Interim Condensed Consolidated Financial Statements 2014

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ACEA Organisational Model

ACEA is one of the major Italian *multiutility* operators, and has been listed on the stock exchange since 1999.

ACEA's operational model is based on an organisational structure in line with the Strategic-Business Plan that rests on a stronger governance, control and guidance role assigned to the Holding to be exercised not only with respect to the current business portfolio but also by focusing on the areas where greater value is created and on the strategic development of the Group in new business segments and regions. ACEA's macro structure is organised in corporate functions and four operating segments – Environment, Energy, Water and Networks.
The activities of each business segment are described below.

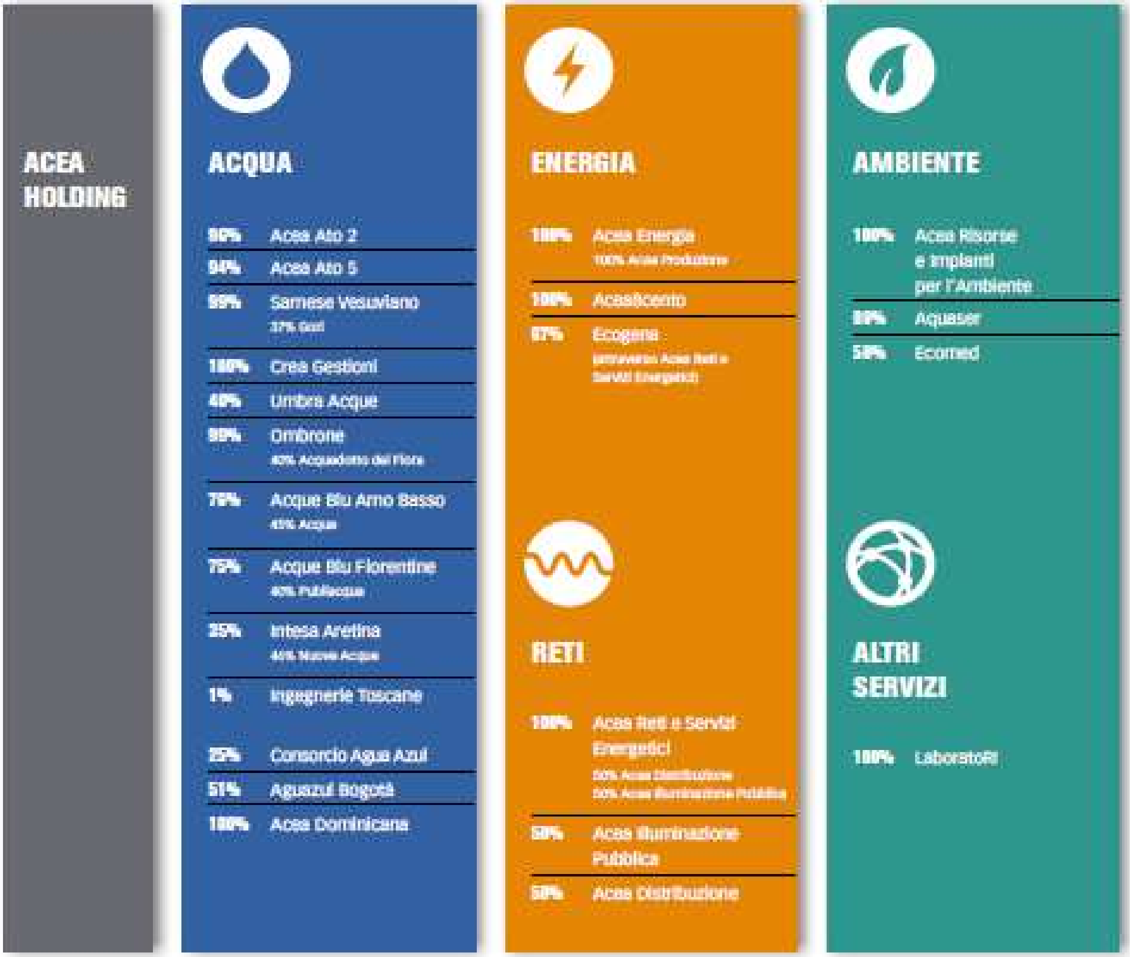
Environment segment
The ACEA Group is a major Italian operator in the urban management of environmental services. It runs waste-to-energy plants and composting plants to recover waste and turn the same into compost. In particular, the Group develops investments in the *waste to energy* business, and organic waste management, in accordance with the strategic goal of the Group aimed at producing energy from waste and protecting the environment.

Energy segment
The ACEA Group is a major *operator* in Italy in the sale of electricity and offers innovative and flexible solutions for the supply of electricity and natural gas. Acea operates in all market segments, offering its services to families and major companies alike. Finally, the Group operates in the energy generation sector, running hydroelectric and thermoelectric plants in Lazio, Umbria and Abruzzo.

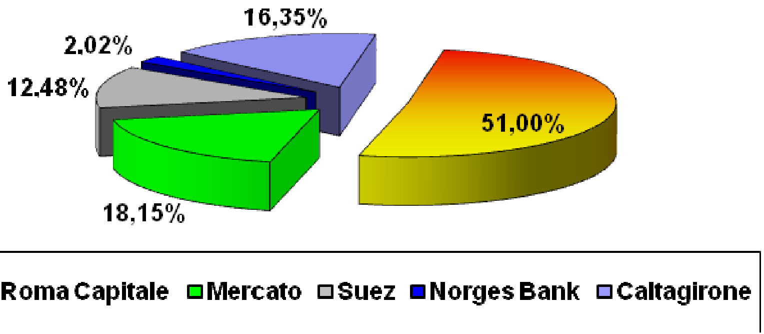
Water Segment
The ACEA Group is the biggest Italian operator in the water sector supplying water to 8.5 million people. The Group manages the integrated water service in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and Campania. The quality of the services offered by the Company is further enhanced by sustainable management of water resources and respect of the environment. The Group has developed *know how* at the forefront in the design, construction and management of integrated water systems: from the source to the aqueducts, from distribution to the sewer network, and treatment. Laboratory services are of particular importance.

Networks Segment
The ACEA Group is a major operator in Italy with over 11 TWh of electricity distributed in Rome, where the Group manages the distribution network providing services for 2.7 million people. The Group also manages the public and artistic lighting of the capital, applying solutions that strive to become more and more efficient with a lower environmental impact every year. The ACEA Group is committed to energy efficiency projects and the development of new technologies, such as *smart grids* and electric mobility, through particularly innovative pilot projects.

The Group structure, in the various business segments, comprises the following main companies.



The share capital of ACEA S.p.A. at 30 June 2014 is broken down as follows:



* *The above chart only shows equity investments of more than 2%, as per CONSOB data.*

Corporate bodies

Board of Directors [1]

Catia Tomasetti	Chairman
Alberto Irace [2]	CEO
Francesco Caltagirone	Director
Diane D'Arras	Director
Giovanni Giani	Director
Elisabetta Maggini	Director
Paola Antonia Profeta	Director

Board Of Statutory Auditors

Enrico Laghi	Chairman
Corrado Gatti	Statutory Auditor
Laura Raselli	Statutory Auditor
Franco Biancani	Alternate Auditor
Antonia Coppola	Alternate Auditor

Executive Responsible for Financial Reporting [2]

Franco Balsamo

Independent Auditors

Reconta Ernst & Young S.p.A.

[1] appointed by the Shareholders' Meeting on 05 June 2014

[2] appointed by the Board of Directors on 09 June 2014

Effects deriving from the application of IFRS10 (Consolidated Financial Statements) and IFRS11 (Joint control agreements)

From 1 January 2014 it is obligatory to adopt new international accounting standards for financial reporting.
In particular, these standards are IFRS10 (Consolidated Financial Statements) and IFRS11 (Joint control agreements)
As described in greater detail in the Consolidated Financial Statements, in order to verify whether the new concept of control will mean changes in the consolidation method used for some Companies, the Group analysed corporate deeds and documents (by-laws, shareholders' agreements, contracts…).
As well as this *on the paper* analysis, the actual dynamics of corporate governance were analysed, also taking into account the shareholders' identity, the aim of their respective equity investments and the contribution of each party to the development of business.
This analysis concerned several investments in the Acea Group companies with particular reference to the investments in the water companies in Tuscany, Umbria and Campania that, under existing ownership structure and governance provisions contained in the by-laws or in shareholders' agreements, are consolidated using the proportionate method.
Despite ACEA represents the Industrial Partner in the Companies in question, and, has ample administrative powers over all operating segments, through the Chief Executive Officer for whom Acea has designation rights according to shareholders' agreements, the result of the analysis confirmed the investments in the Water companies in Tuscany, Umbria and Campania are conventionally considered within the scope of application of IFRS 11, according to which, as of 1 January 2014, the only consolidation method allowed is the equity method.
The list of legal entities affected by said change are shown in the following table

Operating segment	Company	Consolidation method until 31/12/2013	Consolidation method as of 01/01/2014
Environment	Ecomed	Proportionate	Equity method
Energy	Umbria Energy	Proportionate	Line-by-line
	Elga Sud	Proportionate	Line-by-line
	Voghera Energia Vendita S.p.A. in liquidation	Proportionate	Equity method
Water	Consorcio Agua Azul	Proportionate	Equity method
	Acque and subsidiaries	Proportionate	Equity method
	Publiacqua and subsidiaries	Proportionate	Equity method
	Umbra Acque	Proportionate	Equity method
	Acquedotto del Fiora	Proportionate	Equity method
	GORI	Proportionate	Equity method
	Intesa Aretina and Nuove Acque	Proportionate	Equity method
Networks	Ecogena	Proportionate	Note [3]

[3] The Company Ecogena is consolidated on a line-by-line basis from 1 January 2014 due to changes in the ownership structure. For more information, please refer to the paragraph "Basis of consolidation".

Said change has a significant impact on the representation of the income statement items and statement of financial position items of the Group as, instead of using a line-by-line method on the basis of the percentage held in each company, the following has become obligatory:

- in the income statement, only show the condensed result for the period of said companies, essentially obtained from the change in net equity with respect to the result for the period and
- in the statement of financial position only show the item Equity Investments, which is increased or decreased by the condensed result for the period.

As the above-mentioned standards have retrospective effect, the statement of financial position items of the Consolidated Financial Statements at 31 December 2013 and the income statement items of the 2013 Condensed Half Year Financial Statements were *restated* and represented for merely comparative purposes.

The following tables show the changes in the consolidated income statement at 30 June 2013 and the consolidated statement of financial position at 31 December 2013.

Condensed income statement (€ millions)	30/06/2013	Effects IFRS10 and IFRS11	30/06/2013 *Restated*
Consolidated net revenue	1,790.4	(148.2)	1,642.2
Consolidated operating costs	1,420.0	(82.4)	1,337.6
Income/(Costs) from equity investments of a non-financial nature	**0.0**	**26.2**	**26.2**
Net income/(costs) from *commodity* risk management	0.0	0.0	0.0
EBITDA	**370.4**	**(39.5)**	**330.9**
Amortisation, depreciation, impairment charges and provisions	183.8	(34.7)	149.1
EBIT	**186.6**	**(4.8)**	**181.8**
Finance income/(costs)	(40.3)	11.1	(51.4)
Income/(Costs) from equity investments	(1.8)	0.0	(1.8)
Profit/(loss) before tax	**144.5**	**(15.9)**	**128.6**
Taxation	67.5	(15.9)	51.6
Net profit (loss)	**77.0**	**0.1**	**77.1**
Profit/(loss) attributable to non-controlling interests	6.4	0.0	6.4
Net profit/(loss) attributable to the Group	**70.6**	**0.0**	**70.6**

As can be seen in the above statement, the condensed result deriving from consolidation using the *equity method* is included among the components of the Consolidated Gross operating profit (EBITDA), in the item **(Costs)/Income from equity investments of a non-financial nature**, as no events occurred leading to a change in the by-laws or shareholders' agreements provisions and in the managerial activities of the industrial partner.

Condensed Statement of Financial Position (€ millions)	31/12/2013	Effects IFRS10 and IFRS11	31/12/2013 *Restated*
Property, plant and equipment and intangible assets	3,970.2	(578.3)	3,395.1
Goodwill	149.0	0.6	149.6
Equity investments	14.7	200.6	215.3
Other non-current assets	464.7	(69.0)	392.5
Non-current assets	**4,598.5**	**(446.0)**	**4,152.5**

Condensed Statement of Financial Position (€ millions)	31/12/2013	Effects IFRS10 and IFRS11	31/12/2013 *Restated*
Inventories	37.3	(3.6)	33.8
Trade receivables	1,500.7	(154.1)	1,346.6
Cash and cash equivalents	589.5	(26.4)	563.1
Other current assets	354.6	(32.9)	321.7
Current assets	**2,482.1**	**(217.0)**	**2,265.1**
Assets held for sale	6.7	0.0	6.7
Total assets	**7,087.4**	**(663.1)**	**6,424.3**
Group Shareholders' Equity	1,322.6	0.0	1,322.6
Non-controlling interests	82.8	1.4	84.2
Shareholders' equity	**1,405.4**	**1.4**	**1,406.8**
Staff termination benefits and other defined benefit plans	117.4	(10.5)	106.9
Borrowings and financial liabilities	2,507.6	(146.7)	2,360.9
Provision for liabilities and charges	262.5	(56.5)	206.1
Other non-current liabilities	456.2	(201.7)	254.5
Non-current liabilities	**3,343.8**	**(415.4)**	**2,928.4**
Trade payables	1,306.9	(99.3)	1,207.6
Borrowings	698.1	(98.2)	599.9
Other current liabilities	331.8	(51.5)	208.3
Current liabilities	**2,336.8**	**(249.0)**	**2,087.8**
Liabilities directly associated with assets held for sale	**1.3**	**0.0**	**1.3**
Total Liabilities and Shareholders' Equity	**7,087.4**	**(663.1)**	**6,424.3**

Application of IFRS 10 and 11: 2013 restatement

Income Statement

	At 31/03/2013 *Restated*	At 30/06/2013 *Restated*	At 30/09/2013 *Restated*	At 31/12/2013 *Restated*
Revenue from sales and services	812.1	1,616.5	2,374.0	3,203.6
Other revenue and proceeds	10.9	25.7	36.3	85.4
Consolidated net revenue	**823.1**	**1,642.2**	**2,410.3**	**3,289.0**
Staff costs	57.2	118.7	179.3	238.3
Costs of materials and overheads	614.3	1,218.9	1,778.5	2,405.7
Consolidated operating costs	**671.5**	**1,337.6**	**1,957.8**	**2,644.0**
Net income/(costs) from commodity risk management	0.0	0.0	0.1	0.1
Income/(Costs) from equity investments of a non-financial nature	5.4	26.2	31.8	30.3
Gross Operating Profit	**157.0**	**330.8**	**484.4**	**675.4**
Amortisation, depreciation, provisions and impairment charges	67.7	149.1	215.3	312.2
Operating profit/(loss)	**89.3**	**181.8**	**269.0**	**363.2**
Financial income	5.6	10.0	17.0	27.1
Financial costs	(28.8)	(61.3)	(91.8)	(126.4)
Income/(Costs) from Equity Investments	1.4	(1.8)	(2.5)	(4.8)
Profit/(loss) before tax	**67.5**	**128.6**	**191.7**	**259.2**
Taxation	28.6	51.6	78.2	105.8
Net profit/(loss)	**38.9**	**77.1**	**113.5**	**153.4**
Profit/(loss) attributable to non-controlling interests	*2.1*	*6.4*	*8.9*	*11.4*
Net profit/(loss) attributable to the Group	**36.8**	**70.6**	**104.6**	**141.9**
Earnings (loss) per share (€)				
Basic	0.1729	0.3316	0.4909	0.6665
Diluted	0.1729	0.3316	0.4909	0.6665

Amount € millions

Statement of Financial Position

ASSETS	At 31/03/2013 *Restated*	At 30/06/2013 *Restated*	At 30/09/2013 *Restated*	At 31/12/2013 *Restated*
Property, plant and equipment	2,008.0	2,012.0	2,019.0	2,006.2
Investment property	2.9	2.9	2.9	2.9
Goodwill	147.7	147.7	149.8	149.6
Concessions	1,263.2	1,285.9	1,302.9	1,317.3
Other intangible fixed assets	71.2	63.9	67.9	68.8
Equity investments in subsidiaries and associates	189.8	208.2	211.4	212.0
Other equity investments	4.8	4.7	4.7	3.3
Deferred tax assets	330.3	332.5	338.5	309.0
Financial assets	31.8	34.2	34.5	34.8
Other assets	52.3	51.3	50.0	48.8
NON-CURRENT ASSETS	**4,102.0**	**4,143.4**	**4,181.5**	**4,152.5**
Inventories	38.8	37.9	37.9	33.8
Trade receivables	1,406.4	1,342.6	1,326.9	1,346.6
Other current assets	129.4	104.3	95.5	111.4
Current tax assets	65.3	58.2	101.1	92.0
Current financial assets	167.2	126.4	143.4	118.3
Cash and cash equivalents	163.0	281.8	360.9	563.1
CURRENT ASSETS	**1,970.2**	**1,951.2**	**2,065.8**	**2,265.1**
Non-current assets held for sale	**6.7**	**6.7**	**0.0**	**6.7**
TOTAL ASSETS	**6,078.9**	**6,101.3**	**6,247.3**	**6,424.3**

LIABILITIES	At 31/03/2013 *Restated*	At 30/06/2013 *Restated*	At 30/09/2013 *Restated*	At 31/12/2013 *Restated*
Shareholders' equity				
share capital	1,098.9	1,098.9	1,098.9	1,098.9
statutory reserve	162.2	167.2	167.2	167.4
other reserves	(446.5)	(439.8)	(435.2)	(468.7)
retained earnings/ (losses)	422.9	398.1	396.1	383.1
profit (loss) for the year	36.8	70.6	104.6	141.9
Total Group shareholders' equity	**1,274.3**	**1,295.0**	**1,331.5**	**1,322.6**
Non-controlling interests	79.7	81.9	84.1	84.2
Total shareholders' equity	**1,354.0**	**1,376.9**	**1,415.6**	**1,406.8**
Staff termination benefits and other defined benefit plans	113.9	115.5	112.4	106.9
Provision for liabilities and charges	217.9	204.2	201.1	206.1
Borrowings and financial liabilities	2,017.0	1,998.5	2,379.2	2,360.9
Other liabilities	157.1	156.8	158.1	161.5
Provision for deferred taxes	85.3	88.6	92.1	93.0
NON-CURRENT LIABILITIES	**2,591.1**	**2,563.5**	**2,942.8**	**2,928.4**
Trade payables	1,086.7	1,121.5	1,067.6	1,207.6
Other current liabilities	227.7	241.7	229.4	239.1
Borrowings	749.0	699.0	478.2	599.9
Tax Payables	69.0	97.4	113.6	41.2
CURRENT LIABILITIES	2,132.4	2,159.6	1,888.9	2,087.8
Liabilities directly associated with assets held for sale	**1.3**	**1.3**	**0.0**	**1.3**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**6,078.9**	**6,101.3**	**6,247.3**	**6,424.3**

Amount € millions

Summary of Results

As described in the previous paragraph, due to the effect of international accounting standards IFRS10 and IFRS11 coming into force, the income statement data at 30 June 2013 and the balance sheet data at 31 December 2013 were *restated* and are shown for merely comparative reasons.

Income Statement Data (million euros)	30/06/2014	30/06/2013 *restated*	Increase/(Decrease) absolute	% Increase/ (Decrease)
Consolidated net revenue	1,511.2	1,642.2	(131.0)	(8.0%)
Consolidated operating costs	1,188.8	1,337.6	(148.8)	(11.1%)
Income/(Costs) from equity investments of a non-financial nature	8.6	26.2	(17.6)	(67.1%)
- of which: EBITDA	60.6	65.9	(5.3)	(8.0%)
- of which: Amortisation, depreciation, impairment charges and provisions	(39.5)	(34.8)	(4.7)	13.4%
- of which: Financing activities	(4.9)	11.2	(16.0)	144.2%
- of which: (Profit)/ loss on investments	0.0	0.0	0.0	0.0%
- of which: Taxation	(7.6)	(16.0)	8.4	52.6%
Net income/(costs) from *commodity* risk management	0.0	0.0	0.0	0.0%
EBITDA	**331.0**	**330.8**	**0.2**	**0.0%**
EBIT	**188.4**	**181.8**	**6.6**	**3.6%**
Net profit (loss)	**83.7**	**77.1**	**6.6**	**8.6%**
Profit/(loss) attributable to non-controlling interests	3.2	6.5	(3.3)	(50.6%)
Net profit/(loss) attributable to the Group	**80.5**	**70.6**	**9.9**	**14.0%**

EBITDA per Operating Segment (million euros)	30/06/2014	30/06/2013 *restated*	Increase/(Decrease) absolute	% Increase/ (Decrease)
ENVIRONMENT	**27.8**	**23.6**	**4.2**	**17.8%**
ENERGY	**45.6**	**44.5**	**1.1**	**2.6%**
Production	19.1	20.5	(1.3)	(6.7%)
Sales	26.5	24.0	2.5	10.5%
WATER:	**138.2**	**139.9**	**(1.7)**	**(1.2%)**
Overseas	1.4	2.2	(0.8)	(35.1%)
Lazio - Campania	125.9	118.7	7.2	6.0%
Tuscany - Umbria	6.6	13.9	(7.4)	(53.0%)
Engineering	4.4	5.0	(0.7)	(35.1%)
NETWORKS	**119.1**	**119.9**	**(0.8)**	**(0.6%)**
ACEA (Corporate)	**0.2**	**3.0**	**(2.8)**	**(94.3%)**
Total EBITDA	**331.0**	**330.8**	**0.2**	**0.0%**

Balance sheet data (million euros)	30/06/2014	31/12/2013 *restated*	Increase/ (Decrease) absolute	30/06/2013 *restated*	Increase/ (Decrease) absolute
Net Invested Capital	**3,803.8**	**3,655.5**	**148.3**	**3,633.4**	**170.3**
Net Debt	**(2,376.7)**	**(2,248.6)**	**(128.1)**	**(2,256.6)**	**(120.2)**
Consolidated Shareholders' Equity	**(1,427.0)**	**(1,406.8)**	**(20.2)**	**(1,376.9)**	**(50.2)**

Net Debt per Operating Segment (million euros)	30/06/2014	31/12/2013 *restated*	Increase/ (Decrease) absolute	30/06/2013 *restated*	Increase/ (Decrease) absolute
ENVIRONMENT	**178.9**	**184.6**	**(5.7)**	**194.1**	**(15.2)**
ENERGY	**403.0**	**302.6**	**100.4**	**319.2**	**83.8**
Production	144.5	140.7	3.8	153.9	(9.4)
Energy Management	0.0	(33.2)	33.2	(53.1)	53.1
Sales	258.5	195.2	63.3	218.4	40.2
WATER	**692.6**	**610.8**	**81.8**	**596.3**	**96.3**
Overseas	(1.9)	(9.6)	7.7	(9.3)	7.4
Lazio - Campania	685.3	617.7	67.6	601.3	84.0
Tuscany - Umbria	(1.1)	(0.2)	(0.9)	(0.2)	(0.9)
Engineering	10.4	2.9	7.5	4.6	5.8
NETWORKS	**657.8**	**683.5**	**(25.7)**	**725.9**	**(68.1)**
ACEA (includes also public lighting)	**444.4**	**467.0**	**(22.5)**	**421.1**	**23.3**
Total	**2,376.7**	**2,248.6**	**128.2**	**2,256.6**	**120.2**

Capex per Operating Segment (million euros)	30/06/2014	30/06/2013 *restated*	Increase/(Decrease) absolute
ENVIRONMENT	**4.6**	**4.8**	**(0.3)**
ENERGY	**6.6**	**5.3**	**1.3**
Production	4.4	2.9	1.5
Energy Management	0.0	0.0	0.0
Sales	2.2	2.4	(0.1)
WATER	**67.6**	**68.7**	**(1.1)**
Overseas	0.6	0.1	0.5
Lazio - Campania	66.9	68.5	(1.6)
Tuscany - Umbria	0.0	0.0	0.0
Engineering	0.2	0.1	0.1
NETWORKS	**59.1**	**52.0**	**7.1**
ACEA (Corporate)	**4.4**	**4.4**	**0.0**
Total	**142.4**	**135.2**	**7.2**

If the Group continued to apply the accounting standards used up to 31 December 2013, the main income statement and balance sheet data would be as shown in the following tables.

Income Statement Data (million euros)	30/06/2014 *adjusted*	30/06/2013	Increase/ (Decrease) absolute	% Increase/ (Decrease)
EBITDA	**383.0**	**370.4**	**12.6**	**3.4%**
EBIT	**200.9**	**186.6**	**14.3**	**7.7%**
Net profit (loss)	**83.7**	**77.0**	**6.7**	**8.7%**

Income Statement Data (million euros)	30/06/2014	*adjusted*	30/06/2014 *adjusted*	30/06/2013	Increase/ (Decrease) absolute	% Increase/ (Decrease)
EBITDA	**331.0**	**52.0**	**383.0**	**370.4**	**12.6**	**3.4%**
- Amortisation, depreciation, impairment charges and provisions	142.6	39.5	182.1	183.7	(1.7)	(0.9%)
EBIT	**188.4**	**12.5**	**200.9**	**186.6**	**14.3**	**7.6%**
- Financing activities	(50.9)	(4.9)	(55.8)	(40.3)	(15.5)	38.6%
- (Costs)/Income from investments	1.1	0.0	1.1	(1.8)	2.9	(159.0%)
Profit/(loss) before tax	**138.6**	**7.6**	**146.2**	**144.5**	**1.6**	**1.1%**
- Taxation	54.9	7.6	62.4	67.5	(5.1)	(7.5%)
Net profit (loss)	**83.7**	**0.0**	**83.7**	**77.0**	**6.7**	**8.7%**
Profit/(loss) attributable to non-controlling interests	3.2	0.0	3.2	6.4	(3.2)	(50.3%)
Net profit/(loss) attributable to the Group	**80.5**	**0.0**	**80.5**	**70.6**	**9.9**	**14.0%**

EBITDA per Operating Segment (million euros)	30/06/2014 *adjusted*	30/06/2013	Increase/ (Decrease) absolute	% Increase/ (Decrease)
ENVIRONMENT	**27.8**	**23.6**	**4.2**	**17.7%**
ENERGY	**45.8**	**44.7**	**1.1**	**2.4%**
WATER:	**190.1**	**179.3**	**10.8**	**6.0%**
NETWORKS	**119.1**	**119.9**	**(0.8)**	**(0.7%)**
ACEA (Corporate)	**0.2**	**3.0**	**(2.8)**	**(94.3%)**
Total EBITDA	**383.0**	**370.4**	**12.6**	**3.4%**

Balance sheet data (million euros)	30/06/2014 *adjusted*	30/06/2013	Increase/(Decrease) absolute	% Increase/ (Decrease)
Capex	**176.2**	**165.7**	**10.5**	**6.3%**
Net Debt	**(2,620.9)**	**(2,479.1)**	**141.8**	**5.7%**

Balance sheet data (million euros)	30/06/2014 *adjusted*	31/12/2013	Increase/(Decrease) absolute	% Increase/ (Decrease)
Net Debt	**(2,620.9)**	**(2,468.2)**	**152.7**	**6.2%**

Review of operating and financial performance

Definition of alternative *performance* indicators

In line with Recommendation CESR/05-178b, the content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. for the ACEA Group the *gross operating profit* or EBITDA is an operating performance indicator calculated by adding together the Operating profit and "Amortisation, depreciation, provisions and impairment charges";
2. *net financial position* is an indicator of the ACEA Group's financial structure, obtained by adding together Non-current borrowings and financial liabilities net of Non-current financial assets (loans and receivables and securities other than equity investments), Current borrowings and other Current liabilities net of Current financial assets, cash and cash equivalents;
3. *net invested capital* is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account in calculating the *net financial position*

ACEA Group results of operations

The following is a comment to the performance of the period; data as at 30 June 2014 are compared with those for the same period of the previous year appropriately "restated" as fully described in the section "Effects from adoption of IFRS10 (Consolidated Financial Statements) and IFRS11 (Joint control arrangements)" in this document.

