

2016 ACEA SPA FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
ACEA GROUP

The ACEA logo is centered within a large white circle. The letters 'a', 'c', 'e', and 'a' are rendered in a stylized, rounded font with a horizontal gradient from yellow on the left to blue on the right. The background of the entire page features a large, curved shape with a gradient from yellow to green, set against a dark blue background.

acea

2016 ACEA SPA FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
ACEA GROUP

The logo for ACEA, featuring the lowercase letters 'aceea' in a stylized, rounded font. The letters are filled with a horizontal gradient of colors, transitioning from light blue on the left to yellow on the right. The logo is centered within a large white circle that is itself set against a background of overlapping light blue and yellow-green curved shapes.

aceea

CONTENTS

6 ACEA AT A GLANCE

17 REPORT ON OPERATIONS

| | |
|----|---------------------------------------------------------------------------------|
| 18 | Corporate bodies |
| 19 | Summary of results |
| 21 | Summary of operations and income, equity and financial performance of the Group |
| 28 | Reference context |
| 43 | Trends of operating segments |
| 43 | Economic results by segments |
| 46 | Environment Operating Segment |
| 49 | Energy Operating Segment |
| 49 | Water Operating Segment |
| 55 | Networks Operating Segment |
| 58 | Corporate |
| 59 | Significant events during and after the period |
| 61 | Main risks and uncertainties |
| 65 | Operating outlook |
| 66 | Resolutions on profit for the year and distribution to Shareholders |

69 ACEA S.P.A. FINANCIAL STATEMENTS

| | |
|-----|----------------------------------------------------------------------------------------------------------------------|
| 70 | Form and structure |
| 71 | Measurement criteria and accounting standards |
| 76 | Accounting standards, amendments, interpretations and <i>improvements</i> applied from 1 January 2016 |
| 78 | Accounting standards, amendments and interpretations applicable after the end of the year and not adopted in advance |
| 81 | Income Statement |
| 81 | Statement of Comprehensive Income |
| 82 | Statement of Financial Position |
| 83 | Statement of changes in shareholders' equity at 31 December 2015 |
| 83 | Statement of changes in shareholders' equity at 31 December 2016 |
| 84 | Statement of Cash Flows |
| 85 | Notes to the Income Statement |
| 91 | Notes to the Statement of Financial Position - Assets |
| 99 | Notes to the Statement of Financial Position - Liabilities |
| 106 | Related Party Transactions |
| 109 | List of related party transactions |
| 110 | Updates on major disputes and litigation |
| 113 | Additional disclosures on financial instruments and risk management policies |
| 116 | Commitments and contingencies |
| 117 | Annexes |

| | |
|-----|------------------------------------------------------------------------------------------------------------|
| 124 | Report of the board of the statutory auditors |
| 135 | Independent auditors' report |
| 138 | Certification of separate financial statements in accordance with art. 154-bis of Legislative Decree 59/98 |

141 CONSOLIDATED FINANCIAL STATEMENTS

| | |
|-----|----------------------------------------------------------------------------------------------------------------------|
| 142 | Form and structure |
| 143 | Consolidation policies, procedures and basis of consolidation |
| 145 | Basis of consolidation |
| 146 | Accounting standards and measurement criteria |
| 151 | Accounting standards, amendments, interpretations and improvements applied from 1 January 2016 |
| 153 | Accounting standards, amendments and interpretations applicable after the end of the year and not adopted in advance |
| 156 | Consolidated Income Statement |
| 157 | Consolidated Statement of Comprehensive Income |
| 158 | Consolidated Statement of Financial Position |
| 159 | Consolidated Statement of Cash Flows |
| 160 | Consolidated Statement of changes in Shareholders' equity |
| 161 | Notes to the Consolidated Income Statement |
| 172 | Notes to the Consolidated Statement of Financial Position |
| 190 | Commitments and contingencies |
| 191 | Service Concession Arrangements |
| 200 | Related Party Transactions |
| 202 | List of significant related party transactions |
| 203 | Update on major disputes and litigation |
| 210 | Additional disclosures on financial instruments and risk management policies |
| 216 | Annexes |
| 227 | Independent auditors' report |
| 230 | Certification of consolidated financial statements in accordance with art. 154-bis of Legislative Decree 59/98 |
| 233 | Report on Corporate Governance and on the ownership structure |

**THE GREATEST
LEAP FORWARD
IN OUR HISTORY**



IN 2017 ACEA REMODELS ITS BRAND AND ITS DIGITAL SERVICES

THE NEW BRAND

The **new brand** combines the “a” in Acea with the iconic pin, the pointer the whole world is familiar with, **that merges physical territory into a digital dimension.** The colours of the business segments - water, energy, environment - meet in a **modern and radiant explosion.** The shades of colour and the shape of the pin are blended together into a unique, **stylish and digital** logo that looks out into the future.

THE DIGITAL PLATFORM

This extensive remodelling has also involved the **digital platform.** Thanks to the MyAcea area, relations with customers have been made even easier and more personalised, through **advanced functions** for account management, payments and monitoring, as well as checking up on maintenance activities. The **App** version of MyAcea marks enhanced awareness of the role of technological innovation in people’s daily lives.

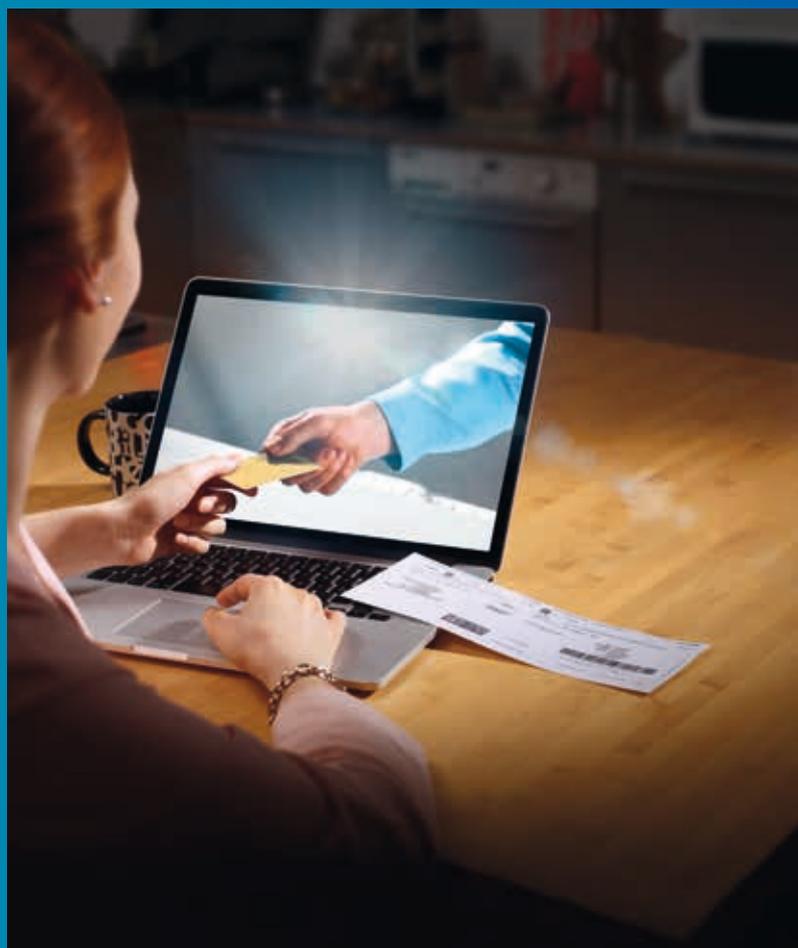


2017
COMMUNICATION CAMPAIGN

Agency Y&R

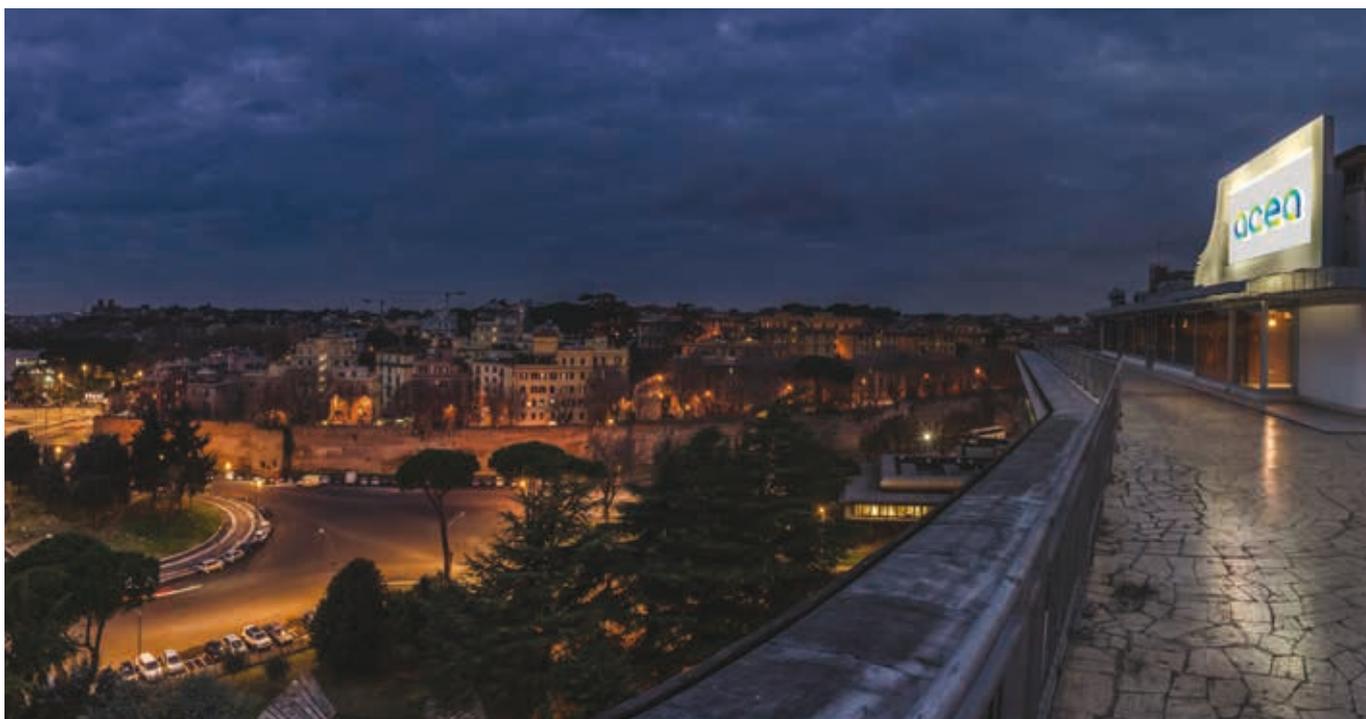


CONNECTED TO YOUR WORLD.



The communication campaign launches the new Acea logo and its leit motif is the perfect integration between the most common devices used and the instruments through which the Acea services are supplied in the homes of its customers: interrupters, taps and meters. The communication shows how Acea has simplified its activities, creating a new tie with its customers. As the new pay off itself says: “Connected to your world”.

LETTER TO OUR SHAREHOLDERS



DEAR SHAREHOLDERS,

the results of Acea's 2016 reporting year bear witness to the extraordinary effectiveness of the Board's strategy, put in place immediately on their taking office, of combining value creation with sustainable growth. The initiatives undertaken have accordingly been aimed in that direction. All this has yielded significant results, indeed even in the shorter run, in the knowledge that our achievements will underpin, guarantee and encourage lasting, solid and balanced growth for the Group. In other words, a sustainable future. On the economic and financial side, special emphasis for 2016 must go to the consolidated gross operating profit of 896.3 million euros, a record high for the Group, up 22.5% over 2015, and to the extraordinary growth in investments, which increased to 530.7 million euros, up 23.7% over the preceding year, when they were just this side of the 429 million mark, itself an impressive figure at that time. The slight worsening of the Group's net financial position (NFP) is connected with this figure; NFP was negative by approximately 2127 million euros, though improved compared to September 2016. The 117 million euro increase over the preceding reporting period is largely the result of the financial requirements ensuing from the substantial investments made.

By contrast, the operating result (Ebit) also increased by more than 36%, nearing 526 million euro, as did the Group's net profit, up by about 50% to 262.3 million euros after payments to third parties.

In addition to the results for 2016 summarised here, and also taking into account those obtained in the two preceding years, what emerges at the close of this Board's term of office are the deep changes put through during these three years, which do allow us to state that a new Acea has been forged.

New in its approach to the customer, the true focus of our attention and a leading player in the ongoing changes. Today's customer has an array of advanced technological solutions at his disposal that improve the enjoyment of services, either directly through a PC or personal devices, or through more traditional contact channels such as the telephone or access to local service facilities that are open to the public.

Available data tell us that customers appreciate the efforts made to meet their needs and are changing their habits, making life easier for themselves while making our activities both more efficient and effective, and less costly at the same time.

There has been a considerable drop in the number of people who physically come to our desks, as in the number of those who contact us by telephone; on the other hand, contacts online have greatly increased, which in most cases makes it possible to conclude commercial transactions directly, including payments, without any need for back office work by our operators. To the benefit of customers and of the environment, in terms of savings in materials and resources. Some figures can help better to convey the actual extent of this phenomenon. Compared to 2015, there has been a 10% drop in the number of customers (around 236,000) who have come to our desks at the Rome head office; the number of calls to our toll-free numbers has also decreased by 14%, down to about 5 million. Advanced computerised systems are not only at the service of customers but of employees, as well, who operate both in the technical and administrative areas, and of contractor companies who are required to guarantee the same degree of computerisation for their assigned tasks.

Today's Acea is new also from a technological point of view. A new digital vision has characterised the more than 1278 million euros invested over the past three years in water management activities, in the electric distribution network, in the world of energy, in activities for the environment and services to citizens. There is also a highly significant contribution to the local economy. One cannot help but notice that the vast investments developed have had a beneficial multiplier effect, constructively contributing to economic growth, despite the current stagnation, especially at the local level, through: increased specific internal product; new job creation, both directly and in related sectors; improved general living and natural environmental conditions, which Acea is committed to caring for and protecting with extraordinary dedication.

As regards sustainability, emphasis must be laid on the approval, in timely conjunction with the Industrial Plan, of the Group's 2016-2020 Sustainability Plan. This year, for the first time in your Company, its preparation has sparked an ambitious and innovative procedure that has directly and jointly involved the company's front lines (Industrial Areas, Operating Companies, Corporate Functions and Acea 2.0) in identifying corporate targets. What was new was the procedure chosen for defining the Plan - such widespread participation made it possible to gain an overall vision of the Group and identify a number of common

sustainability guidelines, thus ensuring a more markedly strategic outlook.

But, more than anything, this Board is proud that Acea over these years has succeeded in drawing the most value from its greatest immaterial asset: People. The People Strategy has strongly upheld merit and valued the people in the Group. Technical training has involved more than 5,000 people in all the companies and as many have been involved in on-the-job training on the ground. But, above all, a new organisational culture has been established in Acea in these years. Acea's future can rely on a highly solid management body, who show consistency and determination in addressing the company's challenges and guaranteeing its future development. Alongside this, a "network" has been encouraged, an agile reticular structure through which people can directly put forward innovative solutions, free of company hierarchy filters, and contribute to change on their own initiative. A "dual system" based on voluntary participation by employees, aimed at accelerating change, in which the network (about 4,500 volunteers who are available for change and about 2,000 people actively engaged) is at the management's side, taking part in its urgency for change and embodying a model of shared leadership. This advanced model has changed the way in which the people of the Group think about and do their work, turning the possibility of change into a company mindset, thus fostering readiness to address the challenges ahead in the best possible way.

The conclusion of this intense and far-reaching process is marked by the change of the company logo, involving a rebranding of the entire Group. The new Acea described above must be reflected in a new image, new positioning and a new identity, more in accordance with what the company is today and with the relationship it is building with its employees, its customers and the city. The choice of keeping the name of Acea, whilst modernising its form through more up-to-date colours and lettering more suitable for digital use, involves both renewed attachment to the company's history and the projection of its identity into the future.

We are proud, therefore, to present these Financial Statements that do summarise, as they must, a well-thought-out industrial strategy and report on the excellent results achieved, but which also represent a solid platform from which we hope Acea will step on towards a future of ever greater success and achievements.

Alberto Irace
Managing Director



Catia Tomasetti
President



CORPORATE AND FINANCIAL HIGHLIGHTS

WATER



1st
OPERATOR IN ITALY
IN WATER SERVICES

WITH **8.5 million**
INHABITANTS SERVED IN LAZIO,
TUSCANY, UMBRIA AND CAMPANIA

GRIDS



ONE OF THE MAIN
OPERATORS IN ITALY
IN ENERGY DISTRIBUTION

WITH ABOUT **10 billion kWh**
OF ELECTRICITY DISTRIBUTED

ENERGY



ONE OF THE MAIN
NATIONAL OPERATORS
IN THE ENERGY MARKET

WITH **8.3 billion kWh**
OF ELECTRICITY SOLD

ENVIRONMENT



6th
OPERATOR IN ITALY IN WtE
(WASTE TO ENERGY)

WITH **820,000 tonnes**
OF WASTE TREATMENT/DISPOSAL

DATA IN MILLIONS OF EUROS

CONSOLIDATED REVENUE

| | | |
|----------|--|---------|
| 2016 | | 2,832.4 |
| 2016 Adj | | 2,720.9 |
| 2015 | | 2,917.3 |

EBITDA

| | | |
|----------|--|-------|
| 2016 | | 896.3 |
| 2016 Adj | | 784.8 |
| 2015 | | 732.0 |

EBIT

| | | |
|----------|--|-------|
| 2016 | | 525.9 |
| 2016 Adj | | 414.4 |
| 2015 | | 386.5 |

PROFIT/LOSS BEFORE TAX

| | | |
|----------|--|-------|
| 2016 | | 416.1 |
| 2016 Adj | | 336.6 |
| 2015 | | 296.4 |

NET CONSOLIDATED PROFIT

| | | |
|----------|--|-------|
| 2016 | | 262.3 |
| 2016 Adj | | 210.5 |
| 2015 | | 175.0 |

CONSOLIDATED INVESTMENTS

| | | |
|------|--|-------|
| 2016 | | 530.7 |
| 2015 | | 428.9 |

The adjusted economic data do not include:

- the positive effect of the elimination of the so-called regulatory lag (€ 111.5 million before tax);
- the negative effect of the repurchase of a portion of bonds issued (€ 32.1 million before tax).

GROUP STRUCTURE

ACEA HOLDING

WATER



| | |
|------|----------------------------------------|
| 96% | Acea Ato 2 |
| 98% | Acea Ato 5 |
| 99% | Sarnese Vesuviano 37% Gori |
| 100% | Crea Gestioni |
| 40% | Umbra Acque |
| 99% | Ombrone 40% Acquedotto del Fiora |
| 77% | Acque Blu Arno Basso 45% Acque |
| 75% | Acque Blu Fiorentine 40% Publiacqua |
| 35% | Intesa Aretina 46% Nuove Acque |
| 25% | Consorzio Agua Azul |
| 51% | Aguazul Bogotà |
| 100% | Acea Dominicana |
| 61% | Aguas de San Pedro |
| 100% | Acea International |

ENERGY



| | |
|------|-------------------------------------|
| 100% | Acea Energia 81% Acea Produzione |
| 100% | Acea8cento |
| 100% | Acea Energy Management |

ENVIRONMENT



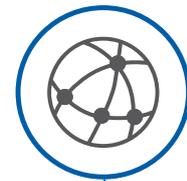
| | |
|------|---------------|
| 100% | Acea Ambiente |
| 88% | Aquaser |
| 50% | Ecomed |

GRIDS



| | |
|------|-----------------------------|
| 100% | Areti |
| 100% | Acea Illuminazione Pubblica |

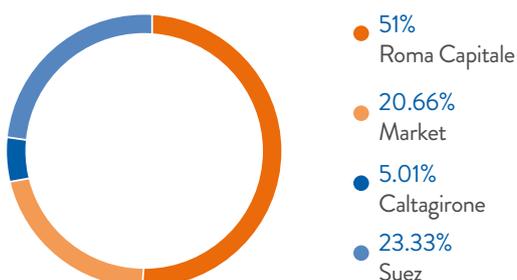
OTHER SERVICES



| | |
|------|--------------|
| 100% | Acea ElaboRi |
|------|--------------|

SHAREHOLDING STRUCTURE

The share capital of Acea SpA at 31 December 2016 is broken down as follows:



* The chart only shows equity investments of more than 3%, according to CONSOB data.

THE ORGANISATIONAL MODEL

ACEA has adopted an operational model based on an organisational structure in line with the Strategic Plan, strengthening its role of governance, guidance and control of the Holding. In addition to the current

business portfolio, focused on areas of greater value creation, the Plan also involves the strategic development of the Group in new business segments and territories.

BUSINESS SEGMENTS

DATA IN MILLIONS OF EUROS

WATER

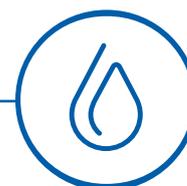
The ACEA Group is Italy's leading operator in the water sector. The Group manages the integrated water service in Rome, Frosinone and their respective provinces and is present in other parts of Lazio, in Tuscany, Umbria and Campania, as well as having activities in Latin America. The company completes the quality of the services offered with sustainable management of water resources and respect for the environment.

EBITDA +14.2%

| | | |
|------|------------------------------------------------------------------------------------|-------|
| 2016 |  | 355.0 |
| 2015 |  | 310.8 |

INVESTMENTS +12.7%

| | | |
|------|--------------------------------------------------------------------------------------|-------|
| 2016 |  | 230.4 |
| 2015 |  | 204.4 |



ENERGY

The ACEA Group is one of the country's major players in the sale of electrical energy and offers innovative and flexible solutions for the supply of electrical energy and natural gas, aiming to consolidate its position as a dual fuel operator. Finally, the Group operates in the electrical energy and heat generation sector and mainly runs renewable source plants (hydroelectric and photovoltaic), in addition to thermoelectric plants across Central and Southern Italy.

EBITDA +20.5%

| | | |
|------|--------------------------------------------------------------------------------------|-------|
| 2016 |  | 130.0 |
| 2015 |  | 107.9 |

INVESTMENTS +80.7%

| | | |
|------|--------------------------------------------------------------------------------------|------|
| 2016 |  | 55.3 |
| 2015 |  | 30.6 |



The ACEA macrostructure is organised in corporate functions and four industrial segments -

Environment, Energy, Water and Grids.

GRIDS



ACEA Group is one of the major national operators with about 10 TWh of electricity distributed in Rome, where it manages the distribution grid serving 1.6 million delivery points. The Group also manages the public and artistic lighting in the capital city with 220,000 lamps, equal to 195,000 light points, applying ever more efficient solutions and with a low environmental impact. By 2018 the replacement of about 190,000 light fittings with led lamps is planned, thus allowing a reduction of CO2 emissions by about 35,000 tonnes per year and a significant cut in light pollution.

The adjusted EBITDA does not include the positive effect of the elimination of the so-called regulatory lag (€ 111.5 million before tax).

EBITDA +39.3%
(EBITDA Adj -4.2%)



INVESTMENTS +26.7%



ENVIRONMENT



The ACEA Group is the 6th Italian Waste-to-Energy operator, with a 2.4% share of the domestic market. It runs the main waste-to-energy plant and the largest composting plant in the Lazio region. The Group devotes special attention to the development of investments in what is considered a high-potential sector, in accordance with the strategic goal of producing energy from waste and protecting the environment.

EBITDA -0.3%



INVESTMENTS +31.3%







CONNECTED TO YOUR WORLD.

REPORT ON OPERATIONS

ACEA SPA 2016 FINANCIAL STATEMENTS

CORPORATE BODIES

Board of Directors

| | |
|----------------------------------------|----------|
| Catia Tomasetti | Chairman |
| Alberto Irace | CEO |
| Francesco Caltagirone | Director |
| Massimiliano Capece Minutolo Del Sasso | Director |
| Angel Simon Grimaldos ² | Director |
| Giovanni Giani | Director |
| Elisabetta Maggini | Director |
| Roberta Neri | Director |
| Paola Antonia Profeta | Director |

Board Of Statutory Auditors¹

| | |
|-------------------|-------------------|
| Enrico Laghi | Chairman |
| Rosina Cichello | Statutory Auditor |
| Corrado Gatti | Statutory Auditor |
| Lucia Di Giuseppe | Alternate Auditor |
| Carlo Schiavone | Alternate Auditor |

Executive Responsible for Financial Reporting

Demetrio Mauro

Auditing Firm

EY S.p.A.

¹ Appointed by the Shareholders' Meeting of 28 April 2016

² Co-opted to replace the resigning Director Diane d'Arras

SUMMARY OF RESULTS

| Economic Data (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Consolidated net revenues | 2,832.4 | 2,917.3 | (84.9) | (2.9%) |
| Consolidated operating costs | 1,965.4 | 2,213.9 | (248.4) | (11.2%) |
| Income/(Costs) from equity investments of a non-financial nature | 29.3 | 28.5 | 0.8 | 3.0% |
| - of which: EBITDA | 146.4 | 143.9 | 2.6 | 1.8% |
| - of which: Amortisation, depreciation, impairment charges and provisions | (94.5) | (89.9) | (4.6) | 5.2% |
| - of which: Financing activities | (7.3) | (7.9) | 0.7 | (8.5%) |
| - of which: Cost income from equity investments | 0 | 0.1 | (0.1) | (158.9%) |
| - of which: Taxation | (15.3) | (17.7) | 2.3 | (13.3%) |
| Income (Costs) from commodity risk management | 0 | 0 | 0 | 0.0% |
| EBITDA | 896.3 | 732.0 | 164.4 | 22.5% |
| EBIT | 525.9 | 386.5 | 139.5 | 36.1% |
| Het Result | 272.5 | 181.5 | 91.0 | 50.1% |
| Profit/(loss) attributable to minority interests | 10.2 | 6.6 | 3.6 | 55.5% |
| Net result attributable to the Group | 262.3 | 175.0 | 87.4 | 49.9% |

| Adjusted economic data ² (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit (EBITDA) | 784.8 | 732.0 | 52.9 | 7.2% |
| Operating result (EBIT) | 414.4 | 386.5 | 28.0 | 7.2% |
| Before tax result | 336.6 | 296.4 | 40.2 | 13.6% |
| Net result | 220.7 | 181.5 | 39.1 | 21.5% |
| Net result attributable to the group | 210.5 | 175.0 | 35.5 | 20.3% |

| EBITDA per operating segment (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------|--------------|--------------|--------------|---------------|
| ENVIRONMENT | 57.2 | 57.4 | (0.1) | (0.2%) |
| ENERGY | 130.0 | 107.9 | 22.1 | 20.5% |
| Production | 32.0 | 34.2 | (2.2) | (6.5%) |
| Sales | 98.0 | 73.7 | 24.3 | 33.0% |
| WATER: | 355.0 | 310.8 | 44.2 | 14.2% |
| Overseas | 4.4 | 3.0 | 1.4 | 48.5% |
| Lazio - Campania | 313.2 | 275.0 | 38.2 | 13.9% |
| Tuscany - Umbria | 24.6 | 23.0 | 1.5 | 6.7% |
| Engineering | 12.8 | 9.8 | 3.0 | 30.7% |
| NETWORKS | 356.3 | 255.7 | 100.6 | 39.4% |
| ACEA (Corporate) | (2.1) | 0.2 | (2.4) | n.s. |
| Total EBITDA | 896.3 | 732.0 | 164.4 | 22.5% |

² Adjusted economic data does not include:

- the positive effect of the elimination of the so-called *regulatory lag* (€ 111.5 million gross of fiscal charges)
- the negative effect of the re-purchase of part of the bonds issued (€ 32.1 million gross of fiscal charges).

| Equity data (€ million) | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------|-------------------|-------------------|------------------|
| Net Invested Capital | 3,884.9 | 3,606.1 | 278.8 |
| Net Debt | (2,126.9) | (2,010.1) | (116.9) |
| Consolidated Shareholders' Equity | (1,757.9) | (1,596.1) | (161.9) |

| Net Financial Debt per Operating Segment (million Euros) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------------------|-------------------|-------------------|------------------|--------------------|
| ENVIRONMENT | 173.7 | 187.7 | (14.0) | (7.5%) |
| ENERGY | 138.4 | 287.1 | (148.7) | (51.8%) |
| Production | 123.6 | 130.7 | (7.1) | (5.5%) |
| Sales | 14.8 | 156.4 | (141.6) | (90.5%) |
| WATER: | 791.5 | 537.3 | 254.2 | 47.3% |
| Overseas | 12.9 | (2.1) | 15.1 | (705.0%) |
| Lazio - Campania | 780.4 | 522.1 | 258.3 | 49.5% |
| Tuscany - Umbria | 0.0 | 0.2 | (0.2) | (98.0%) |
| Engineering | (1.8) | 17.2 | (19.0) | (110.6%) |
| NETWORKS | 691.3 | 581.7 | 109.7 | 18.9% |
| ACEA (Corporate) | 332.1 | 416.3 | (84.2) | (20.2%) |
| Total | 2,126.9 | 2,010.1 | 116.9 | 5.8% |

| Investments per operating segment (million Euros) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------------|-------------------|-------------------|------------------|--------------------|
| ENVIRONMENT | 34.0 | 25.9 | 8.1 | 31.1% |
| ENERGY | 55.3 | 30.6 | 24.7 | 80.7% |
| Production | 27.9 | 15.2 | 12.6 | 82.8% |
| Sales | 27.4 | 15.3 | 12.1 | 78.7% |
| WATER: | 230.4 | 204.4 | 25.9 | 12.7% |
| Overseas | 1.5 | 0.4 | 1.1 | 258.4% |
| Lazio - Campania | 227.1 | 202.5 | 24.6 | 12.2% |
| Tuscany - Umbria | 0.0 | 0.0 | 0.0 | 0.0% |
| Engineering | 1.8 | 1.5 | 0.3 | 13.5% |
| NETWORKS | 197.9 | 156.2 | 41.7 | 26.7% |
| ACEA (Corporate) | 13.2 | 11.8 | 1.4 | 12.0% |
| Total | 530.7 | 428.9 | 101.8 | 23.8% |

SUMMARY OF OPERATIONS AND INCOME, EQUITY AND FINANCIAL PERFORMANCE OF THE GROUP

Definition of alternative performance indicators

On 5 October 2015, the ESMA (European Security and Markets Authority) published its standards (ESMA/2015/1415) for the criteria for measuring the alternative performance indicators which have replaced the CESR/05-178b recommendations since 3 July 2016. These standards have been incorporated into our system in CONSOB communication no. 0092543 dated 3-12-2015. 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" as they are the main *non cash* items. It must be noted that the *adjusted* economic data does not include the positive effect as a result of the elimination of the so-called *regula-*

tory lag and the negative effect as a result of the buyback of a portion of the bonds issued;

- 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;
- 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 when calculating the *net financial position*;
- net working capital* is the sum of the current receivables, inventories, balance net of other current assets and liabilities and current payables, excluding the items considered in the calculation of the *net financial position*.

