depreciation, amortization, provisions and write-downs

"Depreciation, amortization, provisions and write-downs" totalled 221 million euro (204 million euro at June 30, 2017 Restated), representing an increase of 17 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Amortization of intangible assets	38	34	4	11.8%
Depreciation of tangible assets	175	162	13	8.0%
Total amortization, depreciation and write-downs	**213**	**196**	**17**	**8.7%**
Provisions for risks	(5)	(8)	3	(37.5%)
Bad debts provision on receivables recognized as current assets	13	16	(3)	(18.8%)
Total depreciation, amortization, provisions and write-downs	**221**	**204**	**17**	**8.3%**

"Depreciation, amortization and write-downs" amounted to 213 million euro (196 million euro at June 30, 2017 Restated), representing an overall increase of 17 million euro.

Amortization of intangible assets amounted to 38 million euro (34 million euro at June 30, 2017 Restated). The item recorded higher amortization of 4 million euro, of which 1 million euro relating to the consolidation of the companies operating in the photovoltaic sector acquired in the second half of 2017 and in the first half of 2018, 2 million euro relating to the effects of the Purchase Price Allocation of the companies acquired in the previous year and 1 million euro relating to the implementation of information systems.

Depreciation of tangible assets showed an increase of 13 million euro compared to June 30, 2017 Restated including:

- higher depreciation, for 5 million euro, resulting from the change in the useful life of the assets related to the electricity grid;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired starting from the second half of 2017 for 4 million euro;
- higher depreciation of 2 million euro, mainly relating to the investments which went into production after June 30, 2017;
- higher depreciation, for 2 million euro, related to the implementation of the New Data Center.

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" showed a net effect of -5 million euro (-8 million euro at June 30, 2017 Restated) due to allocations in the year of 13 million euro, offset by the surpluses of 18 million euro, following value updates or since some ongoing disputes have ceased to exist.

Provisions for the period concerned, for 4 million euro, the provision for public water derivation fees, for 6 million euro provisions for legal disputes, for 1 million euro provisions for taxes and for 2 million euro other provisions. Surpluses of risks provisions amounted to 18 million euro. For further information, reference is made to Note 20 "Provisions for risks, charges and liabilities for landfills".

The "Bad debt provision" amounted to 13 million euro (16 million euro at June 30, 2017 Restated), consisting of the accrual for the period.

31) Net operating income

"Net operating income" amounted to 436 million euro (433 million euro at June 30, 2017 Restated).

32) Result from non-recurring transactions

The "Result from non-recurring transactions" amounted to 6 million euro at June 30, 2018 (no value at June 30, 2017 Restated) and is related to the gain deriving from the sale of the investment held in the company Rudnik Uglja ad Pljevlja.

33) Financial balance

The "Financial balance" closed with net expense of 54 million euro (net expense of 59 million euro at June 30, 2017 Restated).

Details of the more significant items are as follows:

Financial balance *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Financial income	11	6	5	83.3%
Financial expense	(69)	(69)	-	-
Affiliates	4	4	-	-
Total financial balance	**(54)**	**(59)**	**5**	**(8.5%)**

"Financial income" amounted to 11 million euro (6 million euro at June 30, 2017 Restated) and may be analyzed as follows:

Financial income *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Income from dividends in other companies	1	-	1	n.s.
Other financial income of which:	10	6	4	66.7%
- Financial income from the Municipality of Brescia (IFRIC 12)	*3*	*3*	-	-
- Foreign exchange gains	*2*	*1*	*1*	*100.0%*
- Other income	*5*	*2*	*3*	*n.s.*
Total financial income	**11**	**6**	**5**	**83.3%**

"Financial expenses" amounted to 69 million euro (69 million euro at June 30, 2017 Restated) and may be analyzed as follows:

Financial expenses *millions of euro*	06 30 2018	06 30 2017 Restated	CHANGE	% JUNE 2018/2017
Interest on bond loans	51	51	-	0.0%
Interest charged by banks	3	5	(2)	(40.0%)
Fair value of financial derivatives	-	-	-	0.0%
Realized on financial derivatives	6	5	1	20.0%
Decommissioning costs	1	1	-	0.0%
Other financial expenses of which:	8	7	1	14.3%
- Discounting charges	*3*	*2*	*1*	*50.0%*
- Financial expenses (IFRIC 12)	*1*	*1*	-	*0.0%*
- Foreign exchange losses	*2*	*1*	*1*	*100.0%*
- Other expenses	*2*	*3*	*(1)*	*(33.3%)*
Total financial expenses before capitalizations	**69**	**69**	**-**	**0.0%**
Capitalized financial expenses	-	-	-	0.0%
Total financial expenses	**69**	**69**	**-**	**0.0%**

The equity method valuation of shareholdings was positive for 4 million euro (positive for 4 million euro at June 30, 2017 Restated), mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

34) Income taxes

"Income taxes" in the period in question equalled 120 million euro (119 million euro at June 30, 2017 Restated).

It is noted that on the occasion of the closing of the 2018 half-year report, the A2A Group decided to estimate the tax for the period for all Group companies by adopting the tax rate criterion based on the best estimate of the Group's weighted average rate expected for the entire year.

35) Net result from discontinued operations

The "Net result from discontinued operations" was positive for 4 million euro (negative for 94 million euro at June 30, 2017 Restated), including the discounting proceeds to adjust the value of equity investment of EPCG at fair value following the renegotiation of the agreement with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders' Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

In the corresponding period of the previous year, the fair value adjustment of the value of the investment in EPCG had led to a write-down of 95 million euro, adjusted for 1 million euro by the income deriving from the sale of the company Bellisolina S.r.l..

36) Result of minorities

The "Result of minorities" was negative for the Group for 5 million euro and mainly included 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 4 million euro.

37) Group result of the period

The "Group result of the period" was positive for 267 million euro (positive for 157 million euro at June 30, 2017 Restated).

Earnings per share

38) Earnings per share

	01 01 2018 06 30 2018	01 01 2017 06 30 2017
Earnings (loss) per share (in euro)		
- basic	0.0859	0.0504
- basic from continuing operations	0.0845	0.0808
- basic from assets held for sale	0.0014	(0.0304)
- diluted	0.0859	0.0504
- diluted from continuing operations	0.0845	0.0808
- diluted from assets held for sale	0.0014	(0.0304)
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,109,183,856
- diluted	3,109,183,856	3,109,183,856

Note on related party transactions

39) 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 Half-yearly financial report at June 30, 2018, the two shareholders hold a shareholding of 50% plus two shares that enables 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 2017, 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 governed by specific service contracts stipulated annually. A2A S.p.A. also makes office space and operating areas at its own premises available to subsidiaries and associates, as well as associated services. These are provided 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 2018	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:	**9,843**	**217**	**23**	**63**	**14**	**19**	**1**	**-**	**337**	**3.4%**
Non-current assets	*6,785*	*48*	*13*	*-*	*-*	*4*	*-*	*-*	*65*	*1.0%*
Shareholdings	58	48	10						58	100.0%
Other non-current financial assets	41		3			4			7	17.1%
Current assets	*2,898*	*9*	*10*	*63*	*14*	*15*	*1*	*-*	*112*	*3.9%*
Trade receivables	1,330	9	10	63	14	15	1		112	8.4%
Non-current assets held for sale	*160*	*160*							*160*	*100.0%*
TOTAL LIABILITIES OF WHICH:	**6,739**	**23**	**4**	**4**	**2**	**8**	**-**	**-**	**41**	**0.6%**
Non-current liabilities	*4,535*	*1*	*1*	*-*	*-*	*-*	*-*	*-*	*2*	*0.0%*
Provisions for risks and charges	607	1	1						2	0.3%
Current liabilities	*2,204*	*22*	*3*	*4*	*2*	*8*	*-*	*-*	*39*	*1.8%*
Trade payables	1,015	13	3	4	2	8			30	3.0%
Other current liabilities	670	7							7	1.0%
Current financial liabilities	442	2							2	0.5%

Income statement *millions of euro*	Total 06 30 2018	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
REVENUES	**3,081**	**2**	**14**	**159**	**22**	**20**	**1**	**-**	**218**	**7.1%**
Revenues from the sale of goods and services	2,969	2	13	159	22	20	1		217	7.3%
Other operating revenues	112		1						1	0.9%
OPERATING COSTS	**2,090**	**12**	**1**	**1**	**3**	**4**	**-**	**-**	**21**	**1.0%**
Expenses for raw materials and services	1,972		1		3				4	0.2%
Other operating costs	118	12		1		4			17	14.4%
LABOUR COSTS	**334**							**1**	**1**	**0.3%**
RESULT FROM NON-RECURRING TRANSACTIONS	**6**	**6**							**6**	**100.0%**
FINANCIAL BALANCE	**(54)**	**3**	**1**	**-**	**-**	**3**	**-**	**-**	**7**	**(13.0%)**
Financial expenses	69								-	0.0%
Financial income	11					3			3	27.3%
Affiliates	4	3	1						4	100.0%
NET RESULT FROM DISCONTINUED OPERATIONS	**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.

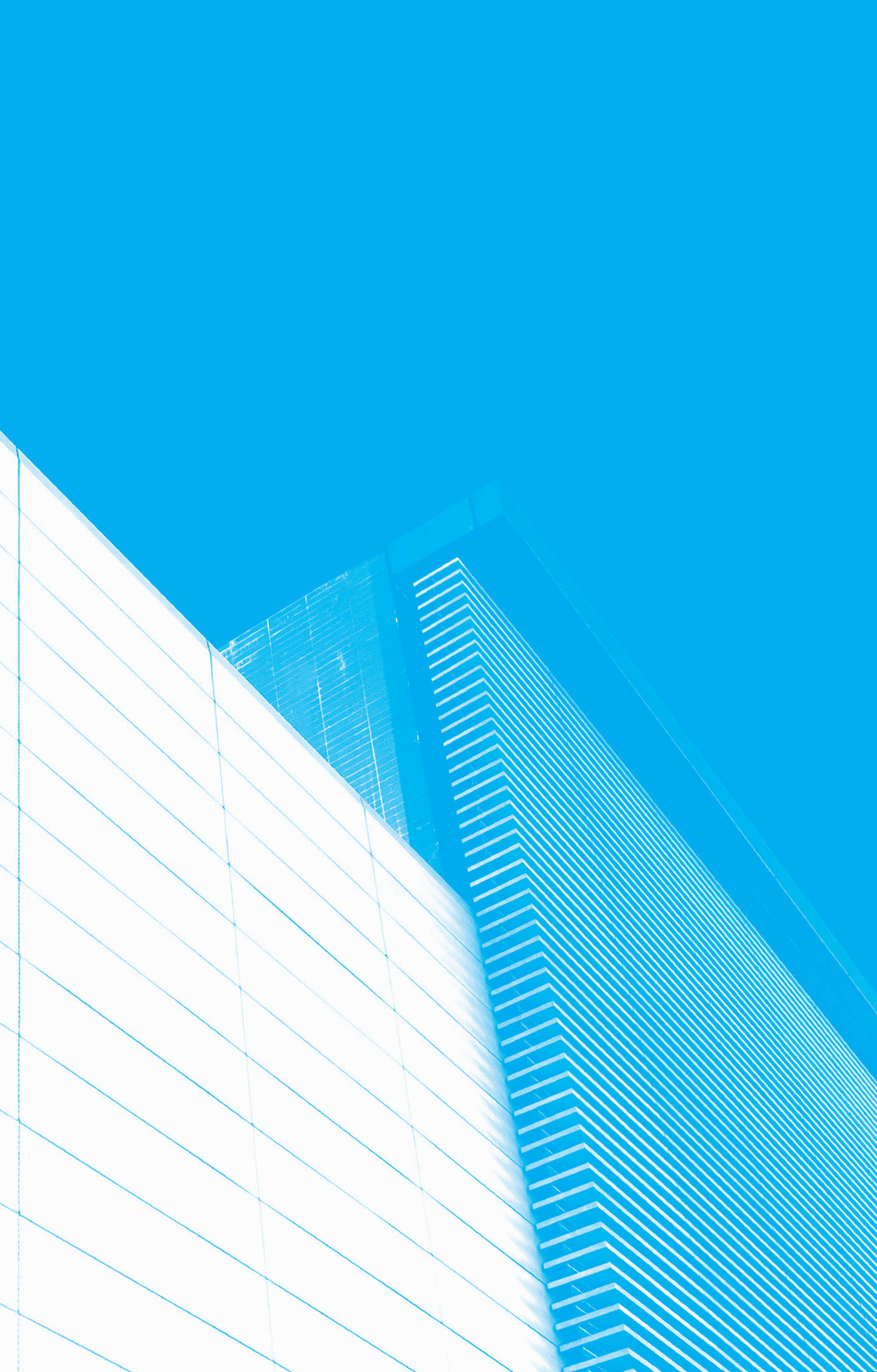
* * *

With regard to the compensation paid to the corporate governance bodies, reference shall be made to the document “Remuneration Report – 2018” available on the website www.a2a.eu.

Significant non-recurring events and transactions

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

There were no atypical and/or unusual transactions during the period in question.



Guarantees and commitments with third parties

millions of euro	06 30 2018	12 31 2017
Guarantees received	680	670
Guarantees provided	1,243	1,152

Guarantees received

Guarantees received amounted to 680 million euro (670 million euro at December 31, 2017) and included 281 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 399 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 1,243 million euro (1,152 million euro at December 31, 2017), of which for obligations undertaken in the loan agreements of 159 million euro. These guarantees have been issued by banks for 634 million euro, insurance companies for 84 million euro and the parent company A2A S.p.A., as parent company guarantee, for 525 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) 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.

Exchange rate 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 non-compliance 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 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 (IFRS) 9: 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-EEX), 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, 2018 was 9.6 million euro (1.4 million euro at December 31, 2017).

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 options related to the stipulation of contracts on the market price of electricity (EEX) and EUA environmental certificates. 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, 2018 was -0.5 million euro (-0.1 million euro at December 31, 2017).

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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 neighbouring countries such as France, Germany and Switzerland. The Group has also signed interconnection contracts with operators in neighbouring countries, which are considered purchases of options. Futures have been stipulated on the ICE ECX market price of EUA environmental certificates, 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, 2018 was 1.8 million euro (8.4 million euro at December 31, 2017).

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, 2018 was 32.250 million euro (28.839 million euro at December 31, 2017).

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

millions of euro	06 30 2018		12 31 2017	
Profit at Risk (PaR)	*Worst case*	*Best case*	*Worst case*	*Best case*
Confidence level 99%	**(32.250)**	**39.915**	**(28.839)**	**35.046**

The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at June 30, 2018 exceeding 32.250 million euro of its entire portfolio of financial instruments 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.

a.4) Energy Derivatives, risk assessment of Trading Portfolio 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 0.442 million euro at June 30, 2018 (0.314 million at December 31, 2017). 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.

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

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

The following are the results of the assessments:

millions of euro	06 30 2018		12 31 2017	
Value at Risk (VaR)	***VaR***	***Stop Loss***	***VaR***	***Stop Loss***
Confidence level 99%, holding period 3 days	**(0.442)**	**(0.442)**	**(0.314)**	**(0.314)**

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, 2018, the structure of gross debt is as follows:

millions of euro	06 30 2018			12 31 2017		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	3,125	3,278	84%	3,076	3,236	82%
Floating rate	790	637	16%	862	702	18%
Total	**3,915**	**3,915**		**3,938**	**3,938**	

At June 30, 2018, the following are the hedging instruments for interest rate risk:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	06 30 2018		12 31 2017	
		Fair value	Notional	Fair value	Notional
IRS	Floating rate loan	(0.6)	15.3	(0.9)	19.4
IRS	Floating rate lease	(5.5)	34.5	(4.1)	26.2
Collar	Floating rate loan	(9.3)	104.8	(10.6)	114.3
Total		**(15.4)**	**154.6**	**(15.6)**	**159.9**

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

millions of euro

ACCOUNTING TREATMENT	DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
		at 06/30/2018	at 12/31/2017	at 12/31/2017	at 12/31/2016	at 06/30/2018	at 12/31/2017	at 06/30/2018	at 12/31/2017
Cash flow hedge	Collar	-	-	-	-	104.8	114.3	(9.3)	(10.6)
Cash flow hedge	IRS	-	-	-	-	48.0	43.7	(6.1)	(5.0)
Fair value hedge	IRS	-	-	-	-	-	-	-	-
Fair value	Capped IRS	-	-	-	-	1.8	1.9	-	-
Fair value	Collar	-	-	-	-	-	-	-	-
Total				-	-			(15.4)	(15.6)

Derivatives on interest rates at June 30, 2018 in cash flow hedge refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at June 30, 2018 amounting to 104.8 million euro, at floating rate interest.	Collar to fully hedge the loan and maturity, with floor on Euribor rate 2.99% and cap 4.65%. At June 30, 2018, the fair value was negative for 9.3 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, 2018 amounting to 15.3 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At June 30, 2018, the fair value was negative for 0.6 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
12 Leases of A2A Rinnovabili with various credit institutions and maturities, total debt at June 30, 2018 of 38.2 million euro, at variable rate.	IRS on 85% of the lease amount. At June 30, 2018, the fair value was negative for 5.5 million euro.	The IRS are in 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 2018 (*base case*: -15.4)		12 31 2017 (*base case*: -15.6)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	**(2.7)**	**2.6**	**(2.8)**	**2.7**

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 exchange rate risk other than that included in the price of commodities, the hedging instruments at June 30, 2018 are as follows:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	06 30 2018		12 31 2017	
		Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	2.5	108.5 (*)	(7.9)	103.7 (*)
Total		**2.5**	**108.5**	**(7.9)**	**103.7**

(*) at June 30, 2018, the notional of the CCS was valued at the period-end ECB exchange rate.

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

In particular:

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, 2018, the fair value of the hedge was positive for 2.5 million euro. This fair value would improve by 19.3 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 15.8 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

d. Liquidity risk

Liquidity risk is the risk that the Group 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 2018	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				06 30 2020	06 30 2021	06 30 2022	06 30 2023	After
Bonds	3,006	350	2,656	510	350	498	-	1,298
Finance lease payables	54	5	49	4	4	4	5	32
Financial payables to related parties	2	2	-	-	-	-	-	-
Bank loans	853	85	768	139	82	82	81	384
TOTAL	**3,915**	**442**	**3,473**	**653**	**436**	**584**	**86**	**1,714**

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.

At June 30, 2018, the Group had a total of 1,679 million euro, as follows:

(i) revolving committed credit lines in pool for 600 million euro maturing in 2019, unused; (ii) bilateral committed revolving credit lines for 100 million euro maturing in 2021, unused; (iii) unused long-term financing for a total of 120 million euro; (iv) cash and cash equivalents totalling 859 million euro, 771 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 nominal 1,438 million euro still available.

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; they also include the undiscounted nominal flows of derivative contracts on interest rates.

06 30 2018 *millions of euro*	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	2	396	3,026
Payables and other financial liabilities	7	92	878
Total financial flows	**9**	**488**	**3,904**
Payables to suppliers	337	54	1
Total trade payables	**337**	**54**	**1**

12 31 2017 *millions of euro*	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	354	3,066
Payables and other financial liabilities	10	89	920
Total financial flows	**55**	**443**	**3,986**
Payables to suppliers	461	89	1
Total trade payables	**461**	**89**	**1**

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 “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, 2018 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, 2018 equal to 3,006 million euro), loans (book value at June 30, 2018 equal to 853 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) 2,590 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) 110 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) 306 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 741 million euro, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), of which 636 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.

With regard to loans of the subsidiaries, the loan of A2A gencogas S.p.A. for a book value of 25 million euro is backed by a secured guarantee (mortgage) for a maximum of 120 million euro and contains two financial covenants, NFP/Equity and NFP/Gross operating margin.

The loan of 15 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 2018 that the ratio between the amount of principal of the loan disbursed and not yet repaid and equity is less than 1.40.

With reference to the bank lines revolving committed available, the line for 600 million euro with maturity November 2019 and the bilateral line for 100 million euro with maturity February 2021, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn. The line for 600 million is also subject to the financial covenant NFP/EBITDA.

At June 30, 2018, there was no situation of non-compliance with the covenants of the A2A Group companies.