Notes Ref.	€ millions	30/06/2014	30/06/2013 *Restated*	Increase/ (Decrease)	% Increase/ (Decrease)
	Revenue from sales and services	1,452.5	1,616.5	(164.0)	(10.1%)
	Other revenue and proceeds	58.7	25.7	33.0	128.2%
1	**Consolidated net revenue**	**1,511.2**	**1,642.2**	**(131.0)**	**(8.0%)**
	Staff costs	126.4	118.7	7.6	6.4%
	Costs of materials and overheads	1,062.5	1,218.9	(156.4)	(12.8%)
2	**Consolidated operating costs**	**1,188.8**	**1,337.6**	**(148.8)**	**(11.1%)**
3	**Net income/(costs) from commodity risk management**	**0.0**	**0.0**	**0.0**	**0.0%**
4	**Income/(Costs) from equity investments of a non-financial nature**	**8.6**	**26.2**	**(17.6)**	**(67.1%)**
	Gross Operating Profit	**331.0**	**330.8**	**0.2**	**0.0%**
5	Amortisation, depreciation, provisions and impairment charges	142.6	149.1	(6.5)	(4.3%)
	Operating profit/(loss)	**188.4**	**181.8**	**6.6**	**3.6%**
6	Financial income	12.0	10.0	2.0	19.8%
6	Financial costs	(62.8)	(61.3)	(1.5)	2.5%
7	Income/(Costs) from Equity Investments	1.1	(1.8)	2.9	(159.0%)
	Profit/(loss) before tax	**138.6**	**128.6**	**10.0**	**7.7%**
8	Taxation	54.8	51.6	3.2	6.4%
	Net profit/(loss)	**83.7**	**77.1**	**6.6**	**8.6%**
	Profit/(loss) attributable to non-controlling interests	*3.2*	*6.4*	*(3.2)*	*(50.6%)*
	Net profit/(loss) attributable to the Group	**80.5**	**70.6**	**9.9**	**14.0%**
9	Earnings (loss) per share (€)				
	Basic	0.3782	0.3316	0.0466	
	Diluted	0.3782	0.3316	0.0466	

Consolidated net revenue

As at 30 June 2014 these amounted to 1,511.2 million euros (1,642.2 million euros at 30 June 2013), recording a decrease of 131 million euros (-8%) over the previous year, and are broken down as follows.

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue from sales and services	1,452.5	1,616.5	(164.0)	(10.1%)
Other revenue and proceeds	58.7	25.7	33.0	128.2%
Consolidated net revenue	**1,511.2**	**1,642.2**	**(131.0)**	**(8.0%)**

1. Revenue from sales and services - 1,452.5 *million euros*

This item reported an overall decrease of 164 million euros (-10.1%) compared to 30 June 2013, which closed with a total of 1,616.5 million euros.

The breakdown of this item is provided in the following table.

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue from electricity sales and services	1,033.9	1,216.8	(183.0)	(15.0%)
Revenue from gas sales	37.5	39.2	(1.7)	(4.3%)
Revenue from the sale of certificates and rights	10.8	8.5	2.3	26.7%
Revenue from the Integrated Water Service	284.1	266.5	17.7	6.6%
Revenue from Overseas Water Services	3.9	5.7	(1.7)	(30.3%)
Revenue from biomass transfer and landfill management	21.0	18.4	2.6	14.4%
Revenue from services to customers	44.3	48.6	(4.3)	(8.8%)
Connection fees	17.0	12.9	4.0	31.3%
Revenue from sales and services	**1,452.5**	**1,616.5**	**(164.0)**	**(10.1%)**

Revenue from electricity sales and services dropped 183 million euros to 1,033.9 million euros compared to last year. This decrease was mainly caused by the following events:

- A 176.0 million euros reduction from the sale of electrical energy as a result of lower quantities sold (both in the protected categories market -7.2% and the Free Market -16.1%);
- Decrease of 3.2 million euros in revenue from the transport and metering of energy due to the different value attributed to the tariff parameters, as well as the combined effect of the reduced electricity fed into the grid and lower volumes;
- A 1.5 million euros decrease in revenues from electricity and heat generation due to lower prices for district heating.

Revenues from the **sale of certificates and rights** recorded an increase of 2.3 million euros mainly due to green certificates accruing as a result of higher volumes produced by ARIA plants.

Revenues from the Integrated Water Services rose by 17.7 million euros mainly from the adjustment of the 2014 tariffs of Acea Ato2 and Acea Ato5. This positive change was also due to the adjustments of "pass-through items", i.e. the taking into account in the tariff of some types of costs related to 2012. More specifically, for Acea Ato2 these adjustments contributed 8.3 million euros to revenue growth in the first six months and included coverage of the costs incurred to address the environmental emergency and other elements of cost (i.e. electricity and local charges) as well as inflation as envisaged in the regulation in force.

Overseas revenues dropped 1.7 million euros, mainly in relation to Aguazul Bogotá.

Revenue from biomass transfer and landfill management increased by 2.6 million euros. Performance in the first half of 2014 mainly refers to ARIA and was driven by an increase in both transferred quantities (especially from agriculture and composting) and average price.

Revenue from services to customers dropped 4.3 million euros mainly due to:
- fewer new installations in the Roma Capitale contract amounting to 0.9 million euros;
- a 1.4 million euros reduction in services provided to Group companies;
- a 2.0 million euros decrease in revenues for work done for third parties.

Connection fees increased by 4.0 million euros mainly attributable to Acea Distribuzione.

Other revenue and proceeds - *58.7 million euros*

They recorded an increase of 33.0 million euros. Broken down as follows:

	30/06/2014	30/06/2013 *Restated*	Increase/ (Decrease)	% Increase/ (Decrease)
Contributions from Entities for Energy Efficiency Certificates	31.3	0.0	31.3	100%
Non-recurring gains and other revenues	14.7	15.0	(0.3)	(1.9%)
Reimbursement for damages, penalties and charge-backs	4.0	3.8	0.2	4.8%
Feed-in-tariff	2.1	2.5	(0.4)	(16.7%)
Government grant (Prime Ministerial Decree of 23/04/04)	1.9	0.0	1.9	100%
Regional grants	1.0	0.8	0.2	22.0%
Income from end users	0.9	0.6	0.3	54.8%
Seconded staff	0.8	1.2	(0.4)	(34.4%)
Property income	0.7	0.7	0.0	2.7%
IFRIC 12 margin	0.6	0.5	0.0	8.9%
Recharged cost for company officers	0.5	0.5	0.0	1.9%
Gains on asset disposals	0.1	0.0	0.1	100%
Other revenue and proceeds	**58.7**	**25.7**	**33.0**	**128.2%**

The change compared to 30 June 2013 was due to:

(i) revenues recognized for 31.3 million euros resulting from recognition of white certificates, of which 22.9 million euros refer to the estimated tariff contribution due to ACEA Distribuzione in relation to its meeting the 2013 and 2014 obligation and 8.4 million euros refer to the release of the provision for risks and charges allocated in 2013 to cover the costs for purchasing the certificates during the reporting period in order to meet the aforementioned regulatory energy efficiency requirement;

(ii) 1.9 million euros increase in the contribution granted by the Italian Government to supplement income deriving from the services supplied to the Vatican State. The change is due to the different treatment of the grant in determining the restriction on the Guaranteed Income (VRG) of ACEA Ato2.

2. **Consolidated operating costs -** 1,188.8 *million euros*

The breakdown is provided in the following table.

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)	% Increase/ (Decrease)
Staff costs	126.4	118.7	7.6	6.4%
Costs of materials and overheads	1,062.5	1,218.9	(156.4)	(12.8%)
Consolidated operating costs	**1,188.8**	**1,337.6**	**(148.8)**	**(11.1%)**

Staff costs - *126.4 million euros*

The increase in staff costs, inclusive of capitalised costs, amounted to 8.9 million euros and was influenced by the partial release in the first quarter of 2013 of provisions allocated for MBO and Bonuses to be paid to Executives and Middle Managers as the objectives were only partially achieved.

Staff costs for the period were affected by the reduction in average workforce (decrease of 45 persons), partially offset by higher average per capita costs resulting from the renewal of employment contracts and remuneration policies and from certain management-related factors such as overtime and availability.

Performance by Operating Segment, net of capitalised costs, is shown in the following table:

€ millions	30/06/2014	30/06/2013 *Restated*	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	5.5	4.8	0.6	13.2%
Energy	13.6	13.0	0.6	4.9%
Water	42.0	41.7	0.2	0.6%
Networks	36.5	36.3	0.3	0.7%
Parent Company	28.8	22.9	5.9	25.5%
Staff costs	**126.4**	**118.7**	**7.6**	**6.4%**

Cost of materials and overheads- *1,062.5 million euros*

This item reported an overall decrease of 156.4 million euros (-12.8% compared to 30 June 2013, when it amounted to 1,218.9 million euros).

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)	% Increase/ (Decrease)
Electricity, gas and fuel	889.1	1,041.9	(152.8)	(14.7%)
Services	115.4	117.0	(1.6)	(1.3%)
Concession fees	21.4	20.2	1.2	6.1%
Materials	13.1	14.6	(1.5)	(10.4%)
Other operating costs	12.4	13.9	(1.6)	(11.3%)
Cost of leased assets	11.1	11.3	(0.2)	(1.4%)
Costs of materials and overheads	**1,062.5**	**1,218.9**	**(156.4)**	**(12.8%)**

Purchase costs of electricity, gas and fuel amounted to 889.1 million euros, down 152.8 million euros from the previous year. This decrease is attributable to the costs for electrical energy procurement for the protected and free markets along with the related transport costs and to fuel and gas costs amounting to a total of 179.4 million euros as a result of the lower quantities sold in the period. This performance was partially offset by charges for the purchase of white certificates incurred by ACEA Distribuzione and Arse, of 21.2 million euros and 4.4 million euros respectively.

Service costs dropped 1.6 million euros to 115.4 million euros compared to last year. This trend is mainly caused by: **i)** a 2.0 million euros decrease in the costs for electricity and water **ii)** a decrease in the costs incurred for sponsorships.

Concession fees increased by 1.2 million euros to 21.4 million euros at 30 June 2014. This performance was mainly due to higher costs incurred by ACEA Ato2 of 1.1 million euros.

Costs for the purchase of materials dropped 1.5 million euros to 13.1 million euros, the decrease affecting all operating segments.

Other operating costs amounted to 12.4 million euros, dropping 1.6 million euros compared to the first half of 2013. The change reflects the decrease in general and administrative expenses and non-recurring losses relating to costs pertaining to previous years and adjustments to previously recognized revenues.

Cost of leased assets decreased by 0.2 million euros following the decrease in other payments and rental costs.

3. Net income/(costs) from commodity risk management- *(0.0) million euros*

At 30 June 2014 the change in the *Fair Value* measurement of financial contracts was essentially 0 million euros.
The portfolio of financial instruments under *Hedge Accounting* was the predominant component of the overall portfolio.
For further details please refer to the section *"Additional disclosures on financial instruments and risk management policies"* in the 2013 Consolidated Financial Statements.

4. Income/(Costs) from equity investments of a non-financial nature - *8.6 million euros*

This item represents the consolidated result according to the *equity method* that is included among the components of the consolidated EBITDA. The breakdown of this item is detailed below:

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)
GROSS OPERATING PROFIT	60.6	65.9	(5.3)
Amortisation, depreciation, impairment charges and provisions	(39.5)	(34.8)	(4.7)
Financing activities	(4.9)	11.2	(16.1)
Taxation	(7.6)	(16.0)	8.4
Total	**8.6**	**26.2**	**(17.6)**

The decrease compared to 30 June 2013 was principally due to:

- ✓ with regard to Gross Operating Profit, recognition in the first half of 2013 of higher revenues (12.8 million euros) pertaining to the 2012 financial year, with specific reference to the FNI (New Investments Fund) component approved by the Area Authorities in the first half of 2013;
- ✓ with regard to financing activities, recognition in the 2013 half-year financial statements of financial income of 14.4 million euros, arising from the discounting to present value of GORI's payable to the Campania Region; it is recalled that in June 2013 GORI, the Area

Authority and the Campania Region signed an agreement that, inter alia, set the payable related to water purchases at 212 million euros (Group share 78.6 million euros) and established a twenty-year repayment plan with interest payable as of the eleventh year.

Excluding the effects of these extraordinary items, performance for the period was broadly in line with that of the first half of 2013.

5. Amortisation, depreciation, provisions and impairment charges - *142.6 million euros*

€ millions	30/06/2014	30/06/2013 *Restated*	Increase/(Decrease)	% Increase/ (Decrease)
Amortisation and depreciation	93.2	91.0	2.2	2.4%
Provision for impairment of receivables	40.6	39.6	1.0	2.6%
Provision for liabilities and charges	8.7	18.4	(9.7)	(52.5%)
Total	**142.6**	**149.1**	**(6.5)**	**(4.3%)**

Depreciation, amortization and accumulated impairment charges were up 2.2 million euros (+ 2.4%) to 93.2 million euros. This increase is attributable to: **i)** ACEA Produzione due to the reduction in the useful life of the Tor di Valle plant as a result of a technical and engineering analysis of the entire production site which led to a reassessment of the useful lives of certain components; **ii)** ACEA Distribuzione (+ 1.7 million euros) and Acea Ato2 (+ 1.6 million euros); partially offset by lower depreciation and amortization of A.R.I.A. due to the completion of the line I of the San Vittore Lazio WTE plant, currently undergoing *revamping works.*

The **impairment of receivables** amounted to 40.6 million euros with an increase of 1.0 million euros.

Allocation to the **provision** for liabilities and charges amounted to 8.7 million euros (- 52.5% compared to the first six months of 2013). The decrease is mainly attributable to lower allocations to the provisions (i) for early retirement and redundancy of 8.5 million euros; (ii) for legal risks of 2.0 million euros; (iii) for risks related to contributions of 1.4 million euros, partially offset by higher provisions made against the potential charge of an additional regional and local fee.

6. Finance (costs) and income - *(50.9) million euros*

Net finance costs totalled 50.9 million euros, dropping 0.5 million euros. In particular, this is due to: **i)** the decrease in the average *"all in"* global cost of ACEA Group borrowings (3.42% in 2014 against 3.45% in the previous six months), **ii)** the decrease in commissions on receivables sold (- 4.4 million euros), partially offset by an increase in interest on bonds, with respect to the interest on the Bond issued in early September 2013.

7. Income and costs from Equity Investments - *1.1 million euros*

These refer to the result of the consolidation under the equity method of certain Group companies, with specific reference to Agua de San Pedro, GEAL and Sienergia. The item also includes the result (2.3 million euros) of the valuation at equity of the investee Marco Polo.

8. Taxation for the period - *54.8 million euros*

Overall tax expenses for the period were estimated at 54.8 million euros compared to 51.6 million euros at 30 June 2013.

The *tax rate for* the period stood at 39.6%, down 1.2% on the reference period, while it was 40.1% in the previous six months.

9. Earnings per share

€ thousand	**30/06/2014**	**30/06/2013 *Restated***	**Increase/ (Decrease)**
Net profit attributable to the Group (€/000)	80,538	70,619	9,919
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	80,538	70,619	9,919
Weighted average number of ordinary shares outstanding for the purpose of determining earnings per share			
- basic (B)	212,964,900	212,964,900	0
- diluted (C)	212,964,900	212,964,900	0
Earnings per share (€)			
- basic (A/B)	**0.3782**	**0.3316**	**0.0466**
- diluted (A/C)	**0.3782**	**0.3316**	**0.0466**

ACEA Group financial position and cash flows

Ref Note	ACEA GROUP STATEMENT OF FINANCIAL POSITION (in millions of euros)	30/06/2014 (a)	31/12/2013 Restated (b)	Increase/ (Decrease) (a) - (b)	% Increase/ (Decrease)	30/06/2013 Restated (c)	Increase/ (Decrease (a) - (c)	% Increase/ (Decrease)
	NON-CURRENT ASSETS AND LIABILITIES	**3,627.9**	**3,559.7**	**68.3**	**1.9%**	**3,550.9**	**77.0**	**2.2%**
10	Property, plant and equipment and intangible assets	3,604.6	3,551.5	53.1	1.5%	3,519.2	85.4	2.4%
11	Equity investments	216.7	215.3	1.4	0.7%	212.9	3.8	1.8%
12	Other non-current assets	358.9	357.7	1.1	0.3%	383.9	(25.0)	(6.5%)
13	Staff termination benefits and other defined benefit plans	(111.8)	(106.9)	(4.9)	4.5%	(115.5)	3.7	(3.2%)
14	Provisions for liabilities and charges	(183.9)	(203.4)	19.5	(9.6%)	(204.2)	20.3	(10.0%)
15	Other non-current liabilities	(256.6)	(254.5)	(2.1)	0.8%	(245.3)	(11.2)	4.6%
	NET WORKING CAPITAL	**175.8**	**95.8**	**80.0**	**83.6%**	**82.5**	**93.3**	**113.1%**
16	Current receivables	1,440.8	1,346.6	94.2	7.0%	1,342.6	98.2	7.3%
17	Inventories	34.3	33.8	0.5	1.6%	37.9	(3.6)	(9.6%)
18	Other current assets	201.9	203.4	(1.5)	(0.7%)	162.5	39.4	24.2%
19	Current payables	(1,163.9)	(1,207.6)	43.7	(3.6%)	(1,121.5)	(42.4)	3.8%
20	Other current liabilities	(337.3)	(280.3)	(57.0)	20.3%	(339.1)	1.8	(0.5%)
	INVESTED CAPITAL	**3,803.8**	**3,655.5**	**148.3**	**4.1%**	**3,633.4**	**170.3**	**4.7%**
21	**NET DEBT**	**(2,376.7)**	**(2,248.6)**	**(128.1)**	**5.7%**	**(2,256.6)**	**(120.2)**	**5.3%**
	Medium/long-term loans and receivables	34.0	34.8	(0.8)	(2.2%)	34.2	(0.2)	(0.5%)
	Medium/long-term borrowings	(2,351.3)	(2,360.9)	9.6	(0.4%)	(1,998.5)	(352.8)	17.7%
	Short-term loans and receivables	119.6	115.6	4.0	3.5%	126.4	(6.7)	(5.3%)
	Cash and cash equivalents	311.0	563.1	(252.1)	(44.8%)	281.8	29.2	10.4%
	Short-term borrowings	(490.1)	(601.2)	111.1	(18.5%)	(700.4)	210.3	(30.0%)
22	**Total shareholders' equity**	**(1,427.0)**	**(1,406.8)**	**(20.2)**	**1.4%**	**(1,376.9)**	**(50.2)**	**3.6%**
	FUNDING	**(3,803.8)**	**(3,655.5)**	**(148.3)**	**4.1%**	**(3,633.4)**	**(170.3)**	**4.7%**

The above statement of financial position has been reclassified to show the components of invested capital and the corresponding funding.
In particular, the net carrying amounts of non-current assets and net working capital, consisting of current receivables, other receivables, inventories, current payables and the short-term portion of long-term borrowings have been added together.
The figure obtained for invested capital is then compared with the corresponding amounts for shareholders' equity and net debt, thereby showing the weight of funding.

In the first half of 2014, the ACEA Group's statement of financial position showed an increase in invested capital of 148.3 million euros (+ 4.1%) compared to the restated figure at 31 December 2013. This is the result of the increase in net fixed assets (68.3 million euros) and in net working capital (80.0 million euros).

Non-current assets and liabilities - *3,627.9 million euros*

Compared to 31 December 2013, this item showed an overall increase of 68.3 million euros (+ 1.9%); a breakdown of the item is shown below.

10. Property, plant and equipment/intangible assets - *3,604.6 million euros*

This item increased by 53.1 million euros (+ 1.5%) compared to the end of the previous year.
The change reflects capital expenditures carried out in the first half of 2014 amounting to 143 million euros and amortisation, depreciation and impairments amounting to 93.2 million euros; in addition, due to the line-by-line consolidation of Ecogena, following the acquisition of an additional

stake in the capital of this Company, fixed assets increased by 13.7 million euros as a result of the change in the consolidation basis. The remaining part is due to the recognition of additional green certificates during the period, corresponding to 11.7 million euros.
Fixed assets decreased by 13.8 million euros as a result of decisions taken by the Mayors' Conference of AATO2 in the session of 10 July concerning the tariffs for 2014, which provide for the advance settlement of Acea Ato 2 obligations arising from Resolution no. 7 of 17 April 2012. The mentioned resolution provided that, in lieu of the MALL penalty, the Operator would assume the obligation to make capital expenditures at its own expense of 3.47 million euros per year for a period of six years. The decrease in fixed assets led to the cancellation of the Provision for Contractual Commitments established for this purpose in 2012.

The table below shows the level of capex made in the first half of 2014 by Operating Segment, compared to those for the same period of 2013.

€ millions	30/06/2014	30/06/2013 Restated	Increase/ (Decrease)
ENVIRONMENT	**4.6**	**4.8**	**(0.3)**
ENERGY	**6.6**	**5.3**	**1.3**
Production	*4.4*	*2.9*	*1.5*
Energy Management	*0.0*	*0.1*	*(0.1)*
Sales	*2.2*	*2.3*	*(0.1)*
WATER:	**67.6**	**68.7**	**(1.1)**
Overseas	*0.6*	*0.1*	*0.5*
Lazio - Campania	*66.9*	*68.5*	*(1.6)*
Tuscany - Umbria	*0.0*	*0.0*	*0.0*
Engineering	*0.2*	*0.1*	*0.1*
NETWORKS	**59.1**	**52.0**	**7.1**
ACEA	**4.4**	**4.4**	**0.1**
Total Capital Expenditures	**142.4**	**135.2**	**7.2**

The major changes refer to:

- The **Energy segment** which recorded a 1.3 million euros increase attributable to the net effect of the reduction in Capex by Acea Produzione (- 1 million euros) offset by Capex by Ecogena (2.5 million euros), which was consolidated on a line-by-line basis as of 1 January 2014.
- the **Networks Segment** which recorded a 7.1 million euros increase mainly due to higher capex carried out by ACEA Distribuzione in the development of computer systems.

11. *Equity investments* - *216.7 million euros*

Compared to 31 December 2013, equity investments increased 1.4 million euros primarily reflecting the valuation of companies consolidated using the equity method.
The increase was also affected by the valuation of the company Marco Polo (+ 2.3 million euros) for which a successful outcome of the liquidation procedure is expected.

12. *Other non-current assets* - *358.9 million euros*

The balance of this item is summarised in the table below:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/(Decrease)
Deferred tax assets	312.5	309.0	3.5
Receivables from others	45.2	46.9	(1.8)
Accrued income and prepayments	1.4	1.8	(0.5)
Total non-current assets	**358.9**	**357.7**	**1.1**

This item recorded a 1.1 million euros increase (+ 0.3%) compared to 31 December 2013.
Deferred tax assets grew compared to the end of the previous year by 3.5 million euros.
Receivables from others amounted to 45.2 million euros (- 1.8 million euros) and represent the total capital spending incurred up to 31 December 2010 as part of the public lighting service agreement: these receivables were recognised using the financial asset model in application of IFRIC 12.
Prepayments and accrued income decreased by 0.5 million euros and mainly refer to insurance premiums paid in advance, lease payments, maintenance fees and rent on public land.

13. *Staff termination benefits and other defined-benefit plans - 111.8 million euros*

Compared to the end of the previous year the provision increased by 4.9 million euros, mainly due to:

- +3.2 million euros relating to staff termination benefits,
- + 1.1 million euros relating to the Pegaso Fund,
- + 0.1 million euros relating to tariff subsidies, monthly bonuses and long-term incentive plans.

In addition to the provision which, pursuant to the revised legislation on Termination Benefits, consists of the employee termination benefits accrued until 31 December 2006, the change reflects the revised discount rate used for the valuation according to IAS 19; this led to an increase in the provision due to the restatement of actuarial gains and losses (4.3 million euro) recognized in *"Other Comprehensive Income"* (OCI).

14. *Provisions for liabilities and charges - 183.9 million euros*

The provision for liabilities and charges recorded a decrease of 19.5 million euros largely due to provisions for the period (8.8 million euros) net of uses and other changes (totalling 28.3 million euros) to allocations made in previous years to cover redundancies, disputes and litigation, concession fees and tender-related risks.
The following table provides a breakdown by type of provision for liabilities and charges.

Type of provision	31/12/2013 Restated	Provisions 30/06/2014	Utilisations	30/06/2014
Legal	17.7	0.3	(1.4)	16.6
Tax	2.7	0.1	(0.1)	2.8
Regulatory risks	65.8	1.5	(4.2)	63.1
Investees	9.3	0.1	(0.2)	9.2
Contributory risks	6.6	0.3	(0.0)	6.9
Early retirements and redundancies	2.0	3.5	(0.8)	4.6
Post mortem	26.4	0.0	0.0	26.4
Concession fees	0.0	0.0	0.0	0.0
Other liabilities and charges	21.8	0.6	(9.0)	13.4
TOTAL	**152.3**	**6.4**	**(15.8)**	**143.0**
Provisions for restoration charges	38.6	2.3	0.0	40.9
Contractual commitments	12.5	0.0	(12.5)	0.0
TOTAL PROVISION	**203.4**	**8.7**	**(28.3)**	**183.9**

The main changes refer to:

- write-off of the Contractual Commitments Fund, allocated by ACEA Ato 2 in 2012 to cope with the MALL penalty obligation, as a result of decisions taken by the Mayors' Conference of AATO2 in the meeting of 10 July 2014 concerning tariffs for 2014. The tariff proposal drawn up by the Operating Technical Secretariat provides for a reduction in fixed assets additions for 2012 (on which the 2014 tariffs are based) by the amount of capital expenditures the Operator is required to make at its own expense, thereby fulfilling in advance its obligations under Resolution No. 7 of 17 April 2012.
- the provision for regulatory risks decreasing by 4.2 million euros, mainly due to the settlement, pursuant to Resolution No. 163/2014/R/idr on 3 April 2014, of ACEA Ato2 liability to its users concerning the repayment of the 2011 return on invested capital,
- the provision for legal disputes decreasing by 1.1 million euros, as a result of the disputes settled in the financial year,
- the provision set aside to address the charges arising from the voluntary redundancy and early retirement procedure increasing by 2.7 million euros as a result of allocations made during the year by ACEA and its major subsidiaries for a total of 3.5 million euros,
- the full utilisation (8.4 million euros) of the provision set aside in 2013 in relation to the estimated burden arising from the purchase and/or production of energy efficiency certificates required to meet the objective assigned to ACEA Distribuzione, as a result of certificates being purchased in sufficient number to fulfil the obligation,
- the provision for restoration costs increasing by 2.3 million euros, as a result of allocations in the first half of 2014 related to the costs required to keep the water service infrastructure in good condition.