SUMMARY OF RESULTS: ECONOMIC RESULTS PERFORMANCE

| Economic data (million Euros) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Revenue from sales and services | 2,708.6 | 2,800.6 | (91.9) | (3.3%) |
| Other revenue and proceeds | 123.8 | 116.7 | 7.0 | 6.0% |
| External costs | 1,766.2 | 2,002.7 | (236.5) | (11.8%) |
| Staff costs | 199.2 | 211.2 | (12.0) | (5.7%) |
| Net income/(Costs) from commodity risk management | 0.0 | 0.0 | 0.0 | 0.0% |
| Income/(Costs) from equity investments of a non-financial nature | 29.3 | 28.5 | 0.8 | 3.0% |
| Gross Operating Profit | 896.3 | 732.0 | 164.4 | 22.5% |
| Amortisation, provisions and depreciation | 370.4 | 345.5 | 24.9 | 7.2% |
| Operating Profit | 525.9 | 386.5 | 139.5 | 36.1% |
| Financial management | (111.6) | (91.1) | (20.5) | 22.5% |
| Equity investment management | 1.7 | 1.0 | 0.7 | 68.9% |
| Result before Tax | 416.1 | 296.4 | 119.7 | 40.4% |
| Income tax | 143.5 | 114.8 | 28.7 | 25.0% |
| Net Result | 272.5 | 181.5 | 91.0 | 50.1% |
| Profit/(loss) attributable to minority interests | 10.2 | 6.6 | 3.6 | 55.5% |
| Net result attributable to the Group | 262.3 | 175.0 | 87.4 | 49.9% |

| Adjusted economic data (million euros) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit (ebitda) | 784.8 | 732.0 | 52.9 | 7.2% |
| Operating result (ebit) | 414.4 | 386.5 | 28.0 | 7.2% |
| Before tax result | 336.6 | 296.4 | 40.2 | 13.6% |
| Net result | 220.7 | 181.5 | 39.1 | 21.5% |
| Net result attributable to the group | 210.5 | 175.0 | 35.5 | 20.3% |

Amounts in million Euros

Revenue from sales and services amounts to € 2.7 billion

The revenue from sales and services amounts to € 2,708.6 million at 31 December 2016, a decrease of € 91.9 million (-3.3%) compared to last year. This reasons for this decrease mainly concern:

- **revenue from electricity sales**, by effect of the lower quantities sold on the free market as a consequence of the optimisation of the customer portfolio and taking changes in

prices into account (- € 228.7 million). The increase in revenue from energy transport and measurement mitigates this trend, as a consequence of the pricing dynamics introduced by the fifth regulatory cycle, in addition to the inclusion of € 111.5 million following the changes introduced by AEEG-SI Resolution 654/2015 (see the paragraph on "Trends of Operating Segments - Networks Operating Segment").

- **revenue from gas sales** recorded a decrease of € 17.0 million due to the lower quantities sold (-19.6 million cubic metres of gas compared to 31 December 2015), mainly because of the mild climate and reduction of the portfolio.

The trend of the **revenues from the integrated water services** is the opposite, recording an increase of € 46.6 million, mainly because of the pricing updates approved by the EGA or AEEGSI concerning the second regulatory period, in fulfilment of AEEGSI Resolution 664/2015. In particular, the increase is a result of recording the premium, for € 23.1 million, recognised to ACEA Ato2 pursuant to art. 32, subsection a) of deliberation 664/2015, calculated on the basis of the performance levels in the second half of the year compared to the standards fixed and gross of the indemnities due to the users. On 7 March 2017, the STO successfully completed the checks on the calculation of the indicators on which the premium is based. The premiums accrued regarding the continuity of the networks service are allocated under *Other revenue*.

Other revenue of € 123.8 million

An increase of € 7.0 million has been recorded, mainly due to the following effects:

- recording during the year of the revenues (€ 9.6 million) linked to the effects of the contract signed in March 2006 for the marketing of digital counters. These sales were within the framework of a wider-ranging commercial contract also involving other companies in the Group;
- the inclusion in 2015 of the insurance rebate (€ 3.2 million) paid to Acea Ambiente (formerly ARIA) for the fire at the Paliano plant in 2013;
- increased windfall gains of € 9.3 million, mainly because of the auditing of energy items originating from previous years;
- the total contributions from cancellation accrued on the TEE in the portfolio reduced by € 2.9 million, as a consequence of the lower purchase of shares compared to

the previous year, partially mitigated by the increased estimate of the price of cancellation due to the raising of prices on the stock exchange.

Costs of materials and overheads of € 1.8 billion

This item shows an overall decrease of € 236.5 million (-11.8%) compared to 31 December 2015. The variation is mainly due to:

- the lower costs for the supply of electricity both on the protected market and on the free market, and also the reduction of the relevant transport costs (- € 250.4 million overall) as a consequence of the reduction of the quantities sold. A fall in purchases on the gas market (- € 8.4 million) has been recorded for the same reason;
- the fall in costs for the purchase of the white certificates by areti (- € 4.8 million) due to the fulfilment of the regulatory obligation on energy efficiency as a consequence of the lower quantities purchased during the year;
- the improved efficiency of the billing and sales system in the Energy Segment, which has led to a reduction of € 4.5 million in related costs;
- the increase in other operating costs (+ € 21.8 million) mainly deriving from the auditing of energy items originating from previous years, partially hedged by windfall profits from the same area.

Staff costs reduced by 6% Staff costs

The commitment of all of the staff in the Group to the complex project for modifying the disclosure systems and corporate processes (Acea2.0) continues: the go live of the subsidiary Companies followed during the course of 2016 and will end in the spring of 2017. This intense development work has led to a reduction of about € 12 million compared to 2015.

The average workforce is 5,048 employees, a variation of 19 units compared to 2015, while the final workforce reduced by 11 units, totalling 4,968 employees.

| € million | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|--------------|--------------|---------------|---------------|
| Staff costs gross of costs capitalised | 307.9 | 301.4 | 6.5 | 2.2% |
| Costs capitalised | (108.7) | (90.2) | (18.4) | 20.4% |
| Staff costs | 199.2 | 211.2 | (12.0) | (5.7%) |

The water companies in the TUC show results in line with 2015

The income from equity investments of a non-financial nature represent the consolidated result according to the equity method included among the components forming

the consolidated Gross Operating Profit of the companies previously consolidated using the proportional method. The following is a breakdown of the composition, while the trends of the single companies are in the comments to the Water Operating Segment.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------------------|-------------|-------------|------------|-------------|
| GOP | 146.4 | 143.9 | 2.6 | 1.8% |
| Amortisation, depreciation, provisions and impairment charges | (94.5) | (89.9) | (4.6) | 5.2% |
| Total (Costs)/Profit from Equity Investments | 0.0 | 0.1 | (0.1) | (158.9%) |
| Financial management | (7.3) | (7.9) | 0.7 | (8.5%) |
| Taxation | (15.3) | (17.7) | 2.3 | (13.3%) |
| Income from equity investments of a non-financial nature | 29.3 | 28.5 | 0.8 | 3.0% |

EBITDA of € 896.3 million (+22.5%) in line with the growth recorded in September

The EBITDA increases from € 732.0 million at 31 December 2015 to € 896.3 million in 2016, an increase of € 164.4 million equal to 22.5% (adjusted EBITDA increased by 7.2%). This change is mainly due to the pricing dynamics in the water sector (+ € 44.2 million), followed

in terms of the significant increase in marginality by the Energy sector (+ € 22.1 million). Net of the regulatory income of € 111.5 million, the Networks sector shows a significant reduction in the EBITDA (- € 10.9 million), almost totally due to the pricing updates in the fifth regulatory cycle. The Parent Company shows a decrease of € 2.4 million in the EBITDA.

EBIT of € 525.9 million (+36.1%)

The EBIT shows a higher increase compared to the EBIT-

DA, despite the items which most influence the ABIT increasing by € 24.9 million overall.

| € million | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------------------------|--------------|--------------|-------------|-------------|
| Amortisation and depreciation | 254.2 | 234.0 | 20.3 | 8.7% |
| Provision for impairment of receivables | 64.7 | 59.0 | 5.6 | 9.6% |
| Provision for risks | 51.5 | 52.5 | (1.0) | (1.9%) |
| Amortisation, depreciation, impairment charges and provisions | 370.4 | 345.5 | 24.9 | 7.2% |

The increase in **amortisations** is mainly linked to the increase in investments in all of the operating segments and also takes into account, as regards the water sector, of the regulatory dynamics and the pricing updates concerning the invested capital. As a consequence of the go live of the Acea2.0 technological platform of the main companies in the Group, the amortisations increase by € 15.3 million.

The change in the **provisions** (- € 1 million) is mainly due to the combined effect of: **i)** the release of the provisions allocated in previous years (€ 11.9 million in total) of a contributory and legal nature mainly following the favourable outcome of a dispute against several companies in the Group; **ii)** additional allocations aimed at dealing with the planned reduction in staff through the adoption of voluntary redundancy early retirement for Group staff (+ € 7.8 million) and **iii)** the increase in investments in the water sector, which has led to the increase in the allocations to the provision for restoration costs (+ € 2.9 million). The impairments show an increase on € 5.6 million, given by the net effect of the reduction in the Energy Operating Segment (about € 11 million) and the increase of € 15 million in the Water Operating Segment. This trend is due, in addition to a slightly more risky nature, to the release in 2015 of € 6 million as a result of the positive conclusion of the preliminary procedure on pricing for 2012-2015 of ACEA Ato5 and the consequent finalisation of the amount of the price adjustments due to the Company.

Adjusted finance income improves by € 11.6 million

At the end of 2016, the finance income totalled a negative € 111.6 million (+ € 20.5 million); this result is influenced

by the partial pay back of two sets of bonds, which involved a total cost of € 32.1 million being incurred, inclusive of the costs concerning the transaction. Net of this transaction, the finance income shows a significant improvement of € 11.6 million compared to 31 December 2015. The positive performance is substantially due to the reduction of the interest on medium-long-term borrowings (- € 8.2 million); in fact, at 31 December 2016, the global average “all in” cost of the ACEA Group debt amounts to 2.94% compared to 3.29% in the previous year. The commissions paid as a consequence of the receivable transfers show a reduction of € 4 million.

Tax Rate of 34.5%

The estimated fiscal charges amount to € 143.5 million compared to € 114.8 million in the previous year, showing a total increase of € 28.7 million. It should be noted that 2015 was affected by the adjustment of deferred taxation as a consequence of the reduction provided by the Stability Law for 2016 of the Corporate Income Tax (IRES) rate (from 27.5% to 24%) as of 2017. The impact of this adjustment amounted to about € 20 million. The tax rate for 2016 is 34.5% (38.7% at 31 December 2015).

Net result of the Group increases by 49.9% in absolute value

The net result attributable to the Group is € 262.3 million, and shows an increase of € 87.4 million (+49.9%). Thanks to the positive trend in finance income, the net result attributable to the Group, adjusted by the extraordinary items for 2016, is € 210.5 million, an increase of 20.3%.

SUMMARY OF RESULTS: TRENDS IN FINANCIAL POSITION AND CASH FLOWS

| Equity data (million euros) | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------|------------|------------|-----------|
| Non-current assets and liabilities | 4,161.4 | 3,868.6 | 292.8 |
| Net working capital | (276.6) | (262.5) | (14.1) |
| Invested capital | 3,884.9 | 3,606.1 | 278.8 |
| Net debt | (2,126.9) | (2,010.1) | (116.9) |
| Total shareholders' equity | (1,757.9) | (1,596.1) | (161.9) |
| Total funding | 3,884.9 | 3,606.1 | 278.8 |

Non-current assets and liabilities increase by 7.8% thanks to the increase in investments

Compared to 31 December 2015, the non-current as-

sets and liabilities increased by € 292.8 million (+7.8%), mainly due to the increase in the fixed assets (+ € 313.2 million).

| € million | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------------|----------------|----------------|--------------|
| Tangible/intangible fixed assets | 4,184.1 | 3,870.9 | 313.2 |
| Equity investments | 263.5 | 250.2 | 13.2 |
| Other non-current assets | 296.5 | 314.3 | (17.9) |
| Staff termination benefits and other defined benefit plans | (109.5) | (108.6) | (0.9) |
| Provisions for liabilities and charges | (199.3) | (187.1) | (12.2) |
| Other non-current liabilities | (273.7) | (271.2) | (2.5) |
| Non-current assets and liabilities | 4,161.4 | 3,868.6 | 292.8 |

The change in fixed assets is also due to the investments, reaching € 530.7 million, and the amortisations and reductions in value for € 254.2 million.

The table below shows the level of investments made in 2016 by Operating Segment, compared to those in 2015.

| Investments per operating segment (million Euros) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------------|--------------|--------------|--------------|--------------|
| ENVIRONMENT | 34.0 | 25.9 | 8.1 | 31.1% |
| ENERGY | 55.3 | 30.6 | 24.7 | 80.7% |
| Production | 27.9 | 15.2 | 12.6 | 82.8% |
| Sales | 27.4 | 15.3 | 12.1 | 78.7% |
| WATER: | 230.4 | 204.4 | 25.9 | 12.7% |
| Overseas | 1.5 | 0.4 | 1.1 | 258.4% |
| Lazio - Campania | 227.1 | 202.5 | 24.6 | 12.2% |
| Tuscany - Umbria | 0.0 | 0.0 | 0.0 | 0.0% |
| Engineering | 1.8 | 1.5 | 0.2 | 13.5% |
| NETWORKS | 197.9 | 156.2 | 41.7 | 26.7% |
| ACEA (Corporate) | 13.2 | 11.8 | 1.4 | 12.0% |
| Total | 530.7 | 428.9 | 101.8 | 23.8% |

Investments rise by € 101.8 million (+23.8%)

Investments in the **Environment Segment** increased (+ € 8.1 million), with specific reference to Acea Ambiente, mainly for the work for the completion and deployment of line I of the WTE plant in San Vittore in Lazio, which started operations in October 2016.

The **Energy Segment** showed an increase of € 24.7 million, mainly attributable to the investments made by Acea Produzione for: (i) work for the revamping of the Castel Madama hydroelectric power station, (ii) reclamation work in the derivation tunnels of the San Cosimato dam and (iii) the repowering of the Tor DI Valle Power Station. The investments concerning sales refer mainly to the Acea2.0 project, the CRM systems and the billing system.

Investments in the **Water Segment** increased by € 25.9 million overall compared to last year, with specific reference to ACEA Ato2 for work carried out on the water and drainage network, the waste treatment plants and the Acea2.0 programme. The increase in the overseas water segment is due to the complete consolidation of Agua de San Pedro (€ 1.5 million).

Investments in the **Networks Area** increased by € 41.7 million, as a consequence of: (i) the reengineering of the IT and trade distribution systems, (ii) the harmonisation of the systems supporting the measurement activities, (iii) the ACEA2.0 and WFM programmes and (iv) the expansion, renewal and enhancement of the plants managed.

The **Parent Company** increased its investments (€ 1.4 million), as a consequence of the interventions on the Acea2.0 programme.

The Group investments in Acea2.0 totalled € 47.3 million.

The **equity investments** increased by € 13.2 million compared to 31 December 2015. The change primarily reflects the valuation of the companies consolidated using the equity method in accordance with standard IFRS 11.

The **staff termination benefits and other defined benefit plans** at 31 December 2016 are basically in line with 2015 (minimal increase of € 0.9 million), mainly by effect of the period allocation and also the rate used (from 2.03% in 2015 to 1.31% in 2016).

The **Provisions for liabilities and charges** increased by 6.5%, mainly by effect of the allocation of € 63.3 million, of which € 22.6 million to cover the voluntary redundancy and early retirement procedures.

| € million | 31.12.2015 | Utilisations | Provisions | Payment of Redundancy Funds | Reclassifications/ Other charges | 31.12.2016 |
|--------------------------------------------------------|--------------|---------------|-------------|-----------------------------|----------------------------------|--------------|
| Legal | 20.2 | (2.8) | 1.6 | (8.0) | 0.0 | 11.0 |
| Tax | 2.7 | (0.3) | 1.9 | 0.0 | 0.1 | 4.4 |
| Regulatory risks | 54.2 | (4.9) | 7.9 | 0.0 | 0.0 | 57.3 |
| Investees | 2.9 | (0.8) | 0.3 | 0.0 | (0.5) | 1.9 |
| Contributory risks | 6.5 | (0.1) | 0.1 | (3.9) | 0.0 | 2.7 |
| Early retirement and redundancies | 3.5 | (23.9) | 22.6 | 0.0 | 0.0 | 2.1 |
| <i>Post mortem</i> | 23.0 | 0.0 | 0.0 | 0.0 | 0.0 | 23.0 |
| Grant fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Insurance franchises | 1.2 | (0.8) | 1.6 | 0.0 | 0.0 | 2.0 |
| Other liabilities and charges | 21.5 | (14.6) | 16.1 | 0.0 | 9.4 | 32.5 |
| Subtotal Provisions for Liabilities and Charges | 135.8 | (48.2) | 52.2 | (11.9) | 9.0 | 137.0 |
| Provisions for restoration charges | 51.3 | 0.0 | 11.1 | 0.0 | 0.0 | 62.4 |
| Total Provisions for Liabilities and Charges | 187.1 | (48.2) | 63.3 | (11.9) | 9.0 | 199.3 |

Thanks to the positive outcome of a dispute against several companies in the Group, the provision of € 7.4 million allocated in previous years was released in the third quarter. The other releases refer mainly to some provisions allocated in previous years in order to cover eventual disputes of a contributory nature, totalling € 3.9 million. The item "Reclassifications/Other charges" includes the provisions

recorded as a consequence of the modification may by Law no. 208/2015 of the discipline of the variation notes regarding VAT following the termination due to non-fulfilment of the contracts for the supply of electricity, gas and water. The provision has been set-up to hedge the eventual restitution of VAT to the State in the event of payments by customers in arrears subsequently to the release of the variation note.

| € million | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------------|------------------|------------------|---------------|
| Current receivables | 1,097.4 | 1,098.7 | (1.2) |
| - due from end users/customers | 1,023.6 | 1,005.1 | 18.4 |
| - due to Roma Capitale | 45.6 | 63.7 | (18.1) |
| Inventories | 31.7 | 26.6 | 5.1 |
| Other current assets | 207.0 | 205.9 | 1.2 |
| Current payables | (1,292.6) | (1,245.3) | (47.3) |
| - due to Suppliers | (1,149.2) | (1,092.3) | (56.9) |
| - due to Roma Capitale | (139.2) | (147.3) | 8.0 |
| Other current liabilities | (320.1) | (348.4) | 28.3 |
| Net working capital | (276.6) | (262.5) | (14.1) |

Net of regulatory accounting, the net working capital reduces by € 74 million compared to 2015

The difference in net working capital compared to 31 December 2015 is due to the combined effect of the increased receivables of *areti* due to the accounting of the income from the cancellation of the so-called *regulatory lag* (€ 111.5 million) and the reduction in receivables from customers, especially in the Energy Segment, reduced by

over € 100.0 million. This item is net of the provision for impairment of receivables, which was - € 344.4 million at 31 December 2016, compared to about € 320 million at the previous year end.

Receivables totalling € 1,397.4 million were transferred pro-soluto during the course of 2016, of which € 190.6 million to the Public Administration (these figures were € 1,515.9 million and € 182.4 million respectively in 2015).

Roma Capitale: net balance receivable of € 37 million

As regards the **relations with Roma Capitale**, the net balance receivable by the Group at 31 December 2016 amounted to a total of € 37.4 million. The change compared to 2015 is basically due to the accrual in 2016 and receipt of € 92 million in receivables, of which € 54 million through the administrative compensation with debts for dividends

(€ 37 million) and concerning the concession fee (€ 17 million). The ACEA quota due to Roma Capitale (€ 54 million) was paid in June 2016. The following table illustrates jointly the amounts deriving from the relations between Roma Capitale and the ACEA Group, as regards both receivables and payables, including items of a financial nature. See the information on related party transactions for more details.

| Receivables from Roma Capitale | 31.12.2016 | 31.12.2015 | Variation |
|--------------------------------------------------|--------------|--------------|---------------|
| Services billed | 57.1 | 67.1 | (9.9) |
| Services to be billed | 1.7 | 5.1 | (3.5) |
| Total Trade Receivables | 58.8 | 72.2 | (13.4) |
| Financial receivables for Public lighting | 108.4 | 70.6 | 37.8 |
| Total receivables due within one year (A) | 167.2 | 142.8 | 24.4 |

| Payables to Roma Capitale | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------------------------------|--------------|---------------|-------------|
| Trade payables due within one year (B) | (128.0) | (114.6) | (13.4) |
| Total (A) + (B) | 39.2 | 28.2 | 11.0 |
| Other receivables/(payables) of a financial nature | 22.6 | (6.2) | 28.8 |
| Other Trade Receivables/(Payables) | (24.5) | (20.7) | (3.8) |
| Total other Receivables/(Payables) (C) | (1.9) | (26.9) | 25.0 |
| Net Balance | 37.4 | 1.3 | 36.0 |

Current payables increase by 4%

The **current receivables** amounted to € 1,292.6 million and mainly concern the receivables from suppliers, amounting to € 1,149.2 million (these amounted to € 1,092.3 million at 31 December 2015). The increase of 56.9 million compared to 31 December 2015 is mainly due to the increased volume of investments, a significant part of which is represented by the development of the technological platform, partially compensated by the reduction in Acea Energia following the optimisation of the customer portfolio (in addition to the trends in *commodities* prices).

The **Other Current Assets and Liabilities** increased by € 1.2 million and reduced by € 28.3 million respectively compared to the previous year. The increase is due to the increase in receivables for the adjustment to *fair value* of the derivatives on *commodities* of Acea Energia. The change in other current liabilities is mainly due to the reduction in payables to Cassa Conguaglio (- € 40.6 million).

Shareholders' equity reaches 1.8 billion Euros

The **shareholders' equity** amounted to € 1,757.9 million. The changes that occurred, amounting to € 161.9 million, are analytically illustrated in the relevant table and are mainly due to the accrual of the 2016 profit, the distribution of dividends of the Parent Company and the change in the *cash flow hedge* reserves and those comprising actuarial profits and losses.

The net financial position increased by € 117 million compared to the end of 2015

The **net financial position** of the Group increased overall by € 116.9 million, from € 2,010.1 million at the end of the 2015 financial year to € 2,126.9 million in 2016. This change is a direct consequence of the increased investments in 2016, including those of a technological nature.

| € million | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------------------------------------|------------------|------------------|----------------|----------------|
| Non-current financial assets/(liabilities) | 2.1 | 2.4 | (0.3) | (11.9%) |
| Parent Company non-current financial assets/(liabilities) | 25.7 | 29.1 | (3.4) | (11.8%) |
| Non-current borrowings and financial liabilities | (2,797.1) | (2,688.4) | (108.7) | 4.0% |
| Net medium/long-term debt | (2,769.4) | (2,657.0) | (112.4) | (19.7%) |
| Cash and cash equivalents and securities | 665.5 | 814.7 | (149.1) | (18.3%) |
| Short-term bank borrowings | (53.0) | (58.7) | 5.8 | (9.8%) |
| Current financial assets (liabilities) | (78.1) | (147.7) | 69.6 | (47.1%) |
| Parent Company and Associates non-current financial assets/(liabilities) | 108.0 | 38.7 | 69.3 | 179.3% |
| Net short-term debt | 642.5 | 646.9 | (4.5) | 104.1% |
| Total net financial position | (2,126.9) | (2,010.1) | (116.9) | 84.4% |

The net medium/long-term debt increased by € 112.3 million
As regards the **medium-long-term** component, the in-

crease of € 112.4 million refers to non-current financial assets and liabilities, which are broken down as follows:

| € million | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------|----------------|----------------|--------------|-------------|
| Bonds | 2,045.7 | 1,904.0 | 141.7 | 7.4% |
| Medium/long-term borrowings | 751.4 | 784.4 | (33.0) | (4.2%) |
| Total medium/long-term debt | 2,797.1 | 2,688.4 | 108.7 | 4.0% |

As regards the **bonds**, it must be pointed out that the Parent Company has carried out a partial buy back of Bonds totaling € 346.8 million (the buyback involved overall charges of € 32.1 million). ACEA simultaneously notified the issuing of new bonds as part of the “€ 1,500,000,000 Euro Medium Term Note” for € 500 million, with a duration of 10 years and fixed rate. The issuing of these bonds was mainly aimed at: (i) refinancing the bonds bought back by ACEA following the purchase bid on 12 October 2016 and obtaining an extension of the average duration of the debt and also

reducing its average cost, considering the current trends in interest rates, with specific reference to the Euro area. The **medium/long-term borrowings**, amounting to € 751.4 million, recorded an overall decrease of € 33.0 million, referring to the Parent Company (- € 25.1 million) and *areti* (- € 19.8 million), partially compensated by the complete consolidation of Agua De San Pedro (+ € 11.3 million). The following table illustrates the status of the medium/long-term and short-term borrowings by term to maturity and type of interest rate.

| Bank Loans: | Total Residual Debt | Due by 31.12.2017 | Between 31.12.2017 and 31.12.2022 | Due after 31.12.2022 |
|-----------------------------|---------------------|-------------------|-----------------------------------|----------------------|
| fixed rate | 286.9 | 19.8 | 93.4 | 173.6 |
| variable rate | 450.9 | 17.7 | 260.2 | 173.0 |
| floating rate to fixed rate | 46.9 | 8.3 | 38.6 | 0.0 |
| Total | 784.7 | 45.8 | 392.3 | 346.6 |

The *fair value* of the ACEA hedging derivatives was a negative € 5.3 million, and has reduced by € 1.7 million compared to 31 December 2015 (it was a negative € 7.0 million).

The short-term component is a positive € 642.4 million and has reduced by € 4.5 million

The **short-term** component has reduced by € 4.5 million compared to the end of 2015, mainly due to the combined effect of the reduction of cash and cash equivalents (- € 149.1 million), mainly due to the Parent Company, partially compensated by the reduction in payables to *Factors* (-

€ 69.3 million) and the increase in receivables due from Roma Capitale of € 37.8 million.

It must be noted that at 31 December 2016, the Parent Company had unused *uncommitted* lines for € 803 million. No guarantees were granted in obtaining these lines.

The ACEA rating

It must be noted that the long-term Ratings assigned to ACEA by the International Ratings Agencies were:

- Fitch “BBB+”;
- Moody’s “Baa2”

REFERENCE CONTEXT

PERFORMANCE OF THE EQUITY MARKETS AND ACEA SHARES

In **2016**, the indicators of the main international stock markets recorded positive performance levels in overall terms, except for the Italian, Spanish and Chinese stock markets, which lost 10.2%, 2.0% and 12.3% respectively.

The changes recorded by the principal Italian Stock Market indices are shown below: **FTSE Italia All Share -9.9%**, **FTSE MIB -10.2%** e **FTSE Italia Mid Cap -8.0%**.

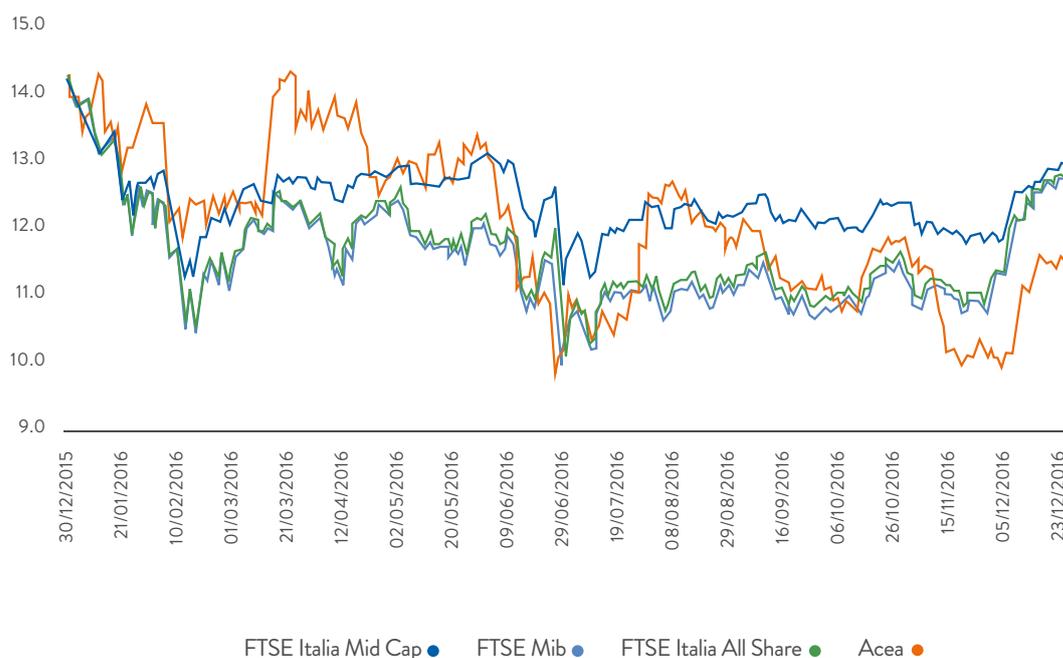
ACEA SHARE PERFORMANCE

In **2016**, the value of Acea shares highlighted a **loss of 18.7%**. In detail, Acea share prices stood at 11.55 Euros as at 30 December 2016 (last trading session in 2016) (capitalisation: 2,459.7 million Euros). In the reporting period, the high of 14.25 Euros was recorded on 21 March and the low of 9.84 Euros was recorded on 27 June.

During the reporting period, the **average daily traded volumes were over 110,000** (essentially in line with those traded in 2015).



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



(graph normalized to Acea values – Source: Bloomberg)

| | |
|-----------------------|---------|
| Acea | - 18.7% |
| FTSE Italia All Share | -9.9% |
| FTSE Mib | -10.2% |
| FTSE Italia Mid Cap | -8.0% |

Over 190 reports/notes were published on ACEA shares in 2016.

ENERGY MARKET

Electricity demand in Italy in 2016 (310,251 GWh)³ reduced by 2.1% compared to the previous year. 89% of the electricity requirement was covered by national (Italian) production, and the remaining 11% by imports from abroad (the balance of imports was -20.2% compared to 31 December 2015). Of the same energy requirement, 68% was satisfied using thermal energy and the remainder using renewable energy sources: 15.4% hydroelectricity, 8.2% photovoltaic, 6.3% wind power and 2.1% geothermal.

The net national production (275,649 GWh) increased significantly by 1.2% compared to 2015. In detail, electricity produced from thermal production sources reduced by 2.5%, as did that produced from photovoltaic sources (-0.2%) and that from hydroelectric sources (-8.9%),

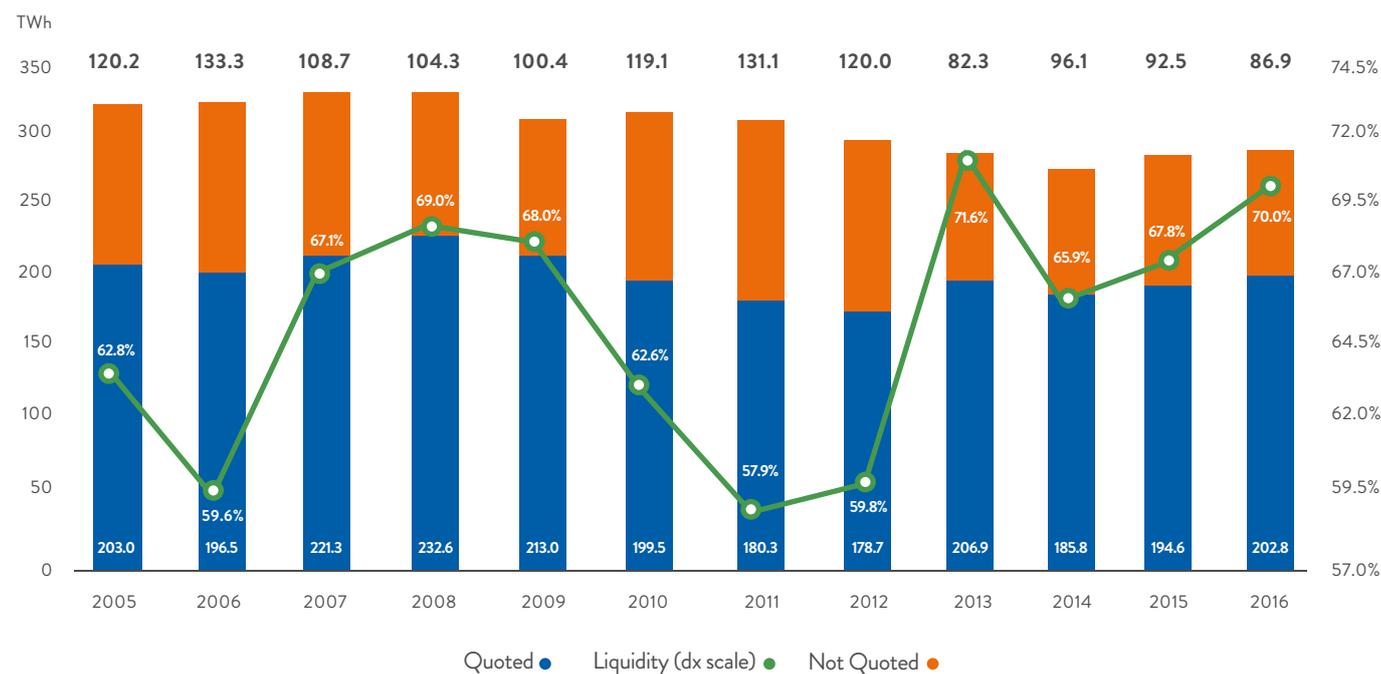
while production from other sources increased: geothermal (+0.7%) and wind power (+18.7%).