A2A Group - Main financial covenants at June 30, 2018

COMPANY	BANK	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
A2A	Pool RCF	NFP/Ebitda <=4.0	2.5	06/30/2018
A2A gencogas	IntesaSanpaolo	NFP/Equity <=2 NFP/EBITDA<=6	0.1 0.3	12/31/2017 12/31/2017
LGH	Bondholders	Consolidited Interest Coverage Ratio > 2.50	4.6	06/30/2018
Linea Energia	Unicredit	Residual debt/Equity < 1.40	0.7	06/30/2018
A2A Rinnovabili	ICCREA	Operating Cash Flow/Fees >=1.1	1.64	12/31/2017
A2A Rinnovabili	Ubi Leasing	Operating Cash Flow/Fees >=1.25	1.76	12/31/2017
A2A Rinnovabili	Lisint	Operating Cash Flow/Fees >=1.20	1.46	12/31/2017

Analysis of forward transactions and derivatives

Tests were performed to determine whether these transactions qualify for hedge accounting in accordance with International Accounting Standard IFRS 9.

In particular:

1) transactions qualifying for hedge accounting under IFRS 9: 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 margin 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 IFRS 9, 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 margin 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 margin 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 IFRS 9.

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, 2018

A) On interest and exchange rates

millions of euro	Notional value (a) expiring within 1 year		Notional value (a) expiring within 1 and 5 years		Notional value (a) expiring over 5 years	Balance sheet value (b)	Progressive effect to income statement at 06 30 2018 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IFRS 9		27		97	29	(15)	
- not considered hedges as per IFRS 9		2					
Total derivatives on interest rates	**-**	**29**	**-**	**97**	**29**	**(15)**	**-**
Exchange rate risk management							
- considered hedges as per IFRS 9 on commercial transactions on financial transactions					108	2	
- not considered hedges as per IFRS 9 on commercial transactions on financial transactions							
Total exchange rate derivatives	**-**	**-**	**-**	**-**	**108**	**2**	**-**

(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.

	Notional value millions of euro	Unit of measurement of the notional value	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
Energy product price risk management							
A. Cash flow hedges as per IFRS 9, including:						**9.6**	**-**
- Electricity	119.5	TWh	7.0	0.4		4.9	
- Oil		Bbl					
- Coal	18.2	Tons	250,840			2.4	
- Natural Gas	1.7	TWh	0.066				
- Natural Gas		Millions of cubic metres					
- Exchange rate		Millions of dollars					
- CO_2 Emission rights	35.9	Tons	2,477,000	75,000		2.3	
B. considered fair value hedges as per IFRS 9						**-**	**-**
C. not considered hedges as per IFRS 9, including:						**1.3**	**(7.1)**
C.1 hedge margin						**(0.5)**	**(0.5)**
- Electricity	7.5	TWh	0.2			(0.4)	(0.4)
- Oil		Bbl					
- Natural Gas		MWh					
- Natural Gas		Millions of cubic metres					
- CO_2 Emission rights	1.1	Tons	100,000			(0.1)	(0.1)
- Exchange rate		Millions of dollars					
C.2 trading transactions						**1.8**	**(6.6)**
- Electricity	1,346.4	TWh	25.1	3.1	0.2	1.4	(6.3)
- Natural Gas	878.2	TWh	36.5	4.0	1.8	0.4	(0.3)
- CO_2 Emission rights	1.9	Tons	20,000		100,000		
- Environmental Certificates		MWh					
- Environmental Certificates		Tep					
Total						**10.9**	**(7.1)**

(*) 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, 2018

The following table shows the balance sheet figures at June 30, 2018, for derivative transactions.

Effects on the balance sheet

millions of euro	NOTES	TOTAL
ASSETS		
NON-CURRENT ASSETS		**2**
Other non-current assets - Derivatives	5	2
CURRENT ASSETS		**171**
Other current assets - Derivatives	8	171
TOTAL ASSETS		**173**
LIABILITIES		
NON-CURRENT LIABILITIES		**15**
Other non-current liabilities - Derivatives	21	15
CURRENT LIABILITIES		**160**
Trade payables and other current liabilities - Derivatives	22	160
TOTAL LIABILITIES		**175**

Effect on the income statement

The following table sets out the income statement figures at June 30, 2018 arising from the management of derivatives.

millions of euro	Notes	Realised during the period	Change in fair value during the period	Amounts recognized in the income statement
REVENUES	26			
Revenues from the sale of goods				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		5	-	5
- not considered hedges as per IFRS 9		16	(71)	(55)
Total revenues from the sale of goods		**21**	**(71)**	**(50)**
OPERATING EXPENSES	27			
Expenses for raw materials and services				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IFRS 9		4	-	4
- not considered hedges as per IFRS 9		(3)	64	61
Total costs for raw materials and services		**1**	**64**	**65**
Total recognized in gross operating income (*)		**22**	**(7)**	**15**
FINANCIAL BALANCE	33			
Financial income				
Interest rate risk management and equity risk management				
Income on derivatives				
- considered hedges as per IFRS 9		-	-	-
- not considered hedges as per IFRS 9		-	-	-
Total		**-**	**-**	**-**
Total financial income		**-**	**-**	**-**
Financial expenses				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IFRS 9		(6)	-	(6)
- not considered hedges as per IFRS 9		-	-	-
Total		**(6)**	**-**	**(6)**
Total financial expenses		**(6)**	**-**	**(6)**
TOTAL RECOGNIZED IN FINANCIAL BALANCE		**(6)**	**-**	**(6)**

(*) 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, 2018, where applicable.

millions of euro

Criteria to measure the reported amount of financial instruments

	Notes	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Shareholdings / Securities convertible into unlisted shareholdings measured at cost	Amount as stated in the consolidated balance sheet at 06 30 2018	Fair value at 06 30 2018 (*)
		Income statement	Equity					
		(1)	(2)	(3)	(4)	(5)		
ASSETS								
Other non-current financial assets								
Shareholdings / Securities convertible into shareholdings available for sale of which:								
- unlisted				8			8	n.a.
- listed							-	-
Financial assets held to maturity							-	-
Other non-current financial assets					33		33	33
Total other non-current financial assets	3						**41**	
Other non-current assets	5		2		8		10	10
Trade receivables	7				1,330		1,330	1,330
Other current assets	8	161	10		267		438	438
Current financial assets	9				6		6	6
Cash and cash equivalents	11				859		859	859
Assets held for sale	12	160					160	160
LIABILITIES								
Financial liabilities								
Non-current and current bonds	18 and 23		108		2,898		3,006	3,006
Other non-current and current financial liabilities	18 and 23				909		909	909
Other non-current liabilities	21		15		133		148	148
Trade payables	22				1,015		1,015	1,015
Other current liabilities	22	160			510		670	670

(*) 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, including unlisted shareholdings whose fair value cannot be measured reliably, are carried at the lower of costs, which may be reduced due to impairment.

Fair value hierarchy

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

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

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

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

millions of euro	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Available-for-sale assets measured at fair value	3		8		8
Other non-current assets	5		2		2
Other current assets	8	168	3		171
TOTAL ASSETS		**168**	**13**	**-**	**181**
Non-current financial liabilities	18	108			108
Other non-current liabilities	21		15		15
Other current liabilities	22	159		1	160
TOTAL LIABILITIES		**267**	**15**	**1**	**283**

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

2) 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.

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 October 07, 2017 to verify the conditions of a settlement or transaction.

At the last hearing, the parties submitted to the judge the shared text of the transaction. We are waiting for the judge's decision. The settlement solution will be accepted, in order to settle the dispute, without recognition of debt. The judge has not yet approved the text for examination also of the tax authorities while rejecting the exceptions raised by Redengas against the transaction. 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 08, 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 adjournments 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 adjournment on April 01, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence. The hearing to clarify conclusions was then fixed again and postponed several times and today is set for October 31, 2018. The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

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 hearing of February 22, 2018, some texts were heard and the trial was postponed to the hearing of March 22, 2018 for the hearing of further texts. The preliminary hearings of April 19, May 17 and June 21 followed and the case was postponed, again for incumbent instructors, to July 05, 2018. Subsequently, the trial was postponed to October 25, 2018 to hear three defendants' technical advisors.

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.

Monfalcone Plant Investigation

On March 08 and 09, 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.).

The suspect employees appointed trusted defenders.

Subsequently, between December 2017 and January 2018, the Public Prosecutor of Gorizia proceeded with the acquisition of additional documentation at the plant.

The proceeding is still in the 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 that requested an extension of the terms for the investigations.

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 04, 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 01, 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 as well as D.G.R. 7693-2018, which reiterated the forecast of the application of an additional fee up to 2020 and, where envisaged, the revocation of the exemption of part of the state fee.

For disputes relating to public water derivation fees, at today's date, the Group set aside risk provisions for the total amount of 40 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 October 18, 2018. 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 in EPCG by means of the international tender held in 2009, and under the so-called "EPCG Agreement" dated September 03, 2009, it acquired the right to manage the company, appointing - until 06.30.2017 - the Executive Director (CEO) and Executive Managers.

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 06, 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 first 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. On the basis of what is currently known, the accusation concerns a hypothesis of abuse of office in the management of service contracts stipulated by the same EPCG, and also concerns two other Italian managers seconded by A2A in EPCG in the period 2010-2012, as well as the former pro-tempore Co-General Manager of A2A, who signed the service contracts. On May 06, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 07, 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 was judicially challenged by A2A S.p.A., obtaining complete revocation on September 29, 2017. From the precautionary measure, there was also evidence that the proceedings in question were extended to A2A on July 03, 2017. Subsequently, following a civil/commercial agreement signed by A2A on October 23, 2017 with EPCG, and the resolution adopted by the latter on November 17, 2017 to not constitute as injured party in the criminal proceedings, as there was no damage, the Special State Prosecutor ordered the withdrawal of the accusations on December 28, 2017 and therefore the filing of the proceedings against A2A S.p.A. as well as against the three Montenegro officials, originally investigated like the Italian managers. The proceedings against individuals to be investigated is pending to move to the trial phase.

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 remote. 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 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 the proceeding against A2A can be filed.

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.

Investigation AGCM A512-A2A for alleged anti-competitive conduct in the electricity sales market - violation of art. 102 TFEU

In May 2017, the AGCM initiated a preliminary investigation against A2A S.p.A. and A2A Energia S.p.A. for the investigation of alleged conduct in violation of art. 102 TFEU, within the framework of which it ordered the conduct of inspections without notice. Similar proceedings were simultaneously initiated against two other major operators in the sector.

With regard to A2A, the complaint concerns alleged conduct aimed at acquiring free markets of customers served in protected market, which were implemented thanks to the availability of commercially sensitive information and data that the operator could have available as vertically integrated into a Group that operates in the sale under protected market and electrical distribution, as well as boasting specific characteristics (reliability/safety), also deriving from the nature of an integrated operator.

As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of “price protection”. Furthermore, since the existence of an effect on trade between Member States is established, the proceedings deal with the case as an infringement of the EU competition law (article 102 TFEU).

The company defended itself on the merits, both at the hearing and with briefs, highlighting that it did not use data deriving from the exercise of the service under protected market nor distribution, for promotional purposes for the development of its free market activities.

The conclusion of all the proceedings initiated is expected by October 31, 2018.

Prosecutor of Brescia – GIP of Brescia. Criminal proceeding no. 25597/14 R.G.N.R. on the alleged "abusive management of special non-hazardous waste" by A2A Ambiente S.p.A.

On July 11, 2017 it became known that, in the context of an investigation concerning 33 individuals and 14 different legal entities (including, as emerged from the guarantee information notified to the employee, also A2A Ambiente for administrative responsibility pursuant to Legislative Decree 231/01), an employee of A2A Ambiente was investigated for the crime referred to in articles 110, 81 of the Criminal Code and 260 of Legislative Decree 152/2006 because "jointly with others, in contravention of the provisions and authorizations" supposedly "illegally managed, not subjecting them to the planned recovery activities, large quantities of special non-hazardous waste" contractually defined as Dry fraction waste shredding and packed from the waste shredding plants in Giugliano and Tufino (NA).

More specifically, the employee was challenged for having failed to verify the acceptability (upon verification of their chemical-physical characteristics as prescribed by AIA) of the waste at the A2A Ambiente waste disposal plant in Brescia in the years 2014 and 2015, "thus favouring illicit disposal".

Subsequently, on September 23, 2017, A2A Ambiente was notified of a hearing setting decree pursuant to Legislative Decree 231/01 to decide on the request, formulated by the Public Prosecutor, for the application of precautionary measures consisting in the seizure of assets for a total amount of about 583,000 euro (considered as "profit of the crime") and in temporary interdiction from the exercise of activity.

The hearing was scheduled for October 09, 2017 before the GIP (preliminary investigation judge) of Brescia Ms Sabatucci. At that hearing, the company's defences were presented, representing its absolute non-involvement with alleged unlawful conduct, and on November 13, 2017, a defence brief was filed reiterating the absolute groundlessness of the request for the application of interdiction measures against A2A Ambiente for lack of the conditions foreseen by the law.

With a ruling dated December 27, 2017, filed with the court on December 28, the GIP of Brescia did not consider that as present the conditions justifying the adoption of precautionary measures against A2A Ambiente and therefore rejected the request of the Public Prosecutor.

In particular, the GIP noted that A2A Ambiente has long had an articulated organizational model "on the adequacy of which the Public Prosecutor did not formulate specific remarks, limiting to establishing that the employee operated circumventing the controls provided, a circumstance that however is not valid in itself to prove the administrative responsibility of the entity".

The GIP also underlined that the same Public Prosecutor found that A2A Ambiente reformulated, in a period following the facts, its own MOG in order to better prevent the commission of environmental offenses and considered this circumstance to be evaluated positively for the purpose of judging, as underlined that no concrete advantage emerged from the investigations for A2A Ambiente.

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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. The Provincial Tax Commission of Chieti issued unfavourable sentences. The company appealed. In August 2017, the Revenue Agency of Chieti also issued notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014, all appealed against by the company. The Chieti Provincial Tax Commission rejected the company's appeals. A risk provision of 2 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 04, 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 07, 2017. The company proposed an appeal on February 13, 2018. 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 2017

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. On January 05, 2018, the notice of payment was served for 2017. On February 07, 2018, the company registered the case with the Court of Milan. A risk provision of 3.5 million euro has been recognized.

A2A Ambiente S.p.A. (formerly Partenope Ambiente S.p.A.) - General IRES/IRAP/VAT audit for FY 2011

On September 04, 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 06, 2014. The findings mainly related to violations exclusively regarding direct taxation. On July 07, 2015, a notice of assessment was served for the year 2011. On October 05, 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. A risk provision of 0.1 million euro has been recognized.

A2A Ambiente S.p.A. (formerly Aprica S.p.A.) - Technical audit of the Brescia waste-to-energy plant

On March 07, 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 07 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 06, 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 05, 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 09, 2012.

The outcomes of the 2002 and 2003 disputes were also favourable 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 02, 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 07, 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. A risk provision of 1.4 million euro has been recognized.

* * *

Consob Recommendation no. 61493 of July 18, 2013

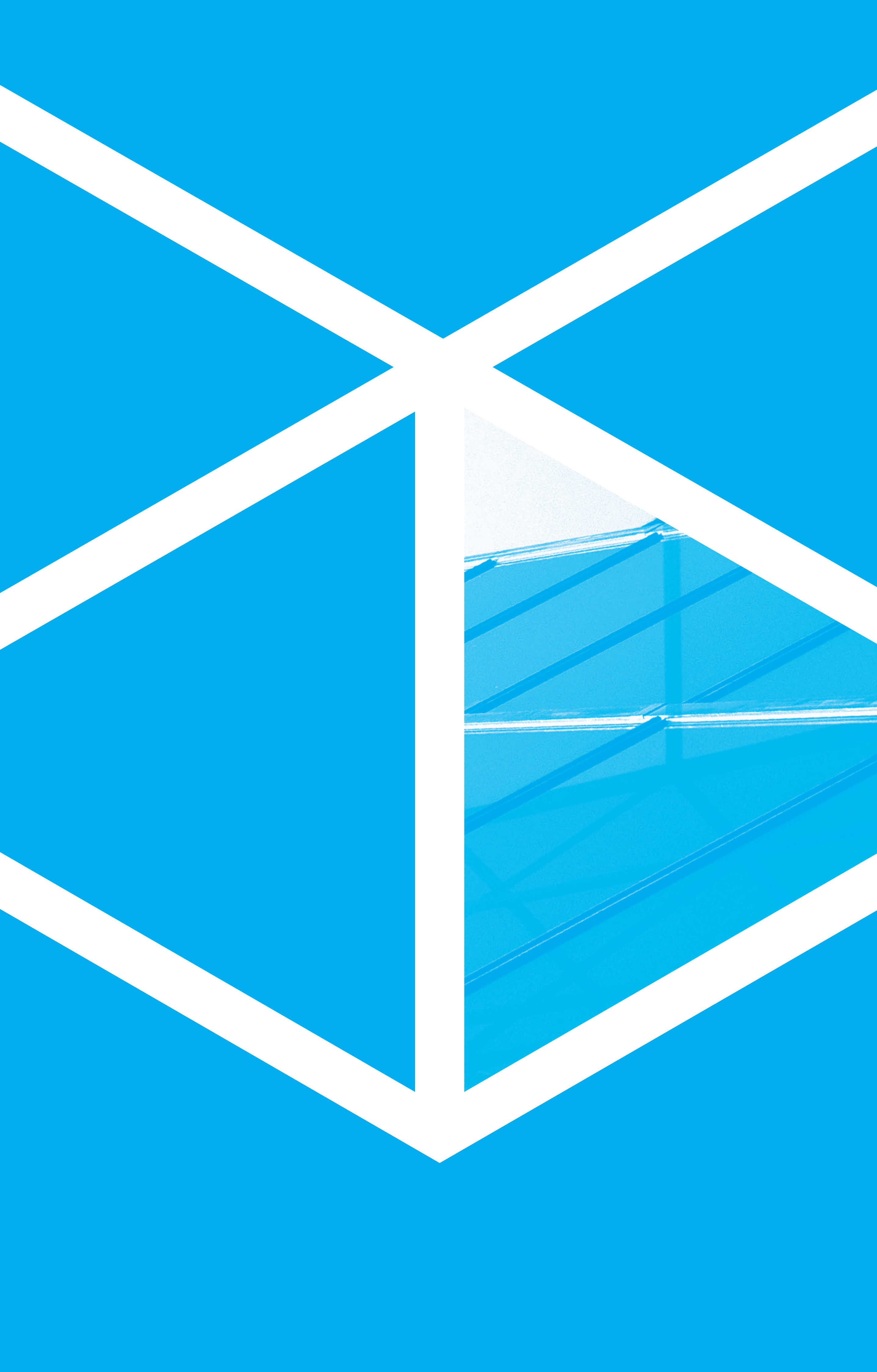
In response to Consob Recommendation no. 61493 published in July 2013, the A2A Group has carried out detailed analyses which have led to the identification of the hydroelectric production sector as the area applicable to the Group.

The capex 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 capex 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.