15. *Other non-current liabilities - 256.6 million euros*

This item recorded an increase of 2.1 million euros (+ 0.8%) compared to 31 December 2013. This item consists of:

€ millions	30/06/2014	31/12/2013 Restated	Increase/ (Decrease)
Advances from end users and customers	92.0	91.4	0.5
Capital grants	16.4	16.8	(0.3)
Water connection fees	25.0	25.3	(0.3)
Provision for deferred taxes	92.2	93.0	(0.8)
Accrued liabilities and deferred income	31.1	28.0	3.1
TOTAL	**256.6**	**254.5**	**2.1**

Advances includes: **i)** the amount of security deposits and consumption advances subject to adjustment by the water companies; **ii)** the amount of advances relating to liabilities for advances on energy consumption, paid by customers in the Protected Categories market, that bear interest at the conditions set by the regulation issued by the Authority for Electricity and Gas (Resolution No. 204/99).

Capital grants and those for **Water connection** showed a net overall decrease of 0.6 million euros.

Accrued liabilities and deferred income, amounting to 31.1 million euros, mainly refer to grants received, recognised in the income statement by an amount equal to the depreciation generated by the associated capital expenditure. In particular, this item includes the contribution received by ACEA Distribuzione for the replacement of electromechanical meters with electronic meters (AEEG Resolution No. 292/06).

Net working capital - *175.8 million euros*

This item increased by 80.0 million euros compared to the end of the previous financial year; its breakdown is as follows.

€ millions	30/06/2014 (a)	31/12/2013 Restated (b)	Increase/ (Decrease) (a-b)	30/06/2013 *Restated* (c)	Increase/ (Decrease) (a-c)
Current receivables	**1,440.8**	**1,346.6**	**94.2**	**1,342.6**	**98.2**
- due from end users/customers	*1,320.3*	*1,244.4*	*76.0*	*1,217.0*	*103.4*
- due from Roma Capitale	*88.5*	*69.6*	*18.9*	*93.7*	*(5.1)*
Inventories	**34.3**	**33.8**	**0.5**	**37.9**	**(3.6)**
Other current assets	**201.9**	**203.4**	**(1.5)**	**162.5**	**39.4**
Current payables	**(1,163.9)**	**(1,207.6)**	**43.7**	**(1,121.5)**	**(42.4)**
- due to Suppliers	*(1,058.8)*	*(1,114.1)*	*55.3*	*(1,039.5)*	*(19.3)*
- due to Roma Capitale	*(100.8)*	*(85.6)*	*(15.2)*	*(71.2)*	*(29.6)*
Other current liabilities	**(337.3)**	**(280.3)**	**(57.0)**	**(339.1)**	**1.8**
Total	**175.8**	**95.8**	**80.0**	**82.5**	**93.3**

16. Current receivables - *1,440.8 million euros*

The breakdown is shown in the following table:

€ millions	30/06/2014 (a)	31/12/2013 Restated (b)	Increase/ (Decrease) (a-b)	30/06/2013 Restated (c)	Increase/ (Decrease) (a-c)
Trade receivables	1,320.3	1,244.4	76.0	1,217.0	103.4
Amounts due from Roma Capitale	88.5	69.6	18.9	93.7	(5.1)
Amounts due from subsidiaries and associates	31.9	32.5	(0.6)	32.0	(0.1)
Total trade receivables	**1,440.8**	**1,346.6**	**94.2**	**1,342.6**	**98.2**

Receivables from end users and customers

Compared to the first half of 2013 and the end of the previous year this item grew by 103.4 million euros and 76.0 million euros respectively. The table below shows the changes by Operating Segment compared to the same period of the prior year and to the end of 2013.

€ millions	**30/06/2014**			**30/06/2013 Restated**			**Increase/(Decrease)**		
	End users	**Customers**	**Total**	**End users**	**Customers**	**Total**	**End users**	**Customers**	**Total**
	(a)	**(b)**		**(c)**	**(d)**		**(a) - (c)**	**(b) - (d)**	
Environment segment	0.0	34.1	34.1	0.0	46.1	46.1	0.0	(12.0)	(12.0)
Energy segment	604.9	52.2	657.2	515.3	92.8	608.1	89.6	(40.6)	49.1
Water Segment	479.9	31.9	511.8	389.9	36.8	426.7	89.9	(4.8)	85.1
Networks Segment	38.0	39.5	77.5	40.4	47.2	87.5	(2.4)	(7.6)	(10.0)
ACEA	0.0	39.8	39.8	0.0	48.6	48.6	0.0	(8.7)	(8.7)
Total	**1,122.7**	**197.6**	**1,320.3**	**1,027.6**	**271.4**	**1,217.0**	**177.2**	**(73.8)**	**103.4**

€ millions	**30/06/2014**			**31/12/2013 Restated**			**Increase/(Decrease)**		
	End users	**Customers**	**Total**	**End users**	**Customers**	**Total**	**End users**	**Customers**	**Total**
	(a)	**(b)**		**(c)**	**(d)**		**(a) - (c)**	**(b) - (d)**	
Environment segment		34.1	34.1	0.0	27.6	27.6	0.0	6.4	6.4
Energy segment	604.9	52.2	657.2	570.2	57.3	627.5	34.7	(5.0)	29.7
Water Segment	479.9	31.9	511.8	417.5	38.7	456.2	62.4	(6.7)	55.6
Networks Segment	38.0	39.5	77.5	39.9	49.2	89.1	(1.9)	(9.7)	(11.6)

€ millions	30/06/2014			31/12/2013 Restated			Increase/(Decrease)		
ACEA	0.0	39.8	39.8	0.0	44.0	44.0	0.0	(4.2)	(4.2)
Total	**1,122.7**	**197.6**	**1,320.3**	**1,027.6**	**216.8**	**1,244.4**	**95.2**	**(19.2)**	**76.0**

In the first half of the year, receivables were sold without recourse for a total amount of 648.1 million euros; a breakdown of these transactions by Operating Segment is provided below.

€ millions	30/06/2014	Public Administration
Energy segment	**303.9**	**13.9**
Water Segment	**118.0**	**15.3**
Networks Segment	**226.2**	**75.6**
Total	**648.2**	**104.8**

With reference to the main changes in receivables from end users or customers, compared to the end of the previous year:

- total receivables in the Environment Segment increased by 6.4 million euros mainly attributable to the companies ARIA and SAO,
- in the Energy Segment receivables from both users and customers increased by 29.7 million euros overall, of which 22.7 million euros were attributable to Acea Energia and 2.1 million euros to Acea Produzione. The overall change also reflected the impact (+4.6 million euros) of Ecogena line-by-line consolidation as of 1 January 2014,
- In the Water Segment total receivables increased by 55.6 million euros. The change is essentially attributable to the increase in receivables for bills to be issued resulting from the application of the MTT (transitional tariff method) and the MTI (water tariff method) rules.
- In the Networks Segment total receivables decreased 11.6 million euros; the change was attributable to the net effect of the reduction recorded by ARSE and ACEA Distribuzione of 11.9 million euros and 0.8 million euros respectively and the increase recorded by ACEA Illuminazione Pubblica of 1 million euros,
- the Parent Company recorded a reduction of 4.2 million euros, mainly attributable to its relations with the Naples municipality, in which the public lighting service is provided as ATI (Temporary Grouping of Companies). Receivables at 30 June 2014 totalled 39.8 million euros, including disputed receivables for 20.5 million euros concerning the well-known dispute with the State of Vatican City.

Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled 88.5 million euros at 30 June 2014 (69.6 million euros at 31 December 2013).

The total amount of receivables (including short-term and medium/long term financial receivables resulting from the public lighting contract) was 198.7 million euros compared to 152.1 million euros at the end of the previous year.

The following table presents an analysis of receivables and payables, including those of a financial nature, between ACEA Group and Roma Capitale.

Amounts due from Roma Capitale	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Utility receivables	62.7	42.5	20.2
Contract work	16.6	19.3	(2.7)
Services	2.6	1.4	1.2
Other receivables	0.2	0.3	(0.2)
Total services billed	**82.0**	**63.5**	**18.5**
Grants receivable	2.4	2.4	0.0
Surcharge receivable	0.0	0.0	0.0
Total services requested	**84.4**	**65.9**	**18.5**

Amounts due from Roma Capitale	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Total services to be billed	**7.3**	**7.1**	**0.2**
Advances	0.0	0.8	(0.8)
Total trade receivables	**91.7**	**73.8**	**18.0**
Public lighting loans and receivables	77.9	50.1	27.8
Total receivables due within one year (A)	**169.6**	**123.9**	**45.7**

Amounts due to Roma Capitale	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Electricity surtax payable	(15.0)	(14.8)	(0.3)
Concession fees payable	(59.6)	(48.9)	(10.6)
Total trade payables	**(74.6)**	**(63.7)**	**(10.9)**
Total payables due within one year (B)	**(74.6)**	**(63.7)**	**(10.9)**

Total (A) - (B)	**95.0**	**60.2**	**34.8**
Other financial receivables/(payables)	**14.3**	**(0.7)**	**14.9**
of which: Financial liabilities (including dividends)	*(18.1)*	*(33.0)*	*14.9*
of which: medium/long-term loans and receivables for public lighting	*32.3*	*32.3*	*0.0*
Other trade receivables/(payables)	**(8.9)**	**(5.5)**	**(3.4)**
Net balance	**100.4**	**54.0**	**46.4**

During the reporting period there was a significant increase in trade receivables billed with particular reference to receivables from electricity users of 20.2 million euros.
There was also an increase in financial receivables with regard to the contract for public lighting service, amounting to 27.8 million euros and resulting from the billing of fees accrued up to 28 February 2014 in addition to the interest accrued on public lighting fees as at 31 December 2013.
In addition, payables linked to the concession fee for the integrated water services accrued in the period increased by 10.6 million euros.

Payables in the first half reflected the recognition of 20.6 million euros as balance due on the dividend for 2013 by ACEA S.p.A. and ACEA Ato 2, of 18.5 million euros and 2.2 million euros respectively. This increase was offset by a total decrease of 28.9 million euros for dividends recognized as at 31 December 2013 which, during the period, were offset with an equivalent amount of Group receivables.

In addition to the payables in the above table, there were payables related to water treatment and sewerage fees arising from the services provided to the Vatican State which cannot be claimed by Roma Capitale as the Vatican payables have still not been paid.

The amounts offset in the first half of the year concerned trade receivables of 25.0 million euros, mainly for water utilities, and financial receivables of 10.5 million euros relating to the fee for the public lighting contract in October and November 2013.

With reference to Group relations with Roma Capitale related parties, the Group receivables from AMA and ATAC are included in trade receivables for a total amount of 51 million euros.

Due from associates

These amounted to 7.8 million euros and were substantially in line with the previous year (7.3 million euros).

Due from subsidiaries

These amounted to 24.1 million euros (25.2 million euros at 31 December 2013), down 1.1 million euros. They relate to receivables from companies consolidated using the equity method as a result of the application of IFRS 11.

17. Inventories - *34.3 million euros*

This item increased by 0.5 million euros compared to 31 December 2013. The changes by operating segment are shown in the following table:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	3.6	3.4	0.2
Energy segment	1.8	1.8	0.0
Water Segment	9.9	9.9	0.0
Networks Segment	18.7	18.3	0.3
ACEA	0.3	0.3	0.0
Total	**34.3**	**33.8**	**0.5**

18. Other current assets - *201.9 million euros*

€ millions	30/06/2014	31/12/2013 Restated	Increase/ (Decrease)
Receivables from others	82.3	101.2	(19.0)
Accrued income and prepayments	17.9	10.1	7.7
Tax receivables	101.8	92.0	9.8
Other current assets	**201.9**	**203.4**	**(1.5)**

Receivables from others totalled 82.3 million euros, down 19 million euros, as shown in the following table with the composition and changes occurred compared to the previous year:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Receivables due from Area Authority for Tariff adjustments	17.9	17.9	0.0
Receivables from Equalisation Fund for Tariff Contribution from meeting the targets	13.1	0.4	12.7
Receivables due from Trifoglio property company	10.3	10.3	0.0
Security deposits	7.7	4.1	3.6
Receivables due from INPS for welfare contributions in accordance with article 41, paragraph 2, letter A of Act 488/1999	6.7	7.1	(0.4)
Regional grants receivable	4.3	4.3	0.0
Receivables from Equitalia	4.1	4.1	0.0
Receivables due from Equalisation Fund for energy equalisation	4.0	41.1	(37.1)
Receivables from Citelum for City of Naples collections	3.3	0.0	3.3
Receivable from individual transfers	2.5	2.5	0.0
Receivables from social security institutions	2.3	3.7	(1.4)
Other minor receivables	2.0	2.4	(0.4)
Suppliers' advances	1.8	2.2	(0.4)
Receivables for insurance reimbursement	1.3	0.0	1.3
Other receivables from Equalisation Fund	1.0	1.2	(0.3)

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Total	**82.3**	**101.2**	**(19.0)**

The decrease of 19 million euros compared to 2013 was mainly attributable to the following factors:

- +12.7 million euros related to ACEA Distribuzione receivables from the Equalisation Fund for the tariff contribution accrued on efficiency certificates annulled in relation to energy savings targets assigned for 2013 and 2014
- - 37.1 million euros related to receivables from the Equalisation Fund for general equalization, recognized as at 31 December 2013, as a result of the sale of receivables without recourse completed during the first six months of the year. These sales amounted to 65.4 million euros overall.

Accrued income and prepayments amounted to 17.9 million euros (10.1 million euros at 31 December 2013) and refer mainly to rent on public land, lease payments and insurance.

Tax receivables, amounted to 101.8 million euros (+ 9.8 million euros) and mainly include VAT receivables for 57.1 million euros and IRES and IRAP tax receivables for 18.3 million euros.

19. Current payables - *1,163.9 million euros*

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Amounts due to third-party suppliers	1,058.8	1,114.1	(55.3)
Due to the Parent Company Roma Capitale	100.8	85.6	15.2
Due to associates	4.2	7.2	(3.0)
Due to subsidiaries	0.1	0.7	(0.6)
TOTAL	**1,163.9**	**1,207.6**	**(43.7)**

Amounts due to third-party suppliers

Trade payables amounted to 1,058.8 million euros (1,114.1 million euros at 31 December 2013). The following table provides the breakdown by operating segment:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	32.8	33.4	(0.6)
Energy segment	453.3	488.9	(35.5)
Water Segment	209.5	210.6	(1.0)
Networks Segment	302.8	314.7	(11.9)
ACEA	60.4	66.5	(6.1)
Total	**1,058.8**	**1,114.1**	**(55.3)**

There was a reduction in all business segments and in the energy segment in particular (- 35.5 million euros).

Amounts due to Parent Company Roma Capitale

These amounted to 100.8 million euros and the 8.2 million euros increase was essentially due to the concession fee for the integrated water services accrued for the first half of 2014.

Amounts due to subsidiaries and associates

The balance of 4.3 million euros was 3 million euros less than that at 31 December 2013 and mainly refers to payables recognised for the management of the public lighting service provided by the associate Citelum Napoli Pubblica Illuminazione in the Municipality of Naples.

20. Other current liabilities - *337.3 million euros*

These posted an increase of 57 million euros (or 20%). The following table shows the main items making up the balance and the change compared to 31 December 2013.

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Other current liabilities	236.8	217.1	19.7
Tax Payables	80.4	41.2	39.2
Amounts due to social security institutions	13.6	17.5	(3.9)
Amounts due to end users for tariff restrictions	1.2	1.2	(0.0)
Accrued liabilities	0.9	2.8	(1.9)
Payables arising from commodity derivatives	4.4	0.5	3.9
TOTAL	**337.3**	**280.3**	**57.0**

Other current liabilities amounted to 236.8 million euros, with an overall increase of 19.7 million euros compared to 31 December 2013, when they amounted to 217.1 million euros. The following table shows the composition and changes compared to the previous year:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Payables to municipalities for concession fees	53.8	48.6	5.1
Payables to Equalisation Fund	52.7	31.8	20.9
Payables for collections subject to verification	48.2	41.9	6.2
Amounts due to staff	36.7	37.4	(0.7)
Other amounts due to Municipalities	13.0	14.5	(1.6)
Amounts due to Equitalia	12.0	12.8	(0.8)
other payables	9.4	9.3	0.2
Welfare contribution payables	5.5	12.0	(6.5)
Payables to INPS, due in instalments	3.4	7.4	(4.0)
Payables for environmental premium Art. 10 of ATI4 agreement of 13/08/2007	1.5	1.3	0.2
Amounts due to end users for refund of Tariff Component as per referendum outcome	0.7	0.0	0.7
Other current liabilities	**236.8**	**217.1**	**19.7**

Payables to the Equalisation Fund increased in the second and third quarters of 2014, as did payables to the municipalities for concession fees, with specific reference to those accrued by ACEA Ato2 and ACEA Ato5; these were partially offset by a reduction in payables to the STO, for the Solidarity contribution intended to provide tariff subsidies to low income families, and the decrease of installments payable to INPS, due to the instalments paid during the first half of the year.
This item includes 0.6 million euros, recognised in the provision for liabilities and charges at the end of 2013, concerning payables to end users for the refund of the integrated water service tariff component related to the return on capital, which was repealed by the public referendum of 12 -13 June 2011, with reference to the period 21 July 2011 - 31 December 2011, in accordance with Resolution No. 163/2014/R/idr of 3 April 2014.

Tax payables amounted to 80.4 million euros (41.2 million euros at 31 December 2013) and included IRES and IRAP tax payable for the period of 35.6 million euros and VAT of 23 million euros. The remainder included 21.9 million euros for additional municipal and provincial tax payables.

Social security and welfare payables amounted to 13.6 million euros (17.5 million euros at December 2013); their breakdown by Operating Segment was as follows:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	0.5	0.6	(0.1)
Energy segment	1.2	1.8	(0.6)
Water Segment	5.1	6.0	(0.9)
Networks Segment	4.6	5.9	(1.3)
ACEA	2.3	3.2	(0.9)
Total	**13.6**	**17.5**	**(3.9)**

Payables from commodity derivatives included the Fair Value of a number of financial contracts entered into by Acea Energia. At 30 June 2014 this value was 4.4 million euros.

Accrued liabilities and deferred income amounted to 0.9 million euros, with a reduction of 1.9 million euros from the previous year.

21. Net debt - *(2,376.7) million euros*

Group debt at 30 June 2014 recorded an overall increase of 128.1 million euros, up to 2,376.7 million euros from 2,248.6 million euros at the end of 2013.
The following table provides the breakdown of the items concerned:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)	30/06/2013 *Restated*	Increase/ (Decrease)
Non-current financial assets/(liabilities)	1.7	2.5	(0.8)	1.4	0.3
Intragroup non-current financial assets/(liabilities)	32.3	32.3	0.0	32.8	(0.5)
Non-current borrowings and financial liabilities	(2,351.3)	(2,360.9)	9.6	(1,998.5)	(352.8)
Net medium/long-term debt	**(2,317.3)**	**(2,326.1)**	**8.8**	**(1,964.3)**	**(353.0)**
Cash and cash equivalents and securities	311.0	563.1	(252.1)	281.8	29.2
Short-term bank borrowings	(377.0)	(371.3)	(5.7)	(579.0)	202.0
Current financial assets/(liabilities)	(65.8)	(139.6)	73.8	(56.2)	(9.6)
Intragroup current financial assets/(liabilities)	72.4	25.3	47.0	61.2	11.1
Net short-term debt	**(59.4)**	**77.5**	**(136.9)**	**(292.3)**	**232.8**
Total net debt	**(2,376.7)**	**(2,248.6)**	**(128.1)**	**(2,256.6)**	**(120.2)**

Net medium - long term debt - *(2,317.3) million euros*

With regard to this component it should be noted that:

- non-current financial assets/(liabilities) show a balance of 1.7 million euros, down by 0.8 million euros compared to 31 December 2013 (2.5 million euros),
- Intragroup financial assets/(liabilities) stood at 32.3 million euros and include financial receivables from Roma Capitale for works completed to adapt systems to safety and regulatory standards and new constructions as envisaged in the *addendum* to the Public Lighting contract. This receivable refers to the long-term portion resulting from applying the financial asset model pursuant to IFRIC 12 on Service Concession Agreements and was in line with the figure at 31 December 2013.
- non-current payables and financial liabilities totalled 2,351.3 million euros, down by 9.6 million euros from 31 December 2013 and can be broken down as follows:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Bonds	1,296.2	1,290.8	5.5
Medium/long-term borrowings	1,055.1	1,070.1	(15.1)
Total	**2,351.3**	**2,360.9**	**(9.6)**

Bonds - *1,296.2 million euros*

Bonds grew 5.5 million euros as a result of opposing factors: on the one hand, the payment of accrued interest on bonds issued by ACEA on 16 March 2010, on the other hand, interest accrued in the period and *fair value* measurement as at June 30. This item includes:

- 606.3 million euros (including accrued interest and *Fair value* of the hedging instrument) related to the bond issued by ACEA in September 2013, with 5 year maturity and expiring on 12 September 2018. The *Fair Value* of hedging derivatives on this debt was positive and equal to 1.2 million euros. Interest accrued during the period amounted to 11.2 million euros,
- 504.1 million euros (including accrued interest and *Fair value* of the hedging instrument) related to the bond issued by ACEA in March 2010, with 10 year maturity and expiring on 16 March 2020. Interest accrued during the period amounted to 11.2 million euros,
- 185.8 million euros (including accrued interest and *Fair value* of the hedging instrument) relating to the *Private Placement*. The *Fair Value* of the hedging instrument was a negative 41.0 million euros and was allocated to a specific equity reserve. The exchange rate difference - positive by 20.7 million euros - calculated at 30 June 2014 on the hedged instrument, was allocated to a translation reserve. The exchange rate at the end of the first half of 2014 was 138.44 euros compared to 144.72 euros at 31 December 2013. Interest accrued during the period amounted to 1.8 million euros.

Medium/long term borrowings (including short-term portions) - *1,101.1 million euros*

They recorded an overall decrease of 19.5 million euros, compared to 1,120.5 million euros in 2013, reflecting the payment of principal coming due on 30 June net of interest accrued in the period.

The following table shows medium/long–term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans:	Total Residual Debt	Due by 30/06/2015	Due between 30/06/2015 and 30/06/2019	Due after 30/06/2019
fixed rate	332.2	20.2	81.1	230.9
floating rate	697.0	17.5	417.4	262.1
floating rate to fixed rate	71.9	8.3	33.3	30.2
Total	**1,101.1**	**46.0**	**531.8**	**523.3**

The *fair value* of ACEA hedging derivatives was a negative 9.4 million euros, increasing 0.7 million euros compared to 31 December 2013 (negative 8.7 million euros).

As regards medium/long-term borrowings and bonds conditions, please refer to the 2013 Consolidated Financial Statements.

Net short-term debt - *(59.4) million euros*

The short-term component was a negative 59.4 million euros. Compared to the end of 2013 there was an overall deterioration of 136.9 million euros, mainly due to the reduction in cash and cash equivalents (- 252.1 million euros) and short-term bank borrowings (- 5.7 million euros), partially mitigated by current financial assets and liabilities with third parties and intra-group (+ 120.8 million euros).

Cash and cash equivalents amounted to 311.0 million euros and decreased by 252.1 million euros, mainly due to the change recorded in the period by the Parent Company. The following table provides the breakdown by operating segment:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	1.9	2.3	(0.5)
Energy segment	4.1	1.1	3.0
Water Segment	13.5	18.1	(4.6)
ACEA	291.5	541.5	(250.0)
Total	**311.0**	**563.1**	**(252.1)**

Short-term bank borrowings totalled 377.0 million euros, broken down as follows:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Short-term bonds	313.6	306.3	7.3
Short-term bank credit lines	17.4	14.6	2.8
Bank mortgage loans - short term portion	46.0	50.4	(4.4)
Total	**377.0**	**371.3**	**5.7**

The breakdown by Operating Segment is provided below:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	3.9	4.0	(0.1)
Energy segment	10.6	7.7	2.9
Water Segment	5.9	5.4	0.5
Networks Segment	18.8	19.8	(1.0)
ACEA	337.8	334.4	3.4
Total	**377.0**	**371.3**	**5.7**

The change in the period (+ 5.7 million euros) mainly derives from growth in the debt exposure of the Parent Company (+ 3.4 million euros) and the Energy Segment (+ 2.9 million euros); this primarily reflects the accrual of interest for the period and the line-by-line consolidation of the companies in the Segment, partially offset by the payment of principal coming due on 30 June 2014.

At the end of the first half of 2014 the Parent Company had *uncommitted* and *committed* credit lines totalling 699 million euros and 400 million euros respectively, neither of which was used. No guarantees were issued to obtain these credit lines.
The *committed* credit is *revolving* with a contractual term of three years from the date of signing. Regarding the availability of these lines (i) 100 million euros shall mature in 2014, and (ii) the remaining 300 million euros shall mature in 2015. The contracts entered into provide for the payment of a commitment fee plus an up-front fee paid at the time the credit lines were opened.

Current financial assets and liabilities reported a balance at 30 June 2014 that increases debt by 65.8 million euros (139.6 million euros at 31 December 2013).
The breakdown by Operating Segment and the changes occurred during the first half are provided below:

€ millions	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)
Environment segment	(3.3)	(3.3)	0.0
Energy segment	(61.9)	(78.0)	16.1
Water Segment	(10.0)	(22.2)	12.1
Networks Segment	(5.6)	(20.2)	14.6
ACEA	15.1	(15.9)	31.0
Total	**(65.8)**	**(139.6)**	**73.8**

The reduction in outstanding debt by 73.8 million euros reflects the reduced exposure to the factoring companies for the reimbursement of collections from the receivables sold by the Energy, Water and Networks companies (45.2 million euros) and the payment of the interim dividend for 2013, approved on 18 December 2013 by the Board of Directors of ACEA (26.0 million euros), payable to the market.
It should be noted that, with reference to the sale of the photovoltaic business to RTR Capital at the end of 2012, an escrow account had been set up, for an amount equal to the value of some plants that had to undergo formal checks by the seller; following the successful results of the checks carried out on the main plant, the escrow account was partially released at the end of June, for 4.9 million euros.

Intragroup current financial assets and liabilities reduced borrowings by 72.4 million euros and mainly include the net exposure to Roma Capitale (59.8 million euros).
The overall change of 47.0 million euros, derives primarily from the increase in financial receivables (+27.8 million euros) arising from the service agreement for the management of public lighting in the Rome area, and the decrease in the residual dividend payable, recognised in accordance with the Board of Directors' resolution on 18 December 2013. This reduction, amounting to 14.9 million euros, results from the offsetting made in the period with the trade receivables held by the Group vis à vis Roma Capitale.