With regard to the electricity market performance with a substantially unchanged electricity offer, the volumes traded on the Day Ahead Market showed a modest increase (+0.6%), reaching 289.7 million MWh. This increase was sustained on the purchase side by record exports (+64.9%), mainly concentrated in the last few months of the year. The volumes traded on the power exchange rose to 202.8 million MWh (+3.9%), which is the highest value recorded in the last seven years, excluding the peak in 2013. The overall increase appears to be supported on the sales side by non-institutional national operators (+14.4%) and on the purchase side by both the Single Purchaser (+28.2%) and exports (+67.5%).

The fall in OTC trade volume on the PCE and nominated on the DAM reduced to 86.9 million MWh (-6.4%).

Market liquidity reached 70.0%, a level exceeded only once in the past, again in 2013, gaining 2.2 percentage points.

Liquidity on the DAM⁴



In 2016, the power exchange recorded the lowest electricity purchase price (PUN) since it was started in April 2014, recording an average price of 42.78 €/MWh, with a trend variation of -18.2% due to both the low level of demand and the similar performance of stock on the main international energy markets. However, the reduction in the PUN was limited by the strong rises in the last quarter of the year due

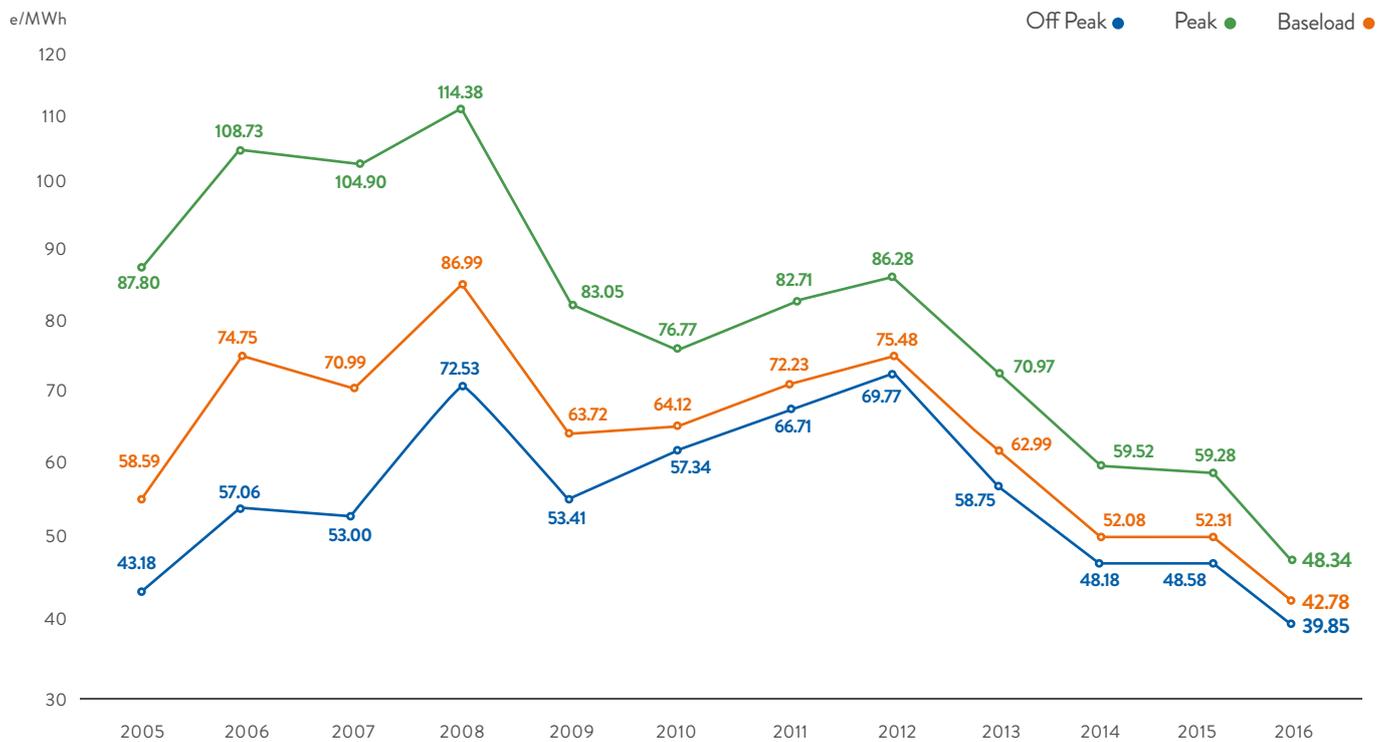
to the shutdown of some French nuclear groups.

The analysis by time ranges shows similar trends, given that a fall of 10.84 €/MWh (-18.5%) can be observed during peak hours and of 8.73 €/MWh (-18.0%) in off-peak hours, reaching the all-time low values of 48.34 and 39.85 €/MWh respectively. The peak/baseload price ratio of 1.13 remained in line with the all-time lows of the previous five years.

³ Source: Terna – December 2016, monthly report on the electricity system

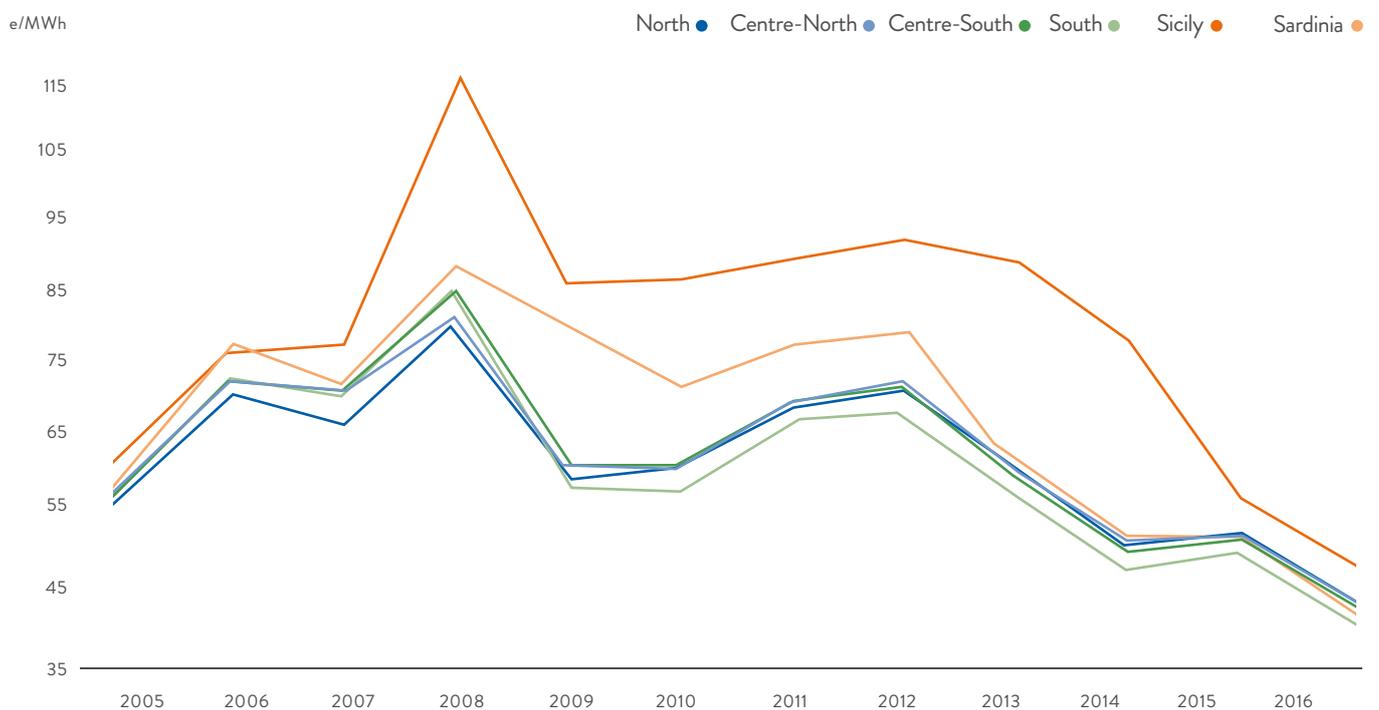
⁴ Source: Energy Market Operator (GME) 2016 Newsletter

DAM: National Single Price (PUN)⁴



The sale prices fell to all-time lows in all zones, oscillating between 40.37 €/MWh in the South and 47.62 €/MWh in Sicily, significantly lower than the previous year (-17/-19%).

DAM: Sale Prices⁴



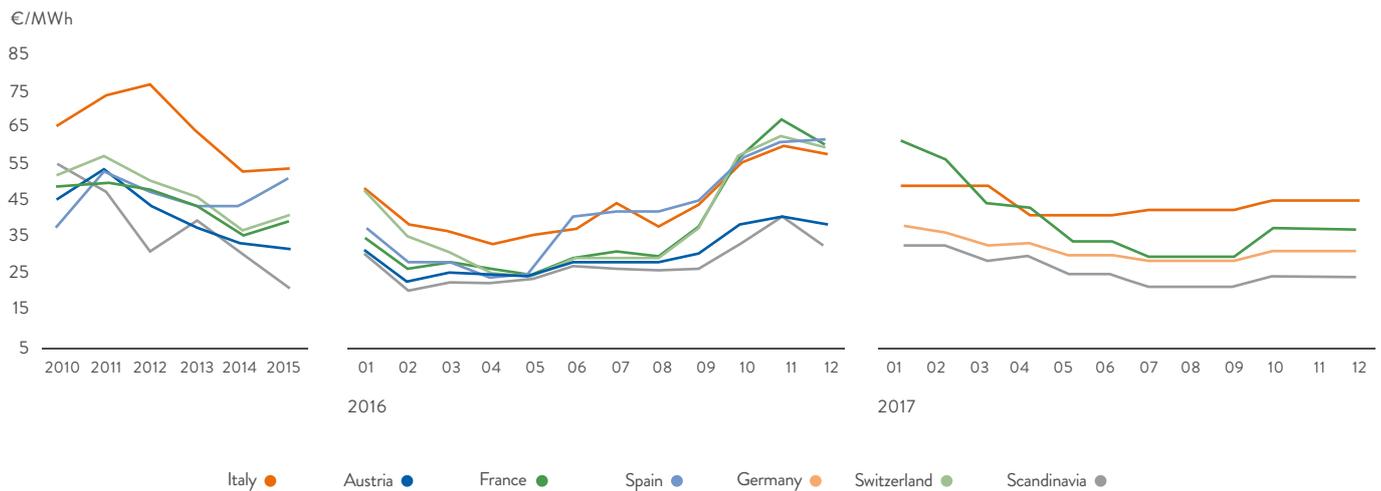
This general downtrend also includes the general fall in the price of electricity, which in 2016 recorded annual averages of between 27 €/MWh in Scandinavia and 43 €/MWh in Italy, the latter being an all-time low since trading began. The reductions, which were very significant until September, have been attenuated by the decisive increase in the last quarter of the year, at the same time as the criticalities on the French market due to the unavailability of some

nuclear power stations. The significant increase in French prices has also led to the widening of the gap with Germany, with the difference between the two main Central European markets reaching an all-time high of 8 €/MWh (FR 37 €/MWh; AT/DE 29 €/MWh).

The contingent recovery in prices only partly influences the forecasts for 2017, characterised by a progressive reduction in *futures* trading during the year.

⁴ Source: Energy Market Operator (GME) 2016 Newsletter

Price on the European Power Exchanges (arithmetic mean €/MWh)⁴

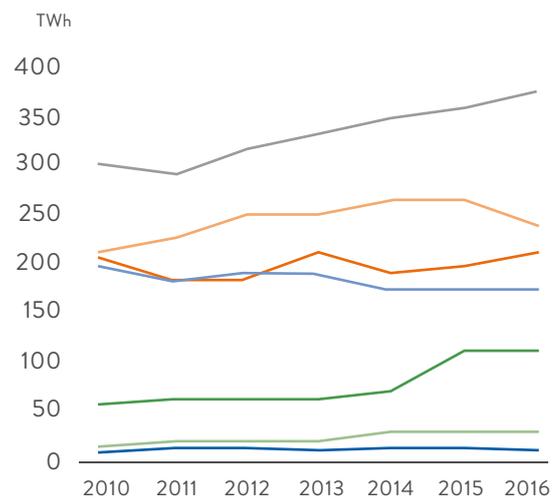


As for the volumes of electricity traded on base spot, the reference market for Scandinavia continued the uptrend started in 2012 (373 TWh, +5%), a value in line with that traded on Epex, the reference market for central Europe,

where there are however different trends in Germany, where there has been a downtrend in volumes traded after years of growth (235 TWh, -11%), and France, where growth has continued, albeit at a slower rate (111 TWh, +4%).

Annual and Monthly Volumes on European Power Exchange spot markets⁵

| Area | Volume available (TWh) | | |
|-------------|------------------------|-------------|---------------|
| | 2016 | Var Y-1 (%) | December 2016 |
| ITALY | 204.0 | + 5 % | 17.0 |
| FRANCE | 110.7 | + 4 % | 8.6 |
| GERMANY | 234.9 | -11 % | 19.6 |
| SPAIN | 172.0 | + 0 % | 15.8 |
| SCANDINAVIA | 372.9 | + 5 % | 35.6 |
| AUSTRIA | 8.0 | -3 % | 0.7 |
| SWITZERLAND | 23.8 | + 4 % | 1.8 |



Tariffs for transport services

2016 is the first year in the new regulatory period, the duration of which has been increased from four years to eight years (2016-2023), subdivided into two sub-periods: the first four using the same methods, the others subject to additional implementation.

The regulatory dispositions are contained in three Integrated Texts: the “Integrated Text of dispositions of the Authority for the supply of electricity transmission and distribution services (TIT)”, Annex A to resolution 654/2015/R/eel, “The Integrated Text of dispositions of the Author-

ity for the supply of the electricity measurement service (TIME)”, Annex B to resolution 654/2015/R/eel, and the “Integrated Text of dispositions of the Authority for the economic conditions of the supply of connecting services” (TIC), Annex C to resolution 654/2015/R/eel, all published on 23 December 2015.

For the distribution service, the AEEGSI has confirmed the decoupling of the tariff applied to the end customer (so-called obligatory tariff) and the reference tariff for the determination of the restriction on the revenue admissible for each firm (so-called reference tariff).

⁴ Source: Energy Market Operator (GME) 2016 Newsletter

⁵ Source: Terna – December 2016, monthly report on the electricity system

The main novelties introduced compared to the previous regulation period (2012-2015) are represented by:

1. Regulatory lag and remuneration of the invested capital;
2. Extension of the regulatory lifetime;
3. Tariff regulation criteria: cot, measurement.

As regards the first point, the AEEGSI has modified the methods of compensation of the regulatory lag in recognising new investments, for both Distribution and Measurement (not retroactive).

The founding principle behind the increase in the rate of remuneration of the invested capital for new investments, amounting to 1% (for the year t-2) has been replaced by the introduction of the recognition of the capital base (so-called RAB) for investments in year t-1 as well, valued on the basis of pre-forecast data. This data will be used to calculate the provisional reference tariffs published on 12 May in Resolution no. 233/2016/R/eel and will be subsequently be replaced by the forecast data for the calculation of the definitive reference tariffs published by the end of February the following year.

In the year t, the AEEGSI only recognises the remuneration of the invested capital concerning the assets which entered use in the year t-1 and were included in the accounts for that year, without recognising the relevant amortisation rates (which are still recognised in the year t-2).

As regards the amortisations recognised in the tariff (reference year t-2), the new regulation increases the regulatory lifetime of some assets, such as HV electrical lines (from 40 to 45 years), MV and LV voltage lines and “user sockets” (from 30 to 35 years).

The rate of remuneration of the net invested capital (wacc), the calculation parameters for which were published in resolution 654/2015/R/eel, is 5.6% for the distribution service for investments made up to 31 December 2015.

As regards the operating costs, the new firm tariffs covers the specific costs through a coefficient for the modulation of the mean national costs, which is calculated by the AEEGSI on the basis of the effective costs of the firm and the scale variables.

According to that defined in resolution 654/2015, in calculating the firm tariffs for 2016, these costs are increased by the lump sum connection fees recognised nationally, considered as capital grants and are no longer deducted from the operating costs.

Furthermore, the lump sum connection fees for each firm are deducted directly from the capital invested by the firm, being considered the equal of MV/LV assets.

The update of the reference tariff for distribution for years subsequent to the first year is made individually on the basis of the equity increases notified by the firms in the framework of the collection of RAB data. The criterion for updating provides that:

- the part of the tariff hedging the operating costs be updated using the price-cap mechanism (with the goal of a 1.9% recovery of productivity);
- the part hedging the costs concerning the remuneration of the invested capital be updated through the deflator of the fixed gross investments, the change in the volume of service provided, the gross investments that are operational and differentiated by level of voltage and rate of change connected to the increased remuneration recognised for incentivised investments;
- the part hedging the amortisations be updated through the deflator of the fixed gross investments, the change in volume of service provided, the rate of change connected to the reduction in the gross invested capital due to disposal, withdrawal and end of useful lifetime and the rate of change connected to the investments that are now operational.

The AEEGSI has retained the mechanism introduced during the third regulatory cycle of increasing the remuneration of some categories of investments which became operational up to 2015.

As regards marketing activities, the AEEGSI has introduced a single reference tariff which reflects both the costs for the management of the network service and the marketing costs, applying the regime of punctual recognition of the capital costs for investments made in marketing as well.

As regards the transmission tariff, the AEEGSI has retained the binomial tariff (power and consumption) for high voltage customers and the cost tariff structure for the transmission service for Terna (CTR), introducing a payment that is also binomial. The presence of two tariffs confirms the mechanism of equalisation.

The mechanisms of general equalisation of the distribution costs and revenue for the current regulatory cycle are as follows:

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

The Integrated Text for Measurement (TIME) governs the tariffs for the measurement services broken down into the installation and maintenance of devices, collection, validation and recording of measurements. The payment structure has been changed from the last regulatory cycle only as regards the payments for the collection and validation of measurements, previously divided and now unified into a single payment.

The AEEGSI has introduced a new method of recognising the capital costs for low voltage electronic meters, for firms serving more than 100,000 grid points, based on criteria for determining the investments effectively realised by the single firms and retaining the criterion of calculating the measurement service tariffs on the basis of the national costs for the remote management systems and the electromechanical devices still being used (residual cost), also retaining the measurement equalisation for the fifth regulatory cycle, aimed at adjusting the revenue from the comparison of the obligatory tariffs billed to end users and the revenue valorised in the reference tariff. The AEEGSI published the provisional tariff for measurement on 27 October 2016, in resolution 606/16/R/eel.

The tariffs hedging the measurement service are updated, as are those for the distribution service, using the price-cap mechanism for the part hedging the operating costs (with the goal of a 1% recovery of productivity) with the deflator, variation in invested capital and rate of change of the volumes supplied for the part hedging the invested capital and amortisations. The rate of remuneration of the measurement capital is the same as that for the distribution service. On 31 May 2016, the AEEGSI emanated consultation document 288/2016/R/eel, which then became resolution no. 458/2016 on 4 August 2016, in which the regulation of the measurement of electricity was rationalised, combining the regulation of the measurement of electricity issued and sampled and the measurement of the electricity produced into a single regulation, reviewing the underlying definitions and responsibilities for the various operations involved in measurement and also the responsibilities of the measurement service.

On 26 May 2016, the AEEGSI also emanated consultation document 267/2016/R/eel, which describes the initial orientations as regards the methods of defining and recognising the costs concerning *smart metering* systems for low voltage electrical power, considering the functional requirements and the authorising specifications of the second generation (2G) *smart metering* meters and systems, as defined in resolution 87/2016/R/eel.

These orientations became definitive in consultation document no. 457/29016 and then in resolution no. 646/2016/R/eel dated 10 November 2016, which illustrates the methods for defining and recognising the costs concerning second generation (2G) *smart metering* systems for measuring low voltage electrical power and the simultaneous modifications to the recognition of the measurement service costs required in order to ensure a regulatory framework that is consistent in overall terms in the transition to 2G *smart metering* systems, in the interests of the end users of the service.

The “Integrated Text of dispositions of the Authority for the economic conditions of the supply of connecting services” (TIC), Annex C to resolution 654/2015/R/eel, disciplines the economic conditions for the supply of the connecting service and specific services (transfer of network system requested by the user, cancellations, takeovers, deactivation, etc.) of the passive utilities, in substantial continuity compared to the previous regulatory period.

WATER REGULATION FOR 2016

The following is a description in terms of their impact on 2016 of the three resolutions published at the end of December 2015 in which the AEEGSI definitively introduced the new regulations for contractual quality which entered into force as of 1 July 2016 (Resolution 655/2015), the draft Agreement for the regulation of relations between the authorities awarding and managing the SII (Resolution 656/2015) and the tariff methods applicable in the second regulatory period MTI-2 -2016-2019 (Resolution 664/2015).

In **Resolution 655/2015/R/idr** dated 23 December 2015, the AEEGSI approved the Integrated Text for the regulation of the contractual quality of the SII, in other words each of the single services comprising it (RQSII). The minimum levels and objectives of the contractual quality of the SII were defined, by identifying indicators consisting of maximum time thresholds and minimum quality standards for the services to be provided to users, the same nationwide, also determining the methods for recording, communicating and checking the data from the services supplied by the service managers. In the event of failure to respect the specific quality standards for the individual services supplied to users, the Authority has introduced automatic indemnities to be paid to users in well-defined times and methods, while for the general quality standards, referring to the overall services, a mechanism of fines has been put in place. Sanctions are also provided for the failure to respect the standards in the event of repeated breaches of the standards and in the event of breaches being ascertained during checks by the Authority.

The Integrated Text (RQSII) included 44 standards (30 specific and 14 general) concerning services involved in the start-up, management and termination of contractual relations, charging, billing, payment and division into instalments, complaints, written requests for information and

billing rectification, the management of outlets, the quality of telephone services and obligations in the event of the application of art. 156 of Legislative Decree 152/2006. The new quality regulations, introduced in the end of 2015 resolution, came into force on 1 July 2016, except for certain aspects concerning automatic indemnities (especially the mechanism for increasing the indemnity for failure to respect minimum standards over time), the obligations to notify the Authority and Framework Government Authorities (EGA) and the quality obligations for telephone services, which are applicable from 1 January 2017. The Resolution also provides for the possibility that the framework government authorities, also on proposal by the service manager, make specific claims requesting the application of higher standards than those in the RQSII, also stating the date of their entry into force.

In **Resolution 656/2015/R/idr**, also dated 23 December 2015, the AEEGSI adopted the draft Agreement for the regulation of relations between the awarding and managing authorities of the SII, defining the minimum essential contents. The resolution was drafted after a consultation period of almost two years (DCCO 171/2014 dated 10 April 2014; DCO 274/2015 dated 4 June 2015; DCO 542/2015 dated 12 November 2015). Retaining the draft agreement structure submitted in the last consultation, the resolution governs the following aspects: the general dispositions (scope, legal framework, perimeter of activities awarded and duration of the Agreement), the Scope Plan, the tools for maintaining the economic-financial balance, termination and takeover, fines and sanctions and other agreement obligations.

The resolution expressly states that the ongoing management agreements be made compliant with the draft agreement and sent to the approval authority in the framework of the first useful tariff planning session, according to the methods provided for the Water Pricing Method for the second regulatory period (MTI-2), and in any event within 180 days of the publication of the resolution itself (29 December 2015).

In **Resolution 664/2015/R/idr** dated 28 December 2015, the AEEGSI definitively approved the Water Pricing Method for the second regulatory period 2016-2019 (MTI-2), defining the applicable rules and the reference parameters for calculating the single tariff components.

The resolution, adopted after a complex consultation process which was especially concentrated during the second half of 2015 (DCO 406/2015 and DCO 577/2015), retained the general layout of the Water Pricing Method for the first regulatory period (MTI), introducing new elements also aimed at the rationalisation of the management systems, in the light of the more complex choices to be made at a decentralised level with regard to the processes of management aggregation, consequent to the progressive application of the “Unlock Italy” Decree. The approach to regulatory schemes introduced in Resolution 643/2015 (MTI) is integrated in order to take into account the inequalities existing nationwide and the aggregation processes between service managers. Also, as regards the “ordinary” approach to schemes, the Authority added to “derogated” situations, in any event temporary, concerning exceptional circumstances of imbalance for which urgent and planned equalisation measures could be adopted (“specific regulation conditions”) or the cases of aggregations that do not require equalisation measures but that are critical because of the lack of data and information (we are talking in this sense about “virtual regulatory schemes”).

As regards the exclusion of tariff updating, the resolution provides that, in addition to the ongoing circumstances in the first regulatory period (failure to adopt the Services Charter, billing to domestic users of minimum consumption amounts, failure to deliver the installations to the framework managers, invalid authorisation to manage the service or pending litigation in this regard), the following are also excluded: 1) service managers other than the framework managers, terminated by law, managing the service in the absence of legal authorisation in compliance with the laws in force at the time; 2) management systems without the implementation tools required to fulfil the quality assurance obligations for water for consumption; 3) management systems that do not provide for payments to the Fund for energy and environmental services of the tariff components specifically included for the purpose, including component UI1. As regards the main aspects and/or novelties of the MTI-2 pricing methodology, the following is significant:

- the **duration of the regulatory period** is extended to four years in order to valorise the tariff multiplier and the cost components recognised, with a biennial update of the value of the RAB, the operating cost components qualified as updateable and the eventual modifications concerning the calculation of the financial and taxation cost components. Furthermore, an infra period review of the tariff preparation system is also possible on reasoned request in the event of exceptional circumstances such as to prejudice the economic-financial balance;
- the *price cap* mechanism for tariff increases has been retained (to be applied to the fixed and variable parts of the pricing structure adopted by each management system in the base year 2015), but a *sharing* factor has been introduced to be applied to the tariff multiplier and connected to the entity of the expenditure for operating costs recognised in the base year 2014 (the regulatory schemes increase from 4 to 6 and the multiplier may range from 5.5% to 9% on the basis of the positioning of the matrix);
- although retaining the principle of the **recognition of standardised financial and taxation costs**, the MTI-2 pricing method modifies some of the calculation parameters used in consideration of the changing macro-economic scenario (a real *risk free* rate is used, valued on the basis of the performance of State shares in the Euro zone with a ten year duration and rating of at least AA, adjusted using the Water Utility Risk Premium (WRP), set at 1.5%; the valorisation of the ERP parameter at 4% and the β parameter at 0.8% is retained, while the performance of the fixed assets for which interest is subject to a fiscal shield – Kd parameter – is reduced to 2.8%);
- in order to favour the realisation of investments, the component for the advanced financing of new investments (**FNI**) has been retained, providing that the value of the ψ parameter, which quantifies the requirement for additional sources of financing with regard to the revenue of the pricing components hedging the cost of the fixed assets, may be chosen in the framework of a range of values of 0.4-0.8 (expanded compared to the MTI);
- as regards the **operating costs**, the resolution retains the distinction between endogenous and updateable operating costs, introduces a Rolling Cap type regulation for the cost of third party water supplies and, should there be a process of management integration in progress, in other words significant qualitative improvements to the services supplied, provides for the possibility of recognising the related additional costs, after a reasoned request to the framework government authority which must be in possession of an adequate data set (not using the presuppositions for applying the “virtual regulatory scheme”);

- as regards the **environmental and resource costs**, the new MTI-2 expands the range of costs to be included in the ERC component, retaining the inclusion of the local costs represented by the water derivation and water sub-tension fees and the contributions from the mountain communities, and provides for the gradual valorisation of some operating costs for waste treatment, the reduction of network losses and producing drinkable water;
- as regards the **cost of arrearage**, the set-up of the MTI has been retained (reference to the *Unpaid ratio* at 24 months, different incidence on the basis of the territorial location of the service manager, reference base for calculation, claim for the recognition of additional costs) but the percentages have been increased (2.1% in the North, 3.8% in the Centre and 7.1% in the South);

The new MTI-2 pricing method also includes incentive mechanisms for the enhancement of both the contractual and technical quality of the service (reference is made to the standards in Resolution 655/2015 mentioned above for the former, while for the latter, the definition of the relevant parameters has been deferred to a subsequent measure to be introduced). A mechanism of rewards/fines has also been announced, based on a new and specific tariff component (UI2), which is obligatory for all service managers, to be allocated to a specific quality provision set-up at the Fund for energy and environmental services (Csea), which during initial implementation rewards the Best Practices and encourages the increase of the levels of contractual quality with respect to the parameters defined in Resolution 655/2015. Still on the theme of quality enhancement, a different method of recognising rewards at a local level has also been provided, for which a specific request on the part of the EGA is required, however. In any event, this method is limited to efficient management systems (mean opex per inhabitant less than the sector mean) for which the recognition of additional costs is not requested for adjustment to the quality standards of the RQSII and on condition that it is linked to the achievement of the standards considered as priority by the EGA and which are better than the minimum ones established by the AEEGSI at a national level. As regards the payments applied to the end users, Resolution 664/2015 defers the possibility of changing the structure to the framework government authorities, in respect of the rules established by the Authority (including that of not changing the tariff revenue for each utility sector by more than 10%, up or down) and to a subsequent measure for the definition of the new structure of the collection and waste treatment payments to be applied to industrial users. As in the previous regulatory period, the mechanism aimed at overcoming the possible inertia of the subjects responsible at a local level for pricing has been retained. The criteria contained in the MTI-2 are applicable from 1 January 2016 and the framework government authorities must refer to them and send to the AEEGSI within the deadline laid down by the Deliberation (30 April 2016) all of the documentation (Investments Plan, Economic-Financial Plan, management agreement, supplementary report, resolution deeds for pricing and updates of the required data) for the relevant pricing approval by the Authority.

AEEGSI WATER SERVICES ACTIVITIES

Decision 1/2016 – DSID – Definition of the procedures for collecting data for a cognitive survey of the efficiency of the integrated water service and the relevant quality regulations for 2014
In this decision, the AEEGSI began the second phase of collecting data on the efficiency of the SII and the relevant

quality regulations for 2014. The 12 sections to be compiled by the service manager include three files, each composed of 6 informative sub-files, concerning the quality of the service for domestic use, non-domestic use and other uses (data pursuant to DPCM 29 April 1999).

Once the service manager has finished loading the data, the EGA views the contents, confirms or modifies the data and then sends them to the AEEGSI. Once the data collection has been completed, both the EGA and the Service Manager are asked to annex in the appropriate section the “Declaration of truthfulness” signed by the legal representative certifying the truthfulness of the data and, where relevant, their compliance and reconciliation with those declared for pricing purposes, and with those in the certified financial statements, accounts books and documentation of the Service Manager.

In exceptional cases where the user, for reasons independent of same, has not managed to complete the loading of the data within the required deadline, the AEEGSI, on request by the EGA also on behalf of the service manager, grants “Extra-time”.

Decision 3/2016 – DSID – Definition of the procedures for collecting data and the type scheme for the supplementary report to the pricing procedure, and also an indication of the calculation parameters, for the purpose of determining the tariffs for the integrated water service for the years 2016, 2017, 2018 and 2019 pursuant to Resolution 664/2015/R/idr

With this measure, the AEEGSI indicates the obligatory forms for the collection of data for the preparation of the 2016 – 2019 tariffs (including the economic-financial plan and the supplementary report) and the procedure for sending via extranet to be followed in the event of submitting requests for tariff updates on the part of the service managers. The decision also establishes the average sector cost values for the supply of electricity, equal to 0.1674 kWh, and the sector average of the operating costs of the Framework Authority incurred in 2013, equal to 1.01 Euros/resident population served.