5
Attachments to the notes to the Half-yearly financial report

1 - Statement of changes in tangible assets

Tangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2017	FIRST-TIME CONSOLIDATION ACQUISITIONS 2018	CHANGES DURING THE PERIOD	
			INVESTMENTS	CHANGES IN CATEGORY
Land	113			
Buildings	606		2	3
Plant and machinery	3,459	21	50	12
Industrial and commercial equipment	36		4	
Other assets	98		5	14
Landfills	66			3
Construction in progress and advances	95		47	(31)
Leasehold improvements	83		8	1
Leased assets	50	11		
Total tangible assets	**4,606**	**32**	**116**	**2**

Tangible assets *millions of euro*	NET BOOK VALUE 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**	**-**

CHANGES DURING THE PERIOD							NET BOOK VALUE AT 06 30 2018
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE PERIOD	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
						-	113
		(1)	1		(17)	(12)	594
(5)		(4)	3		(132)	(76)	3,404
		(1)	1		(4)	-	36
		(12)	12		(12)	7	105
(2)					(2)	(1)	65
(1)						15	110
1					(5)	5	88
(1)					(3)	(4)	57
(8)	**-**	**(18)**	**17**	**-**	**(175)**	**(66)**	**4,572**

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**

2 - Statement of changes in intangible assets

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2017	FIRST-TIME CONSOLIDATION ACQUISITIONS 2018	CHANGES DURING THE PERIOD	
			INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	19		4	1
Concessions, licences, trademarks and similar rights	1,130		50	7
Goodwill	457	9		
Assets in progress	40		17	(10)
Other intangible assets	217	1		
Total intangible assets	**1,863**	**10**	**71**	**(2)**

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2016 Restated	CHANGES DURING THE PERIOD	
		INVESTMENTS	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**	**-**

CHANGES DURING THE PERIOD							NET BOOK VALUE AT 06 30 2018
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE PERIOD	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
					(6)	(1)	18
(1)		(5)	3		(26)	28	1,158
						-	466
						7	47
(86)					(6)	(92)	126
(87)	**-**	**(5)**	**3**	**-**	**(38)**	**(58)**	**1,815**

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				
(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**

5 Attachments to the notes to the Half-yearly financial report

1. Statement of changes in tangible assets

2. Statement of changes in intangible assets

3. List of companies included in the consolidated financial statements

4. List of shareholdings in companies carried at equity

5. List of available-for-sale financial assets

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	3,448
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
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
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
Ecofert S.r.l. in liquidation	S. Gervasio Bresciano (BS)	Euro	100
SEASM S.r.l.	Brescia	Euro	700
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939
Consul System S.p.A.	Milan	Euro	2,000
Unareti Servizi Metrici S.r.l.	Brescia	Euro	100
LaboRAEE S.r.l.	Milan	Euro	90
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
Aprica S.p.A.	Brescia	Euro	20,000
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
RI.ECO S.r.l.	Novate Milanese (MI)	Euro	1,000
RESMAL S.r.l.	Buccinasco (MI)	Euro	500

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 06 30 2018	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
93.63%	100.00%	A2A S.p.A. (87%) Linea Group Holding S.p.A. (13%)	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
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
71.48%	95.00%	A2A S.p.A. (47%) Linea Energia S.p.A. (48%)	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
75.00%	75.00%	A2A Energy Solution S.r.l.	Line-by-line consolidation
100.00%	100.00%	Unareti S.p.A.	Line-by-line consolidation
100.00%	100.00%	Amsa 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
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
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
A2A Integrambiente S.r.l.	Brescia	Euro	10
Galli Ecologistica S.r.l.	Novate Milanese (MI)	Euro	100
Resmal Ecologistica S.r.l.	Truccazzano (MI)	Euro	80
A2A Security S.c.p.a.	Milan	Euro	50
LumEnergia S.p.A.	Lumezzane (BS)	Euro	300
A2A Energy Solution S.r.l.	Milan	Euro	4,000
A2A IDRO4 S.r.l.	Milan	Euro	10
A2A Rinnovabili S.p.A.	Trento	Euro	50
HELIOS 1 S.r.l.	Trento	Euro	12
INTHE 1 S.r.l.	Trento	Euro	10
INTHE 2 S.r.l.	Trento	Euro	210
TFV 1 S.r.l.	Trento	Euro	210
TFV 2 S.r.l.	Trento	Euro	110
renewA21 S.r.l.	Trento	Euro	20
renewA22 S.r.l.	Trento	Euro	220
renewA23 S.r.l.	Trento	Euro	20
renewA24 S.r.l.	Trento	Euro	20
renewA25 S.r.l.	Trento	Euro	20
renewA26 S.r.l.	Trento	Euro	20
renewA27 S.r.l.	Trento	Euro	20
renewA28 S.r.l.	Trento	Euro	20
Bellariva Enertel 01 S.r.l.	Trento	Euro	10
Bellariva Enertel 06 S.r.l.	Trento	Euro	10
Bellariva Enertel 10 S.r.l.	Trento	Euro	10
Energy Infrastruct Group S.r.l.	Trento	Euro	100
I.FOTOGUIGLIA S.r.l.	Trento	Euro	14
Free Energy S.r.l.	Trento	Euro	10
Linea Group Holding S.p.A.	Cremona	Euro	189,494
Linea Reti e Impianti S.r.l.	Cremona	Euro	45,000
Linea Gestioni S.r.l.	Crema (CR)	Euro	6,000
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 Ambiente S.r.l.	Rovato (BS)	Euro	19,000
DEC-Distribuzione Elettrica Cremona S.r.l.	Cremona	Euro	45,000
Lomellina Energia S.r.l.	Parona (PV)	Euro	160
Equity investments held for sale			
Elektroprivreda Cnre Gore AD Nikśič (EPCG)	Nikśič (Montenegro)	Euro	855,285

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

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 06 30 2018	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	A2A Ambiente S.p.A. (74%) Aprica S.p.A. (1%) Amsa S.p.A. (25%)	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
100.00%	100.00%	A2A S.p.A. (47.60%) Unareti S.p.A. (19.10%) A2A Cicolo Idrico S.p.A. (10.90%) Amsa S.p.A. (9.50%) A2A gencogas S.p.A. (4.10%) A2A Ambiente S.p.A. (4.10%) A2A Calore & Servizi S.r.l. (2.70%) A2A Energiefuture S.p.A. (2%)	Line-by-line consolidation
92.70%	92.70%	A2A Energia 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 Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	Energy Infrastruct Group S.r.l.	Line-by-line consolidation
100.00%	100.00%	Energy Infrastruct Group S.r.l.	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
93.95%	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
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
80.00%	80.00%	Linea Ambiente S.r.l.	Line-by-line consolidation
28.60%	28.60%	A2A S.p.A.	Equity

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
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Centrale Termoelettrica del Mincio S.r.l. in liquidation	Ponti sul Mincio (MN)	Euro	11
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
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
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898
Total shareholdings			

SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 06 30 2018 (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.	2,487	Equity
49.00%	A2A S.p.A.	788	Equity
47.00%	A2A S.p.A.	2,429	Equity
45.00%	A2A S.p.A.	-	Equity
40.00%	A2A S.p.A.	671	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	735	Equity
23.94%	A2A S.p.A.	43,603	Equity
20.00%	A2A Calore & Servizi S.r.l.	1,005	Equity
12.47%	Aspem S.p.A.	-	Equity
52.00%	A2A Calore & Servizi S.r.l.	95	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
49.00%	Linea Più S.p.A.	2,722	Equity
		58,183	

5 - List of available-for-sale financial assets

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 06 30 2018 (THOUSANDS)
Available-for-sale financial assets (AFS)			
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
Altre:			
AQM S.r.l.	7.80%	A2A S.p.A. (7.52%) LumEnergia S.p.A. (0.28%)	
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 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.	
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.	
DI.T.N.E.	1.89%	A2A S.p.A.	
COMIECO	n.s.	RI.ECO S.r.l. (n.s.) RESMAL S.r.l. (n.s.)	
CONAPI S.c.a.r.l.	22.22%	RI.ECO S.r.l. (11.11%) RESMAL S.r.l. (11.11%)	
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.	5.97%	Linea Più S.p.A.	
Crit S.c.a.r.l.	32.90%	A2A Smart City S.p.A.	
Sinergie Italiane S.r.l. in liquidation	14.92%	Linea Group Holding S.p.A.	
Cassa Padana S.c.a.r.l.	n.s.	A2A Smart City S.p.A.	

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 06 30 2018 (THOUSANDS)
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			**5,385**
Total available-for-sale financial assets			**7,511**

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.

6
Evolution of the regulation and impacts on the Business Units of the A2A Group

In relation to the Evolution of the regulation and impacts on the Business Units of the A2A Group, the main changes in the first half of 2018 are shown below, while as already published in the Financial Statements at December 31, 2017 shall remain valid.

Notification to the AGCM of the Multi-utility North Lombardy concentration operation

Pursuant to the provisions of Law 287 of October 10, 1990, on April 4, 2018, A2A S.p.A. notified the Anti-trust Authority (AGCM) of the concentration operation called Multi-utility North Lombardy, which provides for the acquisition of exclusive control by A2A S.p.A. of ACSM-AGAM S.p.A. (Como-Monza multi-utility), previously subject to joint control by the Group, with simultaneous acquisition by the latter, following the merger by incorporation of some companies of the Lario Group, of the AEVV Group companies, of Aspem S.p.A., of a business unit of A2A Energia S.p.A. related to customers served in Varese and A2A Idro 4 S.p.A..

By decision of May 3, 2018, the AGCM resolved not to initiate the investigation as the operation does not give rise to the establishment or strengthening of a dominant position.

Generation and Trading Business Unit

Remuneration of production capacity availability

The current mechanism for remunerating the availability of production capacity is the Capacity Payment defined in 2003 by Legislative Decree no. 379 as an administered, transitional system aimed at ensuring the adequacy of the electricity system during critical days, identified by Terna when the difference between supply and demand could be at minimum levels.

The mechanism has been operating since 2004 as a result of Resolution 48/04, which provides that the Authority determines annually ex ante a specific revenue collected through bills and paid in the form of two payments (called CAP1 and S) to plants authorized for the provision of dispatching services and that are available on critical days.

Legislative Decree no. 379 of 2003 had also established that under regime the remuneration of the availability should have been based on a market mechanism (capacity market) subsequently drawn up by Resolution ARG/elt 98/11, which provides an auction in which the operators assigned acquire the right to receive a premium (in euro/MW/year) for the obligation to offer all the capacity awarded on the energy markets (MGP) and services market (MSD), returning to the counterparty Terna the difference - if positive - between the reference prices of the markets and a strike price (in euro/MWh). It is technically a one-way difference contract.

Resolution 95/2015/I/eel has set a period of initial implementation with annual capacity contracts and a regime phase (or full implementation) with three-year contracts (15 years for new plants).

After a long period of informal discussions with the European institutions, the MiSE notified the Italian capacity market mechanism to DG Competition on August 23, 2017 that approved it on February 7, 2018 for 10 years, until December 31, 2028, having considered it compatible with the European Guidelines on state aid.

The mechanism proposed is already aligned with the future potential requirements of the Clean Energy Package, net of the duration of the contracts still to be defined. At the same time, DG Competition approved a similar mechanism for Poland, the strategic reserve for Belgium and Germany, the interruptibility regime for Greece and the French demand management mechanism.

By means of Resolution 261/2018/R/eel, the Authority amended and supplemented the previous Resolution ARG/elt 98/11 to adapt the market bill to the discipline approved by DG Competition.

The mechanism will be operative only after the adoption of a Ministerial Decree by the Ministry of Economic Development (MiSE) and the Authority's resolution that will set the levels of the strike price and cap to the premium (in the initial implementation phase, the latter could be differentiated for existing plants and for new plants in consideration of the market power that the former could exercise).

If these steps are taken in the coming weeks, the first auctions could be held in the autumn of 2018 with delivery for the first implementation phase as early as January 1, 2019.

In 2018, the impact of the capacity payment on the A2A Group is estimated at around 15 million euro still unpaid (this amount is confirmed in line with the amount collected by the Group in 2017).

Remuneration of plants essential for the safety of the electricity system

By means of Resolution 803/2016/R/eel, the 220 kV plant of the San Filippo del Mela power plant (groups 2, 5 and 6) was contracted by Terna under essentiality regime with the reintegration of costs for the five-year period 2017-2021 in consideration of the fact that the Sorgente-Rizziconi power line connecting Sicily to the Continent may not always be available (for example during maintenance periods) and the market in the Sicily area is currently still short in terms of supply. The Resolution also establishes that group 1 at 150 kV plays a back-up role in the event of unavailability of group 2.

Also envisaged is the commitment by A2A Energiefuture S.p.A. to contain the requests reinstatement of costs below a 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 said highest level of reinstatement is lower with respect to the calculation provided by the standard must-run regime (referred to in Resolution 111/06).

By means of Resolution 334/2018/R/eel, the balance relating to the essentiality regime of 2015 was paid by Terna for an amount of 22 million euro (of which approximately 7 million euro as contingent in 2018). The Authority has in fact recognized that the exceptional temperatures of the summer 2015 had a negative impact on the availability of the plant such as to have to reduce the power to comply with the legal limits relating to the temperature of discharge into the sea of the water needed for cooling. The resolution accepted the methodology for calculating the unavailability proposed by A2A to Terna in 2016 and sent by Terna to the Authority.

The receivables still to be collected and relating to the essentiality of previous years amount to over 42 million euro (2016 and 2017 balances) while the first advance on 2018 is estimated at around 30 million euro.

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

Legislative Decree March 3, 2011, no. 28, in implementation of Directive 2009/28/EC, defined the incentive schemes for electricity production powered by renewable sources in order to achieve the European targets by 2020, then implemented with Ministerial Decrees July 6, 2012 and June 23, 2016 relating to plants from renewable sources other than photovoltaic.

These decrees establish incentive tariffs (feed-in premium) that are added to revenues deriving from the sale of energy on the market: for production units under specific power thresholds incentives are recognized through direct access or through registration to registers managed by the GSE, while for plants with higher power an auction procedure is envisaged.

As of January 1, 2016, plants from renewable sources that began operating before December 31, 2012 and that are part of the previous incentivizing scheme of Green Certificates (GC) are recognized an incentive paid by the Energy Services Manager (GSE) on net production for the entire remaining period of the right to GCs and that is added to the 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 2018, the incentive (I) was 98.95 euro/MWh.

A similar instrument is granted to plants that benefited from the GCs issued on cogeneration combined with district heating (GC district heating) for which the incentive (I) is set at 84.34 euro/MWh (calculated with respect to the average market price recorded in 2010).

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.

At June 30, 2018, the incentives for the year amounted to approximately 32 million euro.

At March 31, 2018, the last date for the withdrawal by the GSE, the Group requested the withdrawal of the warehouse for a total of 636,749 between GC and GC TLR for a counter-value of 63.1 million euro.

Recognition of IAFR qualification for the hydroelectric plant of Ampezzo by the GSE

As a result of the entry into force of the Ministerial Decree of June 23, 2016 - which contains rules for the merger with the previous Ministerial Decree of July 6, 2012 and Ministerial Decree of December 18, 2008 - A2A S.p.A. submitted a request to the GSE for the reopening of the IAFR qualification for the hydroelectric plant of Ampezzo.

On May 11, 2018, the GSE, after a new documentary investigation, announced the acceptance of the request only for the two groups of the power plant that entered into operation by April 30, 2013 and for a duration of 15 years.

A2A S.p.A. will therefore make the GSE adjustment request for the issue of incentives in the form of GC for the years 2013-2015 and feed-in premium for the years 2016-2017 for a total amount of about 21 million euro. The annual incentive is on average estimated at around 2.8-3 million euro.

Settlement gas: determination of prior items 2013-2017

With Resolutions 670/2017/R/gas and 782/2017/R/gas, the Authority approved the provisions on settlement gas defining the methodology for determining physical and economic adjustment items for the years 2013-2016.

The economic items were determined according to a procedure divided into two phases: the first for the settlement of items assigned to the balancing user and the second to allocate to each user the portion of the difference between injection and withdrawal.

The results of the multi-year adjustment session were announced by Snam Rete Gas S.p.A. to transport users in June 2018; however, in consideration of the numerous reports received, the transport company deemed it appropriate to grant an additional time window for the definitive assumption of the economic items for the purpose of calculating the potential exposure of the system to each user.

Closing of the dispute concerning Resolution ARG/gas 89/10

By means of Resolution ARG/gas 89/10, in the presence of a cyclical phase characterized by a reduction in gas consumption, by an excess of supply and a widespread downward renegotiation of take-or-pay contracts, the Authority had decided to immediately transfer to customers the potential benefits determined by this situation introducing, for thermal year 2010-2011, a reduction coefficient k of 0.925 applied to the indexed component of the QE (variable fee of the final tariff to cover gas procurement costs). This revision was confirmed by the subsequent Resolution ARG/gas 77/11, which provided for an extension until September 30, 2012 of said mechanism, revising slightly upward the value of the coefficient k (from 0.925 to 0.935).

A2A Energia S.p.A. (including former ASMEA S.p.A. and BAS Omniservizi S.p.A.) and Plurigas S.p.A. had appealed against both resolutions challenging the arbitrariness of the value of k. In March 2013, the Lombardy Regional Administrative Court ruled in favour of the requesting companies, cancelling Resolution ARG/gas 89/10 and related subsequent (Resolutions 233/10, 77/11, 84/11 and 132/11). This sentence had been appealed by the Authority before the Council of State which, with sentence no. 4825 of November 18, 2016, confirmed the decision of the TAR.

With Resolution 737/2017/R/gas, the Authority redetermined, as of now, the coefficient k, at 0.952 for both thermal years 2010-2012.

The definition of the methods of recovery of the economic items, also to protect the end customer, is postponed to a specific DCO to be issued within the appropriate time frame for the end of the proceeding in the second half of 2018 (an estimate of first impact is of around 13/14 million euro).

Market Business Unit

2017 Competition Law and termination of price protections

The Annual Law for the Market and Competition (Law August 4, 2017, no. 124, or 2017 Competition Law) contains provisions aimed at removing regulatory barriers to the opening of markets, promoting the development of competition and guaranteeing the protection of consumers. Article 1, from paragraphs 59 to 85, introduces relevant provisions concerning the energy market, providing for:

- the end of the price protection schemes for electricity and gas from July 1, 2019;
- provisions regarding mandatory contractual conditions and comparability of offers;
- promotion of buying groups;
- establishment of a list of subjects authorized to sell electricity;
- redefinition of the mechanisms to support citizens on fuel poverty;
- provisions aimed at combating the phenomenon of so-called maxi-bills;
- access by utilities to databases containing information on the credit and the identity of customers.

The Authority has implemented the following obligations required by the 2017 Competition Law:

- with Resolution 555/2017/R/com, it regulated a specific type of offer on the free market under similar conditions of protection (PLACET offers) and identified the minimum contractual conditions for all free market contracts for electricity and natural gas;
- by means of Resolution 746/2017/R/com, it imposed information obligations on suppliers regarding gas protection and operators of the electricity protected market to inform customers of the overcoming of price protections (for example through the bill);
- with Resolution 762/2017/I/eel, it proposed to the MiSE the criteria, methods, technical, financial and honorability requirements for registration and the permanence in the Electricity Sales List (EVE);
- by means of Resolution 51/2018/R/com, it defined the operating requirements of the IT portal for the collection and publication of commercial offers on the website www.prezzoenergia.it managed by Acquirente Unico S.p.A.;
- submitted to the MiSE the 117/2018/I/com Report on the monitoring of retail markets for electricity and gas necessary for the purpose of verifying the achievement of the objectives set by the 2017 Competition Law.

The requirements for the MiSE are still pending:

- approval of the Electricity Sales List;
- social bonus reform;
- methods of implementation of the end of price protection schemes through a specific Ministerial Decree that was expected to be adopted by April 30, 2018 and that will have to define the measures necessary to ensure the termination of the transitory price discipline and the conscious entry into the end customer market, according to mechanisms that ensure competition and the plurality of suppliers and offers in the free market.

Components to cover marketing costs on the electricity protected market, on the free electricity market and on gas protection

Resolution 927/2017 /R/eel updated the RCV component to cover the commercialization costs incurred by the operator of the electricity protected market, compared to 2017 and with reference to the Central-Northern area, a reduction for domestic customers and an increase for non-domestic customers (the overall impact for A2A Energia S.p.A. is equal to about 0.3 million euro).

Resolution 633/2016/R/eel updated up to June 30, 2018, the PCV component to cover the commercialization costs on the free market, 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). Following the postponement to July 1, 2019 of the date set for the end of the protection regimes set forth in the final text of the 2017 Competition Law, by means of Resolution 364/2018 /R/eel, the Authority confirmed, with effect from July 1, 2018, the previously defined PCV component values.

Resolution 916/2017/R/gas updated for 2018 the QVD component covering the costs of commercialization of gas retail sales with a slight increase compared to 2017 (overall impact for A2A Energia S.p.A. equal to approximately 0.4 million euro).

Additional mechanisms to cover efficient costs on the electricity protected market

With reference to the additional cost compensation mechanisms for the electricity protected market, the following is noted:

- as a result of the request submitted with reference to the mechanism to compensate for arrears of end customers of the TIV, aimed at recognizing any charges related to arrears exceeding the unpaid ratio already considered for the purpose of updating the RCV component (COMP 2017), in 2018, an amount equal to 7.6 million euro will be paid to A2A Energia S.p.A.;
- as a result of the request submitted with reference to the mechanism regarding the exit of customers from the protected market, aimed at recognizing the additional fixed cost connected to a customer exit rate towards the free market greater than that implicitly recognized in the definition of the RCV component (PUC 2017), in 2018, an amount equal to 60,000 euro will be paid to A2A Energia S.p.A..

Investigation AGCM A512-A2A for alleged anti-competitive conduct in the electricity sales market - violation of art. 102 of the TFEU

In May 2017, the AGCM initiated a preliminary investigation against A2A S.p.A. and A2A Energia S.p.A. for the investigation of alleged conduct in violation of art. 102 TFEU, within the framework of which it ordered inspections without notice at the premises of the companies. Similar proceedings were simultaneously initiated against two other major operators in the electricity sector.