22. Shareholders' equity - *1,427.0 million euros*

The changes occurred during the period, amounting to 20.2 million euros, are detailed in the table below.
The change, net of profit for the period amounting to 80.5 million euros, was essentially due to (i) changes in the *cash flow hedge* reserve related to financial instruments for -11.0 million euros (net of taxation), (ii) changes in the fair value measurement reserve of derivative contracts of ACEA Energia for -2.8 million euros and (iii) the change in actuarial gains and losses amounting to + 3.6 million euros. The change was also affected by the dividend distribution of 45.0 million euros.

Reference context

Performance of the equity markets and the ACEA share

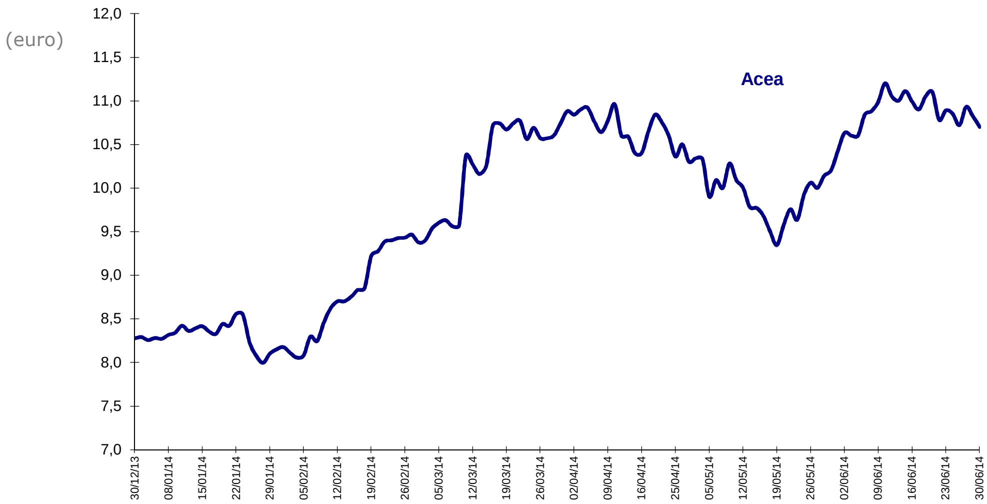
In the first half of 2014, the stock markets in Europe and the USA performed well, continuing the positive trend of 2013, except for a partial interruption earlier this year due to a number of factors that led to a temporary reversal of the trend, such as the publication of economic data less favourable than expected, uncertainties related to the outflow of capital from emerging markets and the crisis in Ukraine.

ITALIAN STOCK EXCHANGE

The changes recorded by the principal Italian Stock Market indices are shown below: **FTSE Italia All Share +11.8%, FTSE MIB +12.2% and FTSE Italia Mid Cap +6.9%.**

ACEA SHARE PERFORMANCE

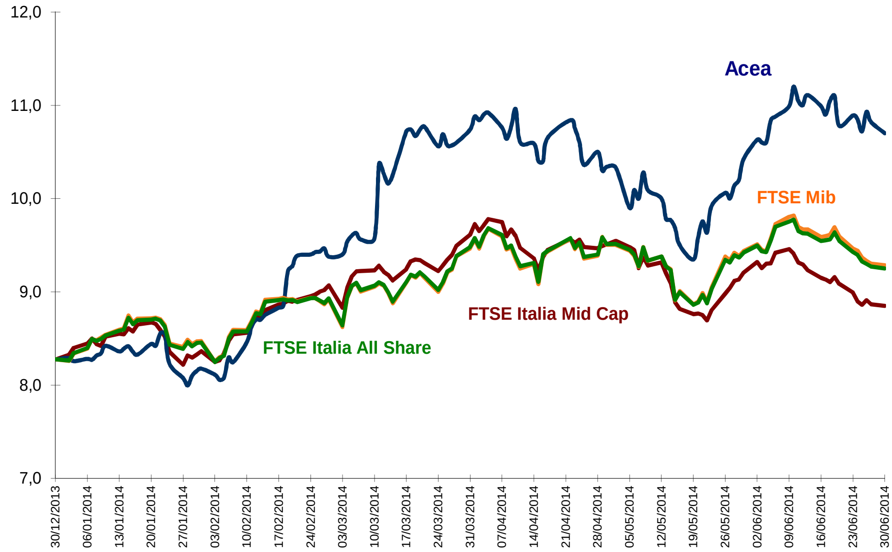
In the first half of 2014, the ACEA share "out-performed" the market in general with a gain of 29.3% compared to a 6.9% gain of the FTSE Italia Mid Cap.
ACEA's share price stood at 10.70 euros at 30 June 2014 (capitalisation: 2,278.7 million euros). In the first half of 2014 a high of 11.20 euros was recorded on 10 June with a low of 7.99 euros recorded on 28 January.
During the reporting period, average daily traded volumes amounted to 133,962, in line with those of the first half of 2013 (137,910).



(Source: Bloomberg)

The following graph shows re-based figures for ACEA's share price, compared to Stock Market indexes.

(euro)



(grafico normalizzato ai valori di Acea – Fonte Bloomberg)

	% increase/decrease 30/06/2014 (compared to 31/12/2013)
Acea	**+29.3%**
FTSE Italia All Share	+11.8%
FTSE Mib	+12.2%
FTSE Italia Mid Cap	+6.9%

(Source: Bloomberg)

Around 60 reports/notes were published on ACEA's share in the first half of 2014.

Energy market

Electricity demand in Italy in the first half of 2014 (152,949 GWh) [4] decreased by 3.0% compared to the same period in the previous year. In non-calendar terms the decrease was 2.8%. Peak demand on the Italian electricity network was equal to 51,550 MW; it was recorded on 12 June at 12.00 a.m., and was around 1.0% lower than the peak recorded in the corresponding month of the previous year. 85.5% of electricity requirements were covered by national production and the remaining 14.5% by imports from abroad.

In this context, net national production in the first half (132,057 GWh) decreased by 4.0% compared to the same period in 2013. Except for wind power (-8.1%) and thermoelectric power (-10.1%), there was an increase in all Italian production sources compared to the previous year, in particular: PV (+ 8.6%), hydroelectric (+ 11.1%) and geothermal production (+4.7%).

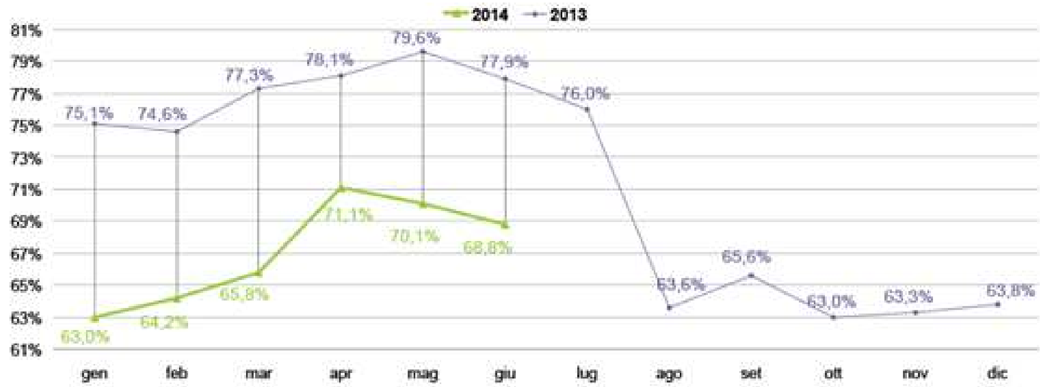
GWh	JAN-JUN 2014	JAN-JUN 2013	Increase/ (Decrease) % 2014/2013
Net Production			
- Hydroelectric	**30,351**	**27,317**	**11.1%**
- Thermoelectric	**78,989**	**87,862**	**(10.1%)**
- Geothermal	**2,722**	**2,599**	**4.7%**
- Wind power	**8,214**	**8,937**	**(8.1%)**
- PV Power	**11,781**	**10,853**	**8.6%**
Total Net Production	**132,057**	**137,568**	**(4.0%)**
Imports	**23,193**	**22,491**	**3.1%**
Exports	**942**	**1,107**	**(14.9%)**
Balance of Imports	**22,251**	**21,384**	**4.1%**
Pumping systems consumption	**1,359**	**1,329**	**2.3%**
Electricity Demand	**152,949**	**157,623**	**(3.0%)**

The first half of 2014 continued to be characterised by the economic crisis, which significantly affected electricity demand; this recorded a 3.0% drop compared to the first half of 2013, although the figures for June showed a slight recovery (+0.7%) due to the high temperatures recorded in the first part of that month.

Against a declining demand for electricity, over the counter trading increased significantly in every month of the first half of 2014. Market liquidity for the electricity traded on the Day-Ahead Market declined 1.3 percentage points compared to May and 9.1 compared to June 2013, standing at 68.8% as shown in the chart below.

[4] Source: Terna – June 2014, monthly report on the electricity system.

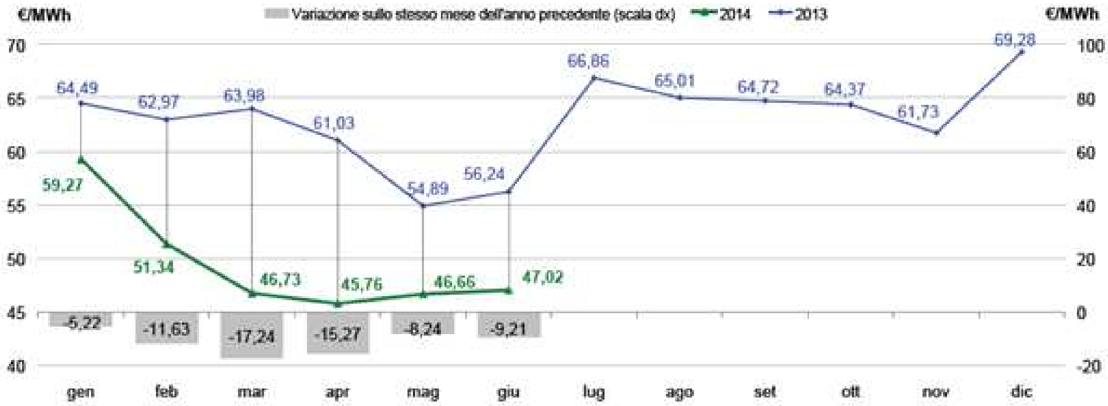
Liquidity on the DAM [5]



The purchase price in the electricity market (PUN) increased 37 € cents/MWh on May (+ 0.8%), but decreased by 9.21 €/MWh on an annual basis (-16.4%), standing at 47.02 €/MWh, a record low for the month of June. An analysis by time bands shows an annual decrease of 10.15 €/MWh (-16.0%) at peak times, while the off-peak price of 43.98 €/MWh showed a year-on-year decrease of 8.75 €/MWh (-16.6%). The peak/base-load ratio, therefore, stood at 1.13.

Average sales prices dropped significantly in all areas except Sardinia, which recorded a 3.9% increase. In the continental zones, in June, price levels converged again ranging between 41.24 €/MWh in the South and 44.83 €/MWh in the North. The highest price, equal to 77.43 €/MWh, was recorded in Sicily, where the average off-peak sales price exceeded that of peak hours. In other European areas the price was around 56.91 €/MWh.

National Single Price (PUN) [2]

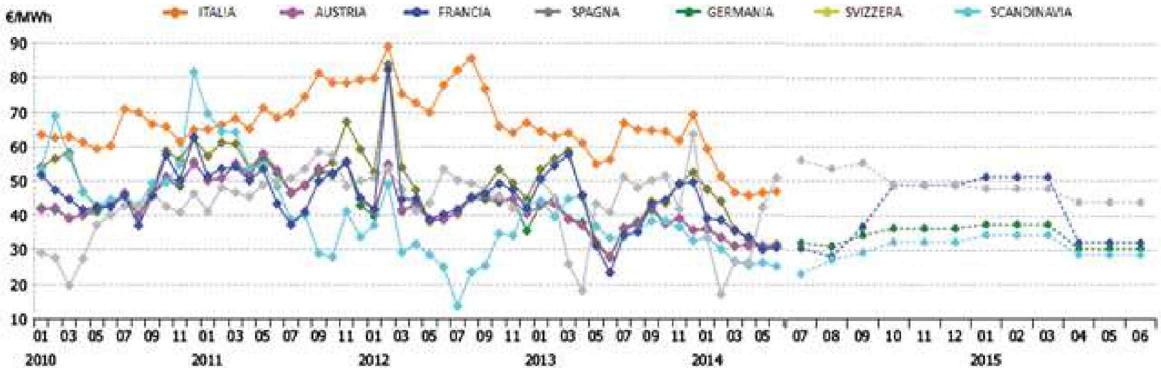


On the main European power exchanges, modest cyclical variations drove prices in Central and Western Europe to 31 €/MWh, failing to meet operators' bullish expectations. Prices showed a significant increase compared to the previous year (+31%/+13%), when, however, prices in France and Germany had recorded their annual lows.
As mentioned earlier, in Italy the PUN recorded a slight recovery (+ 1%) on the previous month while it dropped sharply on an annual basis (-16%). A further, cyclical price increase in Spain (up

[5] Source: Energy Market Operator (GME) - June 2014, GME Newsletter

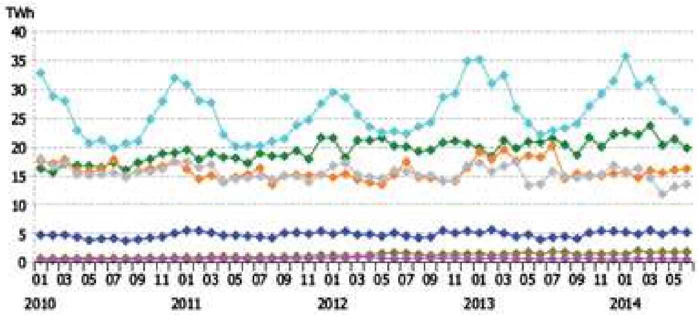
20%) was noteworthy; prices were up to 51 €/MWh, even exceeding the historically higher Italian benchmark.

Price on the European Power Exchanges (arithmetic mean €/MWh) [2]



Annual and Monthly Volumes on European Power Exchange spot markets [2]

Volumi a pronti (TWh)			
Area	Giu 14	Var M-1 (%)	Var M-12 (%)
ITALIA	16,3	+ 1 %	- 11 %
FRANCIA	5,2	- 6 %	+ 30 %
GERMANIA	19,9	- 7 %	- 5 %
SPAGNA	13,5	+ 3 %	- 0 %
AREA SCANDINAVA	24,4	- 8 %	+ 10 %
AUSTRIA	0,6	- 10 %	- 9 %
SVIZZERA	1,9	+ 3 %	+ 26 %



After continuing to decline in the first half of the year, natural gas consumption in Italy rebounded both in the residential sector and in the power generation sector which recorded a 1.4% increase on an annual basis, while consumption in the industrial sector was substantially stable.
On the supply side, domestic production continued to drop, while the imports of natural gas continued to grow. As regards the points of entry, imports of natural gas from northern Europe, through Passo Gries, were especially significant; a contrasting trend was recorded by the Russian gas through Tarvisio and the regasification terminal in Cavarzere, while the Panigaglia regasification terminal operated at a reduced pace.
The natural gas price at the Billing Point dropped to 18.99 €/MWh (- 31.3% on an annual basis).

Regulations and tariffs

Compared to the Consolidated Financial Statements at 31 December 2013, to which we refer for further details, the main changes in the reporting period are shown below.

Incentive schemes for the production of energy from renewable sources

Evolution of CIP 6/92 agreement regulations

In implementation of Italian Legislative Decree 69/2013, on 31 January 2014, the Ministry of Economic Development issued new procedures for determining the avoided cost of fuel component referred to in measure CIP 6/92, establishing the value of the adjustment of the avoided cost of fuel component for 2013 and the advance payment for the first quarter of 2014.
With this new Decree, the Minister confirmed the extension of the so-called "pre-chosen initiatives" for the Avoided Cost of Fuel updating criterion based on the "evolution of conversion efficiency", defined by art. 30, par. 15, of Italian Law No. 99 - 23 July 2009, and by reference to the "specific consumption value" parameter in Italian Ministerial Decree 20 November 2012; ARIA S.r.l., having signed a CIP 6/92 Agreement, proposed additional grounds for the Avoided Cost of Fuel appeal, stating that the profiles were illegitimate.

Restructuring of the incentives for the production of energy from renewable sources - Italian Law No. 9 - 21 February 2014 "Conversion of Law Decree No. 145 - 23 December 2013"

By effect of the provisions in question, in order to reduce annual charges affecting electricity prices and tariffs, and at the same time maximize production in the medium/long-term of existing plants, plant operators benefiting from incentives (such as green certificates, all-inclusive prices or premium tariffs) must choose between two different alternatives:

a) continue to benefit from the incentive system for the remaining applicable period.
In this case, it will not be possible to benefit from any further incentive instruments, including dedicated withdrawal and on-site exchange affecting energy prices or tariffs for any kind of intervention on the same site in the following ten years starting from the expiration of the period in which the operator had a right to the incentives.
b) opt for the restructuring of the applicable incentive, which will be used for entire useful life of the plant. In this case, the operator will benefit from an incentive reduced by a specific percentage for each type of plant, which must be defined by ministerial decree, to be approved within 60 days from the entry into force of Law Decree No. 145/2013 in question.

The above reduction is applied in a differential way, so it is important to consider:

- ✓ the type of renewable source;
- ✓ the residual period of incentives;
- ✓ the institution providing the incentives;
- ✓ the induced costs of the incentives restructuring operation, including a suitably supplemented premium for plants in which, for the period after that in which the operator has the right to apply the incentives, no incentives other than on-site exchange and dedicated withdrawal are envisaged for interventions on the same site.

The restructured incentive will be provided for a renewed incentive period equal to the residual incentive period on the date Italian Legislative Decree 145/2013 came into force, plus 7 years.
The above ministerial decree identifies the residual incentive period within which the penalties described above sub a) will not be applied.
To protect current investments, said residual period cannot expire before 31 December 2014.
To apply for the restructuring described in letter b) - and maintain the right to new incentives, after expiry of current incentives, without waiting for the above ten-year period - a specific request must

be sent to the national grid operator within 90 days from the date the Ministerial Decree (soon to be issued) comes into force.
Following the publication of the above ministerial decree, the options to adopt for the Group plants affected by the provisions in question should be suitably assessed; also in reference to expected long-term scenarios.
Only plants with incentives in accordance with CIP 6/92 and new plants with incentives in accordance with Italian Ministerial Decree 6 July 2012 (except those in a transitional regime as established by the last decree) are excluded from the application of this new provision.

Changes to the feed-in tariffs for electricity produced from photovoltaic systems *- Legislative Decree no. 91 of 24 June 2014*

Decree Law 91/2014, currently being converted into Law, provides for a restructuring of the feed-in tariff for electricity generated by photovoltaic plants with nominal power greater than 200 kW, with effect from 1 January 2015.
More specifically, in this scenario, the feed-in-tariff is restructured according to a percentage between 25% and 17%, depending on the residual number of years of incentive for each plant and is paid for a period of 24 years beginning from the entry into operation of the plant.
The same reductions also apply to the incentive component of the all-inclusive tariffs paid pursuant to the Decree of the Minister of Economic Development of 5 July 2012.
The beneficiary of the feed-in-tariff that is subject to the above provisions, can access bank loans for a maximum amount equal to the difference between the incentive already accrued at 31 December 2014 and the restructured incentive as described above. These loans may benefit of dedicated funding or of a guarantee granted by Cassa Depositi e Prestiti (CDP), either cumulatively or alternatively on the basis of specific agreements with the banking system; the benefit makes use of the funds referred to in Article 5, paragraph 7, letter a) of Decree-Law no. 269 of 30 September 2003, converted with amendments by Law no. 236 of 24 November 2003. CDP exposure is guaranteed by the Italian Government pursuant to Article 1, paragraph 47 of Law no. 147 of 27 December 2013, according to criteria and procedures established by a non-regulatory decree of the Minister of Economy and Finance.
In addition, the validity period of the permits issued for the construction and operation of the photovoltaic plants in question is adjusted to the duration of the restructured incentive, as described above.
The provisions in question do not apply to owners of photovoltaic plants with a nominal power greater than 200 kW who opt for an 8% reduction of the incentive granted at the date of entry into force of the decree-law, for the remaining incentive period. The option must be exercised and notified to the National Grid Operator (GSE) by 30 November 2014 and the reduction of the incentive becomes effective on 1 January 2015.
The mentioned provisions are currently being examined for several proposed amendments; therefore, the final applicable legal framework will not be defined until the decree is converted into law.
Only when such conversion takes place, will it be possible to evaluate the viable options in relation to the Group's specific activities in the photovoltaic sector that may be affected by the described restructuring of the incentive schemes.

The mentioned decree also provides for the adoption of additional measures, including specifically:
- the costs incurred by the National Grid Operator (GSE) in relation to the incentive schemes and to support businesses in the field of renewable energy and energy efficiency will be paid by the beneficiaries of those activities, and will no longer be included in the more general A3 component charged to consumers, firms and households;
- with effect from 1 July 2014, the Authority has to exclude the charges for the employee discount provided by the national collective agreement for the electricity industry from the applied tariffs.

Green Certificates

As for 2014, AEEGSI Resolution No. 20/2014/R/EFR, established the average annual value of the price for the transfer of electricity recorded in 2013 as 65.54 €/MWh.

In January 2014 the national grid operator issued an update on the application procedure for the issue of green certificates for the owners of WTE qualified plants in accordance with Ministerial Decree 18 December 2008 for production from 2013 to 2015 (the date on which the green certificate incentive scheme ends) also in application of the provisions of the above-mentioned Ministerial Decree of 06 July 2012.

This also clarified that, with the implementation of article 20, paragraph 2, of Ministerial Decree 6 July 2012, Green certificates will no longer be issued on the basis of estimates guaranteeing expected production or on the basis of guarantees, except for certain types of plants such as those using the biodegradable fraction of waste, for which the operators cannot use monthly issues.

The evolution of Environmental Legislation

Transposition of EU Directive 2010/75 on industrial emissions: changes and new provisions introduced in Chapter II of Italian Legislative Decree No. 152 and subsequent amendments of Italian Legislative Decree No. 46/2014.

Legislative Decree No. 46 - 4 March 2014 "*Implementation of EU Directive 2010/75 on industrial emissions (Integrated Pollution Prevention and Control)",* introduces significant changes and amendments to Italian Legislative Decree No. 152 - 3 April 2006 in particular concerning authorization procedures, sanctioning control and profiles, for activities with a high pollution potential that come within the scope of EC Directive 2008/1 also known as the "IPPC Directive" and the following EU Directive 2010/75.

The most significant changes are to Part II of the above-mentioned Legislative Decree 152/2006 mainly concerning:

- the introduction of the definition of "Installation" instead of "Plant" which implicates a different way of applying Integrated Environmental Authorisation regulations; the introduction of the obligation to define Integrated Environmental Authorisation conditions (including limit emission values set by the same) on the basis of the best available technology;
- if the plant isn't subject to Integrated Environmental Authorisation, the new integrated authorization must refer to the requirements in the authorisations replaced and, on issue provide for the procedures for restoring the environmental indexes of the site subject to investigation on termination of the industrial activity; the introduction of the possibility of referring to Integrated Environmental Authorisation to regulate cleaning and making the area safe also goes for those parts of the installation the Operator does not intend to use within the period of validity of the same Integrated Environmental Authorisation;
- introduction of the obligation to present a reference report with information on the quality of the soil and water tables with the application for Integrated Environmental Authorisation;
- introduction of the obligation to include the control of water tables and soil in the Integrated Environmental Authorisation;
- changes to the validity of the Integrated Environmental Authorisation and the procedure for reviewing the same (10 years without certification, 12 years with ISO 14001 certification, 16 years with EMAS certification).

Particular attention must be paid to the reformulation of Annex VIII in Part II of Italian Legislative Decree No. 152/2006, which specifies new activities subject to Integrated Environmental Authorisation.

For these activities, subject "*ex novo*" to Integrated Environmental Authorisation regulations, by 7 September 2014 the applicant must present an application for adjustment to the requirements of Chapter III-bis in Part II of Legislative Decree 152/2006.
The scope of the new provisions in relation to the Group's activities is currently being evaluated along with the consequent fulfilments.

The SISTRI waste traceability control system
Law No. 15 - 27 February 2014 was finally converted into Law Decree No. 150 - 30 December 2013, the so-called "Milleproroghe" (the annual decree extending the life of various government measures), confirming the current operational scope of Sistri, with specific reference as far as Group activities go, to special hazardous waste.
In particular, art. 10 of the above decree includes an extension up to 31 December 2014 of the period within which operators must observe the "dual system", in other words both the requirements of Sistri and those of the registers and forms must be met.
From 1 January 2015 the penalties in articles 260-bis and 260 – ter of Italian Legislative Decree 152/2006 pursuant to Sistri will apply.

AEEGSI water services activities

Resolution No. 643/2013/R/idr
On the 27 December 2013 AEEGSI finally passed Resolution No. 643/2013/R/idr approving the **Water Tariff Method (MTI) for 2014 and 2015**, to end the first regulatory period 2012 - 2015.
This method introduces important changes with which the Authority aims to guarantee conditions that will favour the modernization of water infrastructures, guarantee and facilitate the implementation of regulations, and solve credit access problems. In short, the Decision introduces the following changes, amongst others:

- the possibility of using forms of accelerated depreciation;
- replaces the gradual mechanism of the temporary method with a mechanism of regulatory schemes defined on the basis of whether or not it is necessary to change objectives or the operator's perimeter of activity and the sum of investments required in the period 2014/2017 in relation to the value of assets managed;
- acknowledgement of arrearage costs;
- establishing criteria for quantifying residual value.

The resolution also establishes the procedure for defining tariffs, introducing a system for reducing the regulatory risk, acknowledging that the operator can file a claim with the Authority for the tariff update in the case of default by the Local Authorities.

Decision No. 5/2014 – DSID - Quality data collection
With Decision No. 5/2014 – DSID "*Definition of the procedures for collecting data to study the efficiency of the integrated water service and the relevant regulation of quality*", AEEGSI began collecting data on the regulation of quality, the level of coverage and the efficiency of the water service in Italy with particular focus on the metering service. The data requested, which must be supplied to the AEEGSI by the Area Authorities by 12 May 2014, concerns the allocation of the service, investments and arrearage, electricity, aqueduct services, water treatment and sewerage, as well as the quality of the service (Service charter, accessibility and continuity of the service, management of contractual relations, availability of alternative procedures for the settlement of disputes).