Resolution 137/2016/R/com – integration of the accounts unbundling integrated text (TIUC) with the dispositions concerning the accounts separation (unbundling) obligations for the water sector

With this Resolution, the AEEGSI has integrated the current unbundling of accounts provided in the TIUC (Accounts unbundling integrated text) for the electricity and gas sectors with the introduction of accounts unbundling obligations for the managers of the SII and relevant communication obligations. The measure, which follows a detailed consultation process (82/2013/R/com, 379/2015/R/idr and 515/2015/R/idr) and *focus group* with those involved, thus completes the regulatory framework for accounts unbundling, adopting a new version of the TIUC, which contains the dispositions previously in force for energy services and the new dispositions for the water sector.

The resolution provides that the accounts unbundling system for the water sector is applicable to all the managers of the SII managing the service on the basis of an awarding procedure in compliance with the laws in force. In particular, again as regards the water service, an ordinary regime is provided that is applicable to the managers of the SII serving more than 50,000 inhabitants and for multi-ATO managers and larger entities (as identified by the Framework Authorities) which, although not providing the service to the end users directly, manage the resources, treatment and/or waste treatment. The resolution confirms the introduction of the geographical-territorial size as the basis for the accounts unbundling of the SII at the ATO level in order to enable the recording of all the economic and equity data

for each SII service, which are required to guarantee its application. The new dispositions concerning the accounts unbundling of the SII will be applicable as of the 2016 financial year, this financial year being considered as experimental for the water sector. Therefore, the data recorded during the initial collection of unbundling data is not expected to be used for the approval of the 2018 tariffs. The managers of the SII may prepare the annual accounts for the 2016 and 2017 financial years separated according to the simplified regime of accounts unbundling, except for the multi-ATO managers and the managers that are required to prepare the annual accounts separated according to the ordinary regime for the electricity and gas sector. Taking into account the timeframe necessary for adjusting the IT and management structures, the possibility is provided, for the 2016 financial year only and for the water sector only, of using ex-post criteria for the attribution of the accounts items at an activity level, in derogation of the principle of source hierarchy provided by the ordinary accounts unbundling regime. On 2 May 2016, the AEEGSI published on its company website the schemes of the unbundled annual accounts (CAS) for the first financial year starting after 31 December 2015 (2016 financial year) for activities in the water sector. The Authority specified that the schemes are representative of the tables that will be made available through the electronic collection system to be opened for companies in the sector after notification.

Resolution 217/2016/R/idr – Start of the procedure for evaluating claims concerning contractual quality and integration of the RQSII

This measure integrates the applicative methods of some dispositions concerning the regulation of the contractual quality of the SII (RQSII), and especially the rules concerning the obligations regarding the distribution and opening of physical branches. In this regard, the AEEGSI establishes that the territorially competent EGA, in agreement with the service manager and consumer associations, may submit a reasoned request for derogation of the obligations concerning the minimum opening hours of the provincial branches, it holding firm that if the Authority accepts the request, the obligation to respect the general standards (maximum and minimum waiting times in the branches) remains.

The measure in question also starts the procedure for the evaluation of any claims for derogation and exemption, referring respectively to the minimum opening hours and the minimal presence of one provincial branch, attributing the mandate to deal with the preparatory inquiries to the Director of the Water Systems Department of the Authority. The measure also modifies arts. 8.1 and 9.1 of the RQSII, shifting the time when the supply contract is made available to the end user for signature from the date of acceptance of the cost estimate to the date of completion of the works.

Resolution 218/2016/R/idr – Dispositions for supplying the measurement service of the integrated water service at a national level

This measure, which basically retains the contents of the DCO published in February 2016, introduces an initial set of dispositions concerning the utility measurement, deferring to subsequent measures the discipline of the industrial utilities authorised to discharge in public drainage systems, the matter of water balance and the definition of the performance levels of the measurement service. The new dispositions in the integrated text for the regulation of the measurement service in the framework of the integrated water service at a national level (TIMSII), annexed to the resolution, concern in particular:

- the responsibility for the measurement service, assigned to the managers of SII which manage aqueduct activities nationwide and will then also invoice the drainage and waste treatment payments for the same levels of consumption;
- the obligations for the installation, maintenance and checking of the utility meters (included the respect of the criteria for conducting the meter reading activities as per the law);
- the obligations for collecting utility measurements (introduction of a minimum number of annual attempts to read meters, differentiated on the basis of the consumer category, minimal time lags between attempts and repeating the attempt to read meters in the event of utilities with inaccessible or partially accessible meters);
- the obligation to make available to the end users at least three methods of self-meter reading (SMS message, telephone call, web chat) active at all times 365 days a year;
- the method of calculating the mean annual consumption to be used in order to determine the minimum number of annual meter reading attempts and the method for estimating and reconstructing data;
- the obligations for filing and making available to those involved the measurement data and the obligations of recording and notifying the Authority.

The resolution also includes an integration to the communication obligation to bill users as of 1 January 2017 (thereby modifying paragraph 4.3 of Resolution 586/2012/R/idr), establishing that the bill contain the minimum number of meter reading attempts annually in addition to the average annual consumption of the user as defined in the TIMSII.

The timeframe for the application of the new Measurement discipline is the same as that in resolution 655/2015 (contractual quality), in other words 1 July 2016, it holding firm that some dispositions will come into force subsequently, such as those concerning the general criteria for recording consumption levels and the availability of *web-chat* mode (from 1 January 2017) and electronic meter reading (from 1 July 2017). However, the possibility is recognised that the framework government authority may submit reasoned requests for derogation to the Authority for a maximum of twelve months should the service managers prove that they are unable to fulfil the dispositions of the measure.

The AEEGSI accepted the claims submitted by ACEA Ato2 and ACEA Ato5 for the derogation of the obligation to open a provincial branch in resolutions 324 and 374.

Resolution 638/2016/R/idr – Start of the procedure for adopting directives aimed at limiting arrearage in the integrated water service, for the purpose of equality of other users

In integration of resolution 87/2013/R/idr and regarding the measures emanated by the Government in 2016 on the theme of arrearage and the social tariff, the Authority has decided to begin a specific procedure for the adoption of the necessary directives to limit arrearage. In the aforementioned Resolution, the Authority has also started a cognitive survey on both the procedures currently adopted by service managers for managing arrearage and for the suspension of water supplies, in order to identify homogeneous criteria applicable nationwide concerning the availability and effectiveness of the means of extra-judicial settlement of disputes between users and operators of the SII. The survey should be completed within 180 days of the publication of the measure, which occurred on 7 November 2016.

Resolution 716/2016/R/idr – Renewal of the procedure, started by Authority resolution 8/2015/R/idr, for the definition of the pricing criteria applied to the users of water services, by force of the recent directives on the social tariff

As regards the dispositions introduced by art. 60 of the aforementioned Environmental Supplement and subse-

quent DPCM of 13 October 2016 (social tariff of the integrated water service), the Authority has decided to integrate and renew the procedure in resolution 8/2015/R/idr with the aim of ensuring access by domestic resident users under facilitated conditions to the supply of the quantity of water needed to satisfy their basic needs, defining pricing criteria by identifying the facilitated annual consumption range for domestic resident users and providing a water bonus for domestic resident users under ascertained conditions of economic and social disadvantage. The deadline for the conclusion of the procedure is 30 September 2017.

Decision 5/2016 – DSID – Definition of the procedures for collecting data for a cognitive survey of the efficiency of the integrated water service and the relevant quality regulations for 2015 and the first half of 2016

With this measure, the AEEGSI began the third collection of data concerning the efficiency and quality of the service with regard to 2015 and, only for the part concerning quality, the first half of 2016.

The AEEGSI believes it is necessary to continue the analysis of the infrastructural status of the SII, monitoring and verifying the efficiency of the measurement service and the quality of the service provided to users (examining in particular the standards provided by the Service Charter and their respect) and continuing with the collection of the cognitive elements for the procedure for the extra-judicial settlement of disputes. As regards the contractual quality, the AEEGSI has provided that the managers that have been granted derogations from the dispositions in the RQSII send to the AEEGSI the data and information for the whole of 2016. The data loading procedure is the same as that described in decision 1, to which the possibility (in addition to that of requesting “Extra time”) of requesting to the AEEGSI the use of the “Rectification” should the user deem it necessary, but only in exceptional cases, to rectify some of the data already sent has been added. “Rectification” may only be requested by the EGA in this case as well.

Administrative Court of Lombardy sentences on the appeals submitted by some Service Managers

On 15 April 2016, the panel of experts identified in Ordinance 4745/2015 by the Council of State, in the framework of the proceedings pending before it concerning the appeals against resolution 585/12/R/idr on the transitory (water) pricing method – MTT, filed the draft report prepared in order to respond to the questions of the arbitration panel.

These questions concerned the following matters:

- 1) whether the formulas and parameters for calculating the base interest rate (art. 18.2) and the risk hedging component (art. 18.3) were within the limits of reliability and reasonableness of the technical-scientific sector of the industrial economy or not, from the viewpoint of their suitability in terms of reflecting the tariff component strictly limited to the hedging of the cost of the invested capital;
- 2) whether the parameters applied constitute or otherwise the duplication of risk factors already considered in other part of the resolution in question, and whether the coefficients determined on that basis imply or otherwise an illogical overestimation of the risk factor within the risk hedging component (art. 18.3).

In response to these questions, the panel of experts affirmed that, in overall terms, the methodology contained in the Resolution (and the individual parameters adopted in art. 18 of Annex A to the Resolution) is largely based on the standard methodology of the WACC and, as such, is certainly reliable, reasonable and consistent with the know-how of the industrial economy, and is also in line with the practice of regulation in Italy and abroad.

Lastly, the panel of experts did not find any duplication of risk factors already considered in other part of the Resolution in the formulas and parameters and believes that the coefficients determined do not imply an illogical overestimate of the risk factor within the risk hedging component. The final hearing was held on 15 December 2016 and we are awaiting the publication of the sentence.

Lastly, it must be pointed out that the companies in the Group have appealed against resolutions 643/2013 and 664 and/or 665 emanated by the AEEGSI in December 2015, and these are still pending.

AEEGSI ELECTRICITY ACTIVITIES

DCO 75/2016/R/eel – Reform of the protection of the retail price market for electricity and natural gas: tutelage similar to the free market for electricity for domestic end users and small businesses

The document contains the orientations of the Authority in relation to the suppression of the protected categories market, provided by the Draft Law on competition, as of 1 January 2018.

The reforms described will be gradual and will begin in 2017, with the intent of encouraging:

- the evolution of the protected categories market towards a real and actual 'universal service' aimed at ensuring the continuity of the service for all users provisionally without a free market supplier (so-called *Reform of enhanced protection*);
- the voluntary exit of final users from the current price protection system, through a transitory phase of 'accompaniment' on the free market (so-called *Similar Protection*).

Compared to the initial orientations, the AEEGSI intends to include domestic users in the framework of intervention (and not only small businesses).

In particular, as regards the *Reform of enhanced protection*, the AEEGSI intends to emanate:

- the contractual conditions as regards the discipline of the security deposit, payment in installations and withdrawal;
- the economic conditions of supply, confirming that the definition of the payments due will be *ex ante*, and therefore on the basis of quarterly price estimates, but providing that the calculation on the amounts to be recovered – deriving from the difference between the estimated values and final values – be carried out quarterly and not six-monthly as occurs currently.

As regards the introduction of *Similar Protection*, the Authority has proposed a configuration of the new regime with the voluntary adhesion of customers and vendors and also centralised management of access. A third party individual (administrator) will therefore be identified with the duty of identifying the authorised free market suppliers and managing customer-vendor relations. This tool will interfere as little as possible with the free market dynamics: the possibility of stipulating a *Similar Protection* contract will be allowed only once for the customers included in the reformed protected categories market, will have a duration of one year as of the *switching* date and will not be renewable. The ACEA Group responded to this consultation on 11 April 2016, showing a strong opposition to the *Similar Protection* system, as the mechanism is completely unsuitable for accompanying the final users to the end of price protection in 2018. As a replacement for this complex and expensive mechanism, which only has a duration of one year, ACEA has suggested as the only means capable of orienting customers towards the free market the provision of non-incentivised economic conditions in the Protected categories market, together with the adoption of measures capable of significantly limiting the possibility of customers accessing

certain services in the Protected categories market.

In resolution **369/2016/R/EEL** of 7 July 2016, the Authority basically retained the orientations of the DCO, providing as of 1 January 2017:

- the reform of the protected categories market, the economic and contractual conditions of which are to be defined in a subsequent measure;
- the implementation of the Similar Protection service, under more advantageous economic conditions than those in the reformed protected categories market (suppliers which intend to participate must offer a once-off bonus, expressed in Euros per supply point, discounting the economic conditions of enhanced protection). Adhesion to this service is voluntary for both customers and suppliers. A key role is attributed to the consumer associations which, being accredited as "Facilitators", may assist customers in finalising the Similar Protection contract online, or also doing so for them directly in representation of them. Furthermore, they will receive a suitable payment for each Similar Protection contract that is finalised with their support.

In the subsequent resolution **541/2016/R/eel** of 29 September 2016, it was clarified that the finalisation of a SIMILAR Protection contract will be possible until 30 June 2018 independently of whether the protected categories market has been superseded according to the Competition DDL and that the value of the once-off bonus will not be variable during the period of validity of the Similar Protection service. Lastly, the possibility has been introduced of excluding from the mechanism facilitators which operate without due impartiality, such as to alter the competition, even if reported by authorised suppliers.

In resolution **633/2016/R/eel** of 4 November 2016, the Authority has disciplined the reformed protected categories market (MTR), defining the economic conditions, or PED (quarterly estimate), PPE and PCV, and the contractual conditions, stating that as of 1 January 2017, the security deposit will not be payable in instalments. As regards SIMILAR Protection, the same resolution has introduced the PCR payment (quantified as the same value as the PPE in the SMT) and introduced a series of information obligations for the managers of the protected categories market. In resolution **689/2016/R/eel** of 24 November 2016, the Authority completed the regulation concerning the facilitators, quantifying the lump-sum payment due to them for each contract finalised with their assistance. **Acea Energia**, in line with the considerations made during the consultation process, has decided not to be part of the SIMILAR Protection mechanism.

Resolution 87/2016/R/eel – Functional specifications authorising intelligent low voltage meters and performance of the relevant second generation (2G) smart metering systems in the electricity sector, according to Legislative Decree no. 102 of 4 July 2012

This measure defines the functional specifications and expected performance levels of the 2G *smart metering* systems, in view of the replacement of the meters currently installed on low voltage utilities, which have completed their regulatory lifetime.

More specifically, the AEEGSI provides that the 2G meters be equipped with two communication channels: the first – chain 1 – for the transmission of data to the distributor's infrastructure, which can then use the *Power Line Carrier* (PLC) in band A, RF 169 communication technology or other TLC technologies, and the second – chain 2 – for the transmission of data to the customer, which must use at least the PLC in band C. In fact, the possibility of the future adoption of an additional technological communica-

tion solution (optical fibre or wireless) for both channels is also provided.

The functionalities that the 2G systems must ensure (continuous meter readings, energy registers and power and recording of voltage quality indices; management of certain contractual information) are then defined, as are the expected performance levels of the system, with regard to both the performance of massive remote reading and those of remote management and reprogramming. These levels also take into account the development of the Integrated IT System (SII), the evolution of the regulation of the billing and meter reading service, the *switching* procedures (also in consideration of the progressive absorption of the protected categories market), the introduction of new pre-paid commercial formulas and the prospective participation on the displacement services market of the customers connected at low voltage, through suitable *demand response* products.

Resolution 100/2016/R/com – Dispositions for the issuing of the final bill for the termination of the supply of electricity or natural gas

The interventions defined in the resolution are aimed at customers connected in low voltage who terminate their supply of electricity for any reason whatever, including changing vendor, deactivation and closure. The measure introduces two indemnities charged to the distributor:

- the first, to be recognised to the vendor issuing the closing bill, in the event of the failure to respect the terms for making the meter reading data available;
- the second, to be recognised to the end user, in the event of the failure to make the meter reading (effective, automatic reading or estimated data) available in useful time for the vendor which is to issue the closing bill.

The measure has also led to the start of a monitoring phase through which the AEEGSI can verify the respect of the fulfilments required of the distribution companies (the expiry date for the next batch of data has been set at 15 February 2017).

The same resolution has also provided dispositions concerning the issuing of the closing bill due to termination of the supply of electricity or natural gas and the monitoring of the same supplies. The dispositions will become applicable for switching (including cases of modification of the commercial counterparty) which are valid as of 1 July 2016 and for closing or deactivation which are valid as of the first of June 2016. The interventions defined in the resolution, which follows the documentation for consultation **405/2016/R/com**, will include in the scope of application all of the customers connected in low voltage, excluding the supplies destined to be used or public lighting – for the electricity sector – and all customers with consumption of less than 200,000 Sm³/year – for the natural gas sector – be they served under protected regimes or by the free market. The Authority has specifically provided:

- that the closing bill be issued no later than 8 days before the expiry of the 6 week term from the date of termination of the service or 2 days before the expiry of the 6 week term in the event of correspondence through the electronic bill;
- automatic indemnities charged to the distributor and vendor; specifically, the indemnity charged to the vendor has been established as € 4 if the closing bill has been issued with a delay of up to 10 calendar days subsequent to the deadline in which the vendor is bound to issue the bill. This amount will subsequently be increased by € 2 for every 10 days additional delay, up to a maximum of € 22 for delays of 90 calendar days or more. Resolution **253/2016/R/com** of 19 May 2016 provides for a transitory phase until

31 December 2016 during which the indemnities for the closing bills issued by the end of 2016 can be paid within 8 months. The distributor shall be bound to recognise an automatic indemnity – to the vendor issuing the closing bill – in the event of the failure to respect the terms for making available the data for all cases of termination of the service (according to resolution **253/2016/R/com**, the indemnities concerning the failure to respect the obligations to notify the outcome of smart meter reading will come into force on 1 January 2017);

- the methods for communicating the smart meter reading by the end user to the vendor, and also the methods of transmitting the data to the distributor, in the event of a change of vendor or cancellation, as regards the delivery points without *smart meters* for the natural gas sector and the hourly withdrawal points for the electricity sector;
- the start of a monitoring system of the times for the issuing of the closing bill by the vendors (si-monthly collection) as of the data for 2015.

Decision **10/2016** approves and publishes the operating instructions for the fulfilment of the dispositions provided by art. 12 of resolution **100/2016/R/com** concerning the monitoring of closing bills for the first half of 2016. The data must be communicated by the vendors by 30 November 2016. Acea Energia has respected this deadline, providing the set of information requested.

Resolution 179/2016/R/eel – Calculation of the contribution and reward for the implementation of devices for measuring voltage quality

This measure identifies the rewards recognised to the distribution companies for the implementation of devices for measuring the quality of the voltage supplied, according to article 71 of the TIQE 2012-2015. The part of the cost recognised to *areti*, with regard to the number of MV semi-barriers as at 31 December 2014, amounts to € 195,306.

Decision 8/2016 – Transitory mechanism for adjusting the operating costs: Method of calculation of the significant operating costs in paragraph 34.2 of the TIV

With this decision, the AEEGSI has identified the cost items to be included in the transitory mechanism for adjusting the operating costs for arrearage in 2014 and 2015. The mechanism is valid for the enhanced protection managers serving more than 10 million customers.

In resolution **659/2015/R/eel**, the Authority had implemented this mechanism in order to take into account the effective dimension (then included in the RCV component from 2016 onwards), in other words the presence or otherwise of scale economies deriving from the different dimensions of the operators. In the same resolution, the AEEGSI deferred to a subsequent decision the identification of the operating costs, taken from the unbundled annual accounts, required to participate in the mechanism, for which the request must be submitted to CSEA by 15 October 2016.

Resolution 209/2016/E/com – Adoption of the integrated text concerning the procedures for extra-judicial settlement of disputes between customers or end users and operators or managers in the sectors regulated by the Authority for the electricity and gas sector and water network – Settlement Integrated Text (TICO)

With this resolution, the TICO (Settlement Integrated Text) was approved, which established the obligatory nature of attempting settlement as a condition for proceeding with lawsuits, in force as of 1 January 2017. Specifically, the document defined the procedures and operating methods for the obligatory settlement attempt through the Settlement

Board, which was set-up by the Authority for the on-line completion of procedures for the voluntary extra-judicial settlement of disputes of a conciliatory nature. These procedures, disciplined by resolution **260/2012/E/com**, will no longer be active as of January 2017, except for their transitory application to pending settlement procedures. Similarly, as of January 2017, the effects of the list of operators which voluntarily adhered to the settlement procedures will cease. Consequently, the choice between the Settlement board and second level appeals before the consumer authority has now been repealed. As an alternative to settlement through the Authority, it will be possible to make the obligatory attempt at settlement through the Chamber of Commerce mediation/settlement procedures and the procedures of the entities in the ADR list (set-up by the Authority in resolution **620/2015/E/com**), which will include equitable settlement entities.

In resolution **383/2016/E/com**, the Authority simultaneously adopted the Regulation by which it changes the availment of the Sole Purchaser (AU) for the efficient management of appeals, and the settlement procedures, so that as of 1 January 2017, the AU may, among other things, ensure the operating status of the Settlement Service and deal with specific disputes concerning pre-defined cases in derogation of the principle of exclusive recourse to the Settlement Board (so-called special settlement procedures).

The new discipline of the Settlement Board, which came into force with the TICO, involves end users powered by medium and low voltage, domestic and other, and also includes the *prosumers* as regards disputes with the operators and the GSE (for specific withdrawal and on the spot exchange).

In addition to pointing out that the settlement procedure cannot be used for disputes for which a settlement attempt is pending or has already been carried out, the resolution also defines the timeframes within which the first meeting must be held and the terms for the submission of the request.

As an alternative to the procedure before the Settlement Board, the obligatory settlement attempt can also be carried out through other procedures for the extra-judicial settlement of disputes, such as Chamber of Commerce procedures and those before the entities in the ADR consumer list, and the procedures carried out by mediation entities registered in the Ministerial register in **Legislative Decree 28/10**.

Resolution 233/2016/R/eel – Calculation of the provisional reference tariffs for the electricity distribution service for 2016

This resolution makes known the provisional reference tariffs for 2016 for distribution companies, including the estimated value of the capital costs incurred in 2015.

Contrarily to the previous four-year period, there is only one payment for electricity marketing and distribution activities. The definitive tariff will be calculated and published by the end of February 2017.

Report 278/2016/I/com – Annual report on the quality of the telephone services of the vendors of electricity and gas – 2015

The Authority has published the Annual Report on the quality of the telephone services of the vendors of electricity and gas, referring to the year 2015. This report, required as per art. 32 of the TIQV and published by 31 May each year, is aimed at providing a complete overview of the quality of the telephone services.

The Annual Report has replaced the six-monthly classification of call centers, which was published until 1 January 2015. The published documents highlights how all of the companies has respected the service obligations (obligations

concerning minimum opening hours, the toll free nature of calls from fixed networks in the event of call centers with IVR, the possibility of speaking with an operator from the second level of the IVR) and how all the companies have broadly respected the general standards.

As regards Acea Energia, all 3 of the general standards have been satisfied: service accessibility indicator (AS) of 100 (standard $\geq 95\%$), mean waiting time (TMA) of 161.17 (standard ≤ 200 seconds) and level of service (LS) of 86.33 (standard $\geq 80\%$). A rate of calls per customer served (and with active contracts) of 3.25% was recorded, above the national average of 1.25%.

Resolution 327/2016/R/eel – Extension of the deadline for the fulfilment of the obligation of separating the communication policies and brand for the sale of electricity to the end users

With this measure, the Authority deferred until 1 January 2017 the deadline within which to carry out “*debranding*”, in other words the separation of the brand and the communication policies of the electricity companies operating on the free market and the protected categories market. The previous deadline of 30 June 2016, defined in resolution **296/2015/R/com**, remains unchanged for the *debranding* of the distribution companies from the vendors belonging to the same corporate group. The extension was disposed in order to await the publication of the competition DDL, in which methods of overcoming the protected categories market may be provided (such as the awarding of the service through joint procedures, for example), which would make the *debranding* measures as drawn up by the Authority, the respect of the need to protect the end users and the goal of encouraging competition no longer justifiable.

As of 1 January 2017, Acea Energia has fulfilled that provided by resolution **296/2015/R/com** as regards “*debranding*”, adopting a new brand name for the customers of the Protected categories market: “**Servizio Elettrico Roma**”.

Resolution 333/2016/R/eel – Valorisation of the effective imbalance for the years 2012, 2013 and 2014 after sentences by the Administrative Court of Lombardy 1648/2014 and State Council 1532/2015 and the new State Council sentence 2457/2016

In this resolution, the Authority retained the orientations expressed in **DCO 623/2015/R/eel**, simultaneously excluding, as suggested by the ACEA Group, the period October 2014 – February 2015, and gave mandate to Terna to make the adjustments to the imbalance payments by 1 November 2016 for users of the displacement service who selected the “Standard Discipline”.

Also, with **DCO 316/2016/R/eel** (expiring on 18 July 2016), a consultation process was started for the definition of a transitory modification to the regulations on imbalance to be adopted as of January 2017, while awaiting the organic reform that will be started as of 2019. Acea Energia has submitted its observations as part of the responses sent through the representative associations of the sector, expressing the need for the transitory solution to be adopted through suitable means of gradual implementation, in consideration of the fact that the imbalance thresholds proposed (+2.5% for positive unbalancing and -2.5% for negative unbalancing) would appear to be extremely challenging, given that they are very close to the physiological imbalance values of an efficient operator. From the same viewpoint, it has been suggested that this tolerance threshold be increased, from a range of 5% to a range of 10%.

In resolution **444/2016/R/eel** of 28 July 2016, the Authority introduced a new regime for the valorisation of ef-

fective imbalances in the displacement service. This regime, which will be started gradually as of 1 August 2016, modifies Annex A to resolution **111/06** and is aimed at encouraging the correct planning of the quantity of electricity outgoing and incoming, also enabling the Authority itself to exercise more control over eventual possible breaches (opportunistic imbalances) of this obligation.

The resolution specifically provides:

- that the tolerance range for imbalances between forecast and effective be +/- 15% from August 2016 and +/- 7.5% from January 2017, with application of the dual price extra range; this is valid for consumer units and unauthorised production units other than those powered by renewable sources;
- that monthly checks on an overall basis be provided to be carried out by Terna, with notification to the Authority of any “improper” behaviour, so that inspections can be undertaken with eventual sanctions/commitments in the event of breaches;
- that the checks will only concern the consumer units where the imbalance exceeds the threshold of 30% (in force from November 2017 for the adjustment for the first half of 2017).

The authority subsequently published **DCO 684/2016/R/eel** (expiring on 15 December 2016), in which it illustrates additional interventions in the framework of the transitory regime introduced by resolution **444/2016/R/eel**. The proposals described in the DCO are partially retained in resolution **800/2016/R/eel** (published on 28 December 2016). Specifically, the resolution provides:

- for the application of the standard range of 15% per consumer unit and unauthorised production unit until April 2017, planned without the expansion of the mixed single-dual pricing system for non-significant FRNP (un-scheduled renewable sources) production units;
- subordinately to the effective entry into force and implementation of the method of determining the aggregate zonal imbalance based on effective measurements, from May 2017, the standard range will be raised to 30% for the consumer units, while the unauthorised production units for which the mixed *single-dual pricing* system is applicable will be exempt altogether. The 30 May 2017 date is subordinate to Terna’s ability to develop a methodology for preliminarily determining the aggregate zonal imbalance which will enable the publication of an estimate of the imbalance at least on the day subsequent to that of delivery and within the timeframes provided by the European regulations on transparency (preliminary data on the imbalance volumes within 30 minutes of the delivery period). In this regard, the resolution gives mandate to Terna to update its Network Code in order to give the aforementioned preliminary determination, sending the proposal to the Authority by 31 March 2017, after consulting the operators;
- the confirmation of the non-applicability of the mixed single-dual pricing system to the displacement points for FRNP production units.

Lastly, as regards the discipline of the determination of the effective imbalances to be adopted in the regime, according to that described in **DCO 684/2016/R/eel**, resolution **800/2016/R/eel** begins the activities required for the definition of a valorisation of the effective imbalances which reflects the value of energy in real time in terms of its territorial and temporal dimensions and range of goods. For this purpose, the Authority expects to start monitoring the nodal prices in order to evaluate the outcomes of the MSD. Considering the significance of the measures adopted, the resolution is subject to consultation, with the deadline for submitting observations on 31 January 2017.

Resolution 383/2016/E/com – Regulation for the implementation by the company Acquirente Unico S.p.A. of the avilment activities of which in article 7, paragraph 6 and article 44, paragraph 4 of Legislative Decree 93/11

With this measure, the Authority adopts the Regulation in which the avilment of the Sole Purchaser (AU) for the efficient management of claims, and settlement procedures, is modified, thereby implementing the reform of the current system of managing second stage claim requests (so-called second stage of settlement).

Resolution 410/2016/C/eel – Request for revocation of the Administrative Court of Lombardy, Sec. II, monocratic decree no. 911 of 19 July 2016, suspending the effects of the resolution

With resolution **354/2016/R/eel** of 28 June 2016, the Authority updated the economic conditions of the service for sales under enhanced protection for the third quarter of 2016 (July-September). By decree of 19 July, the President of the Administrative Court of Lombardy suspended as a cautionary measure the effects of this resolution following the appeal by Codacons, filed following the disruptions that had concerned the Displacement Services Market (MSD) during the preceding months and had led to significant increases in the displacement costs incurred by Terna in order to maintain the equilibrium of the electricity network. In the opinion of the Administrative Judge, the increase in prices in the quarter July-September 2016 appeared to have been incorrectly related to the conduct of many of the users of the displacement service on the electricity retail market and potentially considered as market abuse.

The AEEGSI decided to submit a request for the revocation of the aforementioned monocratic decree; this was subsequently rejected by the President of the Administrative Court of Lombardy.

On 16 September 2016, in ordinance **no. 1185**, the Administrative Court of Lombardy, combining the need to protect the end users and the interests of the protected categories market managers, decided to revoke the suspension of resolution **354/2016/R/eel**, ordering the Authority to put in place within 40 days a mechanism of automatic reimbursement of the price rises in favour of its customers, which will be adopted only in the event of the appeal against the relevant decision being upheld; the first hearing is expected to be held on 16 February 2017. The outcome of this hearing is not yet known.

Resolution 413/2016/R/com – Modifications to the regulation of the commercial quality of the electricity and natural gas distribution service

The resolution is part of a wider-ranging measure implemented by the AEEGSI with the aim of rationalising the system of customer protection on the matter of processing claims and the extra-judicial settlement of disputes, introducing some modifications to the TIQE concerning the following aspects:

- the discipline concerning the times for making available the technical data requested by the vendors: the possibility is expanded of vendors requesting the M01 and M02S (simple) even in the event of telephone claims (with the introduction of a general standard for the distributors) and also during equitable settlement. In this regard, a procedure for reducing the timeframes for dealing with the requests in question is provided as of 1 January 2017 and will be completed in 2019;
- the base value of the automatic indemnity due to the vendor in the event of failing to respect the specific standards for making available the technical data is increased from 20 to 30 Euros;

- the maximum timeframe for the payment of the indemnity of which in the preceding point is reduced to 6 months from the request date.

As regards the method of requesting the technical data from the distributors, resolution **795/2016/R/eel** has been published, disciplining, within the framework of the distributor making available the technical data requested by the vendor, the circumstances classed in the category of “other complex technical data” of which in article 9, paragraph 91.4 of the TIQE and article 51, paragraph 51.4 of the RQDG. Decision **18/16** subsequently updated the plans identified in the regulation for the communication standards for both the electricity and gas sectors, in order to acknowledge the dispositions approved in resolution 413/2016/R/com and resolution 795/2016/R/com, and also the dispositions approved in decision 16/2016, with specific regard to the meter reading data exchanged in the electrical sector.