For A2A Energia S.p.A., the complaint concerns alleged conducts aimed at acquiring free markets of customers served in protected market, which were implemented thanks to the availability of commercially sensitive information and data that the company could have available as vertically integrated into a Group that operates in the sale under greater protection and electrical distribution, as well as boasting specific characteristics (reliability/safety), also deriving from the nature of an integrated operator. As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of "price protection".

The company defended itself on the merits, both at the hearing and with briefs, highlighting that it did not use data deriving from the exercise of the service under the protected market nor the distribution, for the development of its free market activities. In addition, the company has provided timely feedback to the numerous requests for clarification and/or document integration received from the Authority's Offices, also in order to demonstrate the correctness of its work.

The deadline for the conclusion of the proceeding was extended to October 31, 2018. A similar extension was also made for the proceedings initiated against the two aforementioned competing vendors of A2A Energia S.p.A.. The Communication of the preliminary results by the AGCM is expected by the end of July 2018.

Waste Business Unit

Incentive of biomethane used in the transport sector

Inter-ministerial Decree of March 2, 2018 innovates the incentive regulation of biomethane, orienting it exclusively to use in the transport sector, to help achieve the 10% target for renewable energy consumption in transport in 2020, as foreseen by Directive 2009/28/EC.

First of all, the decree modifies the minimum percentages of the obligation to release biofuels and advanced biofuels for fuel distributors (to be carried out directly or through Consumption Feed-in Certificates - CIC). In particular, an obligatory portion of at least 75% must be met through the introduction of advanced biomethane, i.e. biomethane obtained from waste and organic residues (FORSU).

Secondly, the standard reviews the different incentive mechanisms for advanced biomethane and biomethane, produced by new plants that enter into operation by December 31, 2022, or by existing plants powered by biogas undergoing a conversion process. The incentives apply up to a maximum amount of biomethane feed-in of 1.1 billion cubic meters/year.

Regarding biomethane that does not qualify as advanced, the producer directly sells gas of renewable origin to owners of fuel distribution plants, and in addition obtains the release of the CIC corresponding to the biomethane fed into the network, to the extent of 1 CIC for 10 GCal of fuel.

On the other hand, as far as advanced biomethane is concerned, as an alternative to direct sales (however possible) a dedicated withdrawal regime of biomethane by the GSE is envisaged, up to the maximum incentive quantity threshold equal to the 75% obligation portion above. The GSE pays to the producer for 10 years a price equal to the weighted average price recorded on the spot market of natural gas (MP-GAS) of the GME in the month of sale, reduced by 5%, and in addition recognizes a CIC value equal to 375 euro/certificate, counting 1 certificate for 5 GCal of advanced biomethane ("double counting" with respect to the valorization of biomethane that does not qualify as advanced). In the case of advanced biomethane, for each plant it will not be possible to access the incentives for the part exceeding the maximum annual production of 150 thousand tons of biofuels.

In the case of reconversion of biogas plants, without prejudice to the two-way incentives according to the type of biomethane, the CIC are recognized in an amount equal to 70% of those due to new plants.

The GME will have to provide and manage a market platform for the negotiation of the CIC recognized to biomethane and advanced biomethane that does not access withdrawal by the GSE.

On June 18, 2018, the GSE published the Application Procedures for the qualification of production plants and the incentive of biomethane through the attainment of the CIC. Starting from July 2, 2018, the Biomethane Portal will also be available to present and manage qualification requests for production plants.

A2A Ambiente S.p.A. is interested in defining a certain regulatory framework on advanced biomethane for the realization of biomethane production plants by FORSU through anaerobic fermentation processes, thus closing the circle in the management of the organic fraction collected in a differentiated way. The biomethane produced will therefore be used for transport purposes, partly also for the fleet of methane vehicles of the A2A Group.

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 expired 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. As of this date, the plant sells its production on the electricity market organized by the GME in merchant mode.

Incentives for plants powered by biomass, biogas and sustainable bioliquids

The 2016 Stability Law (Law December 28, 2015, no. 208) in article 1, paragraphs 149, 150 and 151, as amended by Laws February 27, 2017 (Conversion DL Mezzogiorno) and June 21, 2017 (Conversion DL Manovrina) as well as by the 2018 Budget Law (Law December 27, 2017, no. 205), introduces the possibility for plants powered by biomass, biogas and sustainable bioliquids that cease the incentives at December 31, 2018 to access an incentive recognized on electricity production until December 31, 2021 (or for five years from the return to service).

The aim of the standard is to safeguard the levels of renewable generation reached for the achievement of the European objectives by 2020. The incentive recognized is equal to 80% of that provided for by article 19 of Ministerial Decree July 6, 2012 to renewable plants of equal power.

Under the European Guidelines on State Aid for Energy and the Environment, the Commission will consider operating aid compatible with the internal market if the Member State demonstrates that the operating costs incurred by the beneficiary after depreciation of the plant are still higher than the energy market price.

The requesting plants must submit a request to the Ministry of Economic Development (MiSE) by December 31, 2018, certifying, by a sworn appraisal, their good state of use and productivity as well as the supply plan for raw materials. A2A Ambiente S.p.A. has already submitted a request for access to the mechanism for the waste-to-energy plants in Corteolona (PV) and Bergamo.

In August 2017, the MiSE notified this aid measure to the DG Competition for its assessment in light of the aforementioned Guidelines on state aid. The procedure is still open at the Commission.

Attributions to ARERA of specific regulation and control functions in the waste sector

Article 1, paragraphs 527-530, of Law 2018 (Law December 27, 2017, no. 205) attributes to the Authority for Electricity, Gas and the Water System, renamed Regulation Authority for Energy, Networks and Environment (ARERA), specific regulation and control functions of the separate and combined municipal and equivalent waste collection cycle.

The purposes of the aforementioned rules are to improve the service regulation system, guarantee of accessibility, usability and homogeneous dissemination of the same, achievement of adequate levels of quality in terms of efficiency and cost-effectiveness of management, harmonization of economic-financial objectives with general social and environmental objectives and appropriate use of resources, infrastructural adaptation to European objectives to overcome infringement procedures.

The perimeter of the ARERA regulation consists of the following functions:

- issue of directives for accounting and administrative separation of management, assessment of the costs of individual services and definition of indices for the assessment of the efficiency and cost-effectiveness of management with respect to services rendered;
- definition of service quality levels and supervision of service delivery methods;
- dissemination of knowledge and transparency of the conditions for the provision of services, protection of users' rights;
- definition of standard schemes for service contracts;
- preparation and updating of the tariff method for determining the fees for the integrated waste service and the individual services that constitute it according to the principle of cost coverage, based on the assessment of efficient costs and the "polluter pays" principle;
- establishment of the criteria for the definition of "tariffs for access to treatment plants";
- approval of the tariffs defined by ambit governing entities (tariff for the integrated service) and by the operators of the treatment plants (access tariffs);
- verification of the correct drafting of the ambit plans and observations/remarks;
- formulation of proposals on the scope of activities falling within the integrated waste management service to be subject to concession or authorization, formulation of proposals for amendments to the relevant legislation, and preparation of an annual report to the Parliament.

Resolution 1/2018/A started the activities necessary for the first operation in relation to the new regulatory powers, establishing (a) the definition of the necessary organizational changes to the organic plan and (b) the start of the sector recognition with mapping of operators and stakeholders.

With regard to the financing of assets, the Authority reserves the right to assess whether to apply as from 2018 the contribution *"not exceeding one per thousand of revenues for the last financial year"* to be collected from regulated operators.

Package of measures on the Circular Economy approved in the EU

After the favourable vote of the European Parliament on April 18, 2018 and the subsequent final approval in May by the European Council, on June 14, the Circular Economy Package was published, consisting of four Directives on waste and a Regulation on the approval and supervision of the vehicle market.

The measures contained, in addition to rules and indications aimed at improving waste management in a sustainable perspective, establishes some common objectives for the European Union:

- recycling of at least 55% of municipal waste by 2025. This portion is destined to rise to 60% by 2030 and to 65% by 2035;
- recycling of 65% of packaging waste by 2025 (70% by 2030) with diversified objectives with reference to recycled material.

The new rules also concern landfills and provide for a binding target of reducing landfill disposal: Member States will have to ensure that recyclable waste is no longer transferred to landfills in 2030 and that as of 2035, the total portion of municipal waste destined for landfills does not exceed 10%.

The Directives must be implemented in the regulations of Member Countries by July 5, 2020.

Regulation EEC/EU June 8, 2017, no. 997 – Council Regulation (EU) 2017/997 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.

DGR (Regional Council Resolution) Lombardy Region February 12, 2018, no. X/7860 - Update of the Regional Waste Management Plan

This Resolution updates the contents of the Technical Implementation Rules of the Regional Waste Management Plan of the Lombardy Region on the basis of the amendments foreseen by the recently approved Flood Risk Management Plan of the Po Valley district (PGRA) and Program for the protection and use of water (PTUA). These amendments apply to applications submitted after the resolution came into force, or after March 7, 2018.

Legislative Decree March 1, 2018, no. 21 - Environmental protection: amended title VI bis of the Criminal Code

OJ March 22, 2018, no. 68 includes the publication of Legislative Decree March 1, 2018, no. 21 Provisions for implementing the principle of delegating the reserve of code in criminal matters pursuant to article 1, paragraph 85, letter q) of the Law of June 23, 2017, no. 103.

This decree, in article 3, provides for an amendment of title VI bis of the Criminal Code relating to crimes against the environment. In particular, this involves the inclusion of the new article 452-quaterdecies concerning the activities organized for the illicit traffic of waste. With the inclusion of this new article, the crime of illicit traffic in waste is moved to the Criminal Code by means of organized activities previously provided for by article 260 of Legislative Decree April 3, 2006, no. 152.

Commission Communication 124/01 - Technical guidelines for the classification of waste

The European Commission Official Journal C 124 of April 9, 2018 published the Commission Communication 124/01 Technical guidelines for the classification of waste.

The aim of the communication is to provide technical guidelines on some aspects of the Waste Directive 2008/98/EC and the decision 2000/532/EC of the Commission on the list of waste, as amended in 2014 and 2017.

Networks and District Heating Business Unit

2017 final and 2018 provisional reference tariffs for the distribution and metering of natural gas

By means of Resolution 149/2018/R/gas, the Authority approved the 2017 final reference tariffs for the distribution and metering of natural gas (based on 2016 final Capex, net of divestments and grants related to the same year), while Resolution 177/2018/R/gas approved the provisional ones for 2018 (based on the 2017 pre-final Capex). With regard to the latter, compared to 2017, the DCVER component is set to zero to cover operating costs related to metrological verifications, as these costs will be recognized at the end of the list, as the final balance will continue to include, until 2020, capital costs relating to the remote management of electronic meters.

The rates are defined with a WACC of 6.1% for distribution activities and 6.6% for metering (Resolution 583/2015/R/com - TIWACC). The WACC review is expected halfway through the current regulatory period, i.e. from 2019.

RAB GAS value Unareti S.p.A. underlying 2018 provisional tariffs *millions of euro*	
Cap. Centralized	48
RAB Gas Distribution	797
RAB Gas Metering	124
Total	**969**

Furthermore, by means of Resolution 904/2017/R/gas, the Authority established criteria and methods for recognition of costs related to metering activities for 2018 and 2019, as well as the starting date for the application of valuation criteria of Capex based on standard costs. This provision requires that:

- the costs of the remote metering/remote management systems and the concentrators continue to be recognized in the final balance within the limits of a maximum ceiling;
- the standard costs for some classes of meters are reviewed, together with a revision of the weight of the standard cost (from 50% to 40%) with respect to that of the actual cost for the purpose of the recognition in the tariff of the Capex related to electronic meters;
- the deadlines for defining the price list and the related reference method for recognizing costs related to Capex in natural gas distribution networks are postponed to November 2018, which will be applied starting from 2019 Capex (and therefore with an impact on the 2020 tariffs) due to the need for further investigations to be carried out within the framework of the ad hoc joint technical work table established, in which the company Unareti S.p.A. directly participates.

Finally, with Resolution 859/2017/R/gas, the obligatory tariffs to be applied to customers for gas distribution and metering services were defined.

2018 and 2019 reference tariffs for the transport and metering of natural gas

Resolution 795/2017/R/gas set the fees for transport and dispatching of natural gas for 2018 applicable to users while Resolution 757/2017/R/gas approved the 2018 eligible revenues for individual operators, including Retragas S.p.A..

Resolution 575/2017/R/gas had extended the validity of the current tariff regulation for the natural gas transport and metering service also for the two-year period 2018-2019, introducing limited changes related, in particular, to the allocation of costs to be covered between the tariffs applicable to entry points and exit points of the national transport network, from the previous 50:50 to the current 40:60, and the timing of approval of tariffs, made consistent with the obligations deriving from the European network code on harmonized tariff structures for gas transportation (TAR code).

In the first half of 2018, the Authority, with Resolutions 306 and 280/2018/R/gas, approved both fees for transport and dispatching of natural gas and revenues allowed for individual operators for 2019.

Moreover, with Resolution 689/2017/R/gas, the Authority expressed its assessment of the ten-year plan schemes for the development of the transport network for 2014, 2015 and 2016, assessing that they are not always drawn up in compliance with applicable provisions. Consequently, it considered appropriate to provide specific indications on the mandatory contents of these plans, while also providing for the non-recognition in the tariff of the Capex that will come into operation in 2019 if not adequately reasoned. A safeguard mechanism is also provided, under certain conditions, of Capex already underway. The Capex in progress of Retragas S.p.A. do not fall within this mechanism.

Lastly, the consultation process was initiated to define the regulatory framework applicable in the fifth regulatory period (5PR), which will be effective from 2020.

RAB gas transport value Retragas S.p.A. underlying 2018 final tariffs *millions of euro*	
RAB Gas Transport	40
RAB Gas Transport Metering	2
Total	**42**

2017 final and 2018 provisional reference tariffs for the distribution and metering of electricity

By way of Resolutions 150/2018/R/eel and 174/2018/R/eel, the Authority approved the 2017 final tariffs of reference for electricity distribution and metering activities, while by way of Resolutions 175/2018/R/eel and 176/2018/R/eel, it approved the 2018 provisional tariffs. In particular, the 2017 final tariffs consider Capex up to 2016, including those relating to commercialization activities, 2016 disposals and 2016 contributions, while the 2018 provisional ones are calculated considering the pre-final Capex in 2017.

The tariffs for 2017 were determined using a WACC of 5.6% (Resolution 583/2015/R/com-TIWACC) and based on the tariff regulation of Resolution 654/2015/R/eel (TIT 2016 - 2019). The WACC review is expected halfway through the current regulatory period, i.e. from 2019.

Lastly, by means of Resolutions 882/2017/R/eel and 907/2017/R/eel, the 2018 obligatory tariffs applicable to non-domestic customers and domestic customers were defined.

RAB EE value Unareti S.p.A. underlying 2018 provisional tariffs *millions of euro (*)*	
RAB EE Distribution	520
RAB EE Metering	67
Total	**587**

(*) Company estimate.

It is specified that the 2017 and 2018 tariffs and the underlying amounts are influenced by the sale to e-distribuzione S.p.A. of the network assets relating to certain overruns of the Milan city network in some neighbouring municipalities.

Resilience Plans for the electrical network

The TIQE 2016-2023 also contains initiatives aimed at increasing the resilience of the electrical system; in particular, it had been envisaged that by March 31, 2017, the distribution companies serving more than 50,000 POD would send to the Authority a work plan aimed at the adoption of regulatory measures appropriate to achieve this objective.

At the same time, a joint table was held (Terna, CEI, RSE, distributors with more than 50,000 POD, including Unareti S.p.A.) on the subject that, at the conclusion of a first tranche of work, allowed the issue of Decision 2/2017 DIEU to approve the *Guidelines for the presentation of work plans for increase in the resilience of the electricity system - part one*. This document contains the methodology for

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Evolution of the regulation and impacts on the Business Units of the A2A Group
Generation and Trading Business Unit
Market Business Unit
Waste Business Unit
Networks and District Heating Business Unit
International Business Unit

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 2017, 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 that have a major impact on the continuity of service of the networks operated by the company.

Subsequently, the Authority carried out a specific consultation regarding the resilience of the transmission and distribution networks (DCO 645/2017/R/eel) and, subsequently, the MiSE also intervened on the matter with its own guidance document on prevention and management of adverse weather events that required electricity distribution service concessionaires to integrate their development plans with a special section that is very analytical and subject to monitoring, dedicated to interventions to increase the resilience and robustness of the network.

Following this, the Authority issued Resolution 31/2018/R/eel by means of which it introduces the obligation for all distribution companies to prepare, and periodically communicate to the Authority, resilience plans of at least three years and coordinated with Terna or with the distributor of reference and/or related.

At the moment, the obligations to develop the resilience plans refer only to the aspect of the validity of distribution networks to mechanical stress (i.e. to specific critical risk factors such as floods, fall of out-of-band trees, ice sleeves and heat waves), while for that relating to the timeliness of the restoration of the supply, please refer to subsequent measures.

To date, the Resolution provides for a single reputational incentive mechanism that consists of the obligation to publish the resilience plan on the website by June 30 of each year.

At the end of June 2018, Unareti S.p.A. sent its 2018-2020 plan.

Standard network code for the electricity transport service and collection of the General System Charges (OGS)

Article 3, paragraph 11, of Legislative Decree no. 79/99 provides that the collection of the revenue necessary for the coverage of OGS is through an increase in the tariff fee for access to the network. The methods of collection are defined by articles 40 and following of the Integrated Text of the provisions for the delivery of electricity transmission and distribution services (TIT) and provide that the distributor pays to CSEA/GSE the OGS collected by the sellers at end customers (in both cases regardless of the actual payment).

The Lombardy Regional Administrative Court, in accepting appeals submitted by some sellers, declared Resolution 268/2015/R/eel (CADE - Standard network code for electricity transport) illegitimate in the part in which it provides that the guarantees that sellers are required to provide to the distributor must cover the OGS in addition to transport fees. This ruling clarified 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 sellers 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 decision of the Council of State no. 5620/2017 of November 30, 2017 rejected the Authority's appeal confirming the annulment of Resolution 268/2015/R/eel and orientations outlined above.

The Authority appealed against the sentence and intervened transitionally with Resolution 109/2017/R/eel reducing the quantification of guarantees in order to recognize parametrically the non-collections due to the default of final customers, and initiating a procedure aimed at identifying mechanisms for recognizing adequate compensation to sellers and distributors for any non-collection of tariff components to cover OGS. In fact, with DCO 597/2017/R/eel, it illustrated some proposals for the reform of both the discipline concerning the provision of guarantees and the management/collection of OGS similar to the one adopted for the RAI Fee, lastly proposing reintegration mechanisms for distributors with respect to OGS in any case paid to CSEA/GSE but not collected by sellers.

By means of Resolution 50/2018 /R/eel, the Authority, pending a legislative reform of the discipline in question, confirmed the provisions of Resolution 109/2017 and, at the same time, introduced a mechanism for the compensation of OGS paid but not collected by distributors.

Some consumer associations have appealed against Resolution 50/2018, in relation to which the Lombardy Regional Administrative Court set a hearing on November 7, 2018. As the claimants renounced the precautionary suspension, the CSEA published the forms for submission of the request for recognition.

Following the outstanding amounts recognized in 2017 by some transport users (including Gala S.p.A. and Youtrade S.p.A.), Unareti S.p.A. allocated a provision of 11 million euro at June 30, 2018, in consideration of the fact that the reintegration mechanism of the OGS paid but not collected by transport users introduced by Resolution 50/2018 will not recognize to distributors the amounts due for transport fees not collected. Therefore, the company has already taken action for the purpose of recovering its credit in the context of the liquidation procedures in place with reference to both companies.

Energy efficiency certificates and tariff contribution recognized to distributors for the obligation

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates issued by the GSE that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions. The system was introduced by Ministerial Decree 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 from Energy Service Companies – ESCO). The Authority defines the procedures for determining and disbursing the tariff contribution to be recognized to the distributors subject to the obligations by payment in the bill.

The table shows the energy saving target level in Italy and for electricity and gas distributors for the years 2017-2020 defined by MiSE Ministerial Decree January 11, 2017.