Resolution 163/2014/R/idr – Approval of the preliminary enquiry on the return of invested capital for 2011

In Resolution No. 163/2014/R/idr "*Order to refund the integrated water service tariff component to end users related to the return on capital, repealed by the public referendum of 12 - 13 June 2011, with reference to the period 21 July - 31 December 2011*" the AEEGSI concludes the procedure opened by completing the list of Area Authorities whose rebate proposal has been verified in positive terms. This list includes the Geographical Areas of ACEA's competence, in other words:

a) List of Area Authorities with a positive figure for the portion of the tariff to be returned to end users:
- Ato 2 - Central Lazio - Rome;
- Ato Tuscany

b) List of Area Authorities for which, following the evaluations carried in compliance with the principle of covering costs, the refund to end users is equal to zero; in other words Area Authorities whose tariff did not include a return on the capital invested in the period 21 July - 31 December 2011:
- Ato5 – Frosinone;
- Ato SV – Sarnese Vesuviano;
- Ato2 – Perugia.

DC0 171/2014/R/Idr - Consultation paper on Uniform Agreement

In DC0 171/2014/R/Idr "*Guidelines for the preparation of uniform agreement schemes to regulate relations between the awarding party and the water service operator*", on 10 April 2014, with a introductive and generic provision, the AEEGSI intends to deal with the themes concerning the role of uniform agreements to define a clear, stable and coherent water service regulatory framework. This first consultation paper, for which the AEEGSI requires a reply by 12 May, will be followed by a second and a third more structured document in July and November to draw up the final provision before the end of the year. This regulation should come into force from 2016. The aim of the AEEGSI is to define a matrix of uniform agreement schemes on the basis of the type of awarding and the type of regulatory scheme selected in accordance with the Water Tariff Method for "*greater flexibility in terms of the growing complexity of the goals which must be reached by the party awarded the service*". The "basic" schemes defined as type "A" (awarding through a call for tenders), "B" (awarding to a mixed public–private partnership - PPP) and "C" (*in house providing company*) will be drawn up in different ways on the basis of the tariff scheme selected to produce 12 different applicable contractual schemes.

Notwithstanding the need to develop the legislative criteria of reference for all the uniform agreement schemes, some contractual content will be drawn up in a different way for the different schemes in consideration of the specific aspects of the various types of awarding and the selected areas of the competent subjects.

The provisions of the uniform agreement schemes will be imperative, overruling current agreements - within which they must be implemented subject to nullity - and observance of the same will be verified by the AEEGSI as part of the controls for approval of the regulatory schemes.

DC0 299/2014/R/Idr - Consultation Paper on the definition of tariffs for the collection and treatment of industrial waste that can be discharged into the public sewer

The measure contains the initial AEEGSI guidance for defining the tariffs for the collection and treatment of industrial waste allowed into the public sewer. The general objective of this paper, in compliance with the objectives set by the EU and national legislative framework, is to simplify tariff regulations, currently characterized by an excessive layering of measures issued at the central and regional level, and to minimize the system charges. The specific objectives underlying the measure include ensuring that service tariffs reflect actual costs and avoiding tariff distortions and misalignments for the same type of wastewater and environmental situation.

The main guiding principles that the AEEGSI sets out in the paper are:

- compliance with the principle "those who pollute more, pay more", which refines the EU "*polluter pays principle* - PPP" and proposes a pricing that is aligned to the costs required to eliminate pollution for each type of waste, taking into account the conditions of economic sustainability of end users;
- the distinction between the sewerage/collection service and the treatment service, because their different characteristics require different methods for the calculation of the related tariffs, which should also be based on drivers for the allocation of distinct costs to the different services;
- indication, for the treatment service, of a reference aggregate area (initially the ATOs), rather that the individual plant as the latter would lead to many tariff differentiations unwarranted within the same local contexts.

The measures that the AEEGSI intends to adopt in the near future are:

a) a second consultation on detailed regulatory options by October 2014;
b) adoption of a resolution approving the criteria for determining the new tariff, by December 2014;
c) AIR report (Analysis of regulatory impact) for the most relevant aspects of the measure by February 2015.

Lombardy Regional Administrative Court sentences on the appeals of the "ACQUA BENE COMUNE", "FEDERCONSUMATORI - ITALIAN CONSUMERS AND USERS FEDERATION" and CODACONS Associations

Section two of the Lombardy Regional Administrative Court, in sentences Nos. 779/2014 and 780/2014, passed on 26 March of this year, quashed the appeals presented by the above associations against AEEGSI Resolution No. 585/2012/R/idr (and all related, consequential, previous and related deeds) which in December 2012 introduced the Transitional Method (MTI) for calculating Integrated Water Service tariffs. Note that also ACEA Ato2 ("Codacons appeal") and Publiacqua ("ABC" proceedings) filed their appearance in the above appeals.

Therefore the Lombardy Regional Administrative Court approved all of AEEGSI's claims, rejecting the grounds for appeal, which were based respectively on the violation of art. 9 of the EC Water Framework Directive 2000/60/CE (recovery of water service costs), art. 75 of the Constitution (on abrogative referendum), Italian Presidential Decree 116/2011 (repeal following the referendum on an adequate return on invested capital), art. 154 of Italian Legislative Decree 152/2006 (integrated water service tariff), art. 10, paragraph 11 of Law Decree 70/2011 (creation of an Italian agency for water regulation and supervision), the method for calculating financial costs according to the standardised costs model, setting up a New investments fund (FoNi), the retrospective application of the resolution which although it was adopted in December 2012, produces effects in 2012-2013.

According to the panel of judges of the Regional Administrative Court, "*the so-called full cost recovery principle is specifically based not only on Italian law but also on EEC legislation*". Therefore it follows that "*even after the above-mentioned abrogative referendum, the integrated water service must be qualified as a service of economic interest characterised, in terms of tariffs, by the need to cover all costs*". The Regional Administrative Court in fact explains that the AEEGSI, "*when exercising its regulatory powers, generally assigned to it by Italian law No. 481/1995, defined the "financial cost*" of invested capital "*referring also to the investment of own capital (in cost-opportunity terms)…. which is conform to general practice in the field of economics*". After all, an investment of own funds in durable assets implies a business risk equal to that deriving from the investment of borrowed capital therefore giving the Operator the right to include the relevant cost in the tariff.

The claims of the petitioning associations, according to which the resolution had retrospective effects, are groundless: "*if the Authority adopted the new tariff method, after the abrogative referendum*" – states the Regional Administrative Court – "*it would in any case be valid for*

previous tariffs, calculated in accordance with the 1996 method, certainly having more negative effects for consumers than the current method".
Concerning the New investments fund (FoNi) set up, and the fact that, "*according to the petitioning parties, this goes against the principle of the necessary correspondence of the tariff as it provides for future investments*", the Regional Administrative Court declares that when the AEEGSI provisions are read in conjunction with the rules set forth in art. 155 of the Environmental Code, it is clear that the "*fund is to be used for improving the existing network and plants ("new investments") in favour of the users ("territory supplied"), therefore in observance of the principle of the necessary correspondence of the tariff, as indicated in sentence 335/2008*".
On 25 June 2014, Acqua Bene Comune and FederConsumatori lodged an appeal against the Administrative Court's ruling. The main argument put forward by the appellants asserts that, given the outcome of the referendum, the AEEGSI should have adopted a unique regulation model for the water service that, unlike ordinary ones which provide for a profit and return on capital, should have been based on a balanced budget, with no generation of profits or remuneration of the cost of capital. After the referendum, no "return on the cost of capital" can be envisaged for the water service, and thus no other methods can be used to introduce a refund on the cost of capital. On the contrary, the water tariff has been gradually approaching a regulatory model that is consistent with a pre-referendum situation, similar to a tariff that you would get in any other "normal" regulated sector which permits a return on the cost of capital. The FoNi issue has also been put forward again, also citing the unlawfulness of the component levied by way of depreciation on fixed assets that were paid with non- refundable grants, which, according to the appellants, is a duplication of payment for end users (through public taxation and the water tariff).

Lombardy Regional Administrative Court judgments on actions brought by certain Operators

The above sentences were passed by the Panel of Judges of the Regional Administrative Court from 4 to 23 April 2014 and partly uphold the appeals lodged by the Operators against Resolution No. 585/2012 (and 88/2013 - Operators' transitional method "ex Cipe"), Resolutions Nos. 73/2013 and 459/2013 amending Resolution No. 585/2012 and the AEEGSI Transitional Tariff Method calculation tool.
The main issues dealt with and the position of the Panel of Judges are summed up below:

- the objections of the petitioning parties were upheld, concerning the **non-observance of the *"full cost recovery principle*"** for:
    - the non-recognition of **tax costs** in relation to the **FoNi** (the Regional Administrative Court on the other hand considers AEEGSI's decision not to recognise **tax costs** on the FoNi portion to be correct, as the same is fed by the tariff and therefore, the operator bears no financial costs for the constitution of the same);
    - the non-recognition of **IRAP** regional business tax as a cost which cannot be reduced;
    - failure to cover **financial costs** due to the unavailability of **adjustment** sums to be granted from the date the right to collection accrued and the date of actual collection and the **only partial recovery of inflation;**
    - the unreasonableness of the criteria for calculating the adjustments referred to in Article 46, Annex A, for which the Administrative Court found a violation of the *full cost recovery* principle, as the calculation takes into account (negative amount) the greater revenue from additional water volumes compared to the 2011 budget without considering the higher related costs;
    - inclusion of **delinquencies** in the tariff, given that, according to the Water Tariff Method (MTI) a component on such basis has viceversa been granted to the AEEGSI for the subsequent 2014-2015 period;
    - taking into account the losses on receivables in the determination of the tariff component that is used as basis for the establishment of the FoNi;

  - the illogical nature of the provision in Resolution No. 459 of 2013 is confirmed, as this provision substantially **gives the Area Authority the right to decide whether to apply mechanisms for the recognition of the costs necessary to guarantee the economic and financial equilibrium of the operators**. Indeed, if the new provisions are dictated by the need to guarantee full coverage of costs, then the Area Authority must apply those provisions;
- the objections that AEEGSI has no powers to regulate the so-called **white water** sector, were upheld as the regulatory power applies to the integrated water service only. The AEEGSI only has jurisdiction for the Integrated Water Service and, accordingly, the provision stating that "other water activities" performed by the operator are to be taken into account in calculating the Integrated Water Service tariff, is illegitimate. "The attribution, by Resolution No. 585/2012, of regulatory power for other water activities to the AEEGSI, without any legal basis, **violates the principle of the legality of the administrative action**".

As various objections were upheld, the above-mentioned AEEGSI resolutions and the measures for approval of the tariffs by the competent bodies are void as they are illegitimate as a consequence, to the extent that the grounds of the appeals were upheld.

Finally, for the Regional Administrative Court there were no grounds for upholding:

- **retrospective validity of the provisions issued to Area Authorities and operators and their effect on prior contractual relations**: The Regional Administrative Court confirmed AEEGSI's legitimate right to alter current agreements, rejecting the grounds of the appeal. "The principles of legal certainty and legitimate confidence …. cannot however be invoked to prevent, within the scope of providing a long-term public service, new rules and regulations from ever being applied". Moreover, Operating Agreements often specify that tariffs can be revised on the basis of new legislative provisions.
- the objections on the method used to calculate the **net working capital**, from which revenues and costs from water activities other than the integrated water service are excluded.
- the alleged insufficient value attributed (to guarantee covering costs) to the **parameters Kd, ERP, BETA and CS/CnS**, as, not only these choices are made at the technical discretion of AEEGSI, over which the Panel of Judges has no jurisdiction, but they were also not considered to be plainly unreasonable.
- the objection on the **calculation tool** which, as such, does not alone constitute an impugnable act. It was however acknowledged that its construction does substantially violate the provisions of Resolution No. 585/2012 as provisions for "liabilities and charges" are not included in the calculation of the net invested capital. The petitioning parties may if necessary challenge the *contra legem* application of the same resolution, for the point in question.

On 27 June 2014, the State Attorney General on behalf of the AEEGSI lodged an appeal against the decisions of the Regional Administrative Court of Milan that upheld the main issues of the operators' appeals.

AEEGSI electricity activities

Resolution No. 13/2014/R/efr – Energy efficiency tariff contribution for electricity distributors 2013-2014

Resolution No. 13/2014/R/efr of 23 January 2014 defined the criteria for the quantification of the tariff contribution to cover the costs borne by electricity and gas distributors concerning EEB - Energy Efficiency Bonds from the compulsory year 2013, which started 1 June 2013 and will end this coming 31 May. Through this mechanism EEB average market prices can be taken into account, thereby avoiding the recognition of expenses borne by distributors on the basis of actual documented costs.

At the beginning of each compulsory year, the AEEGSI defines the value of a preventive contribution which, for 2013, was set at 96.43 €/EEB, on the basis of the market values recorded on the stock exchange over the previous two years, in order to reduce the accumulated imbalance between contributions recognised to date and the average market prices of the bonds.
The definitive contribution, which will be paid to the distributor on cancellation of the bonds will be calculated and published at the end of every compulsory year.
Based on the above considerations, therefore, by decision 9/2014 - DMEG of 2 July, the AEEGSI announced both the value of the final tariff contribution for 2013, amounting to 110.27 €/EEB, and the tariff contribution for 2014 amounting to 110.39 €/EEB.

Finally, note that with Decision No. 9/2013 – DIUC the Authority published the data on the quantity of electricity and natural gas distributed in Italy by liable distributors in 2012, sending the same to the Ministry of Economic Development and the national grid operator. This data is essential to determine the energy efficiency objectives each single distributor must meet for 2014.

Decision No. 6/2014 - DIUC – 2014 equalisation of revenues for the distribution of electricity and transmission costs

With Decision No. 6/2014 - DIUC of 17 March 2014 the AEEGSI made the mechanisms of advance payments every two months for the equalisation of revenues from the distribution of electricity and the costs of transmission, optional for 2014. The Authority in fact, with Decision No. 4/2014 – DIUC of 15 July 2013 introduced a mechanism of advance payments and adjustments for the payment of said equalisation, so said mechanism (inclusive of the changes made by the decision in 2014):

- ✓ apply to equalisation for 2014 and 2015 on the basis of equalisation data, respectively, from 2012 and 2013;
- ✓ is optional for 2014 and, subject to further changes made by AEEGSI, is compulsory for 2015;
- ✓ requires the payment of six 2-monthly advance payments equal to 80% of the equalisation for the two previous years, and payment of an adjustment instalment calculated on the basis of the equalisation of the current year.

Decision No. 136/2014/R/eel – Tariff of reference for the sale of electricity

With Decision No. 136/2014/R/eel of 27 March 2014 the AEEGSI revised the retail tariff for the sale of electricity on the protected categories market, from 1 April 2014. This tariff was increased due to the effect of a revision of the *tax rate* incorporated in the rate of return on net invested capital (WACC), now equal to 8%, and the separate recognition of IRAP regional business tax in the tariff, which before was incorporated in the WACC.
At the end of 2013, with Resolution No. 637/2013/R/eel, the AEEGSI increased the tariff for the sale of electricity starting from the first quarter of 2014, to allow for the risk of end user arrearage. At the same time, the Authority, pending the definition of a final operating mechanism, also set up a transitory mechanism to compensate for arrearage in the case of fraudulent withdrawals, for which the operators on the protected categories market will present a proposal for settlement by 30 June 2014.

Resolution No. 154/2014/R/eel – 2014 tariff of reference for the distribution of electricity

With Resolution No. 154/2014/R/eel of 3 April 2014 the AEEGSI published the tariffs of reference for 2014 electricity distribution. Both the parameters used to quantify the revenue allocated to each distributor for the electricity distribution service alone (specific corporate tariffs) and the parameters for covering marketing costs, for the electricity distribution service (national single tariff) were revised.

Resolution No. 169/2014/R/eel – Equalisation of network losses 2012-2014

With Resolution No.169/2014/R/eel of 10 April 2014, for 2015 the AEEGSI decided to apply the transitory equalisation mechanism between distributors to electricity losses on distributors' networks in 2014, as already specified in Resolution No. 559/2012/R/eel (for 2012 losses), as modified by Resolution No. 608/2013/R/eel, and valid for 2014 on equalisation for the year 2013.
In brief, pending publication of the final mechanisms for calculating the equalisation on network losses, which will be published after the conclusion of the study on specific corporate network losses at the end of 2014, distributors with network losses lower than standard losses (such as ACEA Distribuzione) will receive 1/4 of the equalisation amount for energy pertaining to 2014, as in 2013 (for 2012 the same distributors received half the sum). Consequently, distributors with network losses exceeding *standard* losses will pay reduced amounts.
Furthermore, late adjustments (energy related to periods prior to 2012, 2013 and 2014) will be considered in the recalculation of the distributors' sums.
It should be noted that the Lombardy Regional Administrative Court, following an appeal filed by the company A2A Reti Elettriche S.p.A., by ruling no. 1307 of 20 May 2014 annulled Resolutions 559/2012/R/eel and 608/2013/R/eel, i.e. the transitional equalisation mechanism for network losses in 2012 and 2013. The reason for this decision is that, despite taking into account the results of a study commissioned to the Politecnico of Milan, which showed a significant difference between actual losses and standard losses at local level mainly due to fraudulent withdrawals, AEEGSI accordingly corrected the existing equalisation mechanism by reducing both positive and negative amounts, in the absence of further information that would have allowed for a more complete review of the entire equalisation mechanism and should have led to the definition of company-specific loss coefficients rather than national averages; conversely, this objective is being pursued by the Authority with the still ongoing study on network losses, which was started by the same resolution 559/2012/R/eel. Therefore, according to the Regional Administrative Court the AEEGSI should first have waited for the results of that study and then, on the basis of the information collected, should have changed the equalisation mechanism for network losses. AEEGSI appealed to the Council of State, against the judgment of the Administrative Court of Lombardy.

Resolution 179/2014/R/efr - Minimum guaranteed prices for plants fuelled by renewable sources

By Resolution 179/2014/R/efr of 17 April 2014, following the conversion of Decree Law no. 145 of 23 December 2013 into Law no. 9 of 21 February 2014, the AEEGSI revised Resolution no. 280/07 on the application of minimum guaranteed prices for plants fuelled by renewable energy sources (RES), i.e. the withdrawal price that the National Grid Operator applies to electricity produced from small size RES plants, that have high operating and maintenance costs, limited annual production capacity and nominal power of up to 1 MW.
This resolution provides that minimum guaranteed prices apply to:

- PV systems with nominal power up to 100 kW that have access to incentives for the electricity produced;
- hydroelectric plants with nominal power up to 500 kW that have access to incentives for the electricity produced;
- hydroelectric plants, and other renewable sources, with nominal power up to 1 MW that do not have access to incentives for the electricity produced;

The above is subject to the principle that, if the guaranteed minimum prices are lower than hourly zonal prices (i.e. market prices), the latter shall apply.
In all cases other than those mentioned in Resolution 179/2014/R/efr, hourly zone prices apply, as required by Decree Law no. 145 of 23 December 2013.
The aforementioned resolution also provides that, where hydroelectric plants with an electrical output of up to 500 kW and access to incentives for the electricity produced during the year exceed

the aforementioned power, the National Grid Operator shall revoke the guaranteed minimum prices for that year, making the necessary adjustments in line with the zonal price.
In addition, RES plants as defined in Resolution 179/2014/R/efr shall benefit from the guaranteed minimum prices even if the electricity produced, instead of being allocated to the National Grid Operator, is sold to a *trader* or directly on electricity markets.

Resolution 231/2014/R/com - Accounting *unbundling* 2014

By Resolution 231/2014/R/com on 22 May 2014, the Authority approved the new Consolidated Accounting Unbundling Regulation (Annex A - TIUC), which replaces the previous provisions contained in the TIU (Consolidated Unbundling Regulation - Annex A to Resolution no. 11/07). Annex A to the resolution states that:

- TIUC provisions shall be applicable as of the year 2014;
- a technical committee with operators and trade associations is to be established aimed at drawing up a regulatory accounting manual containing detailed technical specifications for the preparation of annual separated accounts pursuant to the TIUC;
- the regulatory accounting manual (i) has to establish specific techniques that are useful for the preparation of the annual separated accounts, (ii) must ensure consistency between the changes in fixed assets communicated for the purposes of accounting separation and those communicated to the Authority during data collection for the purpose of determining the tariff, (iii) has to define uniform rules for the construction of drivers used to chargeback items of common services and shared operational functions and to value transactions within the corporate group;
- the simplification of mandatory disclosures, when such information is already collected through other means by the Authority, is to be defined through accounting schedules relating to future separated annual accounts to be published by the Offices of the Authority.

Resolution 205/2014/R/eel - Experimental tariff 2014 for domestic customers with heat pumps for heating

By Resolution 205/2014/R/eel of 8 May 2014, the AEEGSI launched an experimental tariff on a national basis addressed to all residential domestic customers that use electric heat pumps as the sole source of heating. Such experimentation, conducted on a national basis, allows eligible customers to take advantage of the D1 network rate, which, unlike the current D2 and D3 tariffs, bypasses energy invoicing by consumption brackets which, as a matter of fact, limits the use of energy efficient technologies due to the high price of energy in the higher consumption brackets. The request for application of the D1 rate can be submitted as of 1 July 2014 to operators in the protected categories market (mandatory regime) and to the free market vendors participating in the experimentation (optional system).

Resolution 266/2014/R/com - Revision of the Code of Business Conduct and other provisions relating to consumer protection on the basis of Legislative Decree 21/2014

Legislative decree no. 21 of 21 February 2014 has transposed Directive 2011/83/EU on consumer rights into Italian law, amending certain provisions of the Consumer Code (Legislative Decree no. 206 of 6 September 2005) relating to contracts between professional operators and consumers that are negotiated away from business premises, distance contracts and contracts other than the latter (i.e. negotiated within business premises). The new provisions also expressly apply to contracts for the supply of water, gas, electricity or district heating, concluded as of 14 June 2014.
The legislative decree in question introduces new requirements regarding:

- pre-contractual information that professional operators have to provide to consumers prior to the conclusion of contracts; by way of example, in contracts negotiated away from business premises or distance contracts, operators must inform consumers that, if they wish the service

to begin during the period available for exercising the right of withdrawal (14 days), they must explicitly request so on a durable medium;
- formal requirements for contracts negotiated away from business premises and distance contracts. Specifically, distance contracts now require confirmation on a durable medium. Contracts concluded by telephone (teleselling) also require confirmation of the offer by the professional operator and acceptance by the consumer, who is bound only after signing the offer or accepting it in writing, or after providing his/her consent on a durable medium;
- consumers' right to withdraw, following the conclusion of a distance contract or a contract negotiated away from business premises; this right may be exercised within a period of 14 calendar days, compared to 10 working days under the previous rules. Where a consumer exercises the right to withdraw after having requested the provision of the service during the withdrawal period, the consumer has to pay the operator an amount proportional to the service provided up to the time the consumer has informed the vendor of his/her intention to exercise the right of withdrawal.

In light of the foregoing, by resolution 266/2014/R/com, AEEGSI amended the provisions of the Code of Business Conduct (Annex A to Resolution ARG/com 104/10) concerning the fulfilment of pre-contractual obligations and the way residential customers may exercise the right of withdrawal, adapting them to the new provisions of the Consumer Code.

In addition, by the same measure, the Authority introduced new and transitional provisions, applicable to residential end users only, replacing part of the provisions laid down in Resolution 153/2012/R/com (unsolicited contracts) relating to sellers' obligations in the case of contracts concluded away from business premises or distance contracts, or such as to ensure specific timing for the submission of complaints and the smooth running of re-activation measures, where applicable; with regard to non-residential end customers, the previous provisions contained in Resolution 153/2012/R/com shall continue to apply.

According to the new wording of Article 66-quinquies of the Consumer Code on unsolicited supplies, consumers are exempted from the obligation to provide any consideration. According to the Authority, this provision does not conflict with the provisions on unsolicited supplies provided for by Resolution 153/2012/R/com, but rather supplements them, as the re-activation procedures provided for by the latter are protection tools that can operate concurrently with those provided by the Consumer Code (judicial protection and protection by the Antitrust Authority) to which end users may resort at all times; indeed, the purpose of re-activation measures is to enable end customers, on their own initiative, to be able to restore the contractual relationship still in place with the vendor preceding the "unsolicited" one.

Council of State judgment for dispatching costs of "non programmable" renewable sources

The Council of State judgment no. 2936 of 9 June 2014, definitively declared as groundless the appeals lodged by AEEGSI against the judgments of the Regional Administrative Court of Lombardy, nos. 1613/2013, 1614/2013, 1615/2013 and 1830/2013, which nullified resolutions nos. 281/2012/R/efr, 343/2012/R/efr and 493/2012/R/efr, limited to the criteria for calculating the imbalance fees assigned to producers of electricity from "non programmable" renewable sources.

The Council of State, confirming the judgments of the Regional Administrative Court, held that the above-mentioned resolutions of the Authority violated the non-discrimination principle.

Specifically, the Council of State said that *"non programmable sources of electricity are characterized by the fact that, although predicting the energy produced and fed into the grid is not objectively impossible, nevertheless, given the type of source and the variables that influence their operation, such prediction cannot achieve the same level of precision of programmable sources"*; accordingly, the imposition of imbalance costs must take the peculiarities of this source into account. The provision of special allowances is not considered suitable to meet this obligation, as allowances are not differentiated based on the type of source. As a result, the Council of State

urged the Authority to identify a system for allocating imbalance costs, by introducing *"mechanisms calibrated according to the sources' specific characteristics"* that would take into account *"the consequent difficulties in forecasting the energy fed into the grid with the same degree of reliability that has to be ensured by the units that produce programmable* energy".
In addition, the Council of State also pointed out the unlawfulness of the previous system, in which, the imbalance costs caused by the mentioned production units were commonly shared, thereby leading to "*discrimination between operators, providing an unjustified advantage to those that produce programmable energy"*.

Trend of operating segments

Financial results by segment

The results by segment are shown on the basis of the approach used by the management to monitor Group performance in the examined periods and in observance of IFRS 8 accounting standards. Note that the results of the “Other” segment include those deriving from ACEA corporate activities as well as intersectorial adjustments.