Resolution 458/2016/R/eel – Regulation of electricity meter reading. Approval of the Integrated Text of dispositions for the regulation of electricity meter reading (TIME)

The AEEGSI has rationalised in a single measure, which will be effective from 1 January 2017, the regulation of the activities comprising the measurement of the electricity outgoing, incoming and produced, reviewing the definitions and responsibilities for the various operations.

The structure of the responsibilities involved in managing the service has been partly modified, awarding to Terna the management of the interconnection data between the national grid and the distribution networks. The latter will send the electricity measurements from the national grid to the distributors, no later than the third working day of the month following that to which they refer.

As regards the recording of data at the connection measurement points, it is established that:

- for the points processed in ranges, the entity responsible for data management must take monthly readings;
- for the hourly points, the same entity responsible is bound to attempt to take readings every 4 months at the points where the available power is not in excess of 16.5 kW, and every month for those where the available power is in excess of 16.5 kW.

Lastly, the text contains a specific section on the automatic indemnities, also introducing a new indemnity charged to the distributor to be paid, with regard to each hourly withdrawal point, in the event of delayed making available/failure to make available to the transport users the energy meter readings within the timeframes provided in the regulation.

Resolution 460/2016/R/eel – Modifications and integrations to the discipline of the Network Code for the transport of electricity, concerning the billing of the service among distribution companies and users

With this resolution, the Authority has defined the billing standards in Annex C (“Billing and payments”) to resolution **268/2015/R/eel** on the Network code for electricity. Specifically, the resolution establishes that the implementation of the new standardised transport bills is expected from 1 April 2017. This is not the case for bills concerning commercial quality and additional services and payments (indemnities for example), which will be standardised at a later date.

On the same matter, the Authority has also published decision **13/2016 – DMEG**, in which it approves the operating instructions, xml scheme and xls traces of the transport bills.

Resolution 463/2016/R/com and subsequent amendments and integrations. – Disposition for period billing, indemnities

ties charged to vendors and distributors and additional obligations for these companies; concerning meter readings

The resolution approves the new Integrated Text on billing sales services (TIF) and introduces new obligations for the distributors regarding meter reading.

As of 1 January 2017 and valid until 31 December 2017, in all cases in which the distributor, with regard to customers dealt with in ranges according to the TIS, records and sends to the transport user exclusively the estimated reading data for 3 consecutive months, they will be bound to pay an automatic indemnity of 10 Euros. As of 2018, the period involved will be reduced to 2 consecutive months.

The indemnity is aimed at remunerating those who receive period bills based on estimated consumption.

Additional interventions in meter reading, also valid as of 1 January 2017, concern:

- the introduction of a procedure for the validation of remote meter readings transmitted by the vendors, including those from customer claims of telephone complaints. This procedure provides that the notification of the outcome of the validation must be sent to the vendor within 3 working days of the receipt of the meter reading and that it must be considered equivalent to an effective reading;
- the obligation for the distributors to record the reasons for the failure of the reading attempts, in the event of the termination of supplies, and the number, date and time of each reading.

A procedure is also implemented for the definition of the contractual conditions (non-economical) of the standard offer, to be finalised by the end of June 2017.

Resolution 545/2016/R/eel – Extension of the terms for sending the working plans concerning the resilience of the electrical grid to the Authority

The deadline by which the distributor companies must send the working plan for the adoption of regulatory measures aimed at increasing the resilience of the electrical grid has been extended to 31 March 2017. This plan must contain cost and benefit elements, in the light of the effects of severe and persistent weather phenomena that have occurred in the last 15 years, in addition to a technical overview.

Resolution 548/2016/R/eel – Dispositions concerning additional revenue to hedge the cost of staff discounts for companies in the electricity sector, in implementation of Decree Law 91/2014, as converted into Law 116/2014

The resolution approves the amounts of the additional revenue to hedge the cost of staff discounts for companies in the electricity sector of which in article 37 of the TIT 2012-2015, taking into account the dispositions in article 27 of Decree Law 91/14.

The share recognised to areti, with regard to the first half of 2014, amounted to € 242,600 (the mechanism was abolished as of 1 July 2014).

Resolution 606/2016/R/eel – Calculation of the provisional reference tariffs for electricity meter reading for 2016

The resolution provides for the provisional calculation of the reference tariffs for electricity meter reading of which in paragraph 15.2 of the TIME for 2016 for the companies serving in excess of 100,000 points annually.

The definitive tariff will be calculated and published by the end of February 2017.

Resolution 646/2016/R/eel – Second generation (2G) smart metering systems: recognition of the costs for low voltage electricity meter reading and dispositions concerning their implementation. Modifications to the TIME

The measure establishes, for distribution companies serving

more than 100,000 withdrawal points, the criteria for the recognition of the capital costs for the 2G *smart metering* systems which respect the functional requirements and performance levels defined in resolution 87/2016/R/eel.

For the initial phase of the new regulatory framework, the AEEGSI has defined two regimes for the recognition of the costs of meter reading:

- specific regime, for companies starting the plan for implementing a 2G *smart metering* system by the end of 2017 (this plan does not involve areti and must be approved by the Authority);
- transitory regime for companies which conversely have not yet started the plan for the implementation of a 2G *smart metering* system.

The transitory regime, which does involve areti, will be fully effective as of 2018 and will be based on parameter related logic. The current dispositions based on the criterion of his-

torical cost adjusted by the application of a maximum unitary expenditure threshold admissible in the tariff (equal to 105% of the gross value invested in each meter for investment made operational in 2015) have been retained for 2017.

Resolution 685/2016/R/eel – Calculation of awards and fines concerning the quality of the electricity distribution service for 2015

The measure determines the awards and fines concerning the recovery of service continuity in the distribution of electricity, the regulation encouraging the reduction of the number of MV users with a number of interruptions in excess of the standards established by the Authority and the regulation encouraging the reduction of the number of MV users with on the spot delivery and incoming power available of less than or equal to 100 kW for 2015.

The awards/fines balance for areti amounted to € 670,000.

TREND OF OPERATING SEGMENTS

ECONOMIC 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 financial years compared 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.

| 31 December 2016 Million Euros | Environment | | Energy | | Segment total | Water | | | | Segment Total |
|-------------------------------------------------|-------------|-----------|-----------|----------------------------|---------------|------------------------|----------|-------------|----------------------------|---------------|
| | Generation | | Sales | Intra segment eliminations | | Italian Water Services | Overseas | Engineering | Intra segment eliminations | |
| Revenue | 137 | 56 | 1,676 | (25) | 1,707 | 701 | 13 | 38 | (30) | 721 |
| Costs | 80 | 24 | 1,578 | (25) | 1,577 | 363 | 9 | 25 | (30) | 366 |
| Gross operating profit | 57 | 32 | 98 | 0 | 130 | 338 | 4 | 13 | 0 | 355 |
| Depreciation and accumulated impairment charges | 27 | 26 | 74 | 0 | 100 | 118 | 1 | 3 | 0 | 122 |
| Operating profit/(loss) | 30 | 6 | 25 | 0 | 30 | 220 | 3 | 9 | 0 | 233 |
| Investments | 34 | 28 | 27 | 0 | 55 | 264 | 2 | 2 | (3) | 265 |

| 31 December 2016 Million Euros | Networks | | | Intra segment eliminations | Segment Total | Other | | Consolidated Total |
|-------------------------------------------------|--------------|-----------------|----------|----------------------------|---------------|-------------|---------------------------|--------------------|
| | Distribution | Public Lighting | | | | Corporate | Consolidation adjustments | |
| Revenue | 571 | 122 | (48) | (48) | 645 | 112 | (460) | 2,862 |
| Costs | 218 | 119 | (48) | (48) | 289 | 114 | (460) | 1,966 |
| Gross operating profit | 353 | 3 | 0 | 0 | 356 | (2) | 0 | 896 |
| Depreciation and accumulated impairment charges | 95 | 6 | 0 | 0 | 101 | 20 | 0 | 370 |
| Operating profit/(loss) | 258 | (3) | 0 | 0 | 255 | (22) | 0 | 526 |
| Investments | 219 | 1 | 0 | 0 | 220 | 13 | (55) | 531 |

| 31 December 2015 Million Euros | Environment | | Energy | | Segment total | Water | | | | Segment Total |
|-------------------------------------------------|-------------|-----------|-------------|----------------------------|---------------|------------------------|----------|-------------|----------------------------|---------------|
| | Generation | | Sales | Intra segment eliminations | | Italian Water Services | Overseas | Engineering | Intra segment eliminations | |
| Revenue | 132 | 64 | 1,944 | (33) | 1,975 | 652 | 11 | 32 | (26) | 669 |
| Costs | 75 | 30 | 1,870 | (33) | 1,867 | 354 | 8 | 22 | (26) | 358 |
| Gross operating profit | 57 | 34 | 74 | 0 | 108 | 298 | 3 | 10 | 0 | 311 |
| Depreciation and accumulated impairment charges | 28 | 24 | 90 | 0 | 114 | 92 | 0 | 2 | 0 | 94 |
| Operating profit/(loss) | 29 | 10 | (16) | 0 | (6) | 206 | 3 | 11 | 0 | 217 |
| Investments | 26 | 15 | 15 | 0 | 31 | 202 | 0 | 2 | 0 | 204 |

| 31 December 2015 Million Euros | Networks | | | Intra segment eliminations | Segment Total | Other | | Consolidated Total |
|-------------------------------------------------|--------------|-----------------|----------|----------------------------|---------------|-------------|---------------------------|--------------------|
| | Distribution | Public Lighting | | | | Corporate | Consolidation adjustments | |
| Revenue | 468 | 105 | (38) | (38) | 536 | 113 | (479) | 2,946 |
| Costs | 220 | 98 | (38) | (38) | 280 | 113 | (479) | 2,214 |
| Gross operating profit | 248 | 7 | 0 | 0 | 256 | 0 | 0 | 732 |
| Depreciation and accumulated impairment charges | 90 | 0 | 0 | 0 | 90 | 20 | 0 | 345 |
| Operating profit/(loss) | 158 | 10 | 0 | 0 | 165 | (20) | 0 | 386 |
| Investments | 154 | 2 | 0 | 0 | 156 | 12 | 0 | 429 |

The revenues in the Water Segment include the condensed result of equity investments (of a non-financial nature) consolidated using the equity method.

ENVIRONMENT OPERATING SEGMENT

Operating figures, equity and financial results for the period

| Operating figures | U.M. | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------|------|------------|------------|-----------|-------------|
| WTE conferment | kTon | 398 | 354 | 44 | 12.3 |
| RDF production plant conferment | kTon | 0 | 0 | 0 | 0 |
| Electrical Energy transferred | GWh | 286 | 265 | 21 | 7.9% |
| Waste coming into Orvieto plants | kTon | 97 | 94 | 3 | 3.2% |
| Waste Recovered/Disposed of | kTon | 327 | 317 | 10 | 3.1% |

| Equity and financial results (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------|------------|------------|-----------|-------------|
| Revenue | 136.8 | 132.0 | 4.7 | 3.6% |
| Costs | 79.6 | 74.7 | 4.9 | 6.5% |
| Gross operating profit (EBITDA) | 57.2 | 57.4 | (0.1) | (0.2%) |
| Operating profit/(loss) (EBIT) | 29.9 | 29.4 | 0.5 | 1.7% |
| Average number of staff | 238 | 216 | 22 | 10.4% |
| Capex | 34.0 | 25.9 | 8.1 | 31.1% |
| Net debt | 173.7 | 187.7 | (14.0) | (7.5%) |

| € million | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------|------------|------------|------------|-------------|
| Gross operating profit ENVIRONMENT segment | 57.2 | 57.4 | (0.1) | (0.2%) |
| Gross operating profit GROUP Adjusted* | 784.8 | 732.0 | 52.8 | 7.2% |
| Percentage weight | 7.3% | 7.8% | (0.5) p.p. | |

* The Group EBITDA is given net of the effects of the elimination of the so-called *regulatory lag*

The Segment closed 2016 with an EBITDA of € 57.2 million, basically in line with 2015, which had included the insurance pay out (€ 3.2 million) recognised to Acea Ambiente for the fire which broke out at the Paliano plant in 2013. Net of this extraordinary item, 2016 registered an increase of € 3.0 million (+5.5%), thanks to the contribution of the waste treatment plant in Orvieto, the start-up of operations of Line 1 at the San Vittore plant and the recovery of activities at the composting plant in Aprilia after the lengthy shutdown.

The average number of staff at 31 December 2016 was 238, an increase of 22 compared to the same period in the previous year. Aquaser (+ 4 units) and Acea Ambiente (+18 units) are the reason behind the increase; the latter has also taken on 11 workers from ISA (and therefore already present in the Segment) due to the termination of the contract for the WTE plant in Terni.

Segment investments reached € 34.0 million, an increase compared to those in 2015. The major investments are essentially due to the works for the revamping of Line 1 in San Vittore, where the first parallel has been carried out for the transfer of electricity to the network on 1 October 2016, and also the functional adjustment of the waste treatment plant located at the complex in Orvieto.

Net debt in the Segment amounted to € 173.7 million, and is significantly lower than that at the end of 2015. The reduction is mainly attributable to the positive difference in operating cash flow, which is also influenced by the increase in income from the companies in the Group.

Significant events in 2016

In the context of the wider ranging plan for the reorganisation of the Environment Operating Segment, decided in the Group Industrial Plan, with the aim of significantly boosting the increase of business in the segment, overcoming the fragmentation and redundancy of the structures dealing with strategic processes (with specific regard to trade development), business and staff and enabling more focus on the activities in the strategic plan, the following strategic operations were decided upon:

- merger by incorporation of ISA into Aquaser: the merger has been effective since 1 November 2016, while the accounting and taxation effects are backdated to the start of the financial year; the merger has not had any impact on the consolidated financial statements. The merger was preceded by the takeover in July by Aquaser of 49% of the stake in ISA s.r.l. owned by private Shareholders for € 680 thousand;
- merger by incorporation of Solemme, Kyklos and SAO into ACEA AMBIENTE (formerly ARIA): the merger has been effective since 29 December 2016, while the accounting and taxation effects are backdated to the start of the financial year. The merger was preceded by the takeover in July 2016 by ACEA of 100% of Kyklos, for € 6.7 million. Following the merger, the plants previously managed by the incorporating and incorporated companies have become Local Unots, specifically: Local Unit 1 Terni (UL1), Local Unit 2 Paliano (UL2), Local Unit 3 San Vittore del Lazio (UL3), Local Unit 4 Orvieto (UL4), Local Unit 5 Monterotondo Marittimo (UL5), Local Unit 6 Sabaudia (UL6) and Local Unit 7 Aprilia (UL7).

Main events concerning the single plants managed by ACEA AMBIENTE

- **Terni (UL1):** the conferment of the pulper mill guaranteed the combustible requirements for the entire year and the expected performance levels were reached as regards both waste pre-treatment and the production of electricity. Some interventions were carried out in 2016 for enhancing the plant performance, and these led to increases in efficiency in terms of containing the operating costs. The verification procedure implemented by the GSE has been successfully completed.
- **Paliano (UL2):** the environmental checks have now been completed according to the provisions of the planning approved by the competent territorial authorities, confirming the absence of contamination due to the fire in 2013. Contrarily, however, some of the contamination thresholds have been exceeded in the water supply, plausibly traceable to the base values present in the Castellaccio di Paliano area, which is mainly constituted of volcanic soil. According to the law, the Company has submitted the check plan to the competent Authorities, which will need to authorise the beginning of the monitoring phase. As regards the authorisation for the reconstruction and operation of the CDR/CSS production plant, and following the Services Conference sitting on 27 September 2016, some aspects of the urban planning authorisations are currently being checked with Paliano town council. It is therefore believed possible that the work for the reconstruction of the plant could be planned during the first half of 2017.
- **San Vittore del Lazio (UL3):** in January 2017, the procedure for the renewal of the Integrated Environmental Authorisation of the plant was obtained and the coordinated VIA/AIA claim was also submitted to Lazio Region for the updating of the IEA authorisation for the plant with operations on three lines, to be used at the maximum thermal load levels. The preliminary process is currently ongoing. Lines 2 and 3 of the plan, which are currently operating under normal conditions, ensured regular operations during the course of 2016, in terms of both the electricity produced and the CDR started for energy recovery. As regards line 1, it must be pointed out that reconstruction was completed during September 2016, with provisional operations starting subsequently, on 1 October; provisional operation has been implemented to check the plant performance levels. The start of the ordinary operations phase is scheduled for April 2017.
- **Orvieto (UL4):** in 2016, in compliance with the Integrated Environmental Authorisation and the contracts signed with the TAE and the local councils in the area of reference, the conferment of urban and special non-hazardous waste continued, starting the recovery and disposal operations within the terms provided therein. As regards the recovery plant, performance in 2016 was characterised by the phase of stabilisation of the new treatment and composting plant with energy recovery section. Regarding the project submitted in 2014 for the morphological adjustment of the site and the optimisation of the volumes and frontal capping, it should be noted that Umbria Region interrupted the checking phase, without justification: the company has undertaken the necessary legal action.
- **Monterotondo Marittimo (UL5):** by Tuscany Regional Decree 3866, since June 2016 the Integrated Environmental Authorisation was granted for operating the plant in its current configuration and for the realisation of the expansion plan, consisting of enhancing the current plant and including an anaerobic digestion section. The investments made refer mainly to extraordinary maintenance work and the renewal of the current composting plant in order to ensure that the plant is compliant with the BAT (*Best Available Technologies*) specifications, in fulfilment of the numerous requirements provided in the prescriptions of the Authorisation. The procedure for identifying the business entity that will deal with the executive design and realisation of the new plant layout is currently ongoing.
- **Sabaudia (UL6):** the plant currently operates on the basis of a formal extension on the part of Lazio Region, while awaiting the conclusion of the renewal process, which is expected to be successfully completed by the end of 2017. As regards the investments made, these refer mainly to the works for the refurbishment and resurfacing of the outdoor areas and buildings and the new electrical and electromechanical devices, and the return to ordinary operations following the interruption of conferments in September 2016 is expected in the first half of 2017.
- **Aprilia (UL7):** following the release on 1 June 2016, the plant has returned to normal operations involving all the types of waste authorised, as the accessory interventions for the return to operations of the entire composting plant and the relevant machinery (shut down for almost 18 months) have now been completed. The prescriptions imposed by the competent Authorities for the return to operations following the release of the plant have affected the potential of the plant, at least during this initial phase. In December 2016, the works for the realisation of the new plant configuration were started, and this will enable the expansion of the current treatment capacity of the plant, also thanks to a new energy recovery section.

ENERGY OPERATING SEGMENT

Operating figures and financial results for the period

| Operating figures | U.M. | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------------------|-------|------------|------------|-----------|-------------|
| Energy Produced (hydro + thermal) | GWh | 384 | 456 | (72) | (15.8%) |
| Energy Produced (photovoltaic) | GWh | 11 | 14 | (3) | 21.4% |
| Electrical Energy sold - Free | GWh | 5,559 | 6,468 | (909) | (14.0%) |
| Electrical Energy sold - Protected | GWh | 2,757 | 2,951 | (194) | (6.6%) |
| Electrical Energy - No. Free Market Customers (P.O.D.) | N/000 | 295 | 314 | (20) | (6.3%) |
| Electrical Energy - No. Protected Market Customers (P.O.D.) | N/000 | 936 | 981 | (44) | (4.5%) |
| Gas Sold | Msm3 | 107 | 126 | (20) | (15.5%) |
| Gas - No. Free Market Customers | N/000 | 149 | 144 | 5 | 3.6% |

| Equity and financial results (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------|------------|------------|-----------|-------------|
| Revenue | 1,707.2 | 1,974.8 | (267.6) | (13.5%) |
| Costs | 1,577.3 | 1,866.9 | (289.7) | (15.5%) |
| Gross operating profit (EBITDA) | 130.0 | 107.9 | 22.1 | 20.5% |
| Operating result (EBIT) | 29.8 | (5.7) | 35.5 | (622.8%) |
| Average number of staff | 554 | 543 | 11 | 2.0% |
| Capex | 55.3 | 30.6 | 24.7 | 80.7% |
| Net debt | 138.4 | 287.1 | (148.7) | (51.8%) |

| (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit ENERGY Segment | 130.0 | 107.9 | 22.1 | 20.5% |
| Gross operating profit GROUP Adjusted* | 784.8 | 732.0 | 52.8 | 7.2% |
| Percentage weight | 16.6% | 14.7% | 1.9 p.p. | |

* The Group EBITDA is given net of the effects of the elimination of the so-called *regulatory lag*

The segment closes 2016 with an EBITDA of € 130.0 million, an increase of € 22.1 million compared to 2015.

This positive difference is the result of opposite effects concerning, on one hand, the production companies (- € 2.2 million) and the sales companies on the other (+ € 24.3 million). The following in particular is noteworthy:

- + € 15.9 million in Acea Energia,
- + € 7.8 million in ALL (formerly Elga Sud),
- - € 3.4 million in Acea Produzione.

The increase in the EBITDA of **Acea Energia** is mainly due to the reduction in costs concerning the billing and sales processes and also those deriving from the service contracts with the Parent Company (totalling € 10.4 million overall). As regards the marginality of the sale of electricity and gas, a slight reduction (€ 1.7 million) has been recorded compared to 2015. In particular, the margins of the protected categories market and the free market have reduced respectively by effect of the reduction in the unitary price of the mechanism for compensating arrearage and due to the reduced volumes sold mainly in the B2B segment. The reduction is mitigated by the excellent performance of the *energy management* sector, due to the optimisation of the *commodity* purchase portfolio.

The significant increase in **ALL** is attributable for € 9.6 million to the revenue linked to the effects produced by the contract signed in March 2006 for marketing digital meters. This sale was part of the framework of a wider ranging trade agreement which also involved other companies in the Group.

The downtrend of **Acea Produzione** is mainly attributable to the reduction in the energy margin as a result of the

price trend and the reduction in quantities produced by the hydroelectric sector because of the *repowering* of the Castel Madama plant and those at the Tor di Valle site. Equally, the district heating segment showed a reduction compared to 2015, also due to the mild winter.

The operating result, which was negative at the end of 2015, reached approximately € 30 million, increasing more than proportionally compared to the positive trend of the gross operating profit: amortisations, depreciations and accumulated impairment charges totalled € 99 million (- € 14.6 million compared to 31 December 2015). While the amortisations, amounting to € 35.6 million, are substantially in line with 2015, the depreciations and accumulated impairment charges reduced significantly: the former, amounting to € 46 million, reduced by € 11 million thanks to the effective containment of the working capital; impairment charges reached € 18 million, decreasing by approximately € 4 million as a result of the inclusion in 2015 of charges to hedge the accumulated charges for electricity from previous years.

In terms of staff, the average number of employees as at 31 December 2016 was 554, 11 more than the same period last year, mainly attributable to Acea Energia.

Investments in the Segment amounted to € 55.3 million and increased by € 24.7 million (+ € 12.6 million in Acea Produzione and + € 11.6 million in Acea Energia respectively) and refer mainly to the plant *revamping* works at the hydroelectric station in Castel Madama and those for the

static functional refurbishment of the derivation tunnels at the base of the dam at San Cosimato and also for the extension of the district heating network in the district of Mezzocammino, to the south of Rome. The increased investments referring to Acea Energia are mainly concentrated on the IT systems, with specific reference to the technological infrastructures of the Acea2.0 project.

The net debt at the end of 2016 amounted to € 138.4 million, a reduction of € 148.7 million compared to 31 December 2015. This significant uptrend is mainly attributable to the reduction in the working capital of Acea Energia, also as a consequence of the zeroing of its exposure towards a water company in the Group.

Operating review

Energy Management

Acea Energia is responsible for performing the "Energy Management" necessary to Group Operations, particularly with regard to sales and production. The Company also liaises with the Energy Market Operators (GME) and with TERNA. In relation to the latter institutional entity, 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 optimisation 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 optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies' risk profile.

In 2015, Acea Energia purchased a total 9,347 Gwh of electricity from the market, of which 7,230 Gwh through bilateral agreements and 2,118 Gwh through the Power Exchange, essentially for resale to free market end users and the residual part for the optimization of the energy flows and purchases portfolio.

Electricity production

The **Acea Produzione** production system comprises a series of power generating plants with a total installed capacity of 227.4 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, and two thermoelectric plants - Montemartini and Tor di Valle. The latter will be fitted with two high performance cogenerating motors, each with an electrical power of 9.5 MW, for a total of 19 MW, in addition to three integrated water heaters and 8 storage tanks to provide cogenerated electricity to all of the electricity utilities of the Rome Sud Purifier and the thermal energy needed to provide district heating to the Torrino Sud, Mostacciano and Torrino-Mezzocammino districts of Rome.

Once the construction of the plant is completed, expected to be by the end of October 2017, the old cogeneration model, constituted by an open-cycle gas turbine cogeneration module with 19 MW electrical power, which has been operating since the early 80s, will be completely replaced. The photovoltaic plants with an installed power of 8.5 MWp must be added to this.

Through its directly owned plants, in 2016 Acea Produzione achieved a production volume of 404.9 GWh. Pro-

duction is broken down into production from hydroelectric plants, totalling 381.5 GWh, production from so-called mini hydro plants, totalling 2.4 GWh, thermoelectric production, totalling 10.0 GWh, and photovoltaic production, totalling 11.0 GWh.

As regards district heating, through the cogeneration module at the Tor di Valle station, the Company supplied heating to the Torrino Sud and Mostacciano districts (located to the south of Rome) totalling 66.1 GWh, with a total of 2,852 users supplied.

Electricity 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 which tends to favour contracting small (residential and *microbusiness*) customers. The management of the Umbria Energy and Cesap Vendita Gas joint ventures, operating in Umbria, continued. As regards Voghera Energia Vendite, the merger by incorporation into Acea Energia became effective on 1 Mat 2016, with accounting and taxation effects backdated to 1 January 2016.

In 2016, Acea Energia sold electricity on the Protected Categories market totalling 2,575 GWh, a reduction of 6.6% compared to 2015. The number of withdrawal points totalled 958,855 (980,946 as at 31 December 2015). Sales of electricity on the Free Market amounted to 5,163 GWh for Acea Energia and 395 GWh for the Umbria companies, for a total of 5,559 GWh, a decrease of 14.1% compared to 2015. The reduction primarily concerned the B2B segment and is a result of the strategy of consolidation and growth in the small business and mass market segments. Furthermore, 106,586 standard cubic metres (Sm³) of gas was sold to end users and wholesalers in 2016, corresponding to 148,723 redelivery points; there were 144,185 as at 31 December 2015.

As regards the sales company, the following is of note:

Procedure PS9815 of the AGCM for unrequested actions: on 21 July 2016, the Authority notified the communication concerning the fulfilment by Acea Energia of the sanctioning measure, deeming that the interventions and measures proposed by the company in past months and currently being adopted were substantially adequate. In the same communication, the AGCM requested Acea Energia to submit a detailed report on the operations of the new process concerning Draft Contracts. On 28 October 2016, Acea Energia sent to the Authority the report containing an analytical description of the measures adopted in fulfilment of the prescriptions of the AGCM. The appeal filed in February 2016 at the Lazio TAR was discussed, and the sentence is awaited.

Procedure PS9354 of the AGCM for improper trade practices: on 9 September 2016, Acea Energia impugned the procedure before the Administrative Court and subsequently, on 13 September 2016, sent to the AGCM the report containing the initiatives undertaken in fulfilment of the prescriptions contained in the sanctioning procedure, specifying that these initiatives do not constitute the agreement with the procedure. Acea Energia is currently awaiting the outcome of the evaluations of the AGCM in relation to the suitability of the measures; however, it paid off the sanctioning fine in February 2017.

Appeal against resolution 659/2015/r/eel "Updating of the values of the components concerning the marketing of electricity from 1 January 2016": on 26 February 2016,

an appeal against resolution 659/2015 was filed before the Administrative Court of Lombardy, contesting the fact that the Authority had deferred to a subsequent measure the definition of the equalisation measure to guarantee the potential risk of the failure to hedge the fixed costs as a result of customers leaving the protected categories market. It was also claimed that the volume effect, in other words the phenomenon of the progressive decline of the protected categories market, once ascertained, cannot be limited to 2016, as it is also recognisable for previous years as well, given that it is directly linked to the nature of the protected services market as outlined by the lawmakers, in other words an essential and residual market, which will inevitably decline in favour of the expansion of the free market. A hearing for discussing the matter has not yet been set. In consideration of the recognition, through a specific tariff (RCVsm) set up in resolution 659/2015/r/eel, of the increased fixed costs of smaller operators linked to the impossibility of achieving scale economies, the appeal filed by Acea Energia on 27 February 2015 to obtain the annulment of resolution 670/2014/R/eel is still pending as regards the part in which the Authority deferred the review of the method of calculating the costs recognised to operators on the protected categories market to take the size factor into account.

Approval of the commitment proposal submitted by Acea Energia S.p.a. and closure of the relevant sanctioning procedure started by resolution 111/2015/S/eel: in resolution 529/2016/S/eel of 29 September 2016, the Authority accepted and made obligatory the commitment proposal submitted by Acea Energia (estimated by the AEEGSI as about € 200 thousand in cost). Specifically, it was provided that the additional indemnity of € 15 be paid to customers included within the scope of commitments 1 and 2 within 6 months of the publication of the resolution (in other words 6 April 2017), that Acea Energia make known the effective cost of the commitments, giving accounting proof in the commentary to the unbundled annual accounts, and that, lastly, it provide documented proof of the implementation of the commitments by 5 May 2017.

Extension of the deadline for fulfilment of the obligation to separate the communications policies and brand for the sale of electricity to end customers: in resolution 327/2016/R/EEL of 22 June 2016, the Authority deferred until 1 January 2017 the deadline within which to complete the "debranding", in other words the separation of the brand and the communications policies of electricity companies operating on both the free market and the protected categories market. As of 1 January 2017, Acea Energia has fulfilled that provided in resolution 296/2015/R/com as regards "debranding", adopting a new brand name for the customers on the Protected Categories Market: "Servizio Elettrico Roma".

Cogeneration

Ecogena operations focused on two areas: the technical-economic monitoring of operating plants, and new projects under construction.

In January 2016, the construction of the new tri-generation plant for the "Europarco" complex in the EUR district of Rome was completed and the plant was put into operation. The energy supplies to the "Cinecitta' World" plant at Castel Romano were restored, with the opening of the 2016 season. The electricity supplies are guaranteed contractually for a period of 15 years. Simultaneously, from a viewpoint of infra-group synergies, the contract with Acea Produzione for the operating and maintenance of the Cinecitta' World plants became effective. In early 2016, the contract for supplying the building managed by Engie (formerly Cofely) was negotiated, while the "Provincia" building was gradually put into operation with the progress of the transfer of the offices to the new location. On the maintenance side, the O&M service provided by the constructor has enabled the plants to start operations without any particular inconveniences and the tests were completed at the end of the summer season, in line with the forecasts of the transitive deed addendum 3. In December, the procedure for selecting the new O&M supplier for 2017 was started in December. Lastly, the marketing campaign continued with some significant Acea Energia customers, with the intent of encouraging energy efficiency from cogeneration systems proposed by the Company.