		National Energy Saving Targets	Targets for distributors of electricity(1)	Targets for distributors of gas(1)	Minimum target(2)	Period to compensate the residual obligatory portion(2)
		(Mtep/year)	Millions of WC	Millions of WC	(%)	(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: the obliged entity that achieves an obligation portion of less than 100% but still at least the minimum target set by the Ministerial Decree (50% or 60%) may offset the residual portion in the two-year period (n+2) or in the following year (n+1) without incurring penalties.

Ministerial Decree MiSE January 11, 2017 has undergone corrective changes with Ministerial Decree May 10, 2018 entered into force on July 11, 2018.

Starting from June 1, 2018, the new Ministerial Decree establishes a maximum recognition value (cap) for the final tariff contribution for each year of obligation equal to 250 euro/WC.

In addition, the possibility is given to the GSE to issue WC to the overrun: from May 15 to May 31, the GSE issues WC to the obliged parties that request it at a value equal to the difference between 260 euro/WC and the value of the tariff contribution for the year of obligation, up to a maximum delta of 15 euro.

The obliged parties can request it until the minimum obligation is reached, provided they are already in possession of a WC amount of at least 30% of the minimum obligation on their ownership account. For the cancellation of these WC for the purpose of fulfilling the obligation, the tariff contribution will not be recognized.

The obliged subjects that purchase WC from the GSE can redeem all or part of the sum paid for the purchase against the delivery of the WC generated by projects or bought on the market. The redemption takes place from the first WC and is possible only if the obliged party holds a number of WC exceeding the minimum obligation for the current year of obligation. However, it is not possible to proceed with the redemption in the same year of obligation in which the WC were issued.

The tariff contribution for the current year will be paid for the WC cancelled as replacement of the GSE ones. The return of the sum paid to the GSE is made by an adjustment to the tariff contribution.

Within 60 days from the entry into force of the Ministerial Decree, the GSE will publish an operating procedure.

The other changes introduced include the obligation for parties registered in the WC Register to notify the GME of the investments held in the share capital of other parties registered in the WC Register or in the WC market. The information will be made public by the GME on its website.

Furthermore, the following definitions have been modified:

- baseline consumption defined as primary energy consumption of the technological system assumed as a reference point for the purpose of calculating the additional energy savings for which WC are recognized. The baseline consumption is recognized as equal to the value of the consumption before the realization of the energy efficiency project. In the case of new plants, buildings or sites for which there are no energy consumption values prior to the intervention, the baseline consumption is equal to the reference consumption;
- projects involving the use of renewable sources for non-electric uses are allowed only in relation to their capacity to increase energy efficiency and generate non-renewable energy savings.

With the new Ministerial Decree is the publication of the types of incentive intervention with the standardized mode and the related files containing the methods of calculation (including installation of LED for street lighting and conduct measures) applicable to interventions with starting date of realization subsequent to the date of entry into force of the Ministerial Decree.

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism. At May 30, 2018, part of the residual 2016 was cancelled (101,219 WC with a remaining portion to be cancelled at May 31, 2019 equal to 92,739 on a 2016 obligation equal to 484,895) as well as 61% of the 2017 obligation (i.e. 173,578 WC out of 284,554 WC). Following the fulfilment of the obligation, the company will collect a total amount of 85.4 million euro from CSEA in 2018.

The final tariff contribution for the year of obligation 2017 (June 1, 2017 - May 31, 2018) was 311.45 euro/WC against an estimated value of 170.29 euro/WC and a weighted average value of the prices recorded on the organized market of the GME of 313.45 euro/TEE.

For the year of obligation 2018 (June 1, 2018 - May 31, 2019), the tariff contribution of reference was set at 250.54 euro/WC.

Integrated Water Service (SII)

Entrustment of the SII in the province of Brescia and consultative referendum

Following the referendum in June 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 S.p.A., will remain active until natural expiry provided for each of them on the basis of the deeds regulating the relationship with the individual Municipalities.

The Board of Directors of the Ambit Government Entity (EGA) of Brescia, also in execution of the additions to Legislative Decree no. 152 of 2006 introduced by art. 7 of Decree Law no. 133/14 as amended, at the meeting of September 17, 2015, 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. 35 of October 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. The same resolution provides, in a second phase, the completion of the tender for the selection of the private partner, by December 31, 2018 to allow the achievement of management in the form of a public-private mixed company. 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).

Following the approval of the proposal presented by the Committee for Public Water by 54 Municipalities in Brescia, representing at least 33% of the population resident in the province of Brescia regarding the request to hold a consultative referendum on the fully public management of the SII, the Provincial Council set the date for the public consultation for October 28, 2018.

However, the meeting of auditors must approve the final decision on the management model (mixed or in-house providing) of the SII to be implemented in the province of Brescia.

Update of the 2018-2019 tariffs

As established by the EGA Guidelines, as of January 1, 2017, A2A Ciclo Idrico S.p.A. has been proceeding with the billing of the previous tariff items relating to the 2007-2011 period approved by the EGA Council with Resolution July 5, 2016, no. 16 (and equal to about 10 million euro/year for 5 years). At the same time, the company is applying the tariffs approved by the Authority with Resolution 807/2016/R/idr for the period 2016-2019.

Resolution 918/2017/R/idr defines the procedures to update the tariffs for the two-year period 2018-2019 using the cost parameters that can be deduced from the 2016 and 2017 financial statements. By means of the same Resolution, the parameters of the Water Risk Premium were updated (from 1.5% to 1.7%), as well as the inflation rates to update operating costs, gross fixed investment deflators, and rate tc for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is 5.33%.

The companies of the A2A Group submitted in June 2018 the preliminary information for the determination of the tariffs for the two-year period 2018-2019 to the EGA of Brescia, which is carrying out the appropriate assessments. The elements available seem to confirm the tariff increases already approved by ARERA, with a redefinition of the adjustments due after 2019. Final approval is scheduled for next autumn.

Review of the tariff structure

In order to harmonize the tariff structure applied to end users throughout the national territory, Resolution 665/2017/R/idr approves the Integrated Text of Water Service Fees (TICSI) that entered into force on January 1, 2018.

The TICSI introduces the concept of standard per-capita tariff and includes:

- the distinction between resident and non-resident, condominium and non-domestic users;
- the application to resident domestic users of a standard per capita tariff for a transitional period (2018-2022), defined on a typical family of 3 members (with the first subsidized band equal to 55 m3/year) and an actual per capita tariff (subsidized band calculation: 18.25 m3/y per member) only in the case of self-declaration by the user regarding the number of members of the family unit;
- the regime tariff structure as from 2022 with the application of the effective per capita tariff to all resident domestic users;
- the rationalization of tariff types for uses other than domestic;
- the application of a trinomy tariff (fixed portion, capacity portion and variable portion) uniform at national level for industrial users related to discharges of waste water authorized to discharge into public sewers. This tariff is designed to intercept with the variable portion, quality in terms of pollution of the discharge, with the capacity portion, the correct allocation of the costs to use the

treatment capacity of the plant destined to receive the discharges, and with the fixed portion, the coverage of administrative and metering costs;

- the assessment of the effects of the new tariff structure on the revenues of the manager, providing for two checks, one ex ante and one ex post.

The tariff structure is adopted by the EGA on the basis of the information and data provided by the operators and must be submitted to the Authority by June 30, 2018. At least in the last billing cycle of the 2018 year, the operator must issue bills on the basis of the new structure approved by the EGA.

Regulation of technical quality

Resolution 917/2017/R/idr, in line with other regulated services, introduced rules in the SII to regulate technical quality, providing for a gradual approach starting from January 1, 2018 aimed at standardizing the national service level through specific incentive mechanisms differentiated according to the deviation between the current situation and the future target with the objective not only to promote Capex but also to prioritize them according to the expected outputs.

The incentive to improve technical quality includes a premium-penalty mechanism and a multi-stage performance assessment activated in the year 2020 with reference to 2018 and 2019 performances. To access them, operators must possess certain regulatory compliance requirements on the one hand and data availability on the other.

The resolution established 6 specific indicators for the SII phases:

- aqueduct: water leaks, service interruptions and quality of the water supplied;
- sewerage: adequacy of the sewage system;
- treatment: disposal of sludge in landfill and quality of treated water.

Each indicator has its own evolutionary path to achieve the final objective in a period of several years. The general indicators envisage a level of maintenance in situations in which SII management situations are already at the target value and a level of improvement for management situations in positions that are far from the objective value.

The relationship between operator and user also changes with the obligation for the operator, in case of non-compliance with the specific standards, to pay to the user an automatic indemnity even more than once a year (max 2) and to pay it also to indirect users (ex. condominium utilities related to a single contract).

The regulation of the technical quality is completed by the obligations of monitoring, registration and communication both to the Authority and to the user.

For A2A Ciclo Idrico S.p.A. and for ASVT S.p.A., the Plan of works relating to the years 2018 and 2019 and related to the tariffs approved by means of Resolution 807/2016 /R/idr has been updated and integrated with the Capex necessary to pursue the challenging technical quality objectives envisaged by Resolution 917/2017/R/idr. Capex in the two-year period amount to a total of approximately 118 million euro, destined, in order of priority, in addition to the resolution of European infringements in the sewerage and treatment sector, to the reduction of network losses (both companies are classified in class C) and to improve the quality of the water supplied.

Authority's activities in the district heating/district cooling (district heat) sector

Legislative Decree no. 102/2014 implementing the Energy Efficiency Directive 2012/27/EC has attributed to the Authority also functions in the district heating/cooling (or even district heat) sector for the preparation of measures for connection and disconnection from the networks, commercial and technical quality of the service, the way in which operators make public the prices of the supply of heat and billing of consumption.

Article 9 of Legislative Decree no. 102/2014 entrusted to the Authority also 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.

After the first recognition in 2014 (Resolution 411/2014/R/tlr), the Authority proceeded with 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 requests for information on the costs of heat metering and accounting systems.

After the first resolution decision (Resolution 282/2017/R/tlr) regarding sub-billing, the Authority defined with Resolution 24/2018/R/tlr (TUAR) the regulation regarding the criteria for determining the connection fees and methods by which users can exercise the right to deactivate the supply and disconnect from the district heating network for the regulation period June 1, 2018 - December 31, 2020.

In particular, operators can freely determine the connection fees in compliance with a consistency constraint between costs and revenues (pending the conclusion of the proceeding initiated by means of Resolution 111/2017/R/tlr regarding the separation of accounting and administration in the district heating service, the criteria for the attribution of indirect costs can be defined independently by the operators). At the same time as the connection estimate, specific information obligations are introduced towards customers regarding the binding economic conditions of service provision, so as to allow an assessment of the overall cost-effectiveness of the same and ensure maximum transparency on the contents and associated costs.

It is possible for the customer to withdraw from the contract with thirty days' notice, without payment of any fee or penalty by requesting the operator, alternatively, to deactivate the supply or disconnect from the network; in the case of deactivation, only the suspension of the supply is envisaged while in the case of disconnection, the operator is required to remove the thermal energy meter and any other parts of the plant.

Lastly, specific reporting obligations to the Authority are envisaged for operators in order to allow monitoring of the sector and compliance with the regulation.

By means of Resolution 277/2018/R/tlr, the Authority, following the issues highlighted by the operators in the context of the dedicated Focus Groups, postponed the deadline for the entry into force of the TUAR of June 1, 2018 to October 1, 2018, referring some provisions to further investigations. Furthermore, some FAQs have been published to clarify the scope of application of the resolution and of the regulations concerning connection fees.

In the last part of 2018, the procedure for defining the regulation with regard to contractual quality is expected to be concluded.

Tax credit recognized to the heat produced by the biodegradable part of waste

The tax credit tool for district heating was introduced by Law 448 of 1998 (Finance Law 1999) for end users connected to networks powered by biomass in the municipalities falling within climate zones E and F. The mechanism was subsequently made permanent with the 2009 Finance Law.

As of 2014, the amount of the benefit is equal to 21.94 euro/MWh of heat to be translated on the sale price to the end user: the heat supplier, responsible for the application of the tax credit on the supply bills, becomes a creditor against the tax authorities.

At the end of 2016, A2A Calore & Servizi S.r.l. began discussions with the Revenue Agency (AdE) aimed at verifying the applicability of the credit only to the portion of heat production deriving from the waste-to-energy treatment of municipal and industrial solid waste classifiable as biomass.

Article 2 of Legislative Decree 387/2003 incorporates, in fact, Directive 2001/77/EC establishing that "... biomass refers to the biodegradable part of products, waste and residues from agriculture (including plant and animal substances) and from forestry and related industries, as well as the biodegradable part of industrial and municipal waste".

On May 9, 2017, A2A Calore & Servizi S.r.l. submitted a request to the Revenue Agency and a copy to the MiSE regarding the Brescia district heating system, on the correctness of the determination of the above tax credit in proportion to the amount of thermal energy produced from biomass present in municipal and industrial solid waste, as can be determined using the reference technical standard (UNI/TS 11597 of 2015).

On April 24, 2018, the Revenue Agency declared admissible, also for the thermal energy recovered from the biodegradable part of waste, the tax credit already recognized by the current legislation to the district heating networks powered by renewable heat coming from biomass or geothermal sources.

Therefore, with effect from October 1, 2018, the company will discount from the amount in the bill, the tax credit proportionally to the renewable heat that feeds the network to which customers are connected.

New incentives for the development of district heating networks

Article 19-decies of the Law of December 4, 2017, no. 172, for the conversion of the "Fiscal Decree Law", introduces a new type of plant work on cogeneration units aimed at rewarding through the recognition of WC, the extension of district heating networks within "efficient district heating" systems.

The incentive scheme to which the standard refers (and which therefore must be supplemented) is that provided for by Ministerial Decree of September 5, 2011 concerning the incentive for high-yield cogeneration (CAR) through the issue of energy efficiency certificates/WC (Ministerial Decree CAR).

Article 19-decies of the Law defines, first of all, works that can benefit from incentives on cogeneration units and that possess (all) the following characteristics:

- they do not classify as "upgrading" under CAR MD;
- they entail an increase in the thermal producibility of the cogeneration unit, aimed at maintaining or achieving an efficient district heating system configuration, and
- they are combined with the extension of the heat distribution network, in terms of transport capacity.

Furthermore, the Law establishes that, for the aforementioned interventions, the CAR MD will apply "according to the yield values established in the delegated regulation (EU) 2015/2402": this represents the most recent standard for updating efficiency values of "separate" production (i.e. not in cogeneration) of electricity and heat.

The new law will have to be implemented through a specific Ministerial Decree that the MiSE was required to adopt within 90 days from the entry into force of the Conversion Law of the Fiscal Decree Law (i.e. 90 days from December 4, 2017).

International Business Unit

The International Business Unit includes the activities carried out by the Group in relation to the management of the investments held by A2A in foreign companies, together with the oversight of international development activities.

Therefore, the Business Unit analyzes and selects the market opportunities, such to allow the provision of know-how and technological systems deriving from the A2A core business; particular focus is on the realization of high-tech waste treatment plants.

In the first half of 2018, a project was initiated in Spain for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 150,000 t/y of MSW.

Preliminary activities and necessary for participation in other international tenders were also carried out.

7
Scenario and market

Macroeconomic scenario

Overview

After a year characterized by sustained and widespread growth, global expansion slowed slightly in the first half of 2018. The most recent data indicate that the momentum of economic activity, which continues in its worldwide expansion, shows a slight weakening. While the financial conditions remained favorable, on the other hand the prospects of the importing countries were held back by the increase in oil prices.

In the first quarter of 2018, the growth of Gross Domestic Product (GDP) in the United States has moderated compared to the previous period, standing at 0.5%, due to a decline in consumer spending. The outlook for the short term remains broadly favorable: the information relating to the second quarter promises robust growth in the United States, driven by the continued increase in employment and household disposable income. China, in the midst of the commercial tensions with the US, marks a GDP growth of 1.8% in the second quarter of 2018 compared to the previous quarter and 6.7% on an annual basis: data, released by the National Statistics Office, compare with +1.4% and +6.8% in the first quarter. In Japan, the GDP of the first quarter of 2018, confirming the preliminary estimates, suffered a setback, falling by 0.2% on a quarterly basis and by 0.6% on an annual basis (source: Economic and Social Research Institute of the Japanese Cabinet Office). According to the Central Statistics Office of New Delhi, India's economy grew by 7.7% a year in the fourth quarter of the 2017-2018 financial year (closed last March 31), against 7.0% of the third quarter. According to IMF estimates, Russia's economic outlook is gradually improving; on the other hand, it remains fragile in Brazil.

With regard to the Eurozone, in the first quarter of 2018, GDP grew by 0.4% over the previous period, a marked slowdown compared to the rather sustained trend in 2017. The activity was driven by domestic demand, especially from private consumption; net exports instead made a negative contribution. The deceleration was particularly marked in France and Germany. The most recent indicators also suggest that the product will expand at a low rate even in the second quarter.

As for Italy, Istat and the Bank of Italy indicate that, on average, GDP, after having grown by 0.3% in the first quarter, is expected to grow by 0.2% in the second quarter, with overall trends oriented downward.

In relation to the consumer price index in the Eurozone, according to the preliminary estimate of Eurostat, inflation stood at 2.0% in June, from 1.9% in May. The average inflation for the year is equal to +1.7%. The increase in the period reflects the greater contribution made by the price dynamics of services and foodstuffs and, above all, of energy goods.

According to preliminary estimates, in June 2018, the national consumer price index in Italy (NIC) recorded an increase of 0.3% on a monthly basis and of 1.4% on an annual basis, accelerating compared to +1.0% in May (source: ISTAT). The acceleration of inflation is mainly due to the prices of non-regulated energy goods (from +5.3% in May to +9.4%), of processed food goods (from +1.7% in May to +2.4%) and unprocessed (from +2.4% in May to +3.4%) and to transport services prices (from +1.7% in May to +2.9%).

At the meeting of June 14, 2018, the Governing Council of the ECB decided to maintain the reference rate at the historical zero-minimum, as well as to extend the quantitative easing to the current monthly rate of 30 billion euro up to September 2018. The Board also anticipated that if the most recent data confirm the current outlook for medium-term inflation, after September 2018 the monthly pace of net asset purchases will be reduced to 15 billion euro until the end of December 2018, when they will come to an end. Confirming expectations, at the meeting of June 13, 2018, the Federal Reserve (FED) raised interest rates on federal funds by 25 basis points in the range between 1.75% and 2.00% and the expectations of the Federal Open Market Committee continue to foreshadow two more increases this year.

During the first half of 2018, after a period of substantial stability at 1.22/1.23 dollars, there was a depreciation of the single currency that hit an average value of 1.17 dollars in June, reflecting the uncertainties regarding the Eurozone such as slowing growth and political tensions. The average EUR/USD exchange rate stood at 1.21 dollars in the first half of 2018, up 12% compared to the corresponding period of 2017.

Outlook

The short-term outlook for the global economy remains broadly favorable, even if global trade has decelerated. Significant risk factors derive from the intensification of commercial tensions related to the protectionist orientation of the US administration. In addition to having a direct effect on trade, they could affect the trust and Capex plans of companies active in international markets. Geopolitical risks were also exacerbated even after the announcement of the US exit from the nuclear agreement with Iran. Uncertainty about future economic relations between the UK and the EU remains very high given the limited progress on the Brexit negotiations. According to the International Monetary Fund (IMF), world GDP will grow by 3.9% in 2018 and in 2019 (unchanged for both years compared to the April forecast) driven by the growth of industrial production, recovery of employment as well as trade flows.

Among the main advanced economies, the forecasts for the United States are unchanged, whose GDP is expected to grow by 2.9% in 2018 and by 2.2% in 2019 driven by fiscal stimulus and consumer demand. The growth forecast for Japan was reduced to 1.0% for 2018 due to weak consumption and private Capex. GDP is expected to grow stronger in 2019, supported by private consumption, external demand and Capex. As for emerging economies, the most brilliant result is India, which will grow at a rate of 7.3% this year and 7.5% in 2019. The Chinese economy is destined to slow slightly, with GDP forecast at +6.6% in 2018 and +6.4% in 2019. The estimate of GDP for Brazil is expected to fall, which will grow by +1.8% in 2018, while Russia remains unchanged with a growth in 2018 forecast at +1.7% (source: IMF).

Macroeconomic projections for the Eurozone, formulated by the IMF forecast annual GDP growth gradually slowing to +2.2% in 2018 and +1.9% in 2019. Compared to April, growth prospects have been revised downwards as the EU faces key policy challenges to migrants, fiscal governance and the Eurozone institutional architecture. Also revised downwards was GDP in Germany (+2.2% in 2018 and +2.1% in 2019) and France (+1.8% in 2018 and +1.7% in 2019).