30 June 2014	Environment	Energy					Water				
Million euros		Generation	Sales	Energy Management	Intra segment eliminations	Segment Total	Italian Water Services	Overseas	Engineering	Intra segment eliminations	Segment Total
Revenue	65	32	1,021	0	(18)	1,035	312	5	15	(14)	318
Costs	37	13	995	0	(18)	990	180	3	11	(14)	180
Gross operating profit	**28**	**19**	**27**	**0**	**0**	**46**	**132**	**1**	**4**	**0**	**138**
Depreciation and accumulated impairment charges	13	9	31	0	0	40	34	0	0	0	35
Operating profit/(loss)	**15**	**10**	**(5)**	**0**	**0**	**5**	**98**	**1**	**4**	**0**	**104**
Capex	**5**	**4**	**2**	**0**	**0**	**7**	**67**	**1**	**0**	**0**	**68**

30 June 2014	Networks					Other		Consolidated Total
Million euros	Distribution	Public Lighting	PV power	Intra segment eliminations	Segment Total	Corporate	Consolidation adjustments	
Revenue	253	34	3	(2)	287	59	(244)	1,520
Costs	138	31	1	(2)	168	59	(244)	1,189
Gross operating profit	**115**	**3**	**2**	**0**	**119**	**0**	**0**	**331**
Depreciation and accumulated impairment charges	42	0	0	0	43	12	0	143
Operating profit/(loss)	**72**	**2**	**2**	**0**	**77**	**(12)**	**0**	**188**
Capex	**59**	**0**	**0**	**0**	**59**	**4**	**0**	**142**

30 June 2013 *Restated*	Environment	Energy					Water				
Million euros		Generation	Sales	Energy Management	Intra segment eliminations	Segment Total	Italian Water Services	Overseas	Engineering	Intra segment eliminations	Segment Total
Revenue	58	33	1,153	443	(404)	1,225	305	6	13	(11)	314
Costs	34	13	1,129	442	(404)	1,180	173	4	8	(11)	174
Gross operating profit	**24**	**20**	**24**	**1**	**0**	**45**	**133**	**2**	**5**	**0**	**140**
Depreciation and accumulated impairment charges	13	5	34	1	0	40	40	0	0	0	41
Operating profit/(loss)	**11**	**15**	**(11)**	**0**	0	**4**	**92**	**2**	**5**	**0**	**99**
Capex	**5**	**3**	**2**	**0**	**0**	**5**	**68**	**0**	**0**	**0**	**69**

30 June 2013 *Restated*	Networks					Other		Consolidated Total
Million euros	Distribution	Public Lighting	PV power	Intra segment eliminations	Segment Total	Corporate	Consolidation adjustments	
Revenue	220	38	4	(1)	261	56	(250)	1,664
Costs	107	33	1	(1)	141	53	(250)	1,333
Gross operating profit	**113**	**4**	**2**	**0**	**120**	**3**	**0**	**331**
Depreciation and accumulated impairment charges	43	0	0	0	44	12	(1)	149
Operating profit/(loss)	**70**	**4**	**2**	**0**	**76**	**(9)**	**1**	**182**
Capex	**52**	**0**	**0**	**0**	**52**	**4**	**0**	**135**

Note that, from 1 January 2014, Ecogena was allocated under the Energy – Generation Segment, while until 31 December 2013 the Company was part of the Networks Segment. Note that, as of

2014, Ecogena is consolidated on the basis of the line-by-line method due to changes in the ownership structure.
The revenue in the above table include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method.

Environment Operating Segment

Operating figures and financial results for the period

Operating figures	Meas. Unit	30/06/2014	30/06/2013	2014-2013	%
Waste transferred to WTE	kTon	170	150	20	13.2%
Waste transferred to RDF production plant	kTon	0	20	(20)	(100.0%)
Electrical Energy transferred	GWh	121	118	3	2.5%
Waste coming into Orvieto plants	kTon	49	61	(12)	(19.2%)
Waste Recovered/Disposed of	kTon	180	158	22	14.1%

Financial results (millions of euros)	30/06/2014	30/06/2013 *restated*	2014-2013	%
Revenue	65	58	7	12.1%
Costs	37	34	3	8.8%
Gross operating profit	28	24	4	17.8%
Operating profit/(loss)	15	11	4	36.4%
Average number of staff	217	197	20	10.2%
Capex	5	5	0	0.0%

Balance sheet data (million euros)	30/06/2014	31/12/2013 *restated*	Increase/ (Decrease)	%	30/06/2013 *restated*	Increase/ (Decrease)	%
Net debt	179	185	(6)	(3.2%)	194	(15)	(7.7%)

This Segment closed the first half of 2014 with EBITDA of 27.8 million euros, an increase of 4.2 million euros compared to the same period of 2013; this was mainly due to improved results reported by ARIA (+ 2.8 million euros), especially in the Terni plant that increased operations after *revamping* and Aquaser Group (+ 0.7 million euros) due to higher volumes in agriculture and composting activities.

The average number of staff as at 30 June 2014 was 217, ten more than the same period of the previous year. The increase is mainly attributable to ARIA and ISA for a total of 8 employees.

Segment capital expenditures amounted to 4.6 million euros, substantially in line with those of the same period of 2013.

Net debt in the Segment amounted to 178.9 million euros, improving 5.7 million euros on the end of 2013 (when it was 184.6 million euros). The change is mainly attributable to the Aquaser Group (- 10.7 million euros), due to higher revenues. In contrast, debt generated from payments to suppliers that completed the new Terni and San Vittore lines worsened.

Operating review

ARIA

ARIA's activities were concentrated on the direct management of *assets* of the subsidiaries Terni En.A., E.A.L.L., Enercombustibili and Ergo En.A., incorporated during the 2011 financial year. Furthermore, activities were conducted to coordinate and provide services to the subsidiary S.A.O. and Ecoenergie, placed in liquidation in 2012. Finally the meeting held on 16 October 2013 passed a resolution to place Arkesia, a company in which the group held a 33% equity investment, in liquidation.

The company was involved in marketing electrical energy with Acea Energia, which performs market operator activities, to which the company transfers volumes of energy produced by the two new lines of the San Vittore plant over and above that withdrawn by the national grid operator under the CIP 6/92 regulation.

Terni waste-to-energy plant (UL1)

The Terni waste-to-energy plant produces electricity from renewable sources, and specifically in a *pulper* paper mill waste-to-energy plant.

In the first half there was a marked improvement in the number of operating hours despite the continuing malfunction of the turbo generator, which affected operations for the whole of 2013. Technical checks are ongoing for the final resolution of still unresolved technical service issues.

With reference to the national grid operator's inspections carried out by RSE starting last December, the technical analysis of the characterization plan drawn up by the company and the method used to determine the biodegradable fraction of the waste subject to incentives was concluded with the publishing of the results on 2013 operations. It should also be noted that the Company will update the characterization plan according to the instructions received from RSE S.p.A. and will subsequently submit it to GSE S.p.A. for final approval. Lastly, in June, 2014, the Company applied for a new authorization aimed at expanding the non-hazardous waste categories (EWC codes) that can be treated for energy recovery in the waste to energy plant in Terni. The initiative does not provide for any plant modification and keeps the annual quantity of treated waste unchanged, but it will enable the company to deal with new types of non-hazardous waste that local producers in the Umbria and neighboring regions may potentially deliver to the plant, in accordance with the fundamental EU law principle that recovery/disposal operations must be carried out in "proximity" to production facilities.

Again with reference to the Terni plant, the contracts for the delivery of *pulper* waste were duly formalized; they covered the fuel needs of the plant during the reporting period thereby allowing for a regular scheduling of deliveries for 2014, in line with forecasts.

Paliano RDF production plant (UL2)

The Paliano RDF production plant possesses a single authorisation for the production of RDF, expiring on 30 June 2018.

As is known, in June 2013 part of the plant was destroyed by a major fire, and the facility was subsequently seized by the judicial authorities for evidentiary purposes. The technical inspections for evidentiary purposes ordered by the Frosinone Public Prosecutor's Office ended with an inspection on 28 November 2013 and in February 2014 the fire was considered to be a case of arson perpetrated by third parties.

In relation to the above, without prejudice to further investigation requirements of the Prosecutor's Office, the company began preliminary controls to start removing the debris left by the fire and restore the site to put the plant back into service and implement a plan of action for the complete replacement and reconstruction of the RDF production plant. The company thus appointed a major company in the industry that performed the required technical inspections and prepared the characterization and safety plan of the areas, the waste management plan and the demolition plan, all of which were submitted to the Provincial Authority of Frosinone for approval. The whole procedure will be carried out in consultation with the relevant Entities and Authorities, and with the technicians appointed by the insurance companies already involved in relation to the various risks associated with and resulting from the event.

Therefore, at the date of today, it is still impossible to estimate the extent of the damage to the plant and property, although the RDF plant will certainly not go back into production in 2014. As the fire is considered to be a case of arson perpetrated by third parties, the insurance settlement will be calculated on the basis of the cost of reconstructing the new plant which, on the basis of contractual clauses, will be reduced by 20% . Lastly, in accepting the requests submitted by the company, the insurance company granted an advance compensation of 1.3 million euros for the damage suffered.

San Vittore waste-to-energy plant, Lazio (UL3)

The San Vittore waste-to-energy plant in Lazio produces electricity from renewable sources, particularly RDF. In the reporting period, lines 2 and 3 of the plant guaranteed regular service, both in terms of the electricity produced and in terms of RDF used for energy recovery.
With reference to the investigation phase of the process for renewing the Integrated Environmental Authorization, the Conference of Services deciding on the matter was held in June 2014. During this meeting further requests for clarification were made with regard to the documentation submitted by the company; the company promptly complied with the requests. The company is waiting for the conclusion of the preliminary investigation and the final decision which, pursuant to the provisions of Legislative Decree no. 46/2014, had to be completed no later than 30 June 2014.
On 3 July 2014, the Lazio Regional Authority notified the conclusion of the preliminary investigation and that the company could continue operating the plant in accordance with the previous Integrated Environmental Permit issued by Commission Decree no. 72 of 25/07/2007, as subsequently amended and supplemented, pending issuance of the measures by the same entity.
By letter, dated 27 January 2014, GSE S.p.A. notified the successful outcome of the audit and inspection conducted on "Line 2 and 3" of the San Vittore del Lazio plant, which was started in March 2013.
According to the opinion, the plant meets the conditions for receiving the benefits provided by measure CIP 6/92; the opinion also informed, in advance, about the issuance of a separate measure concerning the outcome of control activities for the IAFR qualification.
With reference to line 1, it has already been dismantled and its reconstruction has already been approved. The final design of the works in question has already been assigned and the process for the selection of vendors to whom revamping works have to be assigned are currently ongoing.

SAO

The company owns the waste dump located in the municipality of Orvieto and manages municipal and special waste.
In the reporting period SAO collaborated with Umbria ATI4 to revise and update the Economic-Financial Plan for the Orvieto plants. This Plan was approved by ATI4 in Resolutions Nos. 2 and 3 on 21/01/2014; said resolutions also contain the new tariffs and various biomass transfer components in force from 1 January 2014.
In March 2014 the company notified the competent local authorities that, in accordance with the authorisations issued, it had called a public tender for the Orvieto waste treatment plant *revamping* contract and, as a consequence, in observance of the area plans and the above authorisations, waste transfer to this plant would stop, as it actually stopped, on 30 April 2014. The company also stated that, from 1 May 2014 non-separated solid urban waste would be treated in an alternative way for subsequent placement in landfill, as authorised by the Terni Provincial Authority. On 6 June 2014, the Province of Terni authorized the alternative treatment and subsequent placement in landfill as long as there is no dedicated plant available in the Umbria ATI4 area.
On 19 June 2014, the company informed the relevant authorities that on 23 June 2014 it would begin construction of the frontal *capping* for the reclamation of layer No. 8 of the Orvieto landfill; at a meeting convened by the Province of Terni, the relevant authorities requested ASM and GreenASM to verify the feasibility of the above treatment. To date, the outcome of this analysis is still pending.

Aquaser Group

Aquaser

Aquaser was set up to manage ancillary services associated with the integrated water cycle, recovering and disposing of sludge from biological treatment and waste produced from water treatment, treating effluent and liquid waste and providing the services connected thereto.
It currently transports and recovers treatment sludge for most of the water companies in the ACEA Group.
The sludge is recovered through delivery to composting plants, mostly third party, and by spreading sludge on farmland according to largely third party authorisation.
In the reporting period the company continued to consolidate its position on the market, both in terms of revenue and operating profit.

KYKLOS

Kyklos operates in the waste treatment sector. It produces and markets mixed compost conditioners; in particular it operates in the areas of Nettuno Ferriere in Aprilia on the basis of a Single Authorisation for special non-hazardous waste treatment and recycling plants obtained from the Province of Latina with a maximum capacity of 66,000 tonnes/year.
On 8 June 2010, the authorisation procedure was started for the adjustment of the current plant and the enlargement of its capacity up to 120,000 tonnes/year through the construction of a biogas plant with recovery of electricity and heat energy.
Note that the Provincial Authorities of Latina, on 28 March 2013, issued a single authorisation for a substantial variation in the waste treatment and recovery plant and for the production of energy. The authorised intervention to bring the compostable waste treatment capacity up to 120,000 t/year is to guarantee organic waste recovery requirements are met, in particular considering the current waste emergency at a regional level, avoiding dumping, and consolidating the leading role of Kyklos in the territory of reference.
As a result of the appeal for cancellation filed by the Municipality of Nettuno, subject to effective suspension of the above authorisation and the appeal filed by Kyklos for the cancellation of some parts of the same authorisation, on 25 February 2014 the Company presented a request for suspension of the term for the start of work (within twelve months of issue) until the Latina Regional Administrative Court passes sentence on the above. The request was approved by the Latina Provincial Authority on April 2014.

SOLEMME

Solemme operates in the waste recycling sector, composting organic waste, in particular sludge from civil waste water treatment and producing mixed compost conditioners. The composting plant is included in the Grosseto Provincial Authorities' Waste management plan.
Solemme's market of reference is represented by residential sludge produced in Tuscany, and in particular within the scope of ATO6 Ombrone, for the Province of Grosseto and Siena and from the treatment of waste from separate collection.
The current capacity of the plant is insufficient to guarantee recovering the amount currently produced and an increase in production is expected considering the increase in residential waste treatment.
The difficulties in developing an integrated WTE solution for this sludge led to the start of the decision-making procedure to upgrade the existing plant.
The composting plant has been the subject of discussion with the municipality of Monterotondo Marittimo for some time, concerning its development and industrial characteristics.
The Municipal Authority filed an appeal with the Regional Administrative Court against the authorisation issued by the Grosseto Provincial Authorities concerning the proposal for the new biogas and composting plant presented by Solemme with a capacity of 70,000 T/year.

This authorisation for plant development requires that the Monterotondo Marittimo Municipal Authority approves the implementation plan submitted by the company, which the Municipal Administration refuses to give after passing a town council resolution on 26 March 2013. The parties involved met in February 2014 to attempt to clarify all the technical aspects and find a solution that enables the company to obtain the missing authorisations.
On 11 April 2014 the Grosseto Provincial Authority extended the plant operating authorisation until 14 April 2015. Lastly, during the month of June a meeting was held with the new administration to overcome the pending litigation and approve the preparatory implementation plan prior to construction of the new plant.

ISA

Isa operates in the logistics and transportation sector and was held to be of strategic importance to reach market consolidation objectives. The Company was acquired to strengthen the group organisation and provide group services in a more independent way, not only transportation but also services relating to other associated and complementary activities, such as the farmland spreading of sludge, the maintenance of drying beds and automatic discharge services, which have led to a significant increase in business activities. In particular, the fields of sludge dewatering and liquid waste transportation were significantly developed.
Note that the company currently has its own fleet for haulage activities.

SAMACE

The Company was taken over by Aquaser on 5 July 2013.
It operates in the waste recovery sector, producing and selling compost conditioners. The Company operates in Sabaudia with a Single Authorisation for special non-hazardous waste treatment and recycling plants obtained from the Province of Latina.

Energy Operating Segment

Operating figures and financial results for the period

Operating figures	Meas. Unit	30/06/2014	30/06/2013	2014-2013	%
Energy Produced	GWh	293	278	15	5.3%
Electrical Energy sold - Free	GWh	3,965	4,727	(762)	(16.1%)
Electrical Energy sold - Protected	GWh	1,568	1,689	(121)	(7.2%)
Electrical Energy - No. Customer of Free Market (P.O.D.)	N/000	286	309	(22)	(7.3%)
Electrical Energy - No. Customer of Protected Market (P.O.D.)	N/000	1,040	1,074	(34)	(3.2%)
Gas Sold	Msm^3	66	63	3	4.8%
Gas No. Customers on Free Market	N/000	123	101	22	21.7%

Financial results (millions of euros)	30/06/2014	30/06/2013 *restated*	2014-2013	%
Revenue	1,035	1,225	(190)	(15.5%)
Costs	990	1,180	(191)	(16.2%)
Gross operating profit	46	45	1	2.2%
Operating profit/(loss)	5	4	1	25.0%
Average number of staff	533	546	(13)	(2.3%)
Capex	7	5	2	25.1%

Balance sheet data (million euros)	30/06/2014	31/12/2013 *restated*	Increase/ (Decrease)	%	30/06/2013 *restated*	Increase/ (Decrease)	%
Net debt	403	303	100	33.0%	319	84	26.3%

This Segment closed the first half of the year with EBITDA at 45.7 million euros, an increase of 1.1 million euros on the same period of 2013.
The Sales sector recorded a positive change, closing the first half with EBITDA of 26.6 million euros against 24.1 million euros in the first half of 2013; the change reflects an improved energy margin (+ 2.5 million euros), associated with efficiency measures that curbed the costs for services (- 1.5 million euros) in Acea Energia.
The production sector recorded a negative change, closing the first half with EBITDA of 19.1 million euros compared to 20.5 million euros in the same period of 2013; the change is almost entirely due to a decrease in the energy margin (- 2.1 million euros) due to lower prices only partially offset by a decrease in the costs for services (- 1.0 million euros).

In terms of staff, as at 30 June 2014 the average number of employees was 533, 13 less than the same period of the previous year.

Segment capital expenditures stood at 7 million euros (of which 2.5 million euros by Ecogena), an increase of 1.3 million euros.

Net debt in the period increased to 403.0 million euros, 100.4 million euros higher than the figure at the end of 2013. This increase is primarily attributable to **(i)** the sales sector (96.5 million euros), essentially due to the increase in net working capital which resulted in greater liquidity need and a worsening financial position and **(ii)** the production sector (- 3.8 million euros) mainly in relation to the 6.6 million euros debt reported by Ecogena which, in the first half of 2013, was consolidated using the equity method, only partially offset by higher collections recorded by Acea Produzione.

Operating review

Energy Management

From 1 January 2014, as a consequence of the merger of Acea Energia Holding in **Acea Energia**, the latter performs also "*Energy Management*" activities, as these are necessary for Group operations, sale and production in particular.
The Company also liaises with the Energy Market Operator and with TERNA. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the ACEA Group. It performed the following main activities in the period:

- the optimization and assignment of electricity produced by the Tor di Valle and Montemartini thermoelectric plants and by the S. Angelo hydroelectric plant,
- the negotiation of fuel procurement contracts for the power generating plants,
- the procurement of natural gas and electricity for the sales company to sell to end customers,
- the sale of environmental certificates (green certificates, issue rights and renewable source production certificates) for Acea Energia and Acea Produzione,
- the optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies' risk profile.

In the first six months of 2014, Acea Energia purchased 5,067 Gwh of electricity from the market, of which 3,732 Gwh through bilateral agreements and 1,335 Gwh through the Power Exchange, and sold 447 Gwh back to the market, of which 303 Gwh through bilateral agreements and 143 Gwh through the Power Exchange.

Electricity production

The **Acea Produzione** production system comprises a series of power generating plants with a total installed capacity of 344.8 MW, including five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzi), two so-called "mini hydro" plants in Cecchina and Madonna del Rosario, two thermoelectric plants - Montemartini and Tor di Valle (the latter fitted with a combined cycle module for steam turbine extraction and an open-cycle turbogas module providing cogeneration for the district heating in the Torrino Sud, Mostacciano and Torrino-Mezzocammino districts of Rome).

Through its directly owned plants, in the first half of 2014 the company achieved a production volume of 293.0 GWh of which **(i)** 285.0 GWh from hydroelectric plants, **(ii)** 1.0 GWh from mini hydro plants and **(iii)** 7.0 GWh from thermoelectric production.
In the district heating segment, through the Tor di Valle plant's cogeneration unit, Acea Produzione supplied 2,623 end users located in the Torrino Sud, and Mostacciano districts (located in the southern part of Rome) with 51.8 GWh.

The hydroelectric segment recorded production of 286 GWh benefiting from the contribution of the run-of-river Salisano drinking water plant, in line with the ten-year historic average (+2.4%). Production at the Castel Madama, Mandela and Orte run-of-river plants was significantly higher (+ 22.1%) than the ten-year average due to an increase in the level of water input for plants on the Tiber basin (Aniene and Nera rivers).
An increase in production was recorded compared to the ten-year average by the S. Angelo plant (+22.1%) with 122.0 GWh. In the first half of 2014 the average water inputs of the Aventino river (8.3 m3/s) and Sangro river (18.6 m3/s), were respectively +45% and +22% compared to the average in the three previous years 2011/2013. The weather trend was particularly rainy and this

meant a significant water input both in winter and in spring, leading to an average power output of 28.1 MW and the water almost reaching the Bomba and Casoli dams' level.

The company's thermoelectric production stood at 7.0 GWh at 30 June 2014.
The negative production trend for the combined cycle of the Tor di Valle plant is confirmed, for which planning and engineering to modernize the plant began in 2013.

2014 was the seventh year of operation of the Montemartini plant as a generating unit essential to the security of the National Electricity System, pursuant to AEEG Resolution No. 111/06, as part of the National Electricity System Security Plan – Emergency Plan for the City of Rome.

Electricity and gas sales

As for the sales market, the refocusing of **Acea Energia's** sales strategy continued in the period with a more capillary and attentive selection of customers with a plan in two parts. The first tends to favour contracting small customers (residential and *microbusiness*) while the second consists of maintaining the current *joint ventures* when deep-rooted in the territory if they can guarantee adequate profitability.
Investment management continued in the period for **Umbria Energy** and **Elga Sud** operating respectively in Umbria and Puglia, in line with the above.
The liquidation of **Voghera Energia Vendite,** the *joint venture* between ASM Voghera and Acea Energia, is still underway. The Customs Office proceeded with the nullification by internal review for 2009, 2010, 2011 and 2012, of the notice of payment and application of penalties amounting to approximately 10 million euros plus the penalties notified in February 2014 (for a total of 25 million euros); for 2008 the company paid 124 thousand euros in taxes, penalties and interest.

With reference to the tariffs applied to the protected categories service:

- In terms of distribution tariffs, compulsory distribution tariffs - updated quarterly in accordance with Annex A of the Authority's Transport Code - have been applied to end users on the protected categories market and are valid for all of 2014.
- With regard to connection fees and flat rate charges the parameters used were those defined by the Authority in Resolution 348/2007, Annex B (the Connection Code) and are valid for all of 2014.

During the period, the sale of electricity on the Protected Categories market was equal to 1,568 GWh, a reduction of 7.2% compared to 30 June 2013. The number of withdrawal points totalled 1,040,065 (1,074,389 at 30 June 2013): this reduction derives from fierce competition on the Rome market by the main *competitors* which the company responds to through the constant marketing of its services to maintain its customer portfolio.
Sale of electricity on the Free Market amounted to 3,699 GWh for Acea Energia and 266 GWh for the retail *Joint Venture*, for a total 3,965 GWh, a decrease of around 16% on 30 June 2013.
In addition, Acea Energia sold 66.4 million standard cubic metres of gas to final customers and wholesalers. There are 123,420 customers.

Concerning the penalty proceedings that were implemented on 8 November 2012 against Acea Energia with Resolution No. 462/2012/S/eel, as a result of the dispute in 2013 with the Company, AEEGSI Resolution No. 540/2013/S/eel on 28 November 2013 declared the commitment proposal presented on 25 October 2013 to be admissible and approved the same for publication. On 19 February 2014, the AEEGSI published the comments, presented after the deadline by Federconsumatori, the Italian consumers and users federation, to which Acea Energia replied in March 2014 confirming its position specified in published commitments.

With Resolution No. 174/2014/S/eel of 17 April 2014, the AEEGSI approved the commitments proposed by Acea Energia making them obligatory, closing the proceedings opened against the same in Resolution No. 462/2012/S/eel. In summary:

- the commitment concerning the elimination of the so-called "billing code", in other words for customers not subject to additional safeguards, waiving the right to bill consumption estimated by the retailer with reference to the period from the date of metering (effective metering by the distributor or a more recent figure somewhere between the distributor's estimate and the customer's automatic reading) and the date of issue of the bill to the end user, must be implemented starting from the first 2-monthly billing cycle following the date on which AEEGSI notifies Acea Energia of said commitments;
- the commitment concerning payment of an indemnity to customers in the protected categories market affected by billing blocked at 31 December 2012, formulated on the basis of the duration of the disservice, must be implemented no later than after the second 2-monthly billing cycle following the date on which AEEGSI notifies Acea Energia of said commitments;
- Acea Energia must provide adequate notification of its commitments to end users;
- Acea Energia must send the Authority, within 240 days of the notification of commitments, documented proof of the full implementation of the same as well as notification of the costs borne for implementing said commitments, providing reference in the notes to separate annual accounts (*unbundling*);
- if Acea Energia fails to meet its commitments, AEEGSI can recommence penalty proceedings and apply a penalty of up to double the amount which would have been applied in the absence of commitments.

Cogeneration

In the period, the operating management also focused on two key areas: the technical and economic monitoring of operating plants and new projects under construction.
Ecogena proceeded with the construction of a new trigeneration plant for the EUR "Europarco" complex; construction work continues on the trigeneration plant that will provide energy services for the new "Cinecittà World" theme park in Castel Romano. During the period, the company also put forward new business proposals for the provision of cogenerated energy services to large industrial service groups located in Rome. Finally, building work continued in the areas dedicated to the construction of the new "Laurentino" shopping centre, in the Laurentina/Tor Pagnotta district of Rome. Lastly, a marketing campaign is currently being developed, targeted to some of Acea Energia major customers, mainly in the business segment, with the objective to promote the company's energy efficiency services.

Water Operating Segment

Operating figures and financial results for the period

Operating figures*	Meas. Unit	30/06/2014	30/06/2013	2014-2013	%
Water Volumes	Mm^3	279	283	(4)	(1.5%)
Electrical Energy Consumed	GWh	263	265	(3)	(1.1%)
Sludge Disposed of	kTon	111	98	13	13.0%

* Includes pro-rata values for the water companies of Tuscany, Umbria and Campania

Financial results (millions of euros)	30/06/2014	30/06/2013 *restated*	2014-2013	%
Revenue	318	314	4	1.3%
Costs	180	174	6	3.3%
Income/(Costs) from equity investments of a non-financial nature	9	26	(18)	(67.1%)
Gross operating profit	138	140	(2)	(1.2%)
Operating profit/(loss)	104	99	5	4.4%
Average number of staff	2,418	2,427	(9)	(0.4%)
Capex	68	69	(1)	(0.7%)

Balance sheet data (million euros)	30/06/2014	31/12/2013 *restated*	Increase/ (Decrease)	%	30/06/2013 *restated*	Increase/ (Decrease)	%
Net debt	693	611	82	13.4%	596	96	16.1%

The Segment's EBITDA at 30 June 2014 came to 138.2 million euros, down 1.7 million euros on the first half of 2013.
The change was

- positively influenced by the recognition of higher revenues following the application of the Water Tariff Method (MTI) passed by AEEGSI in Resolution no. 643/2013; Acea Ato 2 (+ 13.7 million euros) and ACEA Ato5 (+ 4.9 million euros) contributed most to this increase.
- conversely, the change was negatively influenced by non-recurring events in the first half of 2013, concerning (i) the FNI component due for 2012 and 2013 as part of the tariff determination process for 2012 and 2013 set out in Article 6 of the above mentioned resolution; (ii) the discounting to present value of Gori's payable to the Campania Region which generated income (15.0 million euros), currently being re-determined and rescheduled on the basis of the Agreement signed in June between GORI, the Region and the Area Authority. The Agreement includes a twenty-year repayment plan subject to the payment of legal interest (at 2.5%) only from the eleventh year.

In addition, EBITDA of the Companies operating abroad decreased, also due to the termination of the Aguazul Bogotà management contract at the end of 2012.