WATER OPERATING SEGMENT

Operating figures and financial results for the period

| Operating figures* | U.M. | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------|-----------------|------------|------------|-----------|-------------|
| Water Volumes | Mm ³ | 415 | 413 | 2 | 0.5% |
| Electrical Energy Consumed | GWh | 414 | 408 | 6 | 1.5% |
| Sludge Disposed of | kTon | 161 | 172 | (11) | (6.4%) |

* Values refer to the companies entirely consolidated

| Equity and financial results (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------|------------|------------|-----------|-------------|
| Revenue | 720.8 | 668.9 | 51.9 | 7.8% |
| Costs | 365.8 | 358.1 | 7.7 | 2.2% |
| Gross Operating Profit (EBITDA) | 355.0 | 310.8 | 44.2 | 14.2% |
| Operating result (EBIT) | 232.9 | 217.1 | 15.8 | 7.3% |
| Average number of staff | 2,335 | 2,301 | 34 | 1.5% |
| Capex | 264.3 | 204.4 | 59.9 | 29.3% |
| Net debt | 791.5 | 537.3 | 254.2 | 47.3% |

| (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit WATER Segment | 355.0 | 310.8 | 44.2 | 14.2% |
| Gross operating profit GROUP Adjusted* | 784.8 | 732.0 | 52.9 | 7.2% |
| Percentage weight | 45.2% | 42.5% | 2.7 p.p. | |

* The Group EBITDA is given net of the effects of the elimination of the so-called regulatory lag

As at 31 December 2016, the EBITDA for the Segment was € 355.0 million, an increase of € 44.2 million compared to 2015 (+ 14.2%). The increase is substantially due to the tariff updates made during the second half of the year. In particular, the performance of the Segment was influenced by the increase of € 43.1 million in ACEA Ato2 and the positive contribution to the EBITDA of foreign companies, amounting to € 1.4 million. The latter result was achieved as a consequence, on one hand, of the takeover of a controlling interest, as of October, in Agua de San Pedro (+ € 2.5 million) and, on the other, by the deconsolidation of AguaAzul Bogota (- € 1 million). The performance of the water companies in Tuscany, Umbria and Campania is substantially in line with that at the end of 2015 (+ € 0.8 million).

The revenues for 2016 are valorised on the basis of the tariff calculations made during the second half of the year by the EGA and/or the AEEGSI; as usual, these include the estimate of the adjustments concerning the passing costs. As of the second regulatory period, the tariffs may also include marketing quality components; under specific conditions, the Managers may be recognised the Opex_{qc} component or alternatively the "contractual quality" award. The latter is recognised to the Service Manager in the event in which the indicators identified for metering and monitor-

ing (as of 1 July 2016) exceed the thresholds established beforehand in AEEGSI resolution 655/2015. The revenues of ACEA Ato2 included the amount of € 23.1 million calculated on the basis of the performance levels in the second half of the year compared to the fixed standards and gross of the indemnities due to the users (€ 1.9 million). On 7 March 2017, the STO successfully concluded the checks concerning the estimation of the indicators on which the award is based. The table below summarises the status of the tariff proposals.

The EBITDA achieved in 2016 was also negatively affected by the trend in staff costs (€ 73.8 million), which reduced by about € 3 million compared to 2015, substantially as a result of the progressive increase in efficiency of the processes due to technological development.

The average number of staff on 31 December 2016 increased by 34, mainly as a result of the conferment of the Facility Management business unit to ACEA Elabori. The deconsolidation of AguaAzul Bogota (-102 staff) is compensated by the consolidation of Agua de San Pedro (+ 104 staff).

The following are the contributions to the EBITDA of the water companies valued at shareholders' equity:

| (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------|-------------|-------------|------------|-------------|
| Publiacqua | 12.4 | 11.6 | 0.8 | 6.9% |
| Gruppo Acque | 6.9 | 7.8 | (0.9) | (11.5%) |
| Acquedotto del Fiora | 3.2 | 2.3 | 0.9 | 39.1% |
| Umbra Acque | 0.0 | 0.0 | 0.0 | 0.0% |
| Gori | 3.4 | 3.9 | (0.5) | (12.8%) |
| Nuove Acque and Intesa Aretina | 0.5 | 0.3 | 0.2 | 66.7% |
| Agua Azul | 1.1 | 1.1 | 0.0 | 0.0% |
| Ingegnerie Toscane | 1.8 | 1.5 | 0.3 | 20.0% |
| Total | 29.3 | 28.5 | 0.8 | 2.8% |

The operating result was negatively influenced by the increase in amortisations (+ € 12.0 million), consistently with the trend in investments and the start of operations of the new functions of the Acea2.0 programme. The impairment charges reached € 21.2 million and are substantially in line for those in December 2015 (+ € 1.1 million); they include the release due to excess of the provision of € 7.4 million allocated in previous years to hedge the risk deriving from a lawsuit which was settled favourably.

Net debt in the Segment amounted to € 791.5 million on 31 December 2016, recording a downtrend of € 254.2 million compared to 31 December 2015. This result is mainly linked to: (i) the € 125 million loan, of which more than € 100 million was used, granted by the Parent Company to pay off the debts of a trade nature due to the Companies in the Group; (ii) ACEA Ato2, as a result of the downtrend in operating cash flow (about € 41 million) compared to 2015 and (iii) the variation in the area of consolidation with regard to the foreign sector for € 15 million.

Acquisitions

| | No. of municipalities |
|-------------------------------------------------------------------------------------------|-----------------------|
| Municipalities fully acquired into the Integrated Water Service: | 79 |
| Municipalities partially acquired, for which ACEA ATO 2 provides one or more services: | 13 |
| Municipality with Protected Subject | 1 |
| Municipalities in which ACEA ATO 2 provides no services | 11 |
| Municipalities that declared they do not wish to be part of the Integrated Water Service: | 8 |

* Municipalities with less than 1,000 inhabitants who could express their will in accordance with paragraph 5 of Legislative Decree 152/06.

During the course of the year, the Company purchased:

- as of 1 June 2016, the sewage and waste treatment services for the Municipality of Bracciano as regards the part strictly concerning the Co.B.I.S. purifier, while the purchase of the local sewage and waste treatment services of the waste treatment network of Castel Giuliano is suspended and conditioned by the conclusion of the works for the refurbishment of the purifier itself. Lastly, the management of the drinking water service will become executive once ACEA Ato2 has completed the works required for the re-functioning and refurbishment of the existing local drinking water plants;
- at the end of December 2016, the water service for the Municipality of Pomezia, previously managed under protected conditions by Infrastrutture Distribuzione Gas (formerly Edison Distribuzione Gas). The purchase was made through the purchase of the business unit for 5.5 million, which may be subjected to an adjustment agreed between the parties on the basis of the updating of some items of the business unit purchased. The price also includes the value of the assets realised up to 30 September 2016, calculated by the STO as a total of € 5.3 million.

Lastly, it must be noted that the procedures for the purchase of the Integrated Water Service of the Municipalities of Civitella San Paolo, Morlupo and Rignano Flaminio have been started. In particular, for the latter Municipality, the Agreement for the payback of the investments on the basis of the prescriptions of the Conference of Mayors has been signed.

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 3,600,000 residents in Rome and Fiumicino, as well as more than 60 Municipal-

Segment investments stand at € 264.3 million, are primarily due to ACEA Ato2, for more than € 224.7 million. The main investments made include those on the water network, the waste treatment plants, the applicative map of Acea2.0 and the purchase of 28.9% of the company headquarters at a price of € 35.2 million.

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 79 of the total 112 services in the ATO are currently still run entirely by the Municipalities. The overall situation in the territory managed is as follows.

ities in the Lazio region, via five aqueducts and a 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 6,100 km (including approximately 4,000 km of network serving the municipality of Rome) and more than 300 km of trunk lines, without counting the connections to the sewage system. About 5,700 km have been digitalised and made available on the GIS IT System (Geographic Information System).

The company manages the waste treatment system and pumping stations that serve the network and sewage trunk lines.

In 2016, the main **waste treatment plants** treated approximately 260 million m³ of waste water. Sludge, sand and grating production for all managed plants in the reporting period was over 134 thousand tonnes, a decrease of around 20% compared to last year, mainly as a result of the entry into operation of the sludge drying system serving the Roma Est waste treatment plant.

At 31 December 2016, the Company manages a total of 565 **sewage pumping stations**, including 173 in the municipality of Rome, and a total of 179 waste treatment plants, including 33 in the Municipality of Rome.

With reference to the problems concerning the seizure of waste treatment plants, note that, with regard to the pending procedure concerning the Roma Est plant, a notification of conclusion of the preliminary investigations was filed on 22 April 2016, with some managers and directors of the Company and the company itself under investigation according to Legislative Decree 231/2001.

The waste treatment plants of Roma Nord and Colubro are still under seizure. The water treatment plant of Fonte Tonello was also placed under seizure in 2016.

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.

Integrated water service operations in the territory of ATO 5 Southern Lazio-Frosinone involves a total of 85 municipalities (operations must still be surveyed for the municipalities of Atina, Paliano and Cassino town centre as regards water services only) for a total population of around 480,000 inhabitants, about 490,000 inhabitants supplied and a number of end users equal to 185,610.

As regards the purchase of the plants serving the Municipality of Paliano, on 18 February 2016, ACEA Ato5 filed a petition at the Administrative Court of Lazio – Latina Section against the Municipality of Paliano and AMEA in order to obtain (i) the ascertainment of non-fulfilment by the Municipality and the appointment of an acting Commissioner, and subordinately (ii) the entire delivery of the works, assets and plants and compensation of the damage incurred as a result of the malicious failure to observe the deadline for the conclusion of the procedure. The Administrative Court of Latina settled the matter in a sentence declaring the cessation of the scope of the dispute (as a result of the adoption by the Municipality of the express procedure by which the Authority, overcoming the disputed silence on the matter, rejected the ACEA demand to hand over the assets concerning the IWS) and also ordering the Municipality to pay for the legal costs. The Company then filed another petition before the Administrative Court of Latina in order to obtain the annulment of the procedure in which the Municipality had opposed its own denial of the transfer of the service.

As for the Municipality of Cassino, the Council of State, in sentence 2086 of May 2016, accepted the petition by the company, ordering the Municipality to deliver the plants within thirty days and simultaneously appointing the Prefect of Frosinone as the acting Commissioner replacing the Director failing to fulfil their duties. The Commissioner signed the delivery reports in August 2016 and the transfer of the service became effective in September. The Municipality of Cassino has not fulfilled the required obligations, and the company has therefore taken legal action before the administrative court.

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. Coverage of this service amounts to about 97%.

The sewerage-purification system comprises a network of sewers and trunk lines (1730 km) connected to waste treatment terminals (127 in total). The company also manages 211 sewage pumping plants and, as regards the purification sector, 110 biological waste treatment plants, as well as 15 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 regard to the significant events during the year:

- on 11 February 2016, the preliminary proceedings of the AEEGSI, started in February 2015 and concerning the tariff predispositions for the period 2012-2015

successfully concluded with resolution 51/2016/R/idr. Specifically, the AEEGSI approved, among others, the maximum threshold of the tariff multipliers for each year and, consequently, the methods of financial recovery of the adjustment payments as of 2019. It also recognised, provisionally and awaiting the definition of the procedure implemented by suitable request made by the company, an unpaid ratio of at least that provided for Southern Italy (6.5%);

- on 18 February 2016, in decision no. 1/2016 published on 26 February, the Conference of Mayors denied the go-ahead for the planned merger by incorporation of ACEA Ato5 into ACEA Ato2. The company believed the deed to be illegitimate and impugned it before the Administrative Court of Latina. The preliminary hearing was held on 23 February 2017, after which the judges were undecided on the matter;
- on 18 February 2016, in decision no. 2, the Conference of Mayors started the procedure for the contractual settlement ex art. 34 of the Awarding Agreement and, in March, in execution of the aforementioned resolution, it accused the Company of a series of contractual breaches, ordering it – pursuant to and by effect of art. 1454 of the Civil Code – to deal with the claimed breaches and produce justifications for them within six months. The Company appealed against decision no. 2 and the aforementioned fulfilment order before the Administrative Court of Latina (no. 316/2016) on 22 April 2016. On 26 July, the President of the EGA also notified ACEA Ato5 of the application and quantification of the fines for 2014 and 2015 pursuant to Chapters 30.1 and 30.2 of the Technical Regulation. On 19 October 2016, submitting additional reasons for appeal no. 316/2016, the Company impugned the procedure for the quantification and application of the fines. In the session on 13 October 2016, the Conference of Mayors decided not to approve the proposal by the STO as regards the non-existence of the conditions required to proceed with the termination of the contract (also in the light of the counter-statements submitted by the Company), therefore leading to the adoption in the session on 13 December decision no. 7 for the termination of the Management Agreement. This decision was impugned by the company through the submission of further additional reasons for appeal no. 316/2016 on 9 February 2016, before the Administrative Court of Latina, simultaneously demanding compensation for damages.

Given that the EGA has terminated the contractual relations with ACEA Ato5, the latter must ensure the continuation of service management activities until the EGA has identified the new service manager to take over from ACEA Ato5. It must be noted that:

- pursuant to art. 7 of the Management Agreement, ACEA Ato5 is bound to ensure the continuation of the service until hand over to the new service manager, in any event not beyond the deadline of 12 months, extendable for a further six months under the same terms and conditions;
- the STO itself, in its consultation paper on the matter of 27 October 2016 estimated that not less than three/four years (timeframe reflecting what happened in the original awarding) will be required for the completion of the various procedures necessary for the identification of the new Service Manager. Also, in its aforementioned report, the STO deemed that ACEA Ato5 must be paid a residual amount of more than one hundred million Euros for the residual value of the amortisable assets which, pursuant to and by effect of art. 26 of the Technical Regulation, the new Service Manager will

have to take over once identified. As stated by the STO itself in the above report, these amounts are immediately payable to the outgoing service manager on termination of the contractual relations.

The public hearing for the discussion of appeal no. 316/2016 is to be held on 23 November 2017;

- on 13 December 2016, in decision no. 6, the Conference of Mayors also approved the tariff proposal for the period 2016-2019, which briefly provides for: (i) the valorisation of the FNI component on the basis of parameter ψ of 0.4 rather than 0.8 as contained in the claim submitted by the Service Manager on 30 May 2016, (ii) the recognition of an arrearage fee of 3.8% rather than the 7.1% requested by the Company on the basis of the reasoned claim made regarding AEEGSI resolution 51/2016/R/idr, (iii) non-recognition of the $Opex_{qc}$ parameter requested by the Service Manager on the basis of a reasoned claim for about € 2 million, and (iv) reduction of the adjustments accumulated in the first regulatory period (RC_{tot} component) through the application of fines for presumed breaches during 2014 and 2015 for about € 11 million. The company filed a petition for the annulment of decision no. 6 before the Administrative Court of Latina on 9 February 2017, and the date for the hearing on this matter has not yet been set.

In 2012, the Company had taken out an injunction decree for the recovery of the receivables deriving from the transactive deed in 2007, amounting to € 10.7 million signed by the company and the EGA, aimed at settling the excess costs incurred by the Service Manager in the first management triennium (2003/2005), amounting to a total of € 21.5 million, in which the EGA undertook to pay the agreed amount (€ 10.7 million) without increasing the tariff. Subsequently, on 22 May 2012, the EGA appealed against this decree before the Court of Frosinone. On 28 February 2017, the sentence passed by the Court of Frosinone in which it revoked the injunction decree issued in 2012 for the aforementioned amount, deeming the 2007 transactive deed null and void, was filed, and the re-conventional subordinate demand by ACEA Ato5 for the payment of the major costs incurred (and originally requested) totalling € 21.5 million was rejected and the repetition of the preliminary proceedings ordered as regards the re-conventional demand filed by the STO concerning the payment of the leasing fees. The Company is preparing an appeal against this sentence. The Directors, supported by authoritative legal opinions, believe that the receivables is not annulled by the sentence, given that the stated nullity of the transaction does not imply that the service manager no longer has the right to claim remuneration for excess costs incurred that are not covered by the tariff.

See the additional information in the paragraph entitled "Information on concession services" in its entirety.

GORI

The Company manages the Integrated Water Service throughout the entire territory of ATO No. 3 Sarnese Vesuviano in the Campania Region (76 municipalities) with a surface area of 897 Km² and a population of approximately 1.44 million inhabitants.

A total 4,386 Km of water network is currently managed, consisting of 350 Km of primary abstraction network and approximately 4,030 Km of distribution network, and a drainage system of approximately 2,300 Km.

As regards the plants, GORI currently manages 9 water sources, 71 wells, 158 tanks, 98 water pumping stations, 156 waste water pumping stations and 11 waste treatment plants,

including small plants for smaller settlements.

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.

With regard to the significant events during the year:

- on 10 March 2016, the preliminary proceedings concerning the approval of the tariff predispositions of the ATO3 by the AEEGSI were finally concluded successfully with the publication of resolution 104/2016/R/idr containing: "Approval, for the purpose of valorising the adjustments in the framework of the tariff method for the second regulatory period MTL-2, of the tariff predispositions concerning the Sarnese Vesuviano Optimal Territorial Framework, for the period 2012-2015". Specifically, the AEEGSI approved, among other things, the maximum applicable measure of the tariff multipliers for each year, and consequently established the amount of the adjustments to be recovered in years subsequent to 2015 as € 38.9 million (Group quota € 14.4 million);
- on 15 June 2016, GORI submitted a request for tariff updates pursuant to article 7.5 of resolution 664/2015. This request takes into account and includes, among other aspects, the request for economic and financial balancing – which acknowledges the outcomes of the preliminary inquiries with the Authority – and the claim for the recognition of the effective arrearage costs for 2014 and 2015. The balancing request is based on the enclosed tariff and the hypothesis that Campania Region grants the payment in instalments of the debt matured in 2013-2016;
- on 8 August 2016, the Extraordinary Commissioner approved the tariff proposal for 2016-2019 which, by express provision, supersedes that submitted by GORI which, among other things, does not provide for payment in instalments. Conversely, it does provide for accessing the equalisation provisions for up to € 245 million with a plan for payback in eleven years starting in 2020 at the rate applied by the Cassa per i Servizi Energetici e Ambientali (CSEA). The tariff proposal decided by the Extraordinary Commissioner of the Sarnese Vesuviano Authority also provides for tariff increases within the limit of the multiplier for 2016 and 2017 (9%) and a 5% increase for 2018 and 2019.
- on 8 August 2016, Campania Region approved the tariff predisposition for 2016-2019 by the virtual Wholesaler Campania Region/Acqua Campania. Independently of the aspects of doubtful legitimacy concerning the entity responsible for the preparation of the tariffs for the wholesaler, the tariff predisposition of the Regional Authority has some elements that are inconsistent with the tariff predisposition prepared by the Extraordinary Commissioner of the Sarnese Vesuviano Authority for the second regulatory period;
- due to the inconsistencies in them, the Company has impugned the measures of the Extraordinary Commissioner and Campania Region by petition to the Administrative Court of Campania.

The information in the paragraph entitled "Information on the concession services" is recalled in its entirety, as regards the effects of a financial nature as a result of the conclusion of the procedures for the recognition of the equalisation measures.

Tuscany - Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration, was signed on 28 December 2001, as described in more detail

hereafter (expiry is now in 2026). 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, sewerage systems and waste water treatment plants. The Area includes 57 municipalities. Acque pays a fee to all the municipalities for the concession, including accumulated liabilities incurred under previous concessions awarded.

The more significant events in 2016 include the signature on 6 April 2016 of the deed which made effective the modification of the concession awarding the management of the water service with the new reviewed expiry of 2026, compared to the old deadline of 2021, after obtaining the consent the Lenders to the extension of the loan contract signed in 2006. The signature of the modification agreement integrated some of the obligations provided in the same loan contract.

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, sewerage systems and waste water treatment plants. The Area includes 49 municipalities, of which 6 managed via agree-

ments 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 the awarding of the related contracts.

On 30 March 2016, a loan contract was signed, expiring on 30 June 2021, for € 110 million, which had been paid out in its entirety as of the date of this document. The loan was partly allocated for paying back the ongoing loans and mortgages.

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 ATO 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste treatment. The concession term is twenty-five years from 1 January 2002.

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. (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008.

The company performed its activities in all 38 Municipalities constituting ATOs 1 and 2.

Progress of the procedure for approving the tariffs

| Company | Status |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Acea Ato 2 | On 27 July 2016, the EGA approved the tariff inclusive of the award ex art. 32.1, subsection a) of resolution 664/2015/R/idr. Approval by the AEEGSI followed in resolution 674/2016/R/idr, with some changes compared to the proposal by the EGA; quality award confirmed |
| Acea Ato 5 | The tariff proposal was submitted by the Service Manager on 30 May 2016, also requesting recognition of the Opex _{QC} . AEEGSI advised the EGA on 16 November 2016 and the EGA approved the tariff proposal on 13 December 2016, rejecting, among others, the request for recognition of the Opex _{QC} . Approval by the AEEGSI is being awaited. |
| GORI | On 1 September 2016, the Extraordinary Commissioner of the EGA approved the tariff with Opex _{QC} as of 2017. Approval by the AEEGSI is being awaited. |
| Acque | On 5 October 2016, the AIT approved the tariff with recognition of the award ex art. 32.1, subsection a) of resolution 664/2015/R/idr. Approval by the AEEGSI is being awaited. |
| Publiacqua | On 5 October 2016, the AIT approved the tariff with recognition of the award ex art. 32.1, subsection a) of resolution 664/2015/R/idr. Approval by the AEEGSI is being awaited. |
| Acquedotto del Fiora | On 5 October 2016, the AIT approved the tariff with recognition of the Opex _{QC} . Approval by the AEEGSI is being awaited. |
| Umbra Acque | On 30 June 2016, the EGA approved the tariff with recognition of the Opex _{QC} . Approval by the AEEGSI followed in resolution 764/2016/R/idr |

See the paragraph entitled "Information on services under concession" for more details in this regard.

Revenues from the Integrated Water System

The following table indicates for each Company in the Water Segment the amount of revenues in 2016 valorised on the basis of the tariff calculations by the respective EGA or by the AEEGSI. The figures include the adjustments of

the past items and, if applicable, the adjustments of the estimates of the past items from 2014 and 2015, the FNI components, Opex_{qc} and award ex art. 32.1, subsection a) of resolution 664/2015/R/idr.

| Company | Revenues from IWS (pro quota values in € millions) | Breakdown (pro quota values in € millions) |
|----------------------|-------------------------------------------------------|----------------------------------------------------------------------|
| Acea Ato 2 | 533.6 | FNI = 23.7 Award = 23.1 Estimate differences 2014/2015 = - 1.6 |
| Acea Ato 5 | 69.4 | FNI = 3.9 |
| GORI | 67.2 | Estimate differences 2014/2015 = +3.5 |
| Acque | 63.4 | |
| Publiacqua | 89.4 | |
| Acquedotto del Fiora | 38.6 | FNI = 3.2 Opex _{qc} = 0.3 |
| Umbra Acque | 24.2 | |

Acea2.0

With regard to the Companies in the Water Segment, the go live of ACEA Ato5, Crea Gestioni and GESESA occurred in April, contributing towards raising the number of technicians managed by the WFM to about 1,300 individuals. In the second half of the year, the technological platform was expanded to include Acque (July 2016), Acquedotto del Fiora (October 2016), Publiacqua (November 2016) and Umbra Acque (December 2016), and the roll in of GORI (January 2017) was also prepared.

Simultaneously, the kernel solution for the water segment was enhanced by the technological upgrades which enabled the efficiency of some operating processes to be improved, such as for example the performance of in field weather checks and the reduction of the lead time of the initial troubleshooting of faults, through the introduction of automatic systems engaging the operators during calls to the call center. New and important functions were introduced into the IT systems, which have enabled the total integration between the GIS geographical system and the SAP maintenance system to be achieved, defining the former as master of the technical maintenance locations. Integration with the GIS will enable the visualisation of the networks and faults in a single context, guiding the call center operator towards

determining the fault and the association of signals to existing faults. An additional added value element is represented by the possibility of signalling from the field, using the device, any updates or errors detected during the operational phase, so as to keep the GIS system constantly updated and making it progressively more responsive to the real status of assets in the reference area.

The bases required for the acknowledgement of the dispositions of the AEEGSI in Resolution 218/16 were also introduced, concerning metering, and, especially, significant technological upgrades became necessary as a result of the introduction of the Regulation of the Quality of the Integrated Water Service (RQSII) in Resolution 655/2015. The developments introduced have enabled the Companies in the segment to deal with the entry into force of the Regulation in the water sector: the *Service Level Agreements* for the execution of services have been reviewed and functions implemented to monitor them; automatic systems and system restrictions have been introduced to ensure the respect of appointments with customers. In more general terms, tools have been introduced which have enabled – mainly ACEA Ato2 – to agree with the STO the application of an award based mechanism for the achievement of the more stringent SLA of those provided by national regulations.

NETWORKS OPERATING SEGMENT

Operating figures and financial results for the period

| Operating figures | U.M. | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|-------|------------|------------|-----------|-------------|
| Electrical Energy distributed | GWh | 10,009 | 10,557 | (548) | (5.2%) |
| Energy Efficiency Bonds sold/cancelled | Nr. | 120,961 | 222,556 | (101,595) | (45.6%) |
| No. Customers | N/000 | 1,629 | 1,622 | 7 | 0.4% |
| Km of Network | Km | 30,171 | 29,897 | 274 | 0.9% |

| Equity and financial results (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------|------------|------------|-----------|-------------|
| Revenue | 644.8 | 535.7 | 109.1 | 20.4% |
| Costs | 288.6 | 280.0 | 8.5 | 3.0% |
| Gross Operating Profit (EBITDA) | 356.3 | 255.7 | 100.6 | 39.3% |
| Operating profit/(loss) (EBIT) | 255.5 | 165.3 | 90.2 | 50.6% |
| Average number of staff | 1,299 | 1,304 | (5.0) | (0.4%) |
| Capex | 219.6 | 156.2 | 63.4 | 40.6% |
| Net debt | 691.3 | 581.7 | 109.7 | 18.9% |

| (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit NETWORKS | | | | |
| Segment <i>Adjusted</i> * | 244.8 | 255.7 | (10.9) | (4.3%) |
| Gross operating profit GROUP <i>Adjusted</i> * | 784.8 | 732.0 | 52.8 | 7.2% |
| Percentage weight | 31.2% | 34.9% | 3.7 p.p. | |

* The Group EBITDA is given net of the effects of the elimination of the so-called *regulatory lag*

The EBITDA on 31 December 2016 amounted to € 356.3 million, an increase of € 100.6 million compared to that in 2015.

The change in EBITDA is a direct consequence of the increase of the revenues of *areti* following the publication of resolution 654/2015/R/eel by the AEEGSI, which modifies for the fifth regulatory period, beginning on 1 January 2016, the mechanism through which the invested capital of the electricity distribution companies is remunerated, eliminating the so-called *regulatory lag* and putting in place an alternative method of remuneration to the 1% of the WACC provided in the fourth regulatory period and valid for the four years from 2012 to 2015.

Resolution 654/2015 constitutes the tool through which the lawmakers modify the "time" variable in the mechanism of calculating the quantity of the tariff applicable to the distributor. Even more simply, it eliminates the biennial waiting period for investments to be considered in the calculation of the regulatory capital invested. It does not therefore imply any modification to the remuneration model for the *areti* activities. The regulatory changes mean that the value of right of recognition of the cost components linked to the investments made in a given financial year (remuneration of the invested capital and amortisation rate) that arises simultaneously to the realisation of the investments and the beginning of amortisation process can be estimated with reasonable certainty by the end of the reporting period. This has led to the recording of revenues, relevant to the period, amounting to € 111.5 million, of which € 38.5 million referring to investments realised in previous financial years as disciplined by resolution 654/2015/R/eel.

Net of this income item, the *adjusted* EBITDA amounts to € 244.8 million, with a negative difference of € 10.9 million compared to 2015. This decrease is mainly attributable to the reduced income from transport services generated as a combination of two effects: less energy input into the network and reduction of the tariff parameters as a result of

the beginning of the fifth regulatory period. These reduced revenues are only partially compensated by the equalisation effects. The reduction in transport revenues is added to the increase in transport service costs.

With regard to the energy balance, *areti* put into the network 10,801.6 GWh as at 31 December 2016, a decrease of 3.56% compared to 2015, which is in excess of the reduction in demand during the same period nationally (- 2.1%).

The EBITDA in the public lighting sector amounted to € 3.0 million, a reduction of € 4.2 million compared to last year. The negative change is linked to the reduced marginality of works on behalf of third parties, partially mitigated by that deriving from the LED plan started at the end of June on the basis of an agreement with Roma Capitale. As at 31 December 2016, 68,000 light fittings had been installed, for overall revenues amounting to € 17.6 million.

The staff costs reduced by € 6.6 million compared to 31 December 2015, also as a consequence of a reduction in staff numbers; in fact, the average number of staff at the end of the year was 1,299, a reduction of 5 compared to the end of last year.

The operating result is negatively affected by an increase in amortisations, accumulated impairment costs and depreciations of € 9.1 million, mainly attributable to the increase in amortisations (+ € 7.7 million) recorded as a result of the entry into operation of the IT platform developed as of 2015 and part of the wider ranging investment project called *Acea2.0*.

The net debt stood at € 691.3 million, an increase of € 109.7 million compared to the end of 2015, mainly due to *areti* (+ € 120.4 million). This increase is partly attributable to the increase in investments and partly to the increase in net working capital.

Investments in the segment stood at € 219.6 million, an increase of € 63.4 million. The main investments refer to the interventions on the HV, MV and LV network, in addition to a series of interventions for expanding the MV network and extraordinary maintenance of the overhead lines. The investments also include the purchase of 18.51% of the company headquarters at a price of € 22.5 million.

Operating review

Incorporation of Acea Illuminazione Pubblica S.p.A. into areti S.p.A

In the framework of the wider ranging reorganisation of the Group, the partial split-off of Acea Illuminazione Pubblica in favour of areti of the business unit concerning structures in the technical and operating activities relating to "Rome public lighting" became effective at the end of December 2016. Consequently, the split-off unit is now the vehicle through which the Group will take part in tenders for public lighting services.

Energy efficiency objectives

The objective of areti for 2016 is 242,924 Energy Efficiency Bonds and, as provided by Ministerial Decree of 28 December 2012, the Company will have to annul at least 60% of this value by the end of May 2017, in other words 145,754 Energy Efficiency Bonds.

In the first half of the year, areti also annulled 60% of the 2015 bonds, amounting to 120,961 Energy Efficiency Bonds, the unit annulment value of which is € 114.83 as per resolution DMEG/EFR/11/2016 published on 16 June 2016. The same resolution also establishes the estimated reference price for the 2016 bonds as € 118.37/Energy Efficiency Bond.

AEEGSI Supervision

In the light of resolution 110/2016/S/eel published on 4 April 2016, the AEEGSI has approved and made obligatory the commitment proposal submitted by areti as part of the sanctioning procedure undertaken in resolution 300/2013/S/eel of 8 July 2013, concerning the aggregation of measurements for calculating the physical and economic items of the dispatch service.

The company will fulfil the obligations deriving from the commitments in question by the end of the first half of 2017, in compliance with that provided by the Authority on approval of the proposal.

As regards resolution 62/2014/S/eel of the AEEGSI, the notification of the preliminary findings is still being awaited, while as regards resolution 512/2013/S/eel of the AEEGSI, which follows up VIS 60/11, following the petition filed by areti to the Administrative Court of Lombardy, the AEEGSI decided in resolution 14/2016/C/eel to appeal to the Council of State.

Acea2.0

The start-up of the new Work Force Management (WFM) operating management system is part of this programme, the start of which has involved areti with three go lives, on 4 April 2016 for the North Zone, on 14 April 2016 for the SOUTH Zone and on 18 April for the Functional Zone.

With WFM, the Company will manage its working activities more fluidly, through:

- the assignment of all activities in relation to specific individual skills;
- real-time analysis and monitoring and geo-referencing of the operating scenario, through the use of mobile devices by in the field operators. This will mean that the

various operating teams will have available the data required for their work and the workloads will be balanced;

- the sharing of information in a single application, thereby reducing errors deriving from the import/export of data from one system to another and making the recovery of information more flexible and rapid.

The development of this new system will lead to a more innovative conception of work. It will be possible to predict and anticipate the operating scenario, through the projection of the scheduling of activities, obtaining a flexible and effective turnover, capable of responding quickly to any eventual unforeseen changes. The operators will have the possibility of accessing procedures, manuals, updating system information and all the documentation required for their work directly in the field, thereby ensuring increased safety levels in the workplace. The staff at headquarters will receive the reports on interventions as quickly, with the required supplementary information already saved and stored in the systems.