With regard to Italy, the International Monetary Fund estimates that in 2018, the Italian economy will grow only by 1.2%, with a further slowdown to +1.0% the following year. The downward trend is driven by the weight on domestic demand linked to the increase in the spread on government bonds and the more rigid financial conditions caused by recent political uncertainty.

Inflation in the Eurozone is expected to increase gradually over the medium term, supported by the ECB's monetary policy measures, the continuation of economic expansion as well as the progressive reduction of unused production capacity and the increase in wages associated with this expansion. According to the forecasts of July, formulated by ECB experts, inflation in 2018 is expected to stand at 1.7% in both 2018 and 2019.

With regard to Italy, an inflation rate of 1.3% in 2018 and 1.5% in 2019 is expected, driven mainly by the rise in the price of crude oil (source: Bank of Italy).

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 particular, the European Central Bank (ECB) and the Federal Reserve (FED) will be dealing with important monetary policy choices and both will face the risk of a decline in inflationary expectations. However, the FED has already started a period of normalization of interest rates for some time, which if after the increase in June the forecast of two further increases in the year will be respected, at the end of 2018 they should exceed the level of 2%. On the other hand, the Governing Council of the ECB left interest rates unchanged at zero, foreshadowing to keep them at current levels at least until the summer of 2019 and in any case as long as necessary to ensure that the evolution of inflation remains in line with a lasting adjustment profile towards the objective of price stability.

According to leading analysts, the EUR/USD exchange rate in the second half of 2018 should appreciate against the low values reached in June due to the combined effect of the economic growth in the Eurozone and the gradual reduction of monetary policy stimulus by the ECB.

Energy market trends

The price of Brent, in the first half of 2018, has consistently priced above 65 $/bbl, to reach 77.2 $/bbl in May with an average of 71.1 $/bbl, an increase of 34.6% compared to the corresponding period of 2017 (equal to 52.8 $/bbl).

The recovery of prices, especially in the second quarter, was affected by the continuation of the agreement on cuts in productions by OPEC members and Russia, but above all the geopolitical problems in Libya, Iran and Venezuela, which reduced their respective productions. The most recent forecasts show a price of Brent that on average in 2018 is expected in a range between 70 and 78 $/bbl; however, downward pressure could derive from the increase in Opec production.

Global oil demand in the first half of 2018 stood at an average of 99.6 million barrels per day, compared to an average of 97.9 in the corresponding period of 2017. Both the US agency Energy Information Administration (EIA) and OPEC estimate an increase in demand of 1.7 million barrels per day in 2018. India and China will contribute mainly to this result, with the latter accounting for around 500,000 barrels a day. Demand will grow for the fourth consecutive year in Europe, reaching the threshold of 14.5 million barrels per day.

As for the offer in the first half of 2018, again according to the US agency Energy Information Administration (EIA), global production stood at an average of 99.4 million barrels per day, although with a different dynamic compared to demand, resulting in a supply deficit in the first quarter and an excess supply in the second quarter of the year. The latter is attributable to the increase in US production, which continues to record new records, reaching 10.9 million barrels per day in June. The OPEC, in the monthly report of June, expects the offer of countries belonging to the economic cartel to stabilize at 32.9 million barrels per day in 2018, less than 0.5 million barrels per day compared to 2017.

In the first half of 2018, coal initially showed a downward trend which, starting from the high prices in January, registered the minimum level in March, with a price close to 80 $/tonne, to then reverse the trend and further increase in the second quarter. The average price of coal in the first half of 2018 stood at 88 $/tonne, up 13.6% compared to the same period of 2017 (equal to 77.5 $/tonne), driven by demand from Asian countries, firstly from China, where the highest average temperatures increased thermoelectric production by 8% in the first 5 months of the year. For 2018, forward curves indicate prices with average values above 93 $/tonne.

Electricity

As far as the national electricity scenario is concerned, in the first half of 2018, there was a net requirement of 158,622 GWh (source: Terna) showing an increase of 0.8% compared to the volumes of the same period of 2017. At regional level, the change in demand compared to the first half of 2017 was differentiated: higher than the national average in the North (+1.3%) and in the Center (+0.9%), lower in the South (-1.1%).

Net electricity production in the period January-June 2018 amounted to 136,115 GWh, down 3.1% compared to the corresponding period of 2017. The sources of hydroelectric production increased, amounting to 26,045 GWh (+36.5%), and wind (+9.2%); geothermal (-1.3%) and photovoltaic (-10.5%) sources were down. Thermoelectric production declined by -11.0% compared to the same period of the previous year and stood at 86,181 GWh, discounting the difference with the previous year, when the contraction of nuclear production recorded in France and the consequent low import levels had pushed production upwards.

National production, excluding pumping, covered 85.1% of the demand for electricity in the first half of 2018, while net imports satisfied the remainder.

In terms of electricity prices, the Base Load PUN (Single National Price) in the first half of 2018 rose by 5.2%, amounting to 53.8 €/MWh against 51.2 €/MWh in the first half of 2017. The price showed a discordant trend in the half-year: starting from the low values in January, equal to 49.0 €/MWh, it recorded an increase starting from February with the peak in June (57.3 €/MWh). On a monthly basis, growth was driven mainly by higher national purchases, while on a periodical basis the higher cost of gas had an impact, a factor only partly attenuated by a renewable offer still at very high levels and by an increased import from the northern border. Upward trend also for average prices in high load time slots (+5.4% for the Peak Load PUN reaching 60.5 €/MWh). The price in low load time slots (Off-Peak PUN) recorded an increase of 5.1% to 50.1 €/MWh. For the current year, forward curves indicate Base Load PUN prices with average values close to 60.0 €/MWh.

Natural Gas

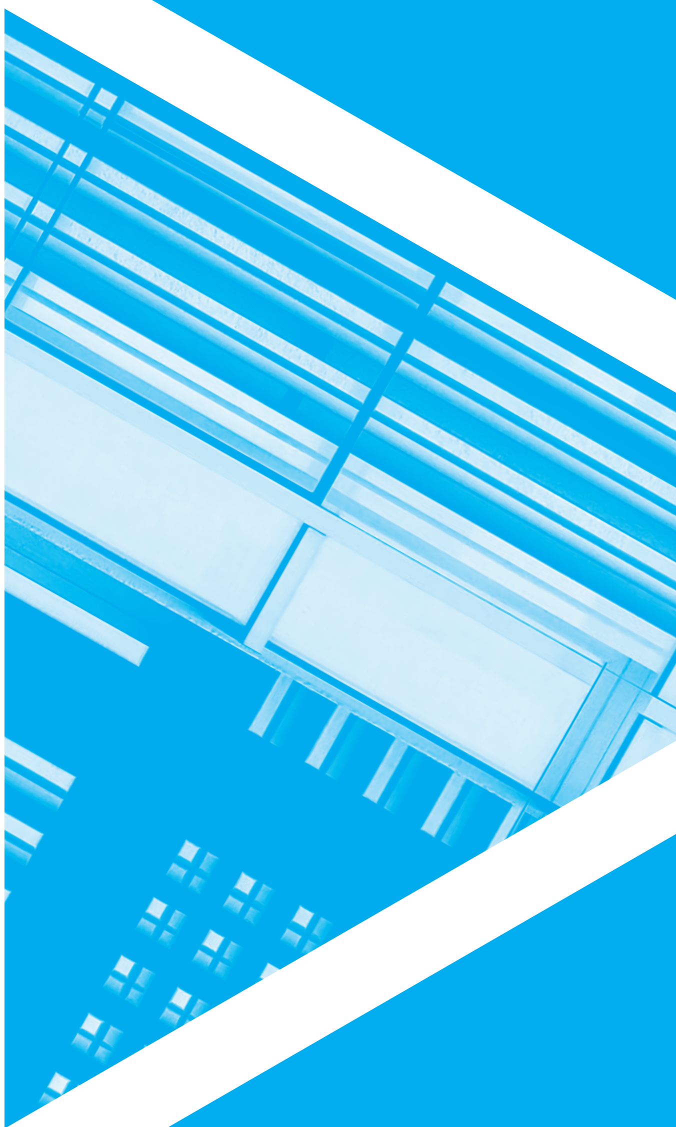
In the first half of 2018, the demand for natural gas in Italy decreased by 1.6% compared to the same period in 2017, amounting to 38,512 Mcm (source: Snam Rete Gas). This decrease was driven by the decrease in consumption in the thermoelectric sector which, in correspondence of a significant increase in both net imports and hydroelectric production, declined by 13.8% from very high levels in the first half of 2017 and amounted to 10,619 Mcm. Consumption in the industrial sector confirmed the economic recovery phase and amounted to 7,377 Mcm (+1.9% compared to the first half of 2017); also those in the civil sector showed growth (+5%) to 19,371 Mcm.

On the supply side, imports in the first half of 2018, with a decrease of 0.6%, amounted to 35,227 Mcm, however confirming 93% of total procurement. National production, equal to 2,606 Mcm (+1.3%), showed a recovery compared to the first half of 2017, reversing a negative trend underway for several years. The analysis of flows by entry points showed a widespread decline on an annual basis of imports with the exception of those from Algeria to Mazara del Vallo. Downward dynamics also for imports through the three LNG terminals, all operational, among which Cavarzere is confirmed as the most active.

Regarding prices, the price of gas to the TTF for the first half of 2018 amounted to 21.0 €/MWh, up 23.5% over the first half of 2017.

The price of gas to the PSV in the first half of the year showed a continually growing trend which, starting from the values of January equal to 19.9 €/MWh, amounted to 23.8 €/MWh in June 2018. Specifically, the average price of gas to the PSV for the first half of 2018 amounted to 22.4 €/MWh, up 16.3% compared to the first half of 2017. For 2018, forward curves indicate prices with average values close to 23.5 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 1.4 €/MWh for the reporting period, down compared to the differential of the first half of 2017 (2.2 €/MWh). The gas market to the PSV tends to confirm a structural spread over the TTF for the year 2018, revealing a short market dependent on imports from North and Eastern Europe. For the year 2018, the most recent forward curves show a spread of around 1.7 €/MWh.



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Result
sector by sector

Result sector by sector

The A2A Group operates in the following "Business Units":

Generation and Trading Business Unit

The activity of the Generation and Trading Business Unit is related to the management of the generation plants portfolio[1] of the Group with the dual purpose of maximizing the availability and efficiency of the plants, minimizing operating and maintenance costs (O&M) and maximizing the profit deriving from the management of the energy portfolio through the purchase and sale of electricity and fuels (gaseous and non-gaseous) and environmental certificated on domestic and international wholesale markets. The Trading Business Unit also includes the activity of trading on domestic and foreign markets of all energy commodities (gas, electricity, environmental certificates).

Market Business Unit

The activities of the Market 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, the management of public lighting, traffic regulation systems, votive lamps. Furthermore, it deals with providing energy efficiency and electric mobility services.

Waste Business Unit

The activities of the Waste 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.

Networks and District Heating Business Unit

The activities of the Networks and District Heating 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 the activities related to the management services for heating plants owned by third parties (heat management services).

International Business Unit

The International Business Unit includes the provision of know-how and technologies for the realization of waste pre-treatment plants.

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.

1 Total installed capacity of 8.9 GW.

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 the Corporate.

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	06 30 2018	06 30 2017	CHANGE	% 2018/2017
SOURCES				
Net production	**7,982**	**6,415**	**1,567**	**24.4%**
- thermoelectric production	5,865	4,775	1,090	22.8%
- hydroelectric production	2,086	1,640	446	27.2%
- photovoltaic production	31	-	31	n.s.
Purchases	**16,303**	**24,742**	**(8,439)**	**(34.1%)**
- exchange	6,018	4,149	1,869	45.0%
- wholesalers	1,619	1,731	(112)	(6.5%)
- Trading/Service portfolio	8,666	18,862	(10,196)	(54.1%)
TOTAL SOURCES	**24,285**	**31,157**	**(6,872)**	**(22.1%)**
USES				
Sales to Group Retailers	3,953	2,994	959	32.0%
Sales to other wholesalers	5,231	3,387	1,844	54.4%
Sales on the exchange	6,435	5,914	521	8.8%
Trading/Service portfolio	8,666	18,862	(10,196)	(54.1%)
TOTAL USES	**24,285**	**31,157**	**(6,872)**	**(22.1%)**

The sales figures are stated gross of any losses.

The Group's electricity output in the first six months of 2018 totaled 7,982 GWh, to which should be added purchases of 16,303 GWh for a total availability of 24,285 GWh.

Thermoelectric production increase, was mainly due to the greater quantities produced by the CCGT plants, particularly the Scandale plant, fully dispatched in the first half of 2018. San Filippo del Mela production was also up due to greater requests from Terna.

A comparison with the first half of 2017 shows growth in hydroelectric production (+27%), mainly due to the Valtellina catchments, and in photovoltaic production (+31 GWh) following the consolidation of new companies acquired in late 2017 and early 2018.

Purchases of electricity amounted to 16,303 GWh (24,742 GWh at June 30, 2017): more purchases on the stock exchange were more than offset by lower volumes traded as part of trading activities.

During the period in question, all types of electricity sales increased (sales on wholesale markets +54.4%, sales to the Market Business Unit +32%, sales on the stock exchange +8.8%) with the exception of the quantities traded in the trading activity, which instead recorded a decrease of 54.1%.

Overall in the period in question, electricity sales of the Generation and Trading Business Unit reached a total of 24,285 GWh (31,157 GWh in the first half of 2017).

Quantitative data - gas sector

millions of cubic metres	06 30 2018	06 30 2017	CHANGE	% 2018/2017
SOURCES				
Procurement	2,396	1,858	538	29.0%
Withdrawals from stock	24	39	(15)	(38.5%)
Internal consumption/GNC	(9)	(7)	(2)	28.6%
Trading/Service portfolio	2,361	1,936	425	22.0%
TOTAL SOURCES	**4,772**	**3,826**	**946**	**24.7%**
USES				
Market Business Unit uses	781	717	64	8.9%
Thermoelectric uses	953	742	211	28.4%
Heat and Waste Business Unit uses	66	56	10	17.9%
Wholesalers	611	375	236	62.9%
Trading/Service portfolio	2,361	1,936	425	22.0%
TOTAL USES	**4,772**	**3,826**	**946**	**24.7%**

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 2018 amounted to 4,772 million cubic meters, up 24.7% over the corresponding period of 2017 (3,826 million cubic meters).

The volumes of gas sold for thermoelectric uses increased (+28.4%), due to the higher consumption of the combined cycle plants of the current year. There were also higher volumes managed by the Trading Portfolio (+425 million cubic meters) following an increase in brokerage activities and higher sales to wholesalers (+62.9%).

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	1,758	1,533	225	14.7%
Gross Operating Income	225	186	39	21.0%
% of Revenues	12.8%	12.1%		
Depreciation, amortizations, provisions and write-downs	(85)	(71)	(14)	19.7%
Net Operating Income	140	115	25	21.7%
% of Revenues	8.0%	7.5%		
Investments	22	11	11	100.0%
FTE	1,106	1,110	(4)	(0.4%)
Labour costs	46	44	2	4.5%

The revenues amounted to 1,758 million euro, up by 225 million euro compared to the same period of the previous year. The increase in both forward and IPEX sales and higher revenues from green certificates contributed to the increase.

The Generation Business Unit's Gross Operating Margin was 225 million euro, up 39 million euro compared to the first half of 2017.

Net of the non-recurring items in the two periods considered (7 million euro in the first half of 2018 and +1 million in the first half of 2017), the Gross Operating Margin grew 33 million euro.

This Business Unit performed positively as a result of the sale of the entire long position in green certificates, the increase in thermoelectric and hydroelectric production, the sound results on the ancillary service market and the contribution of the newly-acquired photovoltaic companies (the most recent acquisition was in February 2018).

These positive trends more than offset the adverse effects of the high natural gas price, which affected both the profit margins on CCGT production (the clean spark spread was down substantially: -70%) and the profit margin on the natural gas portfolio due to higher procurement costs.

Depreciation, amortization, provisions and write-downs totalled 85 million euro (71 million euro at June 30, 2017). The increase is determined in part by higher amortization related to the newly acquired companies operating in the photovoltaic sector and in part to the higher allocations to the provision for risks recorded in the first half of 2018.

As a result of the above changes, Net Operating Income amounted to 140 million euro, up 25 million euro compared to the first half of the previous year.

In the first half of 2018, Capex amounted to approximately 22 million euro and mainly concerned non-routine maintenance work at the traditional cycle plants in Monfalcone (4 million euro) and San Filippo del Mela (2 million euro), near the hydroelectric plants of Mese, Udine, Calabria and Valtellina for about 5 million euro and at the combined cycle thermoelectric plants for about 2 million euro. There were also development measures (2 million euro) and adjustments as per standard to the Chivasso combined cycle thermoelectric plant (6 million euro).

In the first six months of 2018, the FTE for the period amounted to 1,106 units, substantially in line with those of the same period of the previous year.

Market Business Unit

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

Quantitative data

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
Electricity Sales				
Electricity Sales Free Market (GWh)	4,298	2,999	1,299	43.3%
Electricity Sales under Greater Protection Scheme (GWh)	835	928	(93)	(10.0%)
Total Electricity Sales (GWh)	**5,133**	**3,927**	**1,206**	**30.7%**

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
POD Electricity				
POD Electricity Free Market (#/1000)	479	394	85	21.6%
POD Electricity under Greater Protection Scheme (#/1000)	585	653	(68)	(10.4%)
Total POD Electricity (#/1000)	**1,064**	**1,047**	**17**	**1.6%**

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
Gas Sales				
Gas Sales Free Market (Mcm)	650	552	98	17.8%
Gas Sales under Greater Protection Scheme (Mcm)	336	353	(17)	(4.8%)
Total Gas Sales (Mcm)	**986**	**905**	**81**	**9.0%**

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
PDR Gas				
PDR Gas Free Market (#/1000)	490	405	85	21.0%
PDR Gas under Greater Protection Scheme (#/1000)	797	890	(93)	(10.4%)
Total PDR Gas (#/1000)	**1,287**	**1,295**	**(8)**	**(0.6%)**

The quantities are stated gross of losses.
The data related to the POD and PDR does not include the numbers relating to large customers.

The Market Business Unit sold 5,133 GWh of electricity in the period, up 30.7% on the first half of the previous year (3,927 GWh), and 986 million cubic meters of natural gas (+9.0% at June 30, 2017).

The growth in both the electricity and natural gas sectors was mainly due to the greater sales volumes to large customers on the free market, which more than offset the lower sale volumes to "maggior tutela" customers.

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	1,009	916	93	10.2%
Gross Operating Income	111	122	(11)	(9.0%)
% of Revenues	11.0%	13.3%		
Depreciation, amortizations, provisions and write-downs	(11)	(12)	1	(8.3%)
Net Operating Income	100	110	(10)	(9.1%)
% of Revenues	9.9%	12.0%		
Investments	5	3	2	66.7%
FTE	721	687	34	4.9%
Labour costs	22	20	2	10.0%

Revenues were 1,009 million euro (916 million euro as at June 30, 2017), up 10% due to larger quantities sold, particularly to large electricity customers.

The Market Business Unit's Gross Operating Margin of 111 million euro included non-recurring income of 16 million euro (net non-recurring income of 35 million euro in the first half of 2017), which generated an increase of 8 million euro (+9%) in the Gross Operating Margin from continuing operations on the same period of 2017. In the first half of the year, the contribution margin of the electricity and natural gas segments rose by over 10 million euro thanks to the increase in the number of mass market customers (+86 thousand on the end of 2017) and larger electricity and natural gas sales volumes to large customers on the free market. Growth in the retail energy sector was only partly offset by higher costs for marketing and external communication to attract new customers.

Moreover, the New Energy Solutions sector provided a vital contribution to the increase in the Gross Operating Margin (+6 million euro) thanks to the optimization of the energy efficiency certificate portfolio (TEE).

Depreciation, amortization, provisions and write-downs totalled 11 million euro (12 million euro in the first half of 2017).

As a result of the above changes, Net Operating Income amounted to 100 million euro (110 million euro in the first half of the previous year).

Capex in the Business Unit during the period in question amounted to around 5 million euro and involved around 3 million euro in evolutionary maintenance operations on the Hardware and Software platforms of the energy retail sector and about 2 million euro for the replacement of lighting equipment with LED systems in the new Municipalities acquired in the public lighting sector.