With reference to operating costs, there was an overall increase of 5.9 million euros. This increase is mainly attributable to Acea Ato2 (+ 5.1 million euros), mainly due to higher costs from the service agreement with the Parent Company (+ 3.1 million euros), an increase in the license fee (+ 1.1 million euros) and, residually, for the disposal of sludge carried out by Aquaser.
The following also contributed to the change (i) Laboratories + 1.9 million euros for increases in the cost of staff seconded by Acea Ato2 (+ 1.2 million euros) and employed in the maintenance of the water network, in technical administrative activities for the management of water licenses and other costs for services provided to Acea Ato2; (ii) Acea Ato5 (+ 0.5 million euros) due to an

increase in other operating expenses, especially due to the adjustment of consumption referred to previous years. These increases were partially offset by lower operating costs incurred by the other companies, in particular: Agua Azul Bogota (- 0.6 million euros) and Lunigiana (- 0.5 million euros) due to termination of activities.

Staff costs, net of capitalised costs, amounted to 41.9 million euros, in line with the first half of 2013.
For the same reasons, the average headcount of the Segment at 30 June 2014 was broadly in line with that of 2013 (2,418 at 30 June 2014 and 2,427 at 30 June 2013).

Segment investments amounted to 68 million euros, substantially in line with those of the same period of 2013.

Net debt in the Segment at the end of the first six-month period amounted to 699.2 million euros, up 88.4 million euros on the end of the previous year (when it amounted to 610.8 million euros). This increase was mainly generated by ACEA Ato2 (+ 72.2 million euros) and is affected by changes in working capital and dividend distribution.

Operating review

Lazio - Campania area

ACEA Ato2

The Integrated Water Service in ATO 2 Central Lazio - Rome started on 1 January 2003. The ATO gradually took over services from the Municipalities and on 30 June 2014, 73 of the total 112 services in the ATO are currently run by the Municipalities as at 31 December 2013.
The company provides the full range of **drinking water distribution** services (collection, abstraction, retail and wholesale distribution). Water is abstracted from sources on the basis of long-term concessions.
Water sources supply approximately 3,000,000 residents in Rome and Fiumicino, as well as more than 60 Municipalities in the Lazio region, via four aqueducts and a hierarchical system of pressurised pipes.
Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.
The **sewerage service** comprises a sewer network of about 6,062 km (including approximately 4,072 km of network serving the municipality of Rome) and more than 300 km of trunk lines, without counting the connections to the sewage system.
The company manages the waste water treatment system and pumping stations that serve the network and sewage trunk lines.
In the first half of 2014, the main **waste water treatment plants** handled 294 million cubic metres, an increase of around 8% compared with the same period of the previous year. Sludge, sand and grating production for all managed plants in the reporting period was equal to 87 thousand tonnes, an increase of around 14% on the first half of 2013.
At 30 June 2014, the Company managed a total of 524 sewage pumping stations, including 177 in the municipality of Rome, and a total of 171 waste water treatment plants, including 34 in the municipality of Rome.
With reference to the issue concerning the seizure of wastewater treatment plants (7 in total) and untreated waste discharges (5 in total), in the first half of 2014 seizure was lifted on 2 of the sewage treatment plants. Please refer to the 2013 Report on operations for more information.

As for the **tariff**, the 2012 and 2013 tariff proposals were as is known, approved by the Mayors' Conference of Ato2 Central Lazio - Rome on 4 March 2014 and, on 27 March 2014 the AEEGSI with Resolution No. 141/2014/R/idr approved the tariff multiplier values for 2012 equal to 1.025, and

2013 equal to 1.053 as proposed by the Mayors' Conference. With reference to the period of reference for the Transitional Tariff Method and to make the best of the adjustments for 2014 and 2015, the AEEGSI also concluded the procedure for verifying the economic-financial plan, reserving the right to make further in-depth assessments on the dimensioning of the "New Investments Fund" (FoNI), in relation to recognition of planned operating costs (Op) and in coherence with the Revenue Restriction (VRG) of the Operator. The AEEGSI will use the results of said in-depth assessments in 2014 and 2015 tariff calculations.
With reference to the 2014 – 2015 tariff update and the correlated economic – financial planning, after the time set by Resolution No. 643/2013/R/idr (31 March 2014) for the Area Authority to approve the tariff proposals expired, on 28 April 2014 the Company submitted a request for an update to the Local Authority and the AEEGSI using the procedure introduced by the above-mentioned resolution.
On the same date the Extraordinary Commissioner of the Province of Rome called a meeting of the Mayors' Conference for 9 May 2014, which was not held due to lack of a quorum.
AEEGSI sent the Area Authority a notice to comply on 13 June 2014 and as a consequence the Mayors' Conference was called again for 10 July 2014.
This meeting approved the 2014 and 2015 tariff proposal and the relevant tariff multipliers equal to 1.148 and 1.251 respectively. As indicated in the accompanying report drawn up by the Operational-Technical Secretariat, the value of the tariff multiplier is no higher than the maximum values set in Resolution No. 643/2013 with an annual increase of 9% for both annual tariffs subject to approval.
Note that the definition of the 2015 tariff multiplier may be subject to remeasurement after the STO has acquired the final figures on 2013 and the values AEEGSI must define for the second half of 2014 in accordance with the above-mentioned Resolution No. 643.
Pending publication of the resolution of the Mayors' Conference held on 10 July, on 17 July 2014 the STO informed the AEEGSI that the 2014 and 2015 tariffs had been approved and that the documents approving the same are identical to those published on the Area Authority's web site.
As a consequence, revenues for the first half of 2014 based on the tariff calculations set for 2014, amounted to 245.0 million euros inclusive of estimated adjustments of pass-through items and the portion of adjustments for water and environmental emergencies not recognised in 2012.

ACEA Ato5

ACEA Ato5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities). In return for being awarded the concession, ACEA Ato5 pays a fee to all the municipalities based on the date the related services are effectively acquired.
The management of the integrated water service in the territory of ATO 5 Lazio-Frosinone involves a total of 85 municipalities (management still must be surveyed for the municipalities of Atina, Paliano and Cassino Centro Urbano as regards water services only) for a total population of around 480,000 inhabitants, about 460,000 inhabitants supplied and a number of end users equal to around 187,645. No new acquisitions were formalised in the first half of 2014.
The drinking water system comprises supply and distribution plants and networks that use 7 main sources from which an equal number of aqueduct systems originate. The coverage of this service amounts to about 97%.
Despite the abundance of available water guaranteed by the sources, problems in the distribution network infrastructure required constant intervention by unit personnel to guarantee water distribution to all of the 85 municipalities managed, shutting down the supply to Municipalities when absolutely necessary and also installing some motor-driven valves and hydraulic valves to automate the manoeuvres.
The sewerage-purification system comprises a network of sewers and trunk lines connected to waste water treatment terminals. The company manages 199 sewage pumping plants and 111 biological waste water treatment plants, as well as 16 Imhoff tanks and 3 percolating filters.

Following the recognition and related assessment of users connected to the sewerage system (as a result of Constitutional Court Sentence No. 335/2008), it emerged that the coverage of this service is equal to approximately 68% of aqueduct users.

With reference to the tariff for 2012 and 2013 that was approved by the Mayors' Conference of 5 March 2014, the Company started billing the corresponding tariff using the highest allowed tariff multiplier in accordance with AEEGSI Resolution No. 585/2012.
With reference to the 2014 – 2015 tariff update and the related economic – financial plan, the Company submitted a specific application to the Area Authority and AEEGSI on 29 April 2014. The tariff multiplier in the application is equal to 1.669 for 2014 and 1.660 for 2015, therefore 9% higher than the required one, subject to enquiry by the AEEGSI.
Following the notice given by the AEEGSI to the Area Authority, on 14 July 2014 the Mayors' Conference approved the application submitted by the Operator. Pending publication of the resolution, note that the Mayors' Conference discussed and examined the documents drawn up by the Area Authority's Operational-Technical Secretariat, the content and final results of which are identical to the Operator's application. Furthermore, in the discussion there was no dispute of operating costs or investments as a basis for the tariff proposals, the correct application of the tariff method and the resulting tariff multiplier: this in fact confirms total approval of the proposal including the proposed tariff multiplier.
As a consequence, revenues in the first half of 2014, including adjustments to the pass-through items, totalled 33.1 million euros, calculated, as in 2012 and 2013, using the tariff multiplier proposed in the Operator's application approved by the Mayors' Conference on 14 July 2014.
Further details on this subject are provided in the section "*Service concession arrangements*".

With reference to prior adjustments for the period 2006 – 2011, quantified by the appointed Commissioner as equal to 75.2 million euros, from July 2014 ACEA Ato5 will bill users over three years in full observance of the methods and times for recovery of the adjustments specified in Resolution No. 643/2013.

GORI

The Company manages the Integrated Water Service throughout the entire territory of ATO No. 3 Sarnese Vesuviano in the Campania Region with a surface area of 897 Km^2 and a population of approximately 1.47 million inhabitants.
The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the company and the Sarnese Vesuviano Area Authority.

As for the tariffs, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority in Resolutions No. 26 and No. 27 of 31/03/2014 revised the Economic-Financial Plan transmitting it to the AEEGSI with the Plan of Action and set the Guaranteed revenue Restriction Limits and the tariff multipliers for 2014 and 2015.
The Guaranteed revenue restriction limits and the tariff multipliers allow for the hypothesis that there will be a change in the system due to the transfer of regional works, in accordance with Campania Regional Authority Resolution No. 172/2013 of 03/06/2013. GORI considered the method of transferring the works specified in Resolution No. 172/2013 to be prejudicial, appealing against the same before the Campania – Naples Regional Administrative Court which suspended the effects of the same until the hearing on 12 March 2014, for which the parties lodged a joint petition for adjournment, in this way obtaining a further suspension of the effects until 17 December 2014, when the hearing will be held.
In consideration of the above, to determine the tariffs for 2014-2015, the possible hypothesis has been put forward that the transfer of regional works will produce effects only from December 2014, meaning higher costs for just one month in 2014.

The revenue for the first half of 2014, calculated on the basis of Extraordinary Commissioner's figures, therefore amount to a total 83.1 million euros (Group share 30.8 million euros).
These revenues, as in 2012 and 2013, include the difference between the revenue derived from the application of the rules in Resolutions Nos. 585/2012 and 643/2013 and the maximum allowed in the first phase: said difference amounts to a total 32 million euros (Group share 11.9 million euros).

Prior adjustments accrued at 31 December 2011 amount to a total 122.5 million euros (Group share 45.3 million euros) and were approved, in accordance with Article 31 of Annex A of Resolution No. 643/2013, by the Extraordinary Commissioner of the Area Authority in Resolution No. 43 on 30 June 2014. The resolution also established billing times as four years for the same amount.

As for the 40 million euros bridge loan that matured 30 June 2011, in April 2014 a contract was signed converting the bridge loan into a multi-year loan with maturity 31 December 2021.

Tuscany - Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 28 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of ATO 2, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 57 municipalities. In return for award of the concession, Acque pays a fee to all the municipalities, including accumulated liabilities incurred under previous concessions awarded.

With reference to the 2014 and 2015 tariff proposal approval process, on 3 April 2014 the Territorial Conference of the Lower Valdarno ATO2 approved the guaranteed Revenue restriction limits and the theta for 2014 and 2015.
Compared to the previous year the theta is equal to 6.5% for both 2014 and 2015. In order to maintain the tariff increase to this level, the tariff recovery of the 2012 adjustments repayment component was postponed to 2016.
On 24 April 2014 the company sent the tariff update request in accordance with Resolution No. 643/2013/R/idr and the methods required by AEEGSI. On the same date the Meeting of the Tuscany Water Authority approved the tariff proposal as formulated by the Territorial Conference.
The data and evaluations in the update request presented by the company differ from the calculations approved by the Meeting of the Tuscany Water Authority on the formula used to calculate the tariff multiplier as Acque holds the formulation adopted by the Tuscany Water Authority to be incorrect, failing to respect the principle of *full cost recovery*.
In brief, the company's tariff proposal differs to that approved by the Tuscany Water Authority in the amount of the portion of 2012 adjustments postponed to 2016 and, ultimately, in the total guaranteed tariff revenues.
2011 prior adjustments were approved by the Tuscany Water Authority on 30 June 2014 by Resolution No. 35 and amount to 3.8 million euros (Group share 1.7 million euros).

Revenue in the first half of 2014 amounted to a total of 63.3 million euros (Group share 28.5 million euros).

As is known, in October 2006, Acque signed a contract with a pool of banks which provides for a total loan of 255.0 million euros to cover the financial needs of the investment plan from 2005 to 2021 estimated at around 670.0 million euros. The actual drawdown at 30 June 2014 was 218.0

million euros. The period for repayment of the loan starts in 2014 with six-monthly instalments increasing according to the schedule defined for the loan. The first principal instalment equal to 1.2 million euros was paid on 30 June.

Publiacqua

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of ATO 3, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to award of the related contracts.

In June 2006, ACEA - via the vehicle Acque Blu Fiorentine S.p.A. – completed its acquisition - of an interest in the company.

With reference to the 2014 and 2015 tariff proposal approval process, on 18 April Territorial Conference No. 3 Middle Valdarno of the Tuscan Water Authority approved the new tariff development and the Economic-Financial Plan for 2014-2021, approved also by the Meeting of the Tuscany Water Authority on 24 April 2014. Compared to the previous year the theta is equal to 3.4% for 2014 and 6.4% for 2015.

Revenues for the first half of 2014 were calculated on the basis of Tuscany Water Authority tariff calculations, amounting to a total 100.4 million euros (Group share 41.0 million euros).

The Tuscan Water Authority, in a letter dated 27 September 2013, implemented the 4th tariff review relevant to costs, announcing it wished to apply it to the years 2010-2011, excluding 2012 therefore, the year in which the Transitional Tariff Method came into force. The review concluded with the approval of Resolution No. 36 of 30 June 2014: the Tuscan Water Authority calculated an adjustment of 8.9 million euros (Group share 3.6 million euros).

In terms of financing sources, on 29 November 2012, the company took out a new bridge loan with a duration of 18 months minus one day, until 23 May 2014 for a total of 75 million euros, of which a total of 60 million euros was disbursed on the subscription date.

On 15 May 2014, the company submitted a request to the Agent Bank for an extension of the Loan Final Maturity until 30 November 2014. The request was approved by the Banks and the necessary changes were made to the Loan Agreement.

At the same time, the company began structuring a medium/long-term loan with the current lenders, with some banks that are particularly active in the infrastructure sector and other banks interested in expanding their activities to the water sector.

Acquedotto del Fiora

Based on the agreement signed on 28 December 2001, Acquedotto del Fiora is to supply integrated water services on an exclusive basis in Ombrone ATO 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste water treatment.

The concession term is twenty-five years from 1 January 2002.

In August 2004, ACEA – via the vehicle Ombrone SpA – completed its acquisition of an interest in the Company.

With reference to the 2014 and 2015 tariff proposal approval process, on 8 April the Territorial Conference No. 6 Ombrone of the Tuscan Water Authority approved the new tariff development and the Economic-Financial Plan for 2014-2021, approved also by the Meeting of the Tuscany

Water Authority on 24 April 2014. Compared to the previous year the theta is equal to 6.5% for both 2014 and 2015.

2011 prior adjustments were approved by the Tuscany Water Authority on 30 June 2014 by Resolution No. 38 and amount to 4.2 million euros (Group share 1.7 million euros).

Revenue in the first half of 2014 amounted to a total of 44.6 million euros (Group share 17.8 million euros).

In financial terms, on 5 March 2012 the company signed an extension to the bridge loan agreement for a further 18 months, i.e. to September 2013, which increased from 80 million euros to 92.8 million euros after disbursement of a further 12.8 million euros. Finally, on 5 September 2013 a further extension of the *Bridge* was agreed up to 105.0 million euros (Group share 42.0 million euros) expiring 30 September 2014 required to cover the remaining new investments in 2013 and a significant portion of the investments listed in the Plan for 2014. Procedures which should hopefully, within the expiry of the Bridge, make it possible to consolidate the current debt in a medium/long-term financial structure are in an advanced stage of implementation.

Umbra Acque

On 26 November 2007 ACEA was definitively awarded the tender called by the Area Authority of Perugia ATO 1 for selection of the minority private business partner of Umbra Acque S.p.A. A stake in the company (40% of the shares) was acquired on 1 January 2008.
During the period, the company exercised its activities in all 38 Municipalities constituting ATOs 1 and 2.

With reference to the tariff charged to users for 2014, the tariff was that set out in Resolution no. 2 of the Single Meeting of ATI No. 1 and No. 2 for 2013.

Revenues in the first half of 2014 amounted to a total of 30.2 million euros, including adjustments of pass-through items (Group share 12.1 million euros).

Networks operating segment

Operating figures and financial results for the period

Operating figures	Meas. Unit	30/06/2014	30/06/2013 *restated*	2014-2013	%
Electrical Energy distributed	GWh	5,061	5,290	(229)	(4.3%)
Energy produced by photovoltaic plants	GWh	5	6	(1)	(4.0%)
Energy Efficiency Certificates sold/cancelled	No.	92,698	3,655	89,043	n.a.
No. Customers	N/000	1,622	1,623	(1)	0.0%
Km of Network	Km	29,603	29,352	251	0.9%

Financial results (millions of euros)	30/06/2014	30/06/2013 *restated*	2014-2013	%
Revenue	287	261	26	10.0%
Costs	168	141	27	19.1%
Gross operating profit	119	120	(1)	(0.6%)
Operating profit/(loss)	77	76	1	0.4%
Average number of staff	1,381	1,403	(23)	(1.6%)
Capex	59	52	7	13.7%

Balance sheet data (million euros)	30/06/2014	31/12/2013 *Restated*	Increase/ (Decrease)	%	30/06/2013 *Restated*	Increase/ (Decrease)	%
Net debt	658	683	(26)	(3.8%)	726	(68)	(9.4%)

EBITDA as at 30 June 2014 was 119.1 million euros, essentially in line with the first half of the previous year on a like-for-like basis.
The decrease amounted to 0.7 million euros, reflecting the combined effect of the increase attributable to Acea Distribuzione (+ 1.2 million euros), mainly due to the recognition of higher equalisation revenues, and the opposite reduction in Public lighting revenues of 1.7 million euros, mainly due to the recognition at 30 June 2013 of revenue from prior years related to the construction of public lighting facilities.
In terms of staff, as of 30 June 2014 the average number of employees was 1,381, 23 less than the same period of the previous year, mainly attributable to ACEA Distribuzione.

At the end of the first half of 2014, net debt stood at 657.8 million euros, a 25.7 million euros decrease compared to the end of the previous year; this was partly attributable to ACEA Distribuzione, where the improved billing process mitigated the growth of working capital, and partly due to a significant reduction in ARSE receivables.

Segment capital expenditures stood at 59 million euros, an increase of 7.1 million euros. The change is entirely attributable to ACEA Distribuzione, mainly due to capital expenditure in information systems.

Operating review

Electricity distribution

Energy report

As shown in the following table, as at 30 June 2014 ACEA Distribuzione injected 5,406.12 GWh into the network with a 4.30% drop on the same period of the previous year.

GWh	30/06/2014	30/06/2013	% Increase/ (Decrease)
Source A.U.	1,501.9	1,633.8	(8.1%)
Imports	214.1	213.8	0.2%
Market subject to additional safeguards	**1,716.1**	**1,847.6**	**(7.1%)**
Free market	**3,689.2**	**3,800.2**	**(2.9%)**
Underlying distributors	**0.9**	**1.2**	**(22.9)%**
General total	**5,406.1**	**5,648.9**	**(4.3%)**

Transport service tariffs

2014 represents the third year of application of the new tariff structure defined by the Italian Authority for Electricity, Gas and Water (AEEGSI) for the 2012-2015 regulatory period.
The regulatory provisions are divided into Three Consolidated Regulations, and for the distribution service the AEEGSI confirmed unbundling of the tariff applied to end customers (the compulsory tariff) from the reference tariff to determine the permitted restriction on revenue for each company (the reference tariff).
The main new element introduced since the previous regulatory period (2008-2011) is the reference tariff of the distribution service for business, which replaces the previous mechanism for calculating permitted revenue, based on the national average tariff integrated with general equalisations on HV, HV/MV and LV distribution and specific corporate equalisation.
For the fourth regulatory period the new tariff recognises the following for each company:

- net invested capital of the MV and LV sector reapplied to 2007 using a parameterised criterion and actual invested capital from 2008;
- actual net invested capital at 2010 for the HV sector and for HV-MV transformation.

AEEGSI Resolution No. 607/2013/R/eel of 19 December 2013 set the rate of return on net invested capital (*wacc*) for 2014 at 6.4%.
In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the AEEGSI on the basis of actual company costs, recorded in separate annual accounts and recognised in the specific corporate equalisation for 2010, and on the basis of scale variables referred to 2010.
These costs, when calculating the company-based tariff for 2014, according to the definitions of Resolution No. 607/2013, are supplemented by flat rate connection contributions applied throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the flat rate connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets with an acknowledged regulatory useful life of 30 years.
With Resolution No. 607/2013 of 19 December 2013, the AEEGSI updated the tariffs for electricity transmission, distribution and metering services and the economic conditions for the provision of connection services for the year 2014 and with Resolution No. 154/2014 on 3 April, published the company-based tariff for 2014.
For ACEA Distribuzione the tariff of reference for 2014 for the electricity distribution service increased compared to the same tariff in 2013, although the increase was less than that of the major electricity distributors.
The Italian tariff of reference for marketing the electricity distribution service for 2014 however, decreased compared to the same tariff in 2013.
Updating of the distribution reference tariff after the first year will be individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs will be updated using the *price cap* mechanism (with a productivity recovery target of 2.8%);
- the part intended to provide a return on invested capital will be updated on the basis of the gross fixed investment deflator, movements in the volume of services provided, gross investments started up and differentiated according to the voltage level and the rate of variation linked to increased returns designed to provide incentives for investments;
- the part intended to cover depreciation will be updated, using the gross fixed investment deflator, movements in the volume of services provided and the rate of variation linked to the reduction in gross invested capital as a result of disposal, discontinuation and end of life and the rate of variation associated with gross investments that have become operational.

Introduction of the company tariff simplifies the equalisation system as the new tariff encompasses part of general and specific corporate equalisations.
The AEEGSI confirms the mechanism - already introduced in the third regulatory cycle - of a higher return on certain investment categories, expanding the cases concerned and, in addition to *smart grid* projects, envisages a higher return on renewal and upgrading of the MV networks in historical centres.
The tariff covering sales costs is based on standard national costs, differentiated according to the sales service provided to the protected categories market in either an integrated form or as a separate distribution service. The AEEGSI eliminated the equalisation for sales activities and envisaged the zeroing out of productivity recoverable on sales costs. The coverage of investments made is indirectly guaranteed by a two-year time lag for investments made from 2012 onwards.
With regard to the transmission tariff, the AEEGSI established the introduction of a binomial tariff (capacity and consumption) for HV customers, and changes to the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. The review of the two tariffs has led to the introduction of a new equalisation mechanism.
The general equalisation mechanisms for distribution costs and revenue for the new regulatory cycle are:

- equalisation of distribution service revenue;
- equalisation of revenue from the supply of electricity to domestic customers;
- equalisation of transmission costs;
- equalisation of the difference between actual and standard losses.

On 10 April 2014 the AEEGSI passed Resolution No. 169/2014 to extend the algorithm for calculating equalisation on network losses for 2013 (Resolution No. 608/2013) also to 2014 pending conclusion of the electricity networks study. This algorithm includes a 75% efficiency restitution for companies with a surplus and limits the restitution to companies showing a deficit.
However, the procedure for processing the equalisation items for years before 2013 is still unclear.

On 20 May 2014, A2A Reti Elettriche S.p.A. filed an appeal to the Administrative Court of Lombardy requesting and obtaining the annulment of a series of resolutions which, starting from Resolution 559/2012, have revised the standard loss factors and modified the calculation algorithms for offsetting excess losses. By Resolution 269/2014, the AEEGSI appealed to the Regional Administrative Court of Lombardy. However, this situation may lead to a revision of published resolutions and an analysis of network losses still to be defined; as a result the amounts of such economic equalization recognised since the year 2012 may change.
Pending a new review of the method for covering costs related to in-house use of electrical energy, the regulation on the equalisation of electrical energy purchased to be used in-house for transmission and distribution purposes continues to apply. The regulation governing load profiling requires electricity for customers in the protected categories market to be quantified on a residual basis, and to also include electricity consumed in-house for distribution and transmission purposes. The Authority also confirmed, without changes, the calculation method for equalisation of the purchase cost of electrical energy for distribution companies absorbed in-house for transmission and distribution purposes in accordance with the Retail Service Code.

In the new Transport Code, the AEEGSI envisaged a mechanism for recognising in advance, every two months, the equalisation balances relating to the equalisation of revenue from distribution services and transmission costs.
With Decision No. 6/2014 - DIUC of 17 March 2014 the AEEGSI made the mechanisms of advance payments every two months for the equalisation of revenues from the distribution of electricity and the costs of transmission, optional for 2014. ACEA Distribuzione decided to adhere to the mechanism of advance equalisation payments for 2014; by letter of the CCSE dated 21 February 2014, ACEA Distribuzione was informed about the bi-monthly advance payments recognised for 2014 and the deadlines for the related payment.

The Metering Code (TIME) governs tariffs for the metering service, which includes meter installation and maintenance, taking meter readings, confirming and recording readings. The Consolidated Code envisages transfer to Terna of the meter reading, confirmation and recording service for interconnection points between distribution company networks and the national grid. This change will become operative through later regulatory provisions, and therefore at present the distribution company is still responsible for the entire metering service.
The price structure remains unchanged from the previous cycle except for the introduction of a tariff component to cover the residual non-depreciated value of the electromechanical meters replaced prior to the end of their useful lives with electronic meters, or MIS (RES), to be billed to LV end users.
With resolution 607/2013, the portion of equalisation parameters for revenue from the metering service for 2014 was updated.
The tariffs covering the metering service are updated, as for the distribution service, by *price cap* mechanisms for the part covering operating costs (with a productivity recovery target of 7.1%) and by the deflator, change in invested capital and rate of change in volumes for the part covering invested capital and depreciation. The rate of return on metering capital is equivalent to that of the distribution service.

On 19 December 2013, the AEEGSI published Resolution No. 607/2013 indicating the methods for calculating an optional equalisation of revenues from flat rate connection contributions for 2013. In order to adhere to the revenue supplement mechanism, each distributor presented a specific application to AEEGSI within the final deadline of 31 March 2014. ACEA Distribuzione sent a request for adhesion to said mechanism on 12 March 2014. The AEEGSI has not extended said mechanism to 2014.

The "AEEG Consolidated Code on economic terms for the provision of connection services (TIC)", Annex C to Resolution No. ARG/elt/199/11, governs the economic terms for the provision of connection services and specific services (transfers of network equipment requested by users, contract transfers, disconnections, etc.) to paying users, essentially in line with the previous regulatory period.