From an operating viewpoint, the start-up in April of Work Force Management has consequently led to the need to centralise the management of the maintenance of the infrastructures of the electricity distribution network and public lighting. In order to integrate the complete management of the maintenance contracts, a new management system has been implemented for the contracts awarded to third parties, changing from a fragmentation of operators to a single procedure subdivided into homogeneous lots.

Also, on 4 December, the new IT systems in support of the metering, billing and credit management (meter to cash) processes were started up through the use of SAP IS-U.

The main objective is to adopt a single IT solution which enables the optimisation of the processes and support activities, also speeding up the operating activities requested by the customers, with the end goal of managing homogeneous trade processes in all the Companies to ensure a single Group vision.

Rebranding

On 20 June 2016, the Shareholders' Meeting of Acea Distribuzione, in fulfilment of the provisions of annex A to resolution 296/2015/R/com of the Authority for Electricity, Gas and the Water System which imposes upon all subjects carrying out activities for the distribution of electricity or natural gas to adopt, no later than 30 June 2016, communication policies, business name, brand, company, logo and any other distinctive element of the business which are for exclusive use by the company and do not therefore contain any elements of text or images that may in any way be connected to the sales activities carried out by the company in an integrated vertical manner or by other companies in the corporate group to which it belongs, decided to change the business name of the Company to areti S.p.A., adopting a new logo for exclusive use by the Company itself as of 1 July 2016.

Technological innovation projects

Smart Grid Project

In resolution ARG\elt 12/11, published on 8 February 2011, the Authority admitted the Smart Grid pilot project of areti for inclusion in the incentives system. This is one of the eight smart grid projects admitted into the incentives system by the Authority nationwide. The incentives system consists of increasing the rate of remuneration of the invested capital by 2 percentage points for 12 years.

The project submitted by areti is broken down into six sub-projects aimed at developing innovative technological

solutions for enhancing the continuity of the service and implementation of new criteria for the management of the distribution network, also in the presence of distributed generation, in accordance with the orientations and general prescriptions of the Authority.

The project, with an overall cost of € 5.5 million and a duration of 5 years, was completed in 2015 and the relevant final report was submitted on 31 March 2016, as provided by resolution 183/2015/R/EEL of 23 April 2015. The Decision by the AEEGSI for the definition of the economic recognition of the project is still being awaited.

Super-fast Internet

The activities concerning the Letter of Intent signed in March 2013 by ACEA, Fastweb and Telecom, and renewed in April 2015 by Fastweb, Telecom and Vodafone, continues, with the objective of expanding the ultra-broadband network in the Rome area, which will enable users to use an Internet connection with a transmission bandwidth of 100 Megabit per second or higher. The agreement, providing for the realisation of about 7,000 (4,600+2,400) new electricity supply points, in addition to guaranteeing the coordination of the business activities of the four companies, limits the inconvenience to inhabitants caused by the opening of roadworks. Given the extension of the perimeter of the agreement, areti will invest until the end of the project (31 December 2017) about € 11 million for the realisation of the power network for latest generation electronic devices.

As at 31 December 2015, areti has activated about 8,900 new electricity supply points, avoiding the superimposition of interventions in the territory involved, for a total length of about 145 km of excavations.

Resilience enhancement of a Metropolitan Area (RoMA) Project

The RoMA project, financed by the Ministry of Education, Universities and Research through the “*Smart Cities and Communities and Social Innovation*” tender (Directorate Decree prot. no. 391/Ric of 5 July 2012) started in November 2013 and has a duration of 36 months.

The objective is to realise tools that are aimed at enhancing the Resilience of the metropolitan area of Rome. The idea of

Resilience is to enable a specific system to effectively overcome the problems (of any nature whatever) that reduce its functionality, enabling the quick and effective recovery of all of its functions. Resilience is therefore constructed not only by attempting to mitigate the consequences of problems once they have occurred but also consists, almost by force majeure, of forecasting and preventing the events in question. The critical infrastructures mainly considered in the project are constituted by the electricity distribution network, the water network and the Telecom telecommunications network located in the area of the city of Rome. The project will involve a total economic commitment of about € 11 million in three years, of which about € 1.5 million charged to areti.

Public Lighting

During the course of 2016, Acea Illuminazione Pubblica has installed a total of 3,153 lighting points on request by the city of Rome and other customers. With regard to the restoration activities following the theft of cables, as at 31 December 2016, about 27 km of new cables have been installed, having already been experimented last year, using a new type of electrical cable made of copper-coated aluminium which, combining a reduced amount of copper with aluminium, gives the primary and main advantage of being difficult to separate the two metals unless industrial processes are used.

On 17 June 2016, the LED Plan was signed with the City of Rome, concerning the realisation of an energy efficiency plan for the public lighting systems in use in Rome, financed by the Capital City Administration, based on the transformation of the lighting devices from the currently used SAP (high Pressure Sodium) to LED. Specifically, the contract provides for the installation of 186,879 armoured systems at a rate of 10,000 per month; the payment involved is 48 million for the entire LED Plan. The contract also provides for mechanisms of incentives/fines for installations above/below the planned number for each two-month period and a reduction of the payment recognised to the City of Rome of 50% of the economic counter value of the Energy Efficiency Bonds due to ACEA for the LED Project.

CORPORATE

Equity and financial results for the period

| Equity and financial results (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------|------------|------------|-----------|-------------|
| Revenue | 112.2 | 113.3 | (1.1) | 0.0% |
| Costs | 114.3 | 113.2 | 1.1 | 0.9% |
| Gross Operating Profit (EBITDA) | (2.0) | 0.2 | (2.2) | n.s.% |
| Operating result (EBIT) | (22.0) | (19.6) | (2.4) | 12.2% |
| Average number of staff | 622 | 634 | (12.0) | 1.9% |
| Net debt | (332.1) | (416.3) | 84.2 | 20.2% |
| Capex | 13.2 | 11.8 | 1.4 | 12.0% |

| (€ million) | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------------|------------|------------|-----------|-------------|
| Gross operating profit CORPORATE | (2.0) | 0.2 | (2.2) | n.s. |
| Gross operating profit GRUPPO <i>Adjusted*</i> | 784.8 | 732.0 | 52.8 | 7.2% |
| Percentage weight | (0.5%) | n.s.% | n.s. | |

* The Group EBITDA is given net of the effects of the elimination of the so-called *regulatory lag*

ACEA closed the 2016 financial year with a negative EBITDA that decreased by € 2 million compared to 31 December 2015, € 2.2 million of which essentially as a result of the different service contract perimeters, especially as regards the *information technology* activities, and those supplied to subsidiaries. In the framework of the Group reorganisation, ACEA conferred the “*Facility Management*” business unit to ACEA Elabiori, given the similarity with the Elabiori activities, with the objective of achieving synergies and efficiency.

The average number of staff as at 31 December 2016 was 624, a reduction compared to 2014 (647). The effect of this reduction, as described in more detail below, is a result of the conferment of the *Facility Management* business unit.

Investments amounted to € 13.2 million, which is an increase of € 1.4 million compared to the end of 2015 (when they amounted to € 11.8 million). IT developments continued during the 2016 financial year, concerning the *Acea2.0* project, the objective of which is to renew the operating model (organisation, processes and systems) of the entire ACEA Group.

The net debt as at 31 December 2016 amounted to € 332.1 million, an improvement of € 84.2 million. This reduction is mainly due to (i) the increase in the receivables from subsidiary companies for remunerated centralised treasury services and loans (ii) the reduction in the liquidity needs generated by changes in working capital, including the payment of payables to suppliers and tax liabilities and those for the investments made.

Significant events in the 2016 financial year

Conferment of the “*Facility Management*” Business Unit

In the framework of the wider ranging plan for the reorganisation of the Group activities, it should be noted that, effective from 1 November 2016, ACEA has conferred to ACEA Elabiori the “*Facility Management*” business unit. This operation is aimed at transferring some services for the rationalisation and enhancement of the quality of activities that are non-strategic and auxiliary to the core business of the Group. The main services carried out by the unit conferred include the management and maintenance of intangible assets, logistical and auxiliary services and utility management.

Inter-company Treasury Contract

In the framework of the centralised management of financial services, the parent company ACEA adopted an inter-company Group treasury system some time ago, including inter-company finance relations, making it operational with many companies in the Group which it had previously signed a multi-annual inter-company finance contract.

A new triennial inter-company finance contract was approved on 1 April 2016, making the previous one obsolete in the framework of the renewal process according to the *Acea2.0* project. On the basis of this contract, ACEA has made available a medium-term *revolving* type loan, the so-called “*Inter-company Finance Line*”. up to the reaching of a predetermined *Plafond* to be allocated for financing the financial requirements for (i) working capital requirements and (ii) making investments.

ACEA has also made available to the companies their own credit lines on signature, for up to an amount equal to the *Plafond* for Banking Guarantees or through the direct release of corporate guarantees for an amount equal to the *Plafond* for Corporate Guarantees.

The functioning of this contract ensures that permanently and daily each company which has specific peripheral bank accounts carries out daily active and passive transactions on the pool bank account of the parent company, zeroing the balance of its own accounts.

In the event of a negative daily inter-company balance, the companies pay interest to the parent company for each year, on the basis of the market interest rate, defined as the weighted mean of the rates applied on the market of capital for so-called hybrid emissions or similar in the utilities sector (reviewable annually, increased if necessary by an additional margin primarily linked to the level of exposure of the beneficiary company with respect to the total *plafond* granted to the Companies in the centralised treasury). The interest rate applied for 2016 ranged from a minimum of 4.62% to a maximum of 5.78%.

In the event of a positive daily inter-company balance, ACEA pays interest to the companies, calculated on a quarterly basis, applying the interest rate resulting from the arithmetic mean of the daily “*EURIBOR 3 months*” rates (source: Bloomberg) during the previous quarter.

The contractual terms applied are, at parity of credit standing and type of financial instrument, in line with those resulting from the reference market and also supported by a benchmark prepared by a primary consultancy firm.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Acea S.p.A.: 2016 – 2020 Industrial Plan approved

On 11 March 2016, the ACEA Board of Directors approved the Group Business Plan for the period 2016-2020. This plan confirms Company strategy is focused on regulated business, the innovation and rationalisation of internal processes, and service quality. Forecasts allow for the new electricity and water distribution regulatory framework, with the consequent optimisation of allocation of resources in the most profitable business segments. Furthermore, there is a hypothesis for acceleration and an expansion of efficiency objectives, especially with reference to the Acea 2.0 project.

At the same meeting the Board of Directors also approved the 2015 Financial Statements and proposed the distribution of a dividend equal to 0.50 euros per share.

Acea S.p.A.: Publication of the lists of candidates for appointment to the Board of Auditors

In relation to the Shareholders' Meeting held on 28 April 2016, the lists of candidates for appointment to the Board of Auditors were regularly deposited at the Company headquarters on 6 April 2016.

Acea S.p.A.: Withdrawal of the Standard & Poor's rating on request by Acea

On 27 April 2016, on request by ACEA, Standard & Poor's withdrew all of its ratings of the Company and the bonds currently in circulation, after confirming the rating in this regard of "BBB-" for the long-term debt and "A-3" for the short-term debt, with a "Stable" outlook.

This decision was derived from a detailed reflection also involving primary Investors and Analysts and is based, among others, on the disagreement with the Standard & Poor's evaluation system, which does not reflect the significant industrial and financial improvements achieved by the ACEA Group in recent years.

Acea S.p.A.: The Shareholders' Meeting approves the 2014 financial statements, approves the distribution of a dividend equal to 0.50 Euros per share and appoints the Board of Auditors

On 28 April 2016, the Acea S.p.A. Shareholders' Meeting approved the Financial Statements and presented the consolidated financial statements as at 31 December 2015. The Shareholders' Meeting also passed a resolution on the use of ACEA S.p.A.'s statutory profit from 2015 and the distribution of a total dividend of € 106,482,450.00, equal to € 0.50 per share, to be paid from 22 June 2016 with detachment date of 20 June and record date of 21 June.

The same Shareholders' Meeting also appointed the new Board of Auditors, defining their remuneration. The Board of Auditors will hold office for three financial years,

and specifically until the approval of the 2018 Financial Statements. The election of the members of the control body was by voting from lists, according to the methods established in articles 15 and 22 of the Articles of Association.

Acea S.p.A.: Resignation of the Board member Diane D'Arras

On 31 May 2016, Diane d'Arras – elected Board member from the list submitted by the Shareholder Suez – an independent and non-executive Board member of Acea SpA and Coordinator of the Related Party Transactions Committee, tendered her resignation from the office of Director, due to the increase in her professional commitments in the Suez Group.

Acea S.p.A.: Publication of the Informative Document on the most significant related party transactions

On 24 June 2016, Acea made available to the public at the company headquarters and on the company website www.acea.it the informative document on the contract concerning the LED Plan, signed by Acea SpA and Roma Capitale on 17 June 2016.

Acea S.p.A.: co-opting of a new member of the Board of Directors

On 28 June 2016, to replace the resigning Board Member Diane d'Arras, nominated by the minority shareholder Suez Italia S.p.A. and on proposal by the same Shareholder, the Acea Board of Directors co-opted. Angel Simon Grimaldos as non-executive Director, pursuant to art. 2386 of the Civil Code and art. 15 of the Articles of Association.

ACEA S.p.A.: Fitch Ratings confirms the "BBB+/F2 rating" and "Stable" outlook

On 3 August 2016, *Fitch Ratings* reported that it had confirmed ACEA's "BBB+" rating on the long-term debt and "F2" on the short-term debt, with a "Stable" outlook.

The reasons given by the Agency in confirming the rating and outlook are the focusing of the Group strategy on regulated businesses, the balanced financial structure and the increased visibility of water and electricity distribution services following the recent tariff updates.

ACEA S.p.A.: announces bid for the purchase of bonds and successfully completes the issue of the 500 million Euro loan with 10 year duration for the EMTN Programme

On 12 October 2016, ACEA announced the launch of a partial buyback transaction aimed at the holders of the Bonds for a cash payment, for a nominal maximum amount of € 300 million. The details of the Bonds involved in the transaction are:

| Description of the bonds | Issuer | Overall nominal value in circulation | Yield offered |
|-----------------------------------------------------------------------------|-------------|--------------------------------------|---------------|
| € 600,000,000 3.750% expiring on 12 September 2018 (the "2018 bonds") | ACEA S.p.A. | € 600,000,000 | (0.1%) |
| € 500,000,000 4.50% expiring on 16 March 2020 (the "2020 bonds") | ACEA S.p.A. | € 500,000,000 | 0.0% |

The Bids were promoted in the framework of the *liability management* strategy of the Bidder aimed at obtaining an extension of the duration of its own debt and managing in advance part of the risk of refinancing in the light of the favourable market conditions. The Bidder must ensure the annulment of the Bonds purchased, which will not be reissued or resold.

On 24 October 2016, ACEA announced the acceptance of the following Series of Bonds:

- Bonds expiring in 2018 amounting to € 269,611,000; and
- Bonds expiring in 2020 amounting to € 77,225,000, for a nominal total of € 346,836,000. The buyback involved a loss of € 31.4 million in addition to the costs concerning the transaction.

Simultaneously, ACEA notified the issuing of a new series of bonds as part of the “€ 1,500,000,000 Euro Medium Term Note” programme updated on 25 July 2016.

On 19 October 2016, ACEA successfully completed the allocation of these bonds for a total amount of € 500 million with a duration of 10 years at a fixed rate, in the framework of the *Euro Medium Term Notes* (EMTN) programme. The outcome of the transaction was very positive, with a request of about twice the offer from high quality Investors with wide-ranging geographical diversification.

The issue was primarily finalised towards the refinancing of the bond acquired by ACEA following the purchase bid of 12 October 2016 and obtaining the extension of the mean duration of the debt of the Company and also the reduction of the mean cost of same, considering the current trend in interest rates, with specific reference to the Euro area.

The bond is exclusively for institutional investors.

The bonds, which have a minimum unitary value of € 100,000.00 and will expire on 24 October 2026, pay a gross annual gain of 1% and have been allocated at an issue price of 98.377%. The bonds are governed by the dispositions of British law. The payment date has been set on 24 October 2016. From said date, the obligations will be quoted on the regulated market of the Luxembourg Stock Exchange, where the informative booklet

for the EMTN programme has been deposited.

ACEA S.p.A.: notifies the signature of the contracts for the purchase of 100% of Idrolatina (which owns 49% of Acqualatina), 19.2% of Geal and 100% of Severn Trent Italia (which owns 64% of Umbriadue Servizi Idrici and 80% of Iseco)

In November, in the framework of the Group's growth strategy, which provides, among other things, for the consolidation of the presence of the Company in the water segment, Acea notified that it had signed the preliminary contracts – not included in the targets of the 2016-2020 Industrial Plan but among the initiatives identified – concerning the purchase: - from the Veolia Group of 100% of Idrolatina, which in turns holds a 49% stake in Acqualatina, for the price of € 22 million. The remaining 51% of the Share Capital of Acqualatina is owned by the Municipalities of the ATO4-Southern Lazio; - from the Veolia Group of 10.2% of Gestione esercizio Acquedotti Lucchesi – GEAL for the price of € 2 million. It must be noted that ACEA already holds a 28.8% stake in GEAL through Crea SpA, and the stake in GEAL consequently increases to 48%; - from the Severn Trent Plc Group 100% of Severn Trent Italia and, indirectly, the 64% stake in Umbriadue Servizi Idrici and 80% stake in Iseco. The purchase price was € 0.4 million. Acea already holds a 34% stake in Umbriadue Servizi Idrici through Crea Gestioni Srl, and its stake in Umbriadue will consequently increase to 98%. The closing of the above-mentioned transactions is subject to the standard suspensive conditions for similar initiatives.

ACEA S.p.A.: Moody's confirms the “Baa2” rating and a “Stable” outlook

On 13 December 2016, Moody's reported that it had confirmed ACEA's “Baa2” rating and the “Stable” outlook.

The reason given by the Agency for confirming the outlook is mainly the positive business mix primarily focusing on regulated activities. The “Baa2” rating reflects, among others, the stable and transparent regulatory framework of the water segment, solid financial structure and improvement in credit metrics.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 20 February 2017, Acea Illuminazione Pubblica submitted a binding bid in the framework of the tender issued by Infratel Italia S.p.A. on behalf of the Ministry of Economic Development, in order to support the development of the infrastructure for the ultra-broadband network in so-called “white areas” in the Marche and Abruzzo regions (Batch 3) and Lazio (Batch 4). The scope of the tender is

the awarding of a fixed-term concession for the design and construction, and also maintenance and management, of a passive public-owned Ultra Broadband infrastructure and the simultaneous supply of passive and active services for access in wholesale mode. The Company had passed the pre-qualification stage for participation in the tender and was invited to do so on 5 December 2016.

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 AND LEGISLATIVE 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 a structure that can consolidate its relations with local and national governments and regulatory bodies.

This structure monitors regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, 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.

The territorial and governance regulations of the Integrated Water Service continue to be subject to specific legislative amendments, with particular regard to the measures concerning the reordering of the discipline of local public services of economic relevance (MADIA Reform) and of an environmental nature with the so-called ex Daga law (S 2343), once it has been approved.

Law No. 68 of 22 May 2015 (published in Official Journal 28 No. 122 on May 2015) approved new regulations on environmental crimes.

In particular, Law 68/2015 introduces the new Title VI-bis -“Crimes against the environment” into the Italian Criminal Code amending art. 257 and 260 of Legislative Decree No. 152/2006.

These new crimes add to the list of unlawful acts for which Authorities can be held responsible in accordance with Legislative Decree No. 231/2001, requiring an update of organisational models.

OPERATING AND ENVIRONMENTAL RISKS

ACEA Ato2 – critical situations concerning irregular discharges

The signature of the Operating Agreement officially sanctioned the obligation to transfer ex lege the integrated water services of the Municipalities in the ATO2 (except for protected services, and subsequently, on the basis of art. 148, paragraph 5 of Legislative Decree no. 152 of 3 April 2006, also of the municipalities with up to 1,000 residents which do not have the right to be part of the I.W.S.). In truth, the times and procedures for the implementation of said transfer were not observed both due to the unwillingness of some Municipal Authorities to transfer the Service, and as it was impossible for the Operator, in particular from 2008, to take over the management of water, sewerage and waste water treatment plants that did not comply with the

provisions of the laws in force to avoid exposing both the Operator and/or its Executives to the consequent criminal charges applied by the magistracy.

The most critical situations in fact are discharges that are still not treated and/or existing waste treatment plants that must be requalified and/or upgraded to meet the new emissions limits set down by the Supervisory and Control Authorities as a result of a different evaluation of the hydrologic structure of receiving water courses or even, the nature of the receiving system (soil instead of water) as some waste water treatment plants discharged onto soil as the water course was dry when inspected.

The situation represents a real environmental emergency requiring administrative action. In fact, in 2008 the Regional Authority signed a “Memorandum of understanding for the implementation of extraordinary reclamation of river, lake and sea resources to solve the discharge emergency in ATO2 – Central Lazio – Rome” to allocate specific funds for the implementation of some plans of action to deal with the emergency.

Today, thanks to a noteworthy technical development and economic commitment, 161 discharges have been collected for water treatment. There are still 83 active discharges of which 51 included in the ACEA Ato2 action plan and 32 that the Municipal or Regional Authorities should eliminate using public funds.

In early 2016, in the light of resolution 644/15, the update of the Plan of Action for the period 2016-2019 was prepared, with further guidelines up to the end of the concession (2032). This Plan is part of the documentation on which the tariff request is based, which on the basis of art. 7.5 of Resolution 664/15 has been sent to the AEEGSI for approval. Said Plan of Action was approved by the Conference of Mayors on 27 July 2016, and subsequently by the AEEGSI in resolution 674 of 17 November 2016, in the context of the approval of the specific regulatory framework, containing the tariff predispositions for the period 2016-2019, proposed by the Conference of Mayors of the ATO2 Central Lazio and Rome.

In the initial management years, from 2003 onwards, investments were made discounting during the start-up phase of the Integrated Water System the lack of knowledge of the systems acquired over time by the Municipalities and the need to prepare a design aimed at solving the most critical problems, especially those in the health and safety sector. The times required for this design and the authorisations required to initial worksites have delayed the realisation of investments in the territory.

The investments made in subsequent year have enabled the recovery of the gap in preceding years, realising increased investments compared to those scheduled in the previous 2014-2017 Plan.

The results achieved also benefitted from the widespread renewal of the organisational system, the processes and the technological systems used from 2013-2014. This renewal has led to improvements in the operating performance of the Company, optimising the organisational set-ups and processes and identifying opportunities for synergies and innovation in support of the strategic objectives.

Thanks to this renewal and the implementation of the design activities developed in past years, it has been possible to increase the production of investments for the realisation of new major works. However, difficulties remain linked to the authorisation phase of the projects, which is still highly critical, especially as regards the public utility declaration

by the Municipalities, particularly Roma Capitale, and the consequent equity procedures aimed at the acquisition of new areas necessary for the works.

In this regard, it must be highlighted that an Extraordinary Commissioner has recently been appointed, by Decree of the Council of Ministers of 9 November 2015, in order to remove the criticalities due to the failure by Roma Capitale to declare the public utility of some strategic projects for overcoming the environmental emergency in the Municipality, with specific reference to the important interventions for the reclamation of some untreated sewerage discharges, such as: the completion of the Ponte Ladrone collector, the Crescenza III Collector, the Magliana-Maglianella VI branch collector, the Acqua Traversa collector, the Rebibbia collector and the Via Veientana collector.

The 2016-2019 Plan, in addition to continuing the commitment to overcome the environmental emergencies that have characterised the concession period, also provides for the increase in the volumes of investment for the expansion and clearance of the water and sewerage networks, increasing the scheduled maintenance and not that for damages, and in the field of treatment, the regularisation of the plants subject to the application of increasingly restrictive authorising procedures and the start of the plan for the rationalisation of the plants, aimed at making management more efficient. In addition to the interventions for the removal of the aforementioned 51 active discharges, the Plan also includes interventions for the complete hygiene and sanitary reclamation of the territory of ATO2, such as the refurbishment or enhancement of obsolete purifiers discharging in the "soil" or in "non-permanent ditches", according to the interpretations/evaluations of the authority responsible for issuing the authorisation or the ascertained change to the water status of the receiving water courses.

ACEA Ato2 – critical elements of the drinking water system

Two critical elements emerged following the acquisition of the Integrated Water Service :

- quality of the water flowing out of the source;
- water shortage mainly in the South of Rome.

As for the first point, the qualitative and quantitative crisis caused by the presence in the territory of water sources that do not comply with the chemical parameters such as those for arsenic and fluorine, which are naturally found in underground water sources of volcanic origin, with the consequent critical situation in terms of the quantity and quality of the water supplied (Municipalities in the district of Castelli Romani and in general those in the volcanic areas of the ATO with over 170,000 inhabitant in fourteen Municipalities), resulted in the Company having to draw up restoration plans to put into action to meet the parameters of Legislative Decree No. 31/2001 as implemented in subsequent investment plans of the Area Plan.

For this purpose the following main interventions were planned and put into action:

- replacement of the local qualitatively critical sources with sources characterised by better qualitative properties;
- mixing water sources free of undesired elements;
- construction of drinking water plants using reverse osmosis or filtration technology.

The above activities were completed with the water purifier called "Madrid" going into service in the Municipality of Trevignano.

Today, as the above activities have been concluded it is therefore necessary to complete the planned interventions, to guarantee the quality of the water supplied in the above-mentioned territories also in unfavourable conditions (such as drought or systems out of service) and increase the reliability of drinking water plants.

As for the second critical element, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to solve this critical situation, such as taking a branch off the Pertuso spring, putting new plants, the Arcinazzo tank and the Ceraso "booster" plant into service.

The efforts of the Company will be focused on creating new plants to increase the available water supply, especially for summer, in the Municipalities of Oriolo Romano, Sant'Orreste, Allumiere (second line), Fiano Romano and Vejano.

As for the second critical element, in other words the water shortage mainly affecting the Colli Albani area, which is supplied by the Simbrivio aqueduct, the Doganella aqueduct and over 140 local wells, over the years various interventions have attempted to solve this critical situation, such as taking a branch off the Pertuso spring, putting new plants, the Arcinazzo tank and the Ceraso "booster" plant into service. Furthermore, of the interventions that aim to deal with the water shortage emergency in the best possible way, in particular in some municipalities to the south of Rome, in summer when consumption increases, particular attention is paid to the management of water resources. For example, in the Municipality of Velletri, to contain the critical situation, water was rationed in shifts with information of availability also provided on company web sites, and Acea Ato 2 used tankers to supply water to the inhabitants. There were similar problems in the Municipality of Olevano, which were however solved.

Energy Segment

With regard to the **Energy Segment**, the main operational risks linked to the activities of the subsidiaries (Acea Energia and Acea Produzione) can be considered 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 taken out a series of insurance policies with leading insurance companies from the start of their operations, to cover *Property Damage, Business Interruption* and *Third Part Liability*. 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

As regards the **Networks Segment**, the main risks in the scope of this industrial 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 the quality, reliability and duration of works;
- 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.

The **risk relating to the effectiveness of investments** basically stems from the increasingly stringent AEEGSI service continuity regulations. The response implemented by ARETI to deal with this risk consists of strengthening the analytical tools used in terms of the functioning of the networks in order to better orient the investments made (for example the ORBT Project) and in the application of new technologies (for example automation of the MV network, smart grid. etc.).

As far as the risk linked to work quality is concerned, ARETI has 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. During the year, the good level in the reputation indicator was confirmed for companies that worked for ARETI.

The risk relating to the ability to meet deadlines arises from the number of entities that 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 refusals 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 with 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 the 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*. There are therefore concrete risks as regards the continuity of performance of the plants, and also related to the fact that personnel with specific management expertise (who are difficult to recruit on the market) are leaving the companies.

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.

From the other viewpoint, 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 concrete 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 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 exposure to within the defined limits, the Group enters into contracts drawn up on the basis of the typologies offered by 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 the risk of variations in the price of electrical energy and natural gas, 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 Segment. The analysis and management of the risks is carried out according to a process the rules for which are approved by the CFO and which involves the execution of activities throughout the entire year, on the basis of different frequencies (annual, monthly and daily). The execution of those activities is distributed between the *Risk Control Unit* and the *Risk Owners*.

Specifically :

- on an annual basis, risk indicator measurements, i.e. limits in force, must be re-examined, and these must be observed in risk management. These activities are the responsibility of the Chief Financial Officer with the help of *Risk Management*;
- on a daily basis, the *Risk Management* Department is required to check the exposure to market risk of the companies in the Energy Segment and to check compliance with the limits defined;
- the relevant reports are sent to the Top Management on a daily and monthly basis. As required by the Internal Control System, the *Risk Control Unit* is responsible for sending ACEA's *Internal Audit* Department the required information in the proper format.

The risk limits of the Energy Segment are defined in such a way as to :

- minimise the overall risk of the entire segment,
- guarantee the necessary operating flexibility in the *provisioning of commodities* and *hedging* activities ,
- reduce the possibility of *over-hedging* deriving from the variation in expected volumes for the definition of hedges.

Market risk can be described as the "Price Risk", i.e. the risk related to the variation in *commodity* prices, and the "Volume Risk", i.e.:

- for Acea Energia this is the risk connected with the variation in the volumes effectively sold compared to estimated volumes in sales contracts with end users (sales profiles),
- for Acea Produzione this is the risk related to the variation in the volumes produced and volumes sold.

Risk analysis and management objectives are as follows:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs,
- to identify, measure, manage and represent the exposure to risk of all ACEA companies operating in the Energy Segment,
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise,
- delegate the job of defining the necessary strategies for hedging individual risks to *Risk Owners*, in respect of pre-established minimum and maximum levels.

The evaluation of risk exposure involves the following activities:

- aggregation of the commodities and structure of the risk books,

- detailed analysis of the time pattern of purchases and sales and limiting open positions, namely the exposure to physical purchases and sales of individual commodities, within set volume limits;
- creation of reference scenarios (prices, indices),
- calculation of risk indicators/metrics (Volumetric exposure, VAR, portfolio PAR, *price range*),
- checking compliance with risk limits in force.

The activities of the Risk Management Department also include daily and “per event” codified checks on the respect of the procedures and risk limits, also in order to respect Law 262/05.

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 everyday management activities.

The Group’s approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.

Specifically, a static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity on 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 in 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 is known, fixed rate funding enables an operator to be immune from the *cash flow* risk, in as much as it stabilises the financial outflows, whilst heightening exposure to the *fair value risk* in terms of changes in the market value of the debt stock.

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 uses financial instruments for planning suitable expenditure and income for optimal treasury management and in order to monitor the trends in the consolidated financial debt, is realised through the centralised management of the treasury, through both the support and assistance supplied by

the subsidiary companies and the associates which are not hedged by a centralised financing contract.

Credit risk

ACEA drew up the guidelines of the *credit policy* some time ago, and they are currently being updated to make them consistent with the Acea 2.0 project and the *Credit Risk Profiling* project, in which different credit management strategies have been identified. The *Collection Strategy* provides that the credit is managed taking into account both the type of customer (public and private) and the conduct of each individual customer (*performance score*). The *credit check* system has been in use for 2 years now on non-regulated markets, through which all new *mass market* and *small business* customers are subjected to checks through customised *scorecards*; the evaluation of the *Large Business* customers is done through an approval workflow with decision-making bodies, in compliance with the expected level of exposure of the supply.

The dynamic management of the debt collection strategies is done in the billing system for active customers and through a specific management system for inactive customers. The Acea2.0 Project also includes a thorough review of the credit management system in terms of both applicative mapping and the standardisation of activities for all companies in the Group, with the definition of a new *Collection Strategy* that is fully integrated in the systems. From an organisation point of view, centralised management was further enhanced during the year through the setting-up of a new department within the Parent Company, responsible for the credit and debt collection policies concerning old customers or those with significant exposure levels. The structures of the individual companies responsible for credit management report to the ACEA department, which ensures the *end to end* supervision of the entire process.