In the first half of 2018, there was an increase of 34 FTE over the same period of the previous year. The increase is due in part to the full consolidation of the company LumEnergia S.p.A. and the transfer of resources from other Business Units and partly to greater hiring for the strengthening of certain areas of activity of the Market Business Unit.

Waste Business Unit

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

Quantitative data

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
Waste collected (Kton)	838	800	38	4.8%
Residents served (#/1000)	3,528	3,562	(34)	(1.0%)
Waste disposed of (Kton)	1,755	1,786	(31)	(1.7%)
Electricity sold (GWh)	889	923	(34)	(3.7%)
Heat sold (GWht) *	777	751	26	3.5%

(*) Quantities at the plant entrance.

Waste collected grew on the first half of 2018 to 838 thousand tons (+4.8%) on account of the contribution of the new municipalities business acquired in 2018 and in the last few months of the 2017.

On the other hand, waste disposed of, amounting 1,755 thousand tons, decreased slightly (-1.7%) compared to the first half of 2017 due to the lower volumes sent to the Grottaglie landfill; the landfill, having reached saturation, obtained authorization to expand by over 1,500,000 cubic meters as late as April 2018.

As a result of the greater quantities required by the district heating sector, the quantity of heat sold (+3.5%) increased during the period in question, while electricity sales fell by 3.7% mainly due to higher stops for scheduled maintenance of the Acerra and Brescia waste-to-energy plants.

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	508	496	12	2.4%
Gross Operating Income	136	137	(1)	(0.7%)
% of Revenues	26.8%	27.6%		
Depreciation, amortizations, provisions and write-downs	(37)	(44)	7	(15.9%)
Net Operating Income	99	93	6	6.5%
% of Revenues	19.5%	18.8%		
Investments	38	37	1	2.7%
FTE	5,767	5,684	83	1.5%
Labour costs	155	152	3	2.0%

During the first half of the year, the Waste Business Unit generated revenues of 508 million euro (496 million euro in the first half of 2017), up 12 million euro on the first half of 2017.

The Waste Business Unit's Gross Operating Margin totaled 136 million euro, substantially in line with the same period of the previous year (137 million euro in the period ended June 30, 2017).

Net of the non-recurring items in the two periods considered (+4 million euro in the first half of 2017; +2 million euro in the first half of 2018), this Business Unit's Gross Operating Margin from continuing operations is up 1 million euro.

The positive contribution deriving from the management of the industrial treatment plants (waste-to-energy plant in Filago and greater transfers to the landfill of inertized lots of Corteolona), the positive trend in the prices of transfer of waste similar to urban waste, as well as the greater disposal in some urban treatment plants, more than offset the lower margins recorded as a result of lower disposals at the Grottaglie landfill and - in the collection segment - lower revenues from recycled paper as a result of the decline in sales prices and higher disposal costs of collected waste (multi-materials and bulky).

Depreciation, amortization, provisions and write-downs equalled 37 million euro (44 million euro at June 30, 2017). The change is due to the release of surpluses of tax dispute provisions recorded in the current year.

As a result of these changes, Net Operating Income totalled 99 million euro (93 million euro in the first half of the previous year).

Capex in the first half amounted to 38 million euro and were mainly related to development and maintenance work on waste-to-energy plants (14 million euro), treatment plants and landfills (13 million euro), the purchase of collection vehicles and containers for both the awarding of tenders for the management of new Municipalities and for the renewal of the vehicle fleet (11 million euro).

The increase of 83 FTE is due to changes in the scope of the two comparison periods (winning new tenders for waste collection and street cleaning), to the anticipation of hiring of fixed-term workers with respect to the previous year, as well as to the strengthening of some facilities that carry out waste treatment activities.

Networks and District Heating Business Unit

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

Quantitative Data - Networks

	06 30 2018	06 30 2017	CHANGE	% 2018/2017
Electricity distributed (GWh)	5,878	5,773	105	1.8%
Gas distributed (Mcm)	1,510	1,410	100	7.1%
Gas transported (Mcm)	215	201	14	7.0%
Water distributed (Mcm)	32	33	(1)	(3.0%)
RAB Electricity (M€)(1)	631	645	(14)	(2.2%)
RAB Gas (M€)(2)	1,194	1,171	23	2.0%

(1) A2A estimates.
(2) Provisional figures, underlying the calculation of allowed revenues for the period.

Distributed electricity totaled 5.9 TWh, up (+1.8%) compared to the first half of 2017, and gas distributed was 1,510 million cubic meters, up 7.1% (1,410 million cubic meters in the first half of 2017).

Distributed water amounted to 32 million cubic meters (33 million cubic meters in the first half of 2017).

Quantitative Data - Heat

GWht	06 30 2018	06 30 2017	CHANGE	% 2018/2017
SOURCES				
Plants in:	**834**	**757**	**77**	**10.2%**
- Lamarmora	302	281	21	7.5%
- Famagosta	67	55	12	21.8%
- Tecnocity	39	38	1	2.6%
- Other plants	426	383	43	11.2%
Purchases from:	**1,056**	**1,005**	**51**	**5.1%**
- Third parties	269	243	26	10.7%
- Other Business Units	787	762	25	3.3%
TOTAL SOURCES	**1,890**	**1,762**	**128**	**7.3%**
USES				
Sales to end customers	1,646	1,552	94	6.1%
Distribution losses	244	210	34	16.2%
TOTAL USES	**1,890**	**1,762**	**128**	**7.3%**

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

The business unit's district heating sales in the first six months of 2018 came to 1,646 GWht, up 6.1% on the first half of 2017 following greater sales volumes arising from commercial development and the colder-than-average temperatures in the winter compared to the previous year.

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	590	539	51	9.5%
Gross Operating Income	192	200	(8)	(4.0%)
% of Revenues	32.5%	37.1%		
Depreciation, amortizations, provisions and write-downs	(77)	(68)	(9)	13.2%
Net Operating Income	115	132	(17)	(12.9%)
% of Revenues	19.5%	24.5%		
Investments	108	90	18	20.0%
FTE	2,315	2,288	27	1.2%
Labour costs	51	53	(2)	(3.8%)

The Networks and District Heating Business Unit's revenues amounted to 590 million euro (539 million euro in the first half of 2017).

The Business Unit's Gross Operating Margin was 192 million euro, down on the first six months of 2017 (200 million euro in the period ended June 30, 2017).

The performance was due to the positive contribution of the water service, more than offset by the lower profit margins in the electricity, gas and district heating segments. In particular, the positive effects of the increase in water rates approved by the Water Regulator were more than offset by the decrease in allowed electricity distribution revenues and other types of natural gas distribution revenues. Lastly, the district heating sector recorded a decrease in unit margins mainly due to the increase in coal costs.

Depreciation, amortization, provisions and write-downs amounted to 77 million euro (68 million euro in the first half-year of the previous year).

As a result of the above changes, Net Operating Income amounted to 115 million euro (132 million euro at June 30, 2017).

Capex in the period in question amounted to 108 million euro and regarded:

- in the electricity distribution subsector, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (32 million euro);
- in the gas distribution subsector, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (42 million euro);
- in the integrated water cycle sector, work carried out on the water transportation and distribution network and the sewerage networks and purification plants (19 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 15 million euro.

In the first half of 2018, there was an increase of 27 FTE compared to the same period of 2017 due to changes in the scope of consolidation in the two comparison years for about +13 FTE due to the contribution of Azienda Servizi Valtrompia S.p.A., and to the hiring in the last months of 2017 and in the first months of 2018 for the replacement of outgoing personnel in the first half of the previous year.

International Business Unit

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	3	-	3	n.s.
Gross Operating Income	-	(1)	1	n.s.
% of Revenues	0.0%	n.s.		
Depreciation, amortizations, provisions and write-downs	-	-	-	n.s.
Net Operating Income	-	(1)	1	n.s.
% of Revenues	0.0%	n.s.		
Investments	-	-	-	n.s.
FTE	12	13	(1)	(7.7%)
Labour costs	1	1	-	0.0%

The International Business Unit generated revenues of 3 million euro in the first half of 2018 through the construction of high-tech waste treatment plants.

Gross Operating Margin and Net Operating Income were almost nil (negative for 1 million euro in the first half-year of 2017).

In the first half of 2018, FTE are substantially in line with those of the first half of the previous year.

A2A Smart City

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	22	12	10	83.3%
Gross Operating Income	4	3	1	33.3%
% of Revenues	18.2%	25.0%		
Depreciation, amortizations, provisions and write-downs	(2)	(1)	(1)	100.0%
Net Operating Income	2	2	-	0.0%
% of Revenues	9.1%	16.7%		
Investments	6	4	2	50.0%
FTE	147	76	71	93.4%
Labour costs	4	2	2	100.0%

In the first half of 2018, the revenues of the company A2A Smart City S.p.A. came to 22 million euro, up by 10 million euro compared to the same period of the previous year due to the greater contribution of Linea Com S.r.l. - a company operating in the telecommunications sector of the LGH Group incorporated into A2A Smart City starting from February 2018 - both for the expansion of the services offered to other Group companies and to third-party operators.

Gross Operating Margin equalled 4 million euro, an increase of about 1 million euro compared to the corresponding period of the previous year. The increase in profit margins was mainly due to projects kicked off in the second half of 2017 for the construction of infrastructure to lay optical fiber cables in Milan and Brescia.

Depreciation, amortization, provisions and write-downs amounted to 2 million euro (1 million euro in the first half of 2017).

Net of Depreciation, amortization, provisions and write-downs, Net Operating Income amounted to 2 million euro, in line with the previous year.

Capex in the period, amounting to 6 million euro, mainly refer to work on the telecommunication networks.

The increase of 71 FTE compared to the first half of 2017 is mainly due to the inclusion of resources for the transfer of assets from other Business Units of the Group (Linea Com S.r.l. from Corporate LGH).

Corporate

Economic data

millions of euro	01 01 2018 06 30 2018	01 01 2017 06 30 2017 Restated	CHANGE	% 2018/2017
Revenues	105	102	3	2.9%
Gross Operating Income	(11)	(10)	(1)	10.0%
% of Revenues	(10.5%)	(9.8%)		
Depreciation, amortizations, provisions and write-downs	(9)	(8)	(1)	12.5%
Net Operating Income	(20)	(18)	(2)	11.1%
% of Revenues	(19.0%)	(17.6%)		
Investments	8	9	(1)	(11.1%)
FTE	1,171	1,189	(18)	(1.5%)
Labour costs	55	54	1	1.9%

The Gross Operating Margin, corresponding to the corporate structure costs not recharged to the various Group companies, amounted to -11 million euro in the first half of 2018 (-10 million in the corresponding period of the previous year).

Depreciation, amortization, provisions and write-downs amounted to 9 million euro (8 million euro in the same period of the previous year).

Net of Depreciation, amortization, provisions and write-downs there was a Net Operating Loss of 20 million euro (negative for 18 million euro in the first half of 2017).

Capex in the period, amounting to 8 million euro, mainly refer to work on the IT systems.

Net of resources sold for the transfer of assets within the Group (67 FTE), there was an increase of 49 FTE compared to the first half of 2017, due to the strengthening of the various Departments of the Corporate.

9
Risks and uncertainties

Risks and uncertainties

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

The Group has also implemented a specific procedure that defines in detail the roles, responsibilities and methodologies for the Enterprise Risk Management (ERM) process.

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.

The ERM process also supports the Group's ISO9001 and ISO14001 certifications.

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-environmental 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).

The 2018 Budget Law also extended the regulatory and control powers of the Authority for Electricity, Gas and the Water System (AEEGSI which changes its name to ARERA - Regulation Authority for Energy Networks and Environment) to the waste cycle, also differentiated, urban and similar.

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 (ARERA, Competition and Market Protection Authority, Authority for Communications Guarantees, Ministry of Economic Development) 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.

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).

To address these issues, the top management set up a specific organization structure called "Regulatory Affairs and Market", reporting directly to the Managing Director, 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).

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, as well as the National 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, agree on 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 every six months or the Regulatory Agenda prepared during the Budget/Plan), in order to consider the potential impacts of regulation on the company.

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.

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;
- the implementation of the capacity market regulation, which is awaiting the approval of the regulations drawn up by Terna by the Ministry of Economic Development, after obtaining the go-ahead from DG Competition on February 7, 2018;
- 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 technical and commercial quality;
- the certification of energy savings within the White Certificates mechanism by the Energy Services Manager;
- the impact on the development of district heating due to the start of the regulation of the sector by ARERA;
- the provisions of the 2017 Competition Law on the termination of price protection schemes for electricity and gas customers from July 1, 2019.

Energy scenario risk (commodity price risk)

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

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

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

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

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

Economic and social-environmental 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. Moreover, 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 due to a negative perception of Group activities in the areas served.

With reference to the activities of the Generation and Trading Business Unit, the current context of the energy markets in which the production plants operate, with specific reference to the thermoelectric ones, is evolving in a moderately positive sense both as a result of an improvement in the overall economic scenario and as a result of the evolution of situations, also structural, of national and international energy contexts. However, the risk that this trend may be interrupted or subject to a trend reversal remains. It is therefore evident that all the measures undertaken on generation plants at the time, such as activities and projects aimed at guaranteeing operating flexibility, efficiency and availability when these requirements are requested from the production units, remain active and operative. These include, in particular, the planning of flexible Capex in combined cycle plants, modernization of plants and machinery, re-negotiation of service contracts with turbojet manufacturers, structural cost reduction programs.

In addition, a process of revision, standardization and overall adjustment of maintenance contracts is under way as well as specific rationalization actions in the management of spare parts warehouses. 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 and to create the best context to pursue the possibility of a future realization of projects for adaptation and conversion according to innovative and cutting-edge technologies. This is to guarantee occupational levels and to avoid incurring potential costs for decommissioning of sites.

We confirm the issue concerning the relationship of the Companies of the Waste Business Unit and the Networks and District Heating Business Unit with some stakeholders, relating to the future construction of new plants, the expansion of existing ones or the provision of new services in the territories. With specific reference to waste-to-energy, waste recovery and wastewater treatment plants, also due to an incorrect perception of the works, forms of opposition and protest could be promoted through the use of social networks, with potential effects on the implementation of development programs. To oversee the issue, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities, also through participation in public debates, 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 business of public lighting and 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 quality of services provided, also with a view to continuation of entrusting its activities in territories already served and in the awarding of public tenders for the same services in new areas; to maintain and develop the positioning of said services on the market and thus maintain and expand the Company's business, the organizational structures dedicated to constant monitoring of opportunities and effective and efficient management of tenders were enhanced.

Lastly, we confirm the issue related to potential impacts on the profitability of the Acerra plant as a result of possible criticality that may arise, pending the agreement between the Campania Region and A2A Ambiente S.p.A., in the definition of mechanisms to guarantee the revenues of the plant after the conclusion of the CIP 6 tariff regime. The Group implements organizational presence at the highest levels of the company, which involves the top management and the management of the Waste Business Unit, the organizational structures Legal Affairs and Institutional and Territorial Relations and sees participation in discussion tables with the Campania Region.

An element of uncertainty that must be considered 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 consequences of the "Brexit" are uncertain, also considering the fact that negotiations between the UK and the EU on exit conditions are still ongoing. 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 Capex expected in Great Britain to other EU countries.

In the medium term, the IMF revised the growth forecasts for the United Kingdom downwards, while it confirmed the expansion scenario both at global level and for the Eurozone countries.

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

Country risk

The A2A Group also operates in foreign countries characterized, for historical and cultural reasons, by a lower degree of political, social and economic stability than the OECD 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. The sale of portions, based on the latest agreements with the Government of Montenegro, is expected to end with payment of the last instalments by July 2019. The Government of Montenegro, a contractual counterparty to the exercise of the put option, has creditworthiness, as published by major rating agencies, equal or equivalent 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 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 incipient 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 Waste Business Unit, specific activities are in place and monitoring tools have been installed to prevent any possible risk of interruption to the waste transportation and disposal service. In particular, specific procedures and controls are put in place to ensure conformity of waste entering the plants and the adoption of a unified protocol for the acceptance of waste entering the waste-to-energy plants, at site level. Furthermore, a dedicated software supports the carrying out of checks and, in general, the correct handling of waste. In addition, there are plants, systems and specific operating procedures for loading and exiting of the materials deposited at the waste storage and treatment sites aimed at limiting the risk 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. Lastly, it is noted that structural works 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 eventual interruption issue of waste collection and urban sanitation services due to possible strikes by staff or exceptional weather events in the territories of the municipalities served by the Group Companies, 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 to deal with the statistically most recurrent faults.

Within the transport and distribution networks of energy and gas, it is noted that works 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, 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 District Heating 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. Also within the context of innovative business, the Group is committed to developing the offer, for private and institutional customers, of smart services such as remote metering, video surveillance, LED public lighting, parking, sharing and power supply services of electric vehicles as well as energy efficiency services. The risks associated with the provision and development of said services relate to the quality of the same, with consequent repercussions on the level of customer satisfaction. To oversee said issues, we highlight remote monitoring of plants consisting of receiving signals and alarms from equipment and systems, maintenance procedures to ensure efficiency and safety of users, procedural body for handling complaints and other Quality Management System procedures.

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 consequent improvement of working of the networks. In addition, studies are underway for the construction of new plants is being (electric boilers to be kept in reserve, construction of thermal accumulations at some of the Company's sites) and new heat transport networks, aimed at covering peak energy demand and improving the structure of the network and revamping of existing networks in order to cope with corrosive phenomena. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting works for repairs. Measures were also carried out 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 significant risk issue, which is transversal to all business areas required to manage plants and infrastructures, is that related to unauthorized physical access of personnel outside the Group at the premises, facilities or ICT infrastructures, with potential repercussions on the correct performance of the operating activities and on the safety of operating personnel, unauthorized third parties, the sites and the surrounding environment. 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 works 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. As regards access to the Data Processing Centers (CED - Centro Elaborazione Dati), checks are currently being carried out on the effectiveness of the current control systems and the review of the authorization procedures. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the coordination 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. As part of the insurance contract periodically (every 3 years), inspections are carried out on the plants and measures to improve the safety of assets and loss prevention are recommended/verified. The contractual conditions that characterize the insurance 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, heat management) provided by the Group may be negatively affected by unfavourable conditions, such as the scarcity of rainfall or particularly mild temperatures in the hot season, with consequent negative effects on expected profitability. With reference to the Generation and Trading Business Unit, low rainfall would result in a lower availability of water resources compared to expected values (based on statistical estimates). To ensure optimum exploitation of available water resources, even in the presence of periods characterized by particular deficiency, we note organizational monitoring structure consisting of business units dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants. We also note that the hydroelectric plants of the Group have different characteristics in terms of water resource exploitation and are distributed on the Italian territory. As regards the Networks and District Heating and Market 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. With reference to the Integrated Water Service, there is also the risk linked to the scarcity of the water resource destined to the distribution of drinking water in the event of particularly drought seasons, with consequent negative repercussions of a mainly reputational nature; to guarantee the continuity of the service, the A2A Group monitors and maps leaks from the aqueducts to identify the priority of the works, has commissioned studies to improve the interconnection of the aqueducts and is collaborating with the University of Brescia for the study and application of the Water Safety Plan, a project to systematically guarantee the safety of a drinking water system, the quality of the water supplied and the protection of consumer health.

The A2A Group also monitors the risk resulting from the lack of specific and adequate contingency plans to manage in a timely manner the consequences of extreme phenomena such as landslides, floods or other unforeseeable natural events; the issue is mitigated by the presence of emergency procedures at plant level which, for hydroelectric plants, are also drawn up in compliance with civil protection documents issued by the Prefectures. Lastly, it must be considered that these extreme natural phenomena may not directly affect the Group's plants but, in any case, interfere with further infrastructures of hydraulic systems (channels, dams, ducts) or electrical systems (Terna's high voltage lines).

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.

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, 2018, the Group contracted revolving committed credit lines for 700 million euro, unused. It also has unused long-term bank financing for a total of 120 million euro and cash and cash equivalents totalling 859 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 1,438 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. Lastly, at June 30, 2018, 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, purification plants for waste water 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 urban waste water treatment, actions are being evaluated, planned and started 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 with significant environmental aspects. 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.

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 managers of the Business Units to support the identification and study of possible environmental risks even in the implementation of the new standard ISO 14001:2015. As mentioned above, the environmental management systems in place, thus allow identifying and overseeing the environmental aspects related to the activities and processes while minimizing risk on the environment due to the activities of the Group.