Energy efficiency objectives

By Decision No. DIUC 9/2013 the AEEGSI disclosed data on the quantity of electricity and natural gas distributed in Italy by operators obliged to meet such requirements in 2012. These data are essential to determine the portion of energy efficiency objectives each single distributor must meet for 2014, of which a minimum of 50% is to be reached by 31 May 2015.

Resolution No. 13/2014/R/efr of 23 January 2014 defined the criteria for the quantification of the tariff contribution to cover the costs borne by electricity and gas distributors in relation to EEB - Energy Efficiency Bonds as of the compulsory year 2013; through the mechanism, EEB average market prices are taken into account, thereby avoiding the recognition of expenses borne by distributors on the basis of actual documented costs. The final contribution required for the current year will be communicated on 30 June 2014; the contribution will be paid to the distribution companies on cancellation of the bonds.

ACEA Distribuzione's objective for 2014 is 174,316 Energy Efficiency Certificates and their estimate for 2015 and 2016, defined on the basis of the 2-year average energy distributed in the two previous years, is equal to respectively 199,154 and 244,502 Energy Efficiency Certificates.

As regards the target for 2013 - amounting to 140,938 EEB - by communication submitted to the National Grid Operator on 30 May 2014, ACEA Distribuzione "cancelled" 92,698 EEB equal to 65% of the target. Concerning the valuation of cancelled EEB, by Decision of 30 June 2014 the AEEGSI announced a tariff contribution of 110.27 €/EEB and an estimated tariff contribution for the year 2014 of 110.39 €/EEB. The remaining portion of the target imposed on ACEA Distribuzione for 2013 will be recovered in the next two-year period 2014-2015.

AEEGSI Supervision

In consideration of the urgent measures set forth in Provision No. 300/2013/R/eel, on 08 July 2013 AEEGSI opened penalty proceedings against ACEA Distribuzione to verify metering aggregation violations.

This derives from the fact that the Company had not fulfilled metering aggregation requirements, essential for determining the physical and economic items of the dispatching service.

There is objective evidence of the breach in the form of discrepancy, in terms of the threshold allowed by regulations, between the electricity metered and that invoiced for transport to the utilities of dispatching users (vendors) operating in the Rome area in 2011 and 2012.

ACEA Distribuzione, in accordance with resolution 243/2012/E/com, on 17 August of this year presented commitments for the pursuit of the interests protected by the provisions which are assumed to have been violated.

In particular, these commitments mainly consist in reimbursing the financial costs identified by the system in favour of the above dispatching users, to prevent the sharing of a cost which would otherwise be payable by the end users.

The same commitments provided for a way to make up for the prejudicial behaviour - consisting in the discrepancy between metering figures and invoiced amounts for 2011 and 2012 charges – by the month of October 2013, and the objective proof in the system – with reference to the 2013 charges – that the process issues which had caused said discrepancies had been finally solved.

On 17 June 2014 the Authority sent Acea Distribuzione a request for clarification on the proposed commitments. At present, as regards 2011 and 2012, there are still residual discrepancies, while for 2013 the value falls again within the thresholds established by the Authority.

AEEGSI Resolution No. 512/2013/S/eel, which refers to VIS 60/11, applies a penalty against the Company for violation in the recording of outages. This violation concerns the obligation,

introduced by the TIQE, to keep a specific list of all calls received reporting faults, even if there is no outage (article 13, paragraph 2, letter c). The penalty is equal to 517 thousand euros.
ACEA Distribuzione paid the penalty, but nevertheless filed an appeal with the Regional Administrative Courts.

Finally, on 20 February 2014 AEEGSI Resolution No. 62/2014/S/eel opened proceedings to apply penalty and prescriptive procedures against the Company for violations concerning putting low voltage electricity meters into service and reading the same. With this resolution, the AEEGSI opened an enquiry into the violation of art. 8 bis, of Annex A of Resolution No. 292/06, setting a term of 150 days for the duration of the enquiry.
On 14 April 2014, ACEA Distribuzione presented a request for access to the records and on 6 May submitted a written memorandum (within the deadline of 60 days from notification of the proceedings opening the enquiry on 7 March).

Public Lighting

On 15 March 2011 ACEA and Roma Capitale agreed on an adjustment to the Public Lighting Service Contract.
The key points of the renegotiation are:

- extension of the contract to 2027, in line with the Concession, and therefore lengthening the residual duration from 4 years 5 months to 17 years,
- review of the contractual parameters, aligning them with those of the CONSIP technical draft for the "Servizio Luce 2" tender,
- the certainty of the authority enabling it to directly perform activities associated with network expansion,
- recognition on expiry of the contract for whatever reasons, of the non-depreciated value of investments made by ACEA,
- sterilisation of the "risk-price" of electricity to power the public lighting system,
- the inclusion of an indemnity in favour of ACEA in the event of early termination of the contract by Roma Capitale, calculated on the basis of margins discounted to present value over the number of years to expiry (i.e. to 31 December 2027).

From 1 May 2013 public lighting is managed by Acea Illuminazione Pubblica which, through a spin-off, took over the ACEA Distribuzione business unit.
In the first half of 2014, 400 lighting points were installed for Roma Capitale and 304 for third party customers.

Photovoltaic power, energy saving and cogeneration

PV power

Following the transfer of the PV business unit in December 2012, ARSE owns plants with a total power capacity of just under 13 MWp.

On 23 December 2013 Law Decree No. 145 ("Destination Italy") was passed, and in accordance with art. 1, paragraph 2, starting from 1 January 2014, the Minimum Guaranteed Prices defined by AEEGSI in relation to the dedicated withdrawal service referred to in Resolution No. 280/07, for each plant, are equal to the hourly zonal price where the energy withdrawn is produced by plants benefitting from electricity tariff incentives.

Energy saving

Currently the initiatives to obtain Energy Efficiency Certificates from the national grid operator are focused within the Group on energy efficiency projects in line with the development programmes of each single company, such as for example, activities related to projects in the water treatment sector. Furthermore, energy efficiency projects are being evaluated in the public lighting sector through the use of LEDs and in third party structures.

Corporate

Equity and financial results for the period

Financial results (millions of euros)	30/06/2014	30/06/2013	2014-2013	%
Revenue	59	56	3	5.0%
Costs	59	53	5	10.0%
Gross operating profit	0	3	(3)	(93.4%)
Operating profit/(loss)	(12)	(9)	(3)	31.7%
Average number of staff	671	681	(10)	(1.6%)
Capex	4	4	0	0.0%

Balance sheet data (million euros)	30/06/2014	31/12/2013	Increase/ (Decrease)	%	30/06/2013	Increase/ (Decrease)	%
Net debt	444	467	(23)	(4.9%)	421	23	5.4%

ACEA closed the first half of 2014 with a positive EBITDA of 0.2 million euros, down compared to 30 June 2013, when it was 2.6 million euros; this mainly resulted from the net effect of **(i)** higher staff costs of 5.8 million euros, partially mitigated by **(ii)** higher revenues recognized for the service contracts of 3.6 million euros, mainly attributable to adjustments on the services provided in 2013 (3.2 million euros). It should be noted that the 1st half of 2013 had benefited from the partial release of 4.9 million euros in provisions set aside for the second round of the medium - long term Incentive Scheme and those set aside for senior and middle managers' MBO, as the objectives assigned were only partially achieved. As a consequence, the actual increase in staff costs amounted to 0.9 million euros.

The average number of staff at 30 June 2014 was 671, slightly less than the same period in the previous year (681).

Capital expenditures amounted to 4.1 million euros, substantially in line with those at 30 June 2013 (4.4 million euros).

Net debt at the end of the reporting period amounted to 443.8 million euros, an improvement compared to year end 2013 of 23.2 million euros, as a result of **(i)** payment of the service agreements and of the fees due from the subsidiaries under the treasury agreements in place, **(ii)** recognition of dividends for 2013 approved by the subsidiaries, **(iii)** release of a portion of the escrow account established to guarantee the photovoltaic plants sold in 2012 to RTR for 4.9 million euros. The above was offset by **(i)** distribution of the final dividend for 2013 approved by the shareholders' meeting on 5 June 2014, **(ii)** deterioration in foreign currency valuations and fair value measurement of financial instruments (11.4 million euros) and **(iii)** liquidity needs generated by changes in working capital, including the payment of trade payables and tax liabilities, and by the capital expenditures made during the reporting period.

ACEA S.p.A. business activities

In its role as a business holding, ACEA S.p.A. defines strategic objectives at Group and subsidiaries' level and coordinates the activities.

Within the Group, ACEA S.p.A. acts as a centralised treasurer for the major subsidiaries.

Inter-company transactions, pending the review of existing treasury agreements expired on 31 December 2013, consist of:

- set up of a medium/long-term credit line of a pre-established amount to cover funding needs generated by investments;
- the credit line (i) has a three-year term from 1 January 2011, (ii) produces interest, at a yearly adjusted rate corresponding to the 3-year IRS plus a spread aligned with that of a BBB rated bond issued on the capital market and (iii) provides for an annual credit fee calculated on the credit limit;
- set up of a *general purpose* line for the companies' current needs.
  The credit line (i) has a three-year maturity from 1 January 2011, (ii) produces interest payable at an yearly adjusted rate corresponding to the 3-year IRS plus a spread aligned with that of a BBB rated bond issued on the capital market and a lending rate calculated on the arithmetic mean of intraday 3M Euribor rates for each calendar quarter less a 5 bp annual spread and (iii) provides for an annual credit fees calculated on the credit limit.

ACEA S.p.A. also acts as guarantor for the Group companies: in this regard the contract that governs the *general purpose line* sets a limit for guarantees and separate costing for bank guarantees and corporate guarantees.

ACEA S.p.A. also provides administrative, financial, legal, logistic, management and technical services to subsidiaries and associates in order to optimise the use of existing resources and *know-how* in an economically advantageous manner. These services are governed by specific annual service agreements.
The previous agreements in force applied to the 2011 - 2013 period and were based on contract prices and actually delivered quantities.

As regards service agreements, with effect from 1 January 2014 and for a three year period, during the first half of 2014 ACEA completed activities aimed at **(i)** revising the list of offered services, **(ii)** aligning fees to market prices, **(iii)** making the service agreements compliant for regulatory purposes and under the Organisational, management and Control model and **(iv)** introducing new SLAs *(Service Level Agreements)* with a view to improving the level of service offered, to be compared to the related KPI *(Key Performance Indicator*s).
The new tariffs essentially determine a decrease of total fees for almost all companies.

Significant events during the period

Moody’s changes ACEA's outlook from “Negative” to “Stable”

On 18 February 2014 Moody’s reported that it had changed Acea SpA's outlook from “Negative” to “Stable” confirming a “Baa2” rating.
The rating review followed the modification of the *outlook* on the sovereign debt of the Government of the Republic of Italy, on the basis of a decision recently taken by Moody’s.
The change in the *outlook* is also due to: **(i)** the Company's results in the second half of 2013 in terms of improvements to the financial structure and liquidity profile, as well as the issue on 5 September 2013 of a 600.0 million euros bond; **(ii)** the positive evolution of the water regulatory framework.

Bond issue programme

On 10 March 2014, the Board of Directors approved the adoption of a bond issues programme (Euro *Medium Term Note Programme)* up to a maximum amount of 1.5 billion euros over a five-year term. The EMTN adoption is aimed at refinancing a number of maturing bonds and loans, with a view to reduce financial costs and lengthen the average maturity of debt.

Fitch Ratings changes Acea SpA's outlook from “Negative” to “Stable” confirming a “BBB+” rating

On 29 May 2014, Fitch Ratings announced that it had changed ACEA's outlook from "Negative" to "Stable", confirming the "BBB+" for the *Long-Term Issuer Default Rating* (IDR) and the *Senior unsecured rating* and the "F2"for the *Short- Term* IDR.
The agency explained the revised outlook as follows: **(i)** positive evolution of the water regulatory framework**, (ii)** results achieved by the Company over the last twelve months, **(iii)** increased long-term visibility on the development of the businesses*,* the dividend policy and the Group financial goals, following the approval of the 2014-2018 Strategic Plan.

ACEA S.p.A. - Shareholders' Meeting

On 5 June 2014 the shareholders' meeting approved the 2013 financial statements and the distribution of a dividend of 0.42 euros per share of which 0.25 euros were already distributed as interim dividend.
With regard to the composition of the Board of Directors, the shareholders' meeting set the number of members at seven, appointed the new Board that will remain in office for three years, until approval of the financial statements for 2016, and defined the Directors' remuneration.

ACEA S.p.A. Appointment of the Chief Executive Officer

On 9 June 2014, the Board of Directors appointed Alberto Irace as Chief Executive Officer of the Company. The Board of Directors also approved the powers assigned to the various roles; the Chairman Catia Tomasetti was assigned the institutional duty of representing the Company, convening and presiding over the Board of Directors' meetings, as well as responsibility for the External Relations and Communication, Institutional Affairs, Audit and Secretary Office functions.
In line with the previous system, the CEO was granted all the powers related to the ordinary management of the Company and the Group.
The Board of Directors also confirmed Franco Balsamo as Executive Responsible for Financial Reporting.

Significant events after the end of the reporting period

ACEA S.p.A. - Appointment of Internal Committees Members

On 2 July 2014, the Board of Directors of ACEA S.p.A., chaired by Catia Tomasetti, appointed the members of the following internal committees:

- Audit and Risk Committee (Elisabetta Maggini, Paola Antonia Profeta, Giovanni Giani)
- Related Party Transactions Committee (Diane d'Arras, Elisabetta Maggini, Paola Antonia Profeta)
- Appointment and Remuneration Committee (Elisabetta Maggini, Paola Antonia Profeta, Giovanni Giani)
- Ethics Committee (Paola Antonia Profeta, Francesco Caltagirone, Elisabetta Maggini).

Placement of 600 million euro bond issue under the EMTN programme

On 8 July 2014, ACEA completed the placement of a fixed rate bond issue for a total amount of 600 million euros, with 10 year maturity under the *Euro Medium Term Notes* (EMTN) programme of 1.5 billion euros approved by the Board of Directors on 10 March 2014.
The bond issue is aimed at refinancing a number of maturing bonds and loans, with a view to reduce financial costs and lengthen the average maturity of debt.
The bond issue is intended solely for institutional investors in the Euromarket.

Approval of tariff proposals 2014 - 2015

On 10 and 14 July 2014, the Mayors' Conference of ATO2 - "Central Lazio Roma" and ATO5 - "Southern Lazio Frosinone" respectively approved the proposed tariffs for the years 2014 and 2015.
Pursuant to the provisions of art. 6.1 b) and art. 6.2 of Resolution 643/2013/R/Idr and following the above-mentioned approvals, Acea Ato2 and Acea Ato5 shall apply a 9% increase over the 2013 tariffs and shall bill users such higher tariff on volumes sold on or after 1 January 2014. Any additional increases, where envisaged (as in the case of ATO5) will be applicable following the final approval of the tariff multiplier by AEEGSI.

Main risks and uncertainties

Due to the nature of its business, the Group is exposed to various types of risks, and in particular to regulatory risks, credit risks, operating risks, foreign exchange risks, market risks, liquidity risks and interest rate risks. In order to reduce these risks, the Group performs analyses and monitoring as described below.
Note that, on the date of preparation of this report on operations, we do not expect the ACEA Group to be exposed to further risks and uncertainties that may have a significant impact on the results of its operations, equity or financial position, other than those mentioned in this document.

Regulatory Risks

As is known, the ACEA Group operates mainly in regulated markets, and changes to rules in these markets as well as regulations and obligations can have a significant effect on results and operating performance. Therefore, the Group has put in place a structure that can consolidate its relations with local and national governments and regulatory bodies.
This structure monitors regulatory developments, both when providing support to the preparation of comments in response to Consultation Papers, in line with the interests of Group companies, and in the consistent application of regulations in corporate procedures and within the electricity, gas and water businesses.

Operating and environmental risks

Water Segment: economic consequences of non-compliant discharges

The Galli Law aims at constantly improving Integrated Water Services through both a quality service for users and compliance with current regulations. For this reason, if – during acquisition – the operator acquires plants that are subsequently classified as non-compliant, they have to be upgraded to comply with technical, operating and regulatory provisions for their intended operations. However, Operators have often had to deal with this issue that has both operating (shutdowns, malfunctions) and economic consequences (increase in operating and maintenance costs).
In order to limit the consequences of this risk factor, restoration and/or reconversion measures have been planned and implemented by ACEA Ato2, with studies for network control and monitoring parameters at the plant entry point. Since 2009 activities related to the transport and disposal of waste resulting from water treatment plants have been normalized through the conclusion of contracts with Aquaser S.r.l. In this respect, the activities related to obtaining the necessary authorizations, were completed. In any event, based on the weight that should be given to this issue and the costly operational drawbacks in the event of shutdowns, the impact of this risk factor is considered high.

In recent years, numerous administrative and criminal proceedings have been opened in various disputes, as briefly described below.

In the case of ***ACEA Ato5***:
- most of the disputes are related to the lack of discharge/disposal authorisation for plants inherited from municipalities, and not for alleged qualitative flaws in the waste;
- the company is appealing or has already appealed to the competent judicial authorities against the injunctions and in 2013, three sentences were passed by the Frosinone Law Courts to drop the cases in which ACEA Ato5 had appealed against the Lazio Regional Authorities.

As for ***ACEA Ato2***, most of the disputes can be summarised as follows:
- discharge from treatment plants in "non-perennial" tanks which some public prosecutor's offices consider as ground to all intents and purposes;

- discharge of hazardous substances on ground (dispute that derives from the fact that the limits in this situation are extremely restrictive);
- no collection for sewage treatment plant discharges;
- malfunction of overloaded and/or old treatment plants.

After the Controlling bodies have disputed these situations the plant may be seized (both drainage and treatment systems), which normally includes a prohibition to continue the discharge with no access to the site, and the consequent increase in operating costs for the Company.
Furthermore, even in compliant situations, the revision of environmental legislation requires new, unexpected changes to be made when planning the work in the Area Plan in order to respect the new more restrictive limits, which means considerable investments also for plants serving municipalities with just a few hundred inhabitants.
This situation, in the context of current water and environmental regulations, exposes the company to a significant risk of violating environmental laws, and EEC regulations in the case of inadequate treatment and/or failure to treat waste water.
Cases of "ground discharges" and "hazardous dumping" are disputed in terms of a subjective interpretation of national law by some Public Prosecutors Offices and this is made worse by incomplete knowledge of the drainage system. What often happens in fact, is that the Bodies responsible for controls define a "surface water body" as "ground" just because there is no water in the same at the time of the inspection despite the discharge authorisation renewed for decades and normative definitions in force. It appears that this interpretation is rarely found in other Italian regions.
To deal with these situations the company had to adopt complex and costly technical solutions, to upgrade the plants to meet the much more restrictive limits due to the variation in the type of recipient, move the discharge point or put the treatment plant out of service.
This situation affects almost 70 treatment plants of the total 171 treatment plants run by ACEA Ato2, but also treatment plants managed by the Municipal Authorities who have not yet transferred the integrated water service to the operator (treatment plants not transferred due to this situation).

Energy segment

With regard to the ***Energy Segment***, the main operational risks linked to the activities of the subsidiaries (ACEA Energia and ACEA Produzione) may regard material damage (damage to assets, shortcomings of suppliers, negligence), damage due to lost output, human resources and damage deriving from external systems and events.
To mitigate these operational risks, the companies have entered into a series of insurance policies from the start of their operations, to cover Property Damage, Business Interruption and Third Party Liability with leading insurance companies. Particular attention has been devoted by the companies to the training of their employees, as well as the definition of internal organisational procedures and the drafting of specific job descriptions.

Networks Segment

The main risks associated with the ***Networks Segment*** can be classified as follows:

- risks relating to the effectiveness of the investments for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to quality, reliability and duration of the works carried out;
- risks relating to the ability to meet the terms for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and related regulations) and performing work (authorisations of municipalities and other similar authorisations), according to the need to develop and enhance the plants.

As far as the risk linked to work quality is concerned, ACEA Distribuzione implemented operational, technical and quality control systems, including the creation of the Works Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are

processed electronically, give rise to rankings (reputational indicators), that will be used to award contracts under a "*vendor rating*" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for contract work.
The system also allows the identification and application of penalties. In cases of serious breaches, the principal may also suspend the contractor's activities. In 2013, 7 work sites were suspended due to safety non-compliance out of a total of 902 inspections conducted.
During the year, the good level in the reputation indicator was confirmed for the companies that have worked for ACEA Distribuzione.
A similar project was launched in 2012 and continues in 2013 in relation to the services awarded to external professionals involved in the planning and execution of works.
The risk relating to the ability to meet deadlines arises from the number of entities which have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of denials and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences and technical meetings at the competent offices. However, the substantial risk is still essentially linked to the non-obtainment of authorisations, with the result being the inability to upgrade plants and subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation. Note that a particularly critical point is the long response times of a number of the administrations contacted.

Environment segment

The waste-to-energy plants, as well as, to a lesser extent, the waste treatment plants, are highly complex from a technical point of view, requiring the companies to employ qualified personnel and adopt organisational structures with a high level of *know-how*. The need to maintain the plants' technical performance levels and to prevent personnel with specific expertise (who are difficult to recruit) from leaving the companies, represent tangible risks.
These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.
Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to tangible operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.
For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to the legislation in force.

Market risk

The Group is exposed to various market risks with particular reference to the risk of price oscillations for *commodities* being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce the exposure to within the defined limits, the Group enters into standard derivative contracts available on the market.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries.

As regards the 20 billion yen *Private Placement*, the exchange rate risk is hedged through a *cross currency* swap described in the section on interest rate risk.

Commodity price risk

The Group is exposed to variations in the price of electrical energy, which can have a significant effect on results.
To reduce this risk, the Group adopts a control structure that analyses and measures exposure to market risk in line with the Guidelines of ACEA's Internal Control System and with the general Risk limit criteria of the Energy Industrial Area.
Risk analysis and management is performed according to a *Risk Management* process which involves the execution of activities throughout the entire year, on the basis of different frequencies (annual, monthly and weekly). The execution of those activities is distributed between the *Risk Control* Unit and the *Risk Owners*.

Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes the structure of *assets* and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging *funding* costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.
A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure over the medium/long term.
ACEA has, up to now, opted to minimise interest rate risk by choosing a mixed *range* of fixed and floating rate funding instruments.
As previously noted, fixed rate funding protects a borrower from *cash flow* risk in that it stabilises financial outflows, whilst heightening exposure to *fair value risk* in terms of changes in the market value of the debt.

Liquidity risk

The Group *policy* for managing liquidity risk, for both ACEA and its subsidiaries, involves the adoption of a financial structure which, coherent with *business* objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet financial requirements, while maintaining an appropriate balance between maturity and composition of debt.
The liquidity risk management process, which makes use of instruments for the financial planning of cash inflows and outflows that ensure an optimal treasury management and monitoring of consolidated debt, is carried out through a centralised treasury management system as well as by providing financial assistance to the subsidiaries and associates not covered by a centralised finance contract.

Credit risk

In 2012 ACEA drew up the guidelines of the *credit policy* which established different credit management strategies through criteria of flexibility on the basis of the customer segmentation. Credit risk is managed by taking into account both the customer type (public and private) and the non-uniform behaviour of individual customers (*behavioural scores*). Debt collection strategies are managed dynamically through a Credit management system, implemented in recent years for the main companies in the Group, which will progressively be made available to the others; from an organisation point of view, in 2013 centralised management was further consolidated by setting up

ad hoc Parent Company organizational units. The structures of each single company responsible for managing credit refer to ACEA's CFO in an *end to end* process.
In 2013 the Group continued to assign revolving and spot credit without recourse, to private customers and Public Administrations. These transactions led to the derecognition of all the sold assets from the financial statements as all the associated risks and benefits had been transferred.

Risks relating to rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things on the Group's credit rating.
A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase the cost of funding with consequent negative effects on the financial position and results of the Group.
ACEA's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Moody's	Baa2	NA	Stable	19/02/2014
Standard & Poor's	BBB-	A-3	Stable	18/10/2013
Fitch	BBB+	F2	Stable	29/05/2014

Operating (and financial) outlook

The ACEA Group's results for the first half of 2014 are in line with forecasts.

In the **environment sector**, the overall positioning of ARIA, the owner, either directly or through its subsidiary SAO, of important waste-to-energy plant infrastructure, allows for a favourable assessment of the short and medium-term business outlook. This is also in consideration of the development of the energy recovery plant infrastructures which the Group intends to perform at the San Vittore waste-to-energy plant where the interventions already authorised by the Lazio Regional Authority will be implemented. The waste disposal situation of the Lazio Regional territory remains in fact critical; this is made particularly evident by the establishment of an administration under a government-appointed Commissioner, introduced by decree of the Ministry of Environment and Protection of the Sea on 3 January 2013, pursuant to the provisions of art. 1, paragraphs 358 and 359 of Law 228/2012 and aimed at addressing the critical situation in the management of municipal waste in the Province of Rome. In this respect, new capital expenditures are envisaged in the Business Plan to further strengthen not only RDF production and incineration capacity but also composting capacity with the goal of becoming the third national operator in industrial waste treatment.

In the **electricity generation** sector structural work will be started to repair the Castel Madama power station (settling of the feeder tunnels) and current industrial projects will continue with particular reference to the extension of the district heating network; this project will last at last 3 years and will be serving the Torrino-Mezzocammino south district in Rome. Furthermore, in order to increase the production efficiency of the Tor di Valle plants, the planning, design and management of the authorisation procedure for modernization of the site will be completed and the implementation stage will commence.

In the **water segment,** the primary goal will be to resolve tariff-related issues, which still characterise some areas of the ATOs, as well as the implementation of the necessary steps to contain working capital. The companies in the area are currently involved in defining the tariff proposals for 2014 - 2015 with the various Area Authorities.

As regards the **networks sector,** AEEG Resolution No. 157/2012 of 26 April that approved ACEA Distribuzione reference tariff eliminated the uncertainty arising from the provisional tariff, albeit some uncertainty remains, associated with the still undefined equalisation items related to the third regulatory period. To these regulatory uncertainties, one should add the difficulties in the operating environment that affect the ability to comply with technical and management standards. The main actions to be taken shall continue to focus on capital expenditure, processes and organization.

In the **electrical energy trade** market, there will be all the more focus on the careful selection of customers, with particular reference to solvency, continuing to grow in terms of commercial expansion in the *mass market* with the aim of acquiring domestic and *small business* customers.
The selling companies' established goal is to implement all the necessary measures aimed at constantly improving the billing and sales process in order to contain working capital growth and help curb the Group's debt.

As in previous years, the ACEA Group is continuing to streamline business processes and to pursue operating efficiency and strong cost containment with the aim of counteracting the effects of the crisis.

The ACEA Group's financial structure is solid for years to come, as its entire debt position, as at the date of this interim report, is characterised by long-term maturities with an average lifespan of

about 7 years. 69.5% of debt will be fixed rate in order to ensure protection against interest rates increases and financial or credit volatility.
As of today, ACEA has committed and uncommitted credit lines totalling approximately 1.1 billion euros, of which 1 billion euros shall mature after 2014.

The long-term ratings assigned to ACEA by the three main international rating agencies are as follows:

- Standard & Poor's: "BBB-";
- Fitch's 'BBB+'
- Moody's "Baa2".