The Group is also active in the prevention of anomalous situations or particular external events, such as for example the risk issues related to the transfer to plants of out-of-specification materials; the Group carries out a strict control on the materials entering the plants and has adopted internal guidelines for the control of waste, which are then implemented with specific procedures at plant level; it has also started the research and experimentation of emission monitoring systems in line with the best available technologies for the continuous measurement of micro-pollutants, and uses materials and techniques for the fume purification system able to absorb even the possible presence of greater quantities of pollutants than expected, thus ensuring compliance with the prescribed limits. Other possible external events concern the anomalous discharges of pollutants in public sewage systems that convey to the Group's purification plants; to timely intercept and manage any peaks of pollutant concentration, a program has been launched to upgrade analysis stations of waste water that transits through public sewers before entering the purification plants.

Attention is also paid to the risk of fires in recyclers and ecological platforms. The issue is managed both in the field of security and the prevention of unauthorized access and through the creation, at the main sites, of additional prevention measures compared to as indicated in the fire prevention certificate.

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, and manages the publication of specific reports. The Group is also 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 environmental risk issues concern the possible introduction of more restrictive regulations that may require Capex in plant adaptation as well as the review of production processes and waste management methods: of particular relevance were amendments to regulations underlying the classification of waste combustion residues in waste-to-energy plants (slag recovered from boiler bottoms). To deal with this issue, the Group has adopted a monitoring policy of regulatory change, collaborative dialogue with the institutions (Ministry of Environment and Protection of Land and Sea, Regions, ARPA, etc.), as well as of active participation in trade associations and work groups set up at these entities, which led to sharing the results of the experiments carried out by the Group and the methods of sampling, analysis and classification of residues, eliminating many of the uncertainties associated with the topic.

In order to always be in line with the best techniques available in the environmental field and to efficiently plan any new Capex that may be necessary, the Group participated and participates in working groups to define BREF (Best Available Techniques Reference Document) such as those for LCP (Large Combustion Plants), Waste Treatment and Waste Incineration.

The Group also monitors jurisprudence in the environmental field in order to adopt a preventive and precautionary approach for areas in which environmental legislation is not univocally defined. In this context, the possible consequences on the business of the recent ruling issued against another operator in the framework of the discipline relating to the End of Waste have been assessed.

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 was completed for the parent company and for the main companies and is being progressively extended to the other Group companies as well as those recently incorporated and/or acquired.

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, i.e. against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations.

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, also determined on the basis of past and present changes in corporate structures, 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 Customer Relationship Management - CRM, billing and credit management, it is noted that activities have been planned and started for the definition and subsequent implementation of activities to renew the existing platforms or plans to rationalize the applications used. The Group will continue to develop its information system structure and improve its efficiency by progressive implementation of long-term architectural strategic plan that is periodically updated.

In addition to defining outsourcing contracts for ICT services that envisage pre-defined service level agreements, the Group has developed a process to ensure operating continuity, even in the event of unavailability of one of the two Data Processing Centers (CED - Centro Elaborazione Dati), of some systems considered more important for business. Furthermore, the transportation activities of the Milan Data Center were completed at the infrastructure of an external supplier, thus making a significant step forward in achieving higher levels of security in terms of service continuity. It is also underlined that there is currently the availability of suppliers and resources within the Group to cope with logical attacks, viral attacks and system failures and that the assessment of vulnerabilities and the related remediation plan for the most critical applications is underway. In addition, activities were initiated aimed at further increasing the levels of reliability and continuity of provision of ICT services, such as the evaluation and subsequent implementation of projects, among them alternative, of infrastructural improvement of the CED of Brescia. Lastly, the structuring of the Business Continuity Plan was initiated, aimed at perspectively developing the tool through which the Group will be able to face further scenarios of unavailability of services for the most critical areas.

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. Network Access Control (NAC) measures have been introduced to the elements of the corporate network (computers, servers, firewalls and routers) and Cyberark tools, which represent a specific approach to network management and security and which aim to strengthen network security, monitoring all access based on the security policy. An agreement has been signed with CNAIPIC (National IT Anti-Crime Center for the Protection of Critical Infrastructures), in order to establish forms of direct collaboration and management of possible incidents. Lastly, the remaining activities related to the organic ICT security masterplan for the two-year period 2016/2017 have been completed. In this regard, specific policies have been prepared on the use of mobile devices, which are increasingly used today for carrying out business activities. Also with reference to the issue of data confidentiality and security, we highlight the Group's commitment to the definition and implementation of organizational and technological measures relating to the provisions of EU Regulation 2016/679 alias "GDPR"; the coordination of the issue is guaranteed through the "Group Compliance" organizational structure. Within Group ICT, a study was also completed aimed at identifying the main characteristics of the current industrial process management systems (such as SCADA systems) that, because of an increasingly driven integration with "IT" (Information Technology) systems, are potentially exposed to security and integrity risks; definition of a new method of governance of these systems is being defined.

Lastly, it is noted that insurance coverage is being evaluated specific for ICT aimed at mitigating the potential damages related to violations and intrusions into corporate systems (cyber-crime).

With reference to Linea Group Holding, in 2017. the company implemented a series of activities aimed at embarking on the operational path of integration with the A2A Group; in this regard, it is worth highlighting the issue of risk associated with convergence, on the broader A2A application map, of the company systems and platforms. To oversee this issue, we highlight that the necessary measures will be implemented to minimize the risk deriving from data conversions and transfer on different application maps. With the conferral of the subsidiary Linea Com into A2A Smart City, a common and integrated approach at the level of the Group's ICT services was shared.

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.

Through the Quality, Environment and Safety Policy (also issued as part of the personnel health and safety management system to comply with OHSAS 18001), the prevention measures adopted aim for a "zero risk" objective, encouraging a constant rise in the level of safety in the workplace. In particular, in this respect, the adoption of additional models for measuring the Health and Safety risk at the level of single plant is underway.

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 managing contracts from a health and safety standpoint has been recently updated.

The organizational control structure, among other activities, carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this regard, specific obligatory training plans are defined and implemented for each company role and task. In addition, the Leadership in Health and Safety – LiHS training programs have been implemented and are being progressively extended to all Business Units, 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.

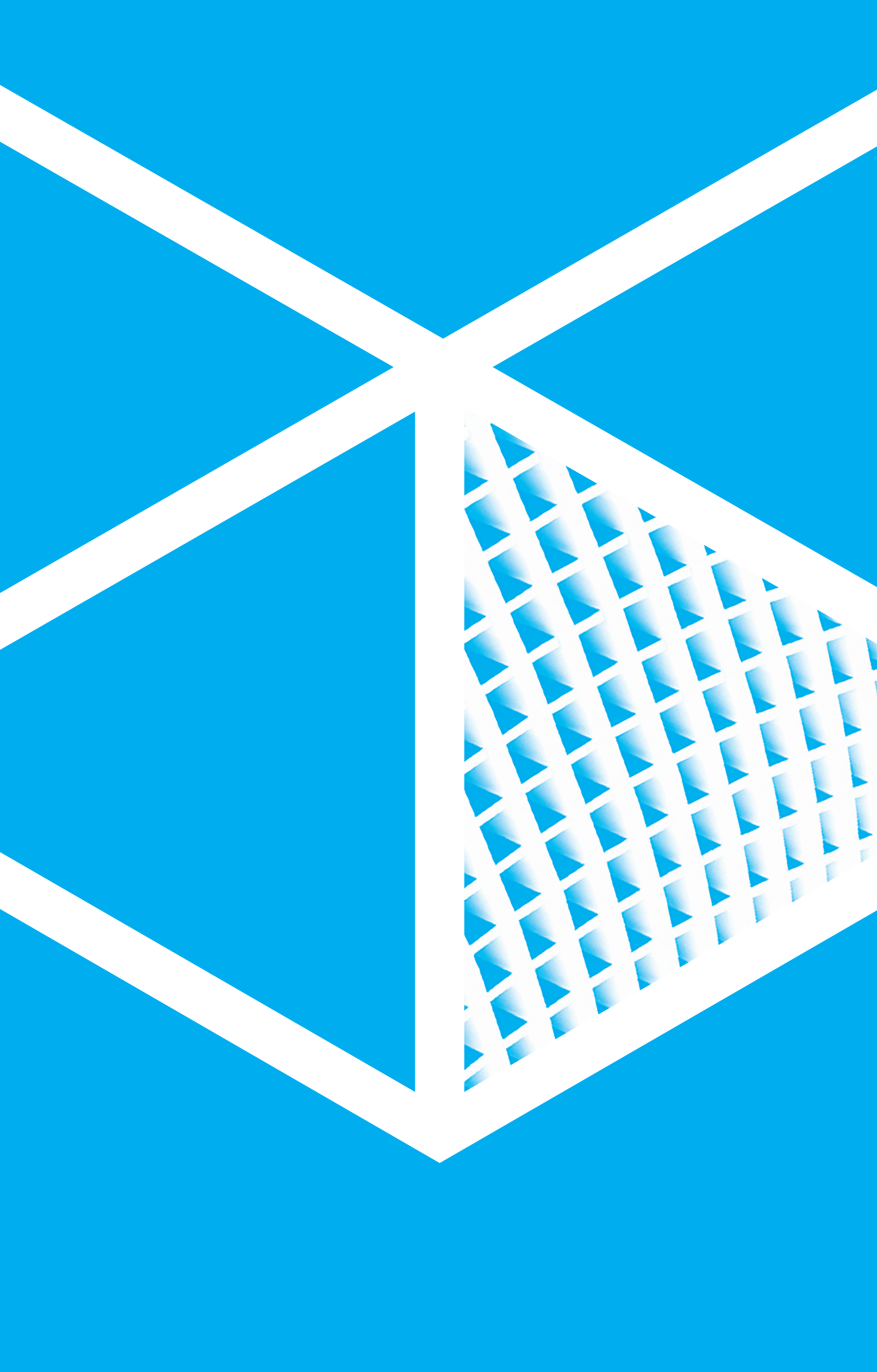
A project to revise the present organizational model is ongoing based on the establishment of guidelines, methodologies, instruments and controls provided by the Environment, Health and Safety Organizational Structure and assisted by the support of specific Environment, Health and Safety functions in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

Finally, the employee health surveillance management system is active, conducted with the aid of a team of doctors located in the various areas who carry out periodic assessments on the state of health of personnel. As part of this system, there are 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.

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.

Additional areas of risk for the Group concern safety with respect to third parties. This refers to any incidents in the management of the electricity distribution network and traffic light and public lighting systems that involve people outside the company. 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. Risks with respect to third parties also concern road safety for vehicles that carry out waste collection and street cleaning and network maintenance. To oversee this risk, the Group undertakes personnel training and awareness-raising activities and is evaluating the adoption of technological systems for remote control and limiting speed of vehicles.



10
Sustainability responsible management

Sustainability responsible management

For over twenty years, sustainability issues have been a focal point in the political agendas of countries, given the widespread, and ever increasing awareness by governments, companies and civil society of the need to activate concrete actions to ensure sustainable development. A further role in this trend is being played by the UN 2030 Agenda, with its 17 Sustainable Development Goals.

In April 2016, A2A redesigned its sustainability strategy in light of the UN Agenda priorities, defining a Sustainability Policy through hinged on four cornerstones: circular economy, decarbonisation, smartness in networks and services and people innovation. Two years down the road, the Board of Directors, supported by the investigations of the Sustainability and Territory Committee, has chosen to repeat its commitments made through to 2030 and approve – at the meeting held March 20, 2018 – a new five-year sustainability plan, with a set of operative objectives, connected and integrated with the Group's business, referring to a time frame and perimeter that are in line with the new Business Plan.

On April 27, 2018 the second Group Integrated Report was presented to the A2A Shareholders' Meeting, which has also been configured as the first Non-Financial Statement pursuant to Legislative Decree 254/16, which introduced for certain categories of companies the obligation to report information relating to environmental and social issues. The document was drafted taking as reference the Integrated Reporting Framework (IR Framework), as outlined by the International Integrated Reporting Council (IIRC), as well as the principles of the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative (GRI) and of the Electric Utilities Sector Supplement – G4 Standard Disclosure.

The document also include monitoring of the Sustainability Plan, revealing that the Group is working in the right direction to achieve the challenging goals set for both 2022 and 2030.

Sustainability performance reporting also continued at local level. In particular, in the first half of 2018, the Milan 2017 Sustainability Report was published. To make the report even more effective and immediately understandable, a different formula was adopted with respect to the past, focusing on the web. In this sense, within the platform www.forumascoltoa2a.eu a section has been created dedicated to territorial budgets, in which it is possible to review the information and projects that A2A realized in 2017 in favour of the communities of Milan, Brescia, Bergamo, Valtellina and Friuli Venezia Giulia.

As part of the stakeholder listening program, called forumAscolto, work continued on the realization of projects selected after the Milan forum, held in January 2017. In particular:

- Urban Decor: an awareness campaign has been defined for the owners of dogs and all the citizens of Milan, entitled "VERI AMICI?". To support this activity, new bins with free dispensers of bags and ashtrays will be installed in dog areas.
- Food waste: with the support of A2A and AMSA, in 10 uncovered municipal markets, the "Bancarella di Recup" will be set up, where unsold food will be donated to those in need.
- Public lighting and municipalities: a plan of 149 public lighting projects (replacement and expansion of lighthouse towers) is underway for a total investment of 15 million euro.
- Smart mobility : the INFORETI smartphone app was created, which allows making reports, receiving information and updates on Unareti sites.

Furthermore, following the initiative held in Udine in 2017, the call to action "creiAMO FVG" was launched on March 1, 2018, with the aim of promoting business projects in line with the needs of local communities, trying to provide a new impetus to the region's sustainable tourism sector. The initiative, dedicated to the provinces of Udine and Gorizia, where our production plants are located, has allowed collecting a total of 10 projects (6 for the Province of Udine and 4 for the province of Gorizia). On June 27, 2018, during the "Conoscenza in festa" event in Udine, the winning projects were announced:

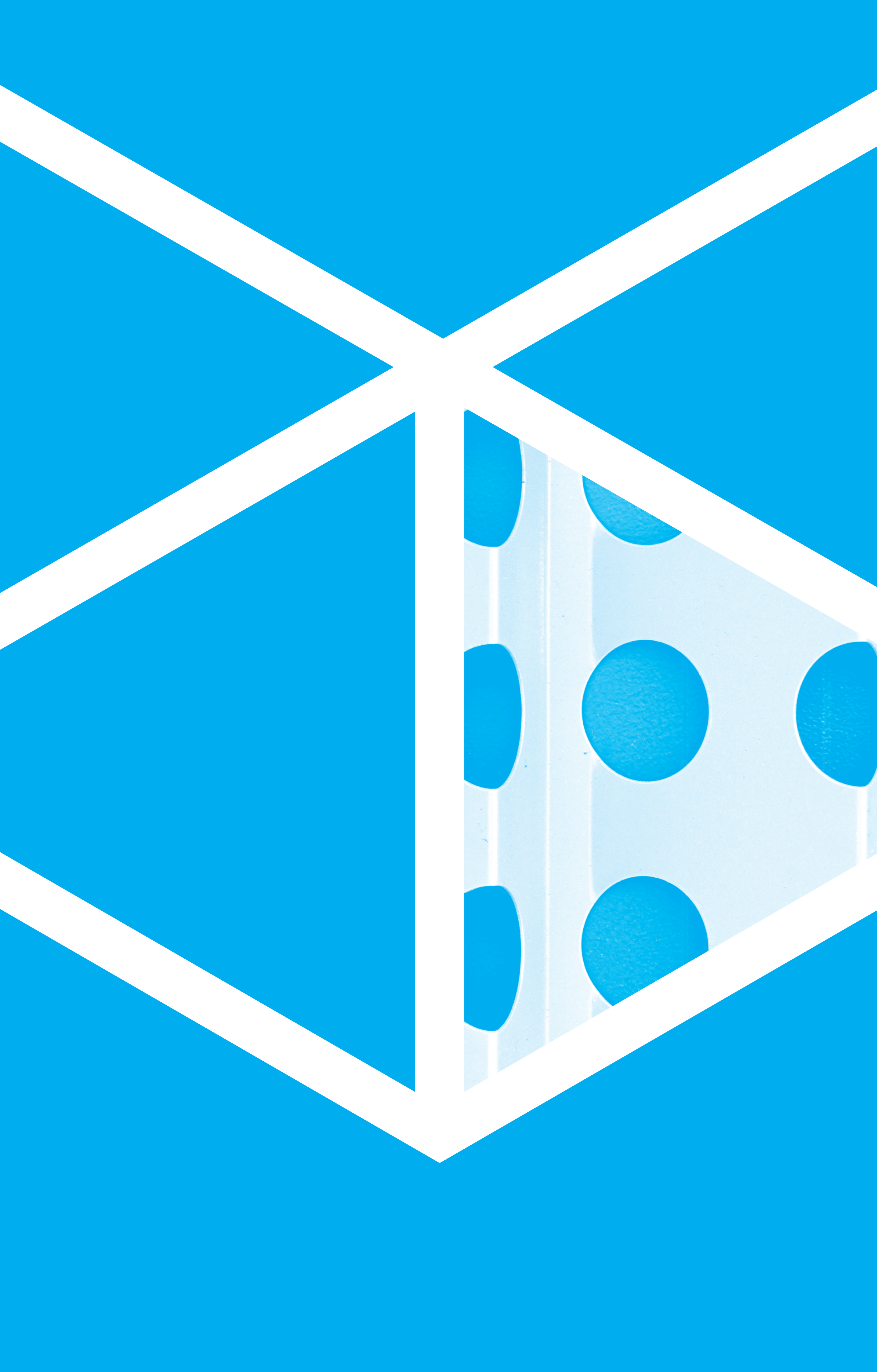
- for the province of Udine, it won the project "Albergo diffuso Sauris", which provides for the organization of experiential activities to be carried out in the lake basin of Sauris, currently not very exploited from a tourism point of view. These activities will be carried out with the use of canoes, kayaks and electric boats, along with other cultural experiences and the discovery of local agro-food products;

- for the province of Gorizia, it won the project "ISONZO: il fiume ed i suoi borghi – una storia su 2 ruote", which aims to promote tourism along the Isonzo basin through the use of bicycles, developing tourist packages with more days and making use of collaborations with local tour operators and with other local companies.

In addition to financial support, these entrepreneurial ideas will be guaranteed a light incubation path for the development of the project, managed by the Impact Hub Milano certified incubator.

And again, the Banco dell'energia – the social responsibility project that emerged from the Brescia forum – promoted by A2A with the AEM Foundation and the ASM Foundation has relaunched again, in collaboration with the Cariplo Foundation, the "Doniamo Energia2" call for proposals to identify further actions aimed at supporting economic and social vulnerability throughout Lombardy.

Lastly, as regards relations with the communities, in a more general sense, the offer of educational activities has been extended with excellent feedback from schools and citizens. The educational-interactive exhibition "Il gioco delle 4R", focused on the waste cycle and addressed to first-degree primary and secondary schools, was brought to Milan and exhibited in the various Municipalities of the city. Two days were organized, in Milan and Brescia, to conclude the contest "Missione Terra" for the 2017-2018 school year. The Milan initiative involved 35 third, fourth and fifth primary classes of 16 different institutions, in a challenge in 5 types of games, from quizzes to team games, on recycling and waste reduction, saving water and energy, separate waste collection and the fight against waste; in Brescia the same format was repeated, involving *grest* (summer groups) and families.



11
Certification of the condensed half-yearly financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree no. 58/98

Certification of the condensed half-yearly financial statements pursuant to art. 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 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 company and
   - the effective application

   of administrative and accounting procedures for the preparation of the condensed half-year financial statements in the first half-year of 2018.

2. It is also certified that:

   2.1 The condensed half-year 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-year 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-year financial statements, as well as a description of the main risks and uncertainties for the remaining six months of the year. The half-year report on operations also includes a reliable analysis of the information regarding transactions with related parties.

Milan, July 31, 2018

Luca Camerano	Andrea Crenna
(for the Board of Directors)	(Manager in charge of preparing the corporate accounting documents)

Independent Auditor's Report

A2A S.p.A.

Review report on the interim condensed consolidated financial statements as of 30 June 2018

(Translation from the original Italian text)

Building a better working world

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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, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in Group equity and consolidated cash flow statement and the related explanatory notes of A2A S.p.A. and its subsidiaries (the "A2A Group") as of 30 June 2018. 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 2018 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.

Milan, 2 August 2018

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.