As in previous years, the Group has undertaken *pro soluto* sale, revolving and spot transactions to private customers and Public Administrations this year as well. These transactions have thus led to the complete elimination from the financial statements of the corresponding assets sold, given that all the related risks and benefits were transferred with them.

Risks relating to rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things of 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 collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.

ACEA’s current rating is shown in the following table.

| Company | M/L Term | Short Term | Outlook | Date |
|---------|----------|------------|---------|------------|
| Fitch | BBB+ | F2 | Stable | 03/08/2016 |
| Moody’s | Baa2 | Na | Stable | 13/12/2016 |

Note that on 27 April 2016, on request by ACEA, Standard & Poor’s withdrew its ratings of the Company and the bonds currently in circulation after confirming the rating of “BBB-“ on the long-term debt and “A-3” on the short-term debt, with a “Stable” outlook. This decision is the re-

sult of a detailed review, based among other things on the disagreement with the evaluation method used by Standard & Poor’s, which does not reflect the significant industrial and financial improvements of the ACEA Group in recent years.

OPERATING OUTLOOK

The ACEA Group's results at 31 December 2016 exceed the forecasts even net of the two main extraordinary items, concerning on one hand the elimination of the so-called *regulatory lag* and on the other the effects of the partial buyback of Bonds.

The ACEA Group is continuing to rationalise and increase the efficiency of both corporate processes and operational processes in all business and corporate segments. These goals are pursued also through an extensive development of the IT systems, so that the Company can manage networks and provide services in an innovative way.

The technological development and the change in customers' habits and expectations have created the need for a deep-rooted change in ACEA which is not just technological, but also in organisational and cultural terms. The name of this change is *Acea2.0*.

The digitalisation of processes started in 2015 was the start of a real *business transformation* which involved the reorganisation of business with a major focus on the people who are requalified and totally dedicated to the process of change.

The plan is the realisation of the company's desire to make significant investments which, without affecting the solidity of the Group's financial structure, will have an immediate positive impact on performance, the EBITDA and the billing and receipt processes.

With this process of change and modernisation ACEA will create a Group where competitiveness and the central role played by the customer, become a focus for growth.

Furthermore, we will continue to focus more and more on implementing all the necessary measures aimed at constantly improving the billing and sales process in order to contain working capital growth and the Group's debt.

The ACEA Group's financial structure is solid for years to come. As at 31 December 2016, 730% of the debt is fixed rate, so as to ensure protection against any increases in interest rates as well as any financial or credit volatility. The issuing of the € 500 million bond, which has a duration of 10 years and is fixed rate, is aimed primarily at refinancing the two bonds expiring in 2018 and 2020 bought back by ACEA. Both transactions, the buy back and new issue, are aimed at obtaining an extension of the average lifespan of the net debt of the Company, from 6 years as at 30 September 2016 to 7 years following these transactions. It must also be noted that the reduction in average cost of debt decreased from 3.16% in September 2016 to 2.94% at the end of December.

For 2017, Acea expects the following like-for-like performance:

- an increase in EBITDA in the range of 4% to 6%, with the *adjusted 2016 Margin* (€ 785 million) as the base reference;
- investments in line with 2016 (€ 530 million), the financial year in which the highest ever *capex* was recorded;
- net debt at year end of between € 2.3 and € 2.4 billion.

RESOLUTIONS ON PROFIT FOR THE YEAR AND DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,
in inviting you to approve the financial statements, we propose that the profit of € 108,610,120.05 for the year ended on 31 December 2016 be allocated as follows :

- € 5,430,506.00 to the legal reserve, equal to 5% of the profit,
- € 103,085,734.90 to Shareholders, corresponding to a unit dividend of € 0.485
- € 93,879.15 to retained income.

It is also proposed that the amount of € 28,693,967.45, corresponding to a unit dividend of € 0.135, be allocated through

the use of the reserves of profits from previous years. The total dividend (coupon no. 18) of € 131,779,702.35, equal to € 0.620 per share, will be paid out as of 21 June 2017, with coupon detachment on 19 June and record date on 20 June.

At the date of approval of the financial statements, treasury shares total 416,993.

ACEA S.p.A.
The Board of Directors





CONNECTED TO YOUR WORLD.



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

ACEA SPA 2016 FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The ACEA S.p.A. financial statements for the financial year as at 31 December 2016 were approved by Board of Directors' resolution on 13 March 2017. ACEA is an Italian joint-stock company, with its registered office in Piazzale Ostiense 2, Rome, whose shares are traded on the Milan Stock Exchange.

COMPLIANCE WITH IAS/IFRS

The financial statements have been prepared under the *International Financial Reporting Standards* (IFRS) effective at the balance sheet date, approved by the *International Accounting Standards Board* (IASB) and adopted by the European Union, consisting of the *International Financial Reporting Standards* (IFRS), *International Accounting Standards* (IAS) and interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and *Standing Interpretations Committee* (SIC), collectively referred to as "IFRS" and in accordance with art. 9 of Legislative Decree 38/05. Acea S.p.A. has adopted the *International Financial Reporting Standards* (IFRS) as of 2006, with the date of transition to IFRS established as 1 January 2005. The last financial statements prepared under Italian accounting standards relate to 31 December 2005.

BASIS OF PRESENTATION

The Financial statements for the year ended 31 December 2016 consist of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Shareholders' Equity, all of which have been prepared under IAS 1. They also include notes prepared under the IAS/IFRS currently in effect.

It must be noted that the income statement is classified on the basis of the nature of expenses, the statement of financial position is based on the liquidity method by dividing between current and non-current items, whilst the statement of cash flows is presented using the indirect method.

The Financial statements for the year ended 31 December 2016 have been prepared in Euros and all amounts have been rounded off to the nearest thousand euros, unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (*European Security and Markets Authority*) published its own guidelines (ESMA/2015/1415) on the criteria for the presentation of the alternative performance indicators, which replaced the recommendations of CESR/05-178b as of 3 July 2016. These guidelines have been acknowledged in our system by Notification no. 0092543 of 3-12-2015 emanated by CONSOB. 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, *gross operating profit* is an operating performance indicator and as of 1 January 2014,

includes the summary result of the joint ventures for which the consolidation method has been changed as a consequence of the entry into force of international accounting standards IFRS10 and IFRS11. The *gross operating profit* is the sum of Operating profit and "Amortisation, depreciation, provisions and impairment charges" as they are the main non-cash items. It must be noted that the *adjusted* economic data does not include the positive effect as a result of the elimination of the so-called *regulatory lag* and the negative effect as a result of the buyback of a portion of the bonds issued;

2. the *net financial position* is an indicator of the ACEA Group's financial structure, the sum of 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 when calculating the *net financial position*;
4. *net working capital* is the sum of the current receivables, inventories, balance net of other current assets and liabilities and current payables, excluding the items considered in the calculation of the *net financial position*.

USE OF ESTIMATES AND ASSUMPTIONS

In application of IFRS, preparation of the Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenue, costs, assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date. In making the estimates for the financial statements, the main sources of uncertainty that may have an impact on the evaluation processes are also considered. The actual amounts may differ from such estimates. Estimates are used for the recognition of provisions for credit risk, obsolescent inventories, impairment charges incurred on assets, the recoverability of prepaid tax assets, employee benefits, *fair value* of derivatives, revenue, taxes and other provisions. The original estimates and assumptions are periodically reviewed and the impact of any change is recognised in the income statement.

The estimates have also taken into account assumptions based on market and regulatory parameters and information available when the financial statements were drawn up. The current events and circumstances affecting the assumptions as regards future development and events may, however, change as a result, for example, of changes in the market trends or applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they arise. In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of *impairment* that call for immediate impairment testing. For more details on the methods in question, reference is made to the following paragraphs.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The most significant accounting standards and policies are described below.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (and assets included in disposal groups) classified as held for sale are accounted for at the lower of their previous carrying amount and their market value less sale costs. Non-current assets (and assets included in disposal groups) are classified as held for sale when their carrying amount is expected to be recovered through a sale transaction rather than through their continued use. This condition is only met when the sale is highly probable, the asset (or asset included in a disposal group) is available for immediate sale in its present condition and management is committed to the sale, which is expected to take place within twelve months of the classification of this item.

EXCHANGE RATE DIFFERENCE

Acea S.p.A. and its European subsidiaries have adopted the Euro (€) as their functional and presentation currency. Foreign currency transactions are initially recognised at the exchange rate on the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rate valid at the end of the reporting period. Exchange differences are recognised in the income statement, with the exception of differences deriving from foreign currency loans taken out in order to hedge a net investment in a foreign entity. Such exchange differences are taken directly to shareholders' equity until disposal of the net investment, at which time any differences are recognised as income or expenses in the income statement. The tax effect and tax credits attributable to exchange differences deriving from this type of loan are also taken directly to shareholders' equity. Foreign currency non-monetary items accounted for at historical cost are translated at the exchange rate valid on the date the transaction was initially recorded. Non-monetary items accounted for at fair value are translated using the exchange rate valid at the date the value was determined.

The functional currency used by the Group's Latin American companies is their official national currency. At the date of closure of the financial statements, the assets and liabilities of these companies are converted into ACEA S.p.A.'s presentation currency at the exchange rate on the date of closure of the financial statements, whilst income and expenses are converted at average rates for the period or at the rates valid at the date of the related transactions. Conversion differences, resulting from the use of different rates to convert income and expenses as opposed to assets and liabilities, are taken directly to shareholders' equity and are recognised separately in an appropriate reserve allocated for the purpose. On disposal of a foreign economic activity, the cumulative exchange differences deferred in a separate component of shareholders' equity are recognised in the income statement.

REVENUE RECOGNITION

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to Acea S.p.A., and is measured at fair value of the consideration received or to be received. Depending on the type of transaction, revenue is recognised on the basis of the following specific criteria:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Rendering of services

Revenue is recognised with reference to the stage of completion of the transaction based on the same criteria used for contract work in progress. When the amount of the revenue cannot be reliably determined, revenue is recognised only to the extent of the recognised expenses that are recoverable.

FINANCIAL INCOME

Interest income is recognised on a time proportion basis that takes account of the effective yield on the asset (the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset). Interest is accounted for as an increase in the value of the financial assets recorded in the accounts.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's unconditional right to receive payment is established. Dividend income is classified as a component of financial income in the income statement.

GRANTS

Grants related to plant investments received from both public and private entities are accounted for at *fair value* when there is reasonable assurance that they will be received and that the envisaged conditions will be complied with. Grants related to specific plants whose value is recorded under plant, property and equipment are recognised as non-current liabilities and progressively recognised in the income statement on a straight-line basis over the useful life of the asset to which they refer. Grants related to income (disbursed in order to provide an enterprise with immediate financial aid or as compensation for expenses and losses incurred in a previous period) are recognised in the income statement in full, once the conditions for recognition have been complied with.

CONSTRUCTION CONTRACTS IN PROGRESS

Construction contracts in progress are accounted for on the basis of the contractual payments accrued with reasonable certainty, according to the percentage of completion method (cost to cost), attributing revenue and profits of the contract to the individual reporting periods in proportion to the stage of contract completion. Any positive or negative difference between contract revenue and any prepayments received are recognised under the assets or liabilities.

In addition to contract fees, revenue from construction contracts in progress includes variations, price changes and the payment of incentives to the extent that it is probable that they will form part of actual revenue and that they can be reliably determined. Expected losses are recognised regardless of the stage of contract completion.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of the asset until it is ready for use or sale. Income on the temporary investment of the borrowings is deducted from the capitalised borrowing costs.

All other costs of a similar nature to these are recognised to the income statement from the moment in which they are incurred.

EMPLOYEE BENEFITS

Post-employment employee benefits in the form of defined benefit and defined contribution plans (such as Staff Termination Benefits, Bonuses, Tariff Subsidies, as described in the notes) or other long-term benefits are recognised in the period in which the related right accrues. The valuation of the liabilities is performed by independent actuaries. Such funds and benefits are not financed.

The cost of the benefits involved in the various plans is determined separately for each plan based on the actuarial valuation method, using the projected unit credit method to carry out actuarial valuations at the end of the reporting period.

The profit and loss deriving from the actuarial calculations are recorded in the operating profit, therefore in a specific Equity Reserve, and are not subject to subsequent recognition in the income statement.

TAXATION

Income taxes for the period represent the aggregate amount of current taxes (under the tax consolidation arrangement) and deferred taxes.

Current taxes are based on the taxable profit (tax loss) for the period. Taxable profit (tax loss) differs from the accounting profit or loss as it excludes positive and negative components that will be taxable or deductible in other periods and also excludes items that will never be taxable or deductible. Current tax liabilities are calculated using the tax rates enacted or substantively enacted at the end of the reporting period, and taking account of tax instruments permitted by tax legislation (the domestic tax consolidation regime, tax transparency).

Deferred taxes are the taxes expected to be paid or recovered on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and the corresponding tax bases, accounted for using the equity liability method. Deferred tax liabilities are generally recognised on all taxable temporary differences, whilst deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that, based on the plans approved by the Board of Directors, it is no longer probable that sufficient future taxable profit will be available against which all or part of the assets can be recovered.

Deferred taxes are determined using tax rates that are expected to apply to the period in which the asset is realised or the liability settled. Deferred taxes are directly recognized in the income statement, with the exception of those relating to items directly recognized in shareholders' equity, in which case the related deferred taxes are also recognized in equity.

TANGIBLE ASSETS

Tangible assets are stated at cost, including any directly attributable and necessary costs for making the asset operational for the use for which it is intended, less accumulated depreciation and any accumulated impairment charges.

The cost includes the costs of dismantling and removing the asset and cleaning up the site at which the asset was located, if covered by the provisions of IAS 37. Each component of an asset with a cost that is significant in relation to the total cost of the item, and having a different useful life, is considered separately in determining the amortisation.

Land, whether free of constructions or annexed to civil and industrial buildings, is not depreciated as it has an unlimited useful life.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset, applying the following rates:

| Description | Economic/technical rate | |
|--------------------------------------------------------|-------------------------|--------|
| | MIN | MAX |
| Plant and machinery used in operations | 1.25% | 6.67% |
| Other plant and machinery | | 4% |
| Industrial and commercial equipment used in operations | 2.5% | 6.67% |
| Other industrial and commercial equipment | | 6.67% |
| Other assets used in operations | | 12.50% |
| Other assets | 6.67% | 19% |
| Motor vehicles used in operations | | 8.33% |
| Other motor vehicles | | 16.67% |

Plant and machinery in the course of construction for use in operations, or for purposes yet to be determined, is stated at cost, less any impairment charges. The cost includes any professional fees and, in the case of certain assets, interest expense capitalised in accordance with the Company's accounting policies. Depreciation of such assets, in line with all the other assets, begins when they are ready for use. In the case of certain complex assets subject to performance tests, which may be of a prolonged nature, readiness for use is recognised on completion of the related tests.

Tangible assets are subject annually to a recoverability analysis to record any losses in value (impairment): this analysis is conducted in respect of each tangible assets or, if necessary, in respect of each cash flow generating unit.

All assets held under a financial lease are amortised over their expected useful life, in line with assets that are owned, or, if lower, on the basis of the expiry dates of the lease contracts. Gains and losses deriving from the disposal or retirement of an asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

INVESTMENT PROPERTY

Investment property, represented by property held to earn rentals or for capital appreciation or both, is stated at the purchase cost, including any negotiating costs less accumulated amortisation and any impairment charges.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The rates applied range from a minimum of 1.67% to a maximum of 11.11%.

Investment property is eliminated from the accounts when they are sold or when the property is unusable over the long-term and its sale is not expected to provide future economic benefits.

Sale and lease-back transactions are accounted for based on the substantial nature of the transaction considered in overall terms. Reference should therefore be made to the policy adopted for Leasing.

Any gain or loss deriving from the elimination of an investment property is recognised as income or expense in the income statement in the period in which the elimination takes place.

INTANGIBLE ASSETS

Intangible assets acquired separately or deriving from a business combination

Intangible assets acquired separately are capitalised at cost, whilst those deriving from a business combination are capitalised at *fair value* at the date of acquisition.

After initial recognition, an intangible asset is carried at cost. The useful life of an intangible asset may be defined as finite or indefinite.

Intangible assets are subject annually to a recoverability analysis to record any losses in value (impairment): this analysis is conducted in respect of each tangible assets or, if necessary, in respect of each cash flow generating unit.

The useful life of an asset is reviewed annually and, where applicable, any adjustments are made on a prospective basis. Gains and losses deriving from the disposal of an intangible asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

Research and development costs

Research and development costs are recognised as an expense during the period in which they are incurred. Development costs incurred in relation to a specific project are capitalised when there is reasonable assurance that they will be recovered in future periods. After initial recognition, such costs are carried at cost, which may be reduced by any accumulated amortisation or accumulated impairment charges.

Each capitalised development cost is amortised throughout the period in which the related project is expected to generate future economic benefits.

The carrying amount of development costs is subject to an annual impairment review when the asset is not yet in use, or more frequently when an indicator during the period raises doubts about whether or not the carrying amount is recoverable.

Brands and patents

These assets are initially recognised at cost and amortised on a straight-line basis over the useful life of the asset.

With regard to the amortisation rates, the following is noted:

- development costs are amortised on a straight-line basis over a period of five years based on the expected residual useful life of the asset;
- intellectual property costs are amortised on the basis of a period of presumed utility of three years.

LOSSES IN VALUE (IMPAIRMENT)

As at the closure date of each financial statements, ACEA S.p.A. reviews the value of its tangible and intangible assets and its equity investments to assess whether there is any indication that an asset may be impaired. If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, ACEA S.p.A. estimates the recoverable amount of the cash flow generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The recoverable amount is the higher of an asset's *fair value* less costs to sell and the value in use. In calculating value in use, future cash flow estimates are discounted using a pre-tax rate that reflects current market assessments of the value of money and the risks specific to the business.

If the recoverable amount of an asset (or cash flow generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment charge is immediately recognised as an expense in the income statement, unless the asset is represented by land or buildings, other than investment property, carried at a revalued amount, in which case the impairment charge is treated as a revaluation decrease.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

EQUITY INVESTMENTS

Equity investments in subsidiaries and associates are recognised in the statement of financial position at cost, after taking account of any impairment of the value of individual investments. The purchase or subscription cost, in the case of investments transferred, corresponds to the value estimated by independent experts in accordance with art. 2343 of the Italian Civil Code.

Any excess in the cost of the acquisition over the Company's interest in the fair value of the investee company's shareholders' equity at the date of the acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the equity investment and subject to *impairment* reviews and depreciated if necessary. Any resulting impairment charges are not reversed if the circumstances that led to the impairment no longer exist.

The portion of an impairment that exceeds the value of shareholders' equity is posted to provisions for liabilities and charges, despite the existence of receivables due and until the claim on such receivables is formally waived. The cost of liquidating equity investments is taken into account in the measurement of the investments themselves, regardless of any provisions posted in the financial statements of the related companies.

Equity investments in other companies, held as non-current financial assets and not for trading, are accounted for at *fair value* if determinable: in this case, *fair value* gains and losses are recognised directly in shareholders' equity until the investment is sold, when all the accumulated gains and losses are recognised in the income statement for the period.

Equity investments in other companies for which the *fair value* is unknown are accounted for at cost and written down in the event of anything other than a temporary impairment. Dividend income is recognised in the income statement when the right to receive payment is established and when deriving from distributions of profits subsequent to acquisition of the equity investment. Should dividend income derive from the distribution of reserves formed prior to acquisition of the investment, the amount received is accounted for as a reduction of the cost of the equity investment.

TREASURY SHARES

The cost of purchasing treasury shares is accounted for as a reduction of shareholders' equity. The effects of any subsequent transactions involving the shares are also recognised directly in shareholders' equity.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised at the time ACEA S.p.A. becomes party to the contract terms applicable to the instrument.

Financial assets related to service concession arrangement

With reference to the application of IFRIC 12 to the public lighting service concession, ACEA adopted the Financial Asset Model recognizing a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

Trade receivables and other assets

Trade receivables, which have normal commercial terms, are recognised at face value less estimated provisions reflecting the impairment of receivables.

The estimate of uncollectable amounts is made when it is deemed probable that the company will no longer be able to recover the entire amount due.

Trade receivables refer to the invoiced amount which, at the date of these financial statements, is still to be collected, as well as the receivables for revenues for the period relating to invoices that will be issued later.

Financial assets

Financial assets are recognised and derecognised at the trade date and initially recognised at cost, including any directly attributable acquisition costs.

At each future balance sheet date, the financial assets that the Group has a positive intention and ability to hold to maturity (held-to-maturity financial assets) are recognised at amortised cost using the effective interest method, less any impairment charges applied to reflect impairments.

Financial assets other than those held to maturity are classified as held for trading or as available for sale, and are stated at *fair value* at the end of each period.

When financial assets are held for trading, gains and losses deriving from changes in *fair value* are recognised in the income statement for the period. In the case of financial assets that are available for sale, gains and losses deriving from changes in fair value are recognised directly in a separate item of shareholders' equity until they are sold or impaired. At this time, the total gains and losses previously recognised in equity are recycled through the income statement for the period. The total loss must equal the difference between the acquisition cost and current *fair value*.

The *fair value* of financial instruments traded in active markets is based on quoted market prices (*bid prices*) at the end of the reporting period. The *fair value* of investments that are not traded in an active market is determined on the basis of quoted market prices for substantially similar instruments, or calculated on the basis of estimated future cash flows generated by the net assets underlying the investment.

Purchases and sales of financial assets, which imply delivery within a timescale generally defined by the regulations and practice of the market in which the exchange takes place, are recognised at the trade date, which is the date the Group commits to either purchase or sell the asset.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are initially stated at *fair value*.

After initial recognition, they are carried at the amortised cost on the basis of the effective interest rate method.

At each end of reporting period, the Group assesses if a financial asset, or a group of financial assets have been impaired. A financial asset or a group of financial assets is subject to impairment if, and only if, there is evidence of impairment, as a consequence of one or more events that occurred after initial recognition, which had an impact on future estimated cash flows. Impairment can be shown by indicators such as financial difficulties, failure to meet obligations, non-payment of significant amounts, probability that the debtor goes bankrupt or is subject to another form of financial reorganisation, and if objective data show that there is a measurable decrease in future estimated cash flows.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank accounts and deposits reimbursable on demand and other highly liquid short-term investments, which are readily convertible into cash and are subject to an insignificant impairment risk.

Financial liabilities

These are stated at amortised cost. Specifically, the costs incurred in borrowing the loans (transaction costs) and any issue premiums or discounts are recognised as direct adjustments to the nominal borrowing value of the loan. The net financial costs are consequently re-calculated on the basis of the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are initially recognised at cost and then re-measured to *fair value* at subsequent reporting dates. They are designated as hedging instruments when the hedging relationship is formally documented at its inception and the periodically verified effectiveness of the hedge is expected to be high.

Fair Value Hedges are recognised at *fair value* and any gains or losses are recognised in the Income Statement. Any gains or losses resulting from the *fair value* measurement of the hedged asset or liability are similarly recognised in the Income Statement.

In the case of *Cash Flow Hedges*, the portion of any *fair value* gains or losses on the hedging instrument that is determined to be an effective hedge is recognised in shareholders' equity, whilst the ineffective portion is recognised directly in the Income statement.

Trade payables

Trade payables, which have normal commercial terms, are stated at face value.

ELIMINATION OF FINANCIAL INSTRUMENTS

Financial assets are eliminated when ACEA S.p.A. has transferred all the related risks and the right to receive cash flows from the investments.

A financial liability (or portion of a financial liability) is eliminated from the Statement of Financial Position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is either fulfilled, cancelled or expires.

If a previously issued debt instrument is repurchased, the debt is extinguished, even if the Group intends to resell it in the near future. The difference between the carrying amount and the amount paid is recognised in the income statement.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are made when ACEA has a present (legal or implicit) obligation to meet as a result of a past event, should it be probable that an outflow of resources be required to settle the obligation and the related amount has been reliably estimated.

Provisions are measured on the basis of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and are discounted when the effect is significant.

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED FROM 1 JANUARY 2016

As of 1 January 2016, the following documents have come into force, previously issued by the IASB and endorsed by the European Union, containing amendments to the international accounting standards:

IFRS 11: JOINT ARRANGEMENTS

On 7 May 2014 the IASB published the above *Amendments* to explain the accounting principles for acquisitions of interest in a *joint operation* that represents a *business*. If the *joint operation* is not a business, the acquisition must be recognized as separate acquisition of assets and liabilities without recognition of goodwill, deferred tax assets and by capitalizing any incidental expenses incurred.

IAS 16: PROPERTY, PLANT AND EQUIPMENT; IAS 38: INTANGIBLE ASSETS

On 13 May 2014 the IASB published the amendments to the two standards to explain that the depreciation and amortization methods based on revenues resulting from the *asset* (so-called *revenue-based method*) are not held to be appropriate as they only show the flow of revenues resulting from said *asset* and not, however, the method in which the economic benefits incorporated in the *asset* are used.

IAS 27: SEPARATE FINANCIAL STATEMENTS

By this amendment, the IASB introduced the ability to recognize investments in subsidiaries, associates or *joint ventures* in the separate financial statements using the equity method. This option, which was not permitted before, is in addition to the other two options that have been retained:

- cost method; or
 - at *fair value* in accordance with IAS 39 or IFRS 9.
- The option of using the equity method for all or some categories of investments will have to be applied retrospectively in the separate financial statements.

IMPROVEMENTS TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (2012-2014 CYCLE)

On 25 September 2014 the IASB published the document “*Annual Improvements to IFRSs: 2012-2014 Cycle*”. The document introduces amendments to the following standards:

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** this amendment introduces a specific guidance on IFRS 5 in case an entity reclassifies an asset (or a disposal group) from the held-for-sale category to the held-for-distribution category (or vice versa), or when the requirements for classification of an asset as held-for-distribution are no longer satisfied. The amendments establish that: (i) such reclassification should not be considered as a change to a marketing plan or to a distribution plan and that the same classification and evaluation criteria continue to be valid, (ii) the assets that no longer meet the criteria for the *held-for-distribution clas-*

sification should be treated the same way as an asset that ceases to be classified as *held for sale*.

- **IFRS 7 Financial Instruments: Disclosure** *Servicing contracts* - The document regulates the introduction of additional guidance to clarify whether a *servicing contract* constitutes continuing involvement in a transferred asset for the purpose of disclosures on transferred assets. Paragraph 42C(c) of IFRS 7 states that an agreement under which an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entity does not in itself constitute continuing involvement for the purpose of applying transfer disclosure requirements. However, in practice, most of the contracts have additional aspects that lead to residual involvement in the asset: for example, when the amount and/or the term of the *servicing fee* are linked to the amount and/or term of the net collected cash flows. The proposed amendments, which will be applicable prospectively, should therefore add guidance on this aspect. *Applicability of the amendments to IFRS 7 on offsetting disclosure to condensed interim financial statements* - The document clarifies doubts regarding disclosures about offsetting financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2013) in the interim financial statements and, where disclosure is required, whether the obligation applies to all interim financial statements after 1 January 2013 or to the interim report of the first year of application only. The document clarifies that the disclosure about offsetting financial assets and liabilities is not explicitly required for all interim financial statements. However, such disclosures may be necessary to fulfil the requirements of IAS 34, if the information is material.
- **IAS 19 Employee Benefits – Discount rate: regional market issue** This document introduces amendments to IAS 19 to clarify that the high quality corporate bonds used to determine the discount rate of Staff termination benefits should be issued in the same currency used for the payment of benefits. The proposed amendments clarify that the scope of the high quality corporate bond market to consider is the same as that of the currency.
- **IAS 34 Interim Financial Reporting – Disclosure of information “elsewhere in the interim report”:** the document proposes amendments to clarify the requirements when the information required is presented in the interim financial report but not in the interim financial statements. The amendment clarifies that said information is to be included through a *cross-reference* from the *interim financial statements* and other parts of the *interim financial report* and that said document has to be made available to people reading the financial statements in the same way and at the same time as for the *interim financial statements*.

AMENDMENTS TO IAS1 DISCLOSURE INITIATIVE

The amendments to IAS1 clarify some of the existing requirements of this principle, such as:

- the material nature of IAS1,
- the fact that specific lines in the tables of the financial year profit/(loss) of other components of the comprehensive income statement or statement of financial position may be separated,

- the fact that there is a certain amount of flexibility as regards the order of the notes to the financial statements,
- the fact that the other components of the comprehensive income statement concerning associates and Joint ventures carried using the equity method must be presented together in a single line and classified among the items that will not subsequently be classified in the income statement,
- a summary of the significant accounting standards applied, including:
 - the base (or bases) of measurement used in drawing up the financial statements;
 - the other accounting standards used to facilitate understanding of the financial statements.

The amendments also clarify the requirements that are applicable when sub-totals to the financial year profit/(loss) or the other components of the comprehensive income statement of the statement of financial position are presented.

AMENDMENTS TO IAS 19 DEFINED BENEFITS PLAN: EMPLOYEE CONTRIBUTIONS

IAS 19 requires that an entity must consider the employee or third party contributions in accounting the defined benefit plans. When contributions are linked to the service rendered, they should be attributed to periods of service as a negative benefit. This amendment clarifies that if the total of the contributions is independent of the number of years of service, the entity is allowed to recognise these contributions as a reduction in the service cost for the period in which services are rendered rather than allocate the contribution to the period of service.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER THE END OF THE YEAR AND NOT ADOPTED IN ADVANCE

IFRS 9 FINANCIAL INSTRUMENTS

On 25 July 2014 the IASB published IFRS 9 Financial Instruments which addresses the classification and measurement of financial instruments, the *impairment* model and *hedge accounting*.

IFRS 9 replaces the accounting rules laid down by IAS 39 with regard to the recognition and measurement of financial instruments, including hedging transactions.

The standard envisages the following three categories for the classification of financial assets:

- financial assets measured at amortised cost;
- financial assets at fair value through profit or loss ("FVTPL");
- financial assets at fair value through other comprehensive income ("FVOCI").

With reference to this classification, the following additional provisions should be noted:

- "*non-equity trading instruments*", which should be classified as FVTPL, can be classified in the FVOCI category on the basis of an irrevocable decision of the reporting entity. In this case, the changes in *fair value* (including foreign exchange differences) are recognized in OCI and will never be reclassified in Profit/(loss) for the year;
- if the financial assets classified in the "*amortised cost*" or "FVOCI" category give rise to an "*accounting mismatch*", the reporting entity can irrevocably decide to use the "*fair value option*" by classifying these financial assets in the "FVTPL" category;
- with reference to "*debt instruments*" classified as FVOCI, it must be noted that interest income, *expected credit losses* and foreign exchange differences will have to be recognized in the profit/(loss) for the year. Conversely, the other effects arising from measurement at *fair value*, will be recognized in the Other Comprehensive Income and will be reclassified in the profit/(loss) for the year only if the financial asset is derecognized.

With regard to financial liabilities the standard proposes the classification already provided in IAS 39 but introduces an important innovation for financial liabilities classified as "FVTPL", as the portion of the change in *fair value* attributable to own credit risk will have to be recognized in OCI rather than in Profit/(loss) for the year as currently required by IAS 39. Thus, under IFRS 9, when an entity experiences a worsening in its credit risk, despite having to reduce the value of its liabilities at fair value, the effect of this reduction attributable to own credit risk will not lead to positive effects in profit/(loss) for the year but in the *Other Comprehensive Income*.

IFRS 9 introduces a new impairment model based on expected losses. The entity shall, immediately and regardless of whether a "trigger event" has occurred, recognize the expected future losses on financial assets, and must continually adjust the estimate, taking also into account the changes in the counterparty's credit risk, on the basis not only of past and current circumstances and data, but also paying due attention to future forecasts. The estimate of future losses should initially be made by reference to the expected losses over the next 12 months, and subsequently, with reference to the total losses over the life of the asset. Expected losses over the next 12 months are the portion

of the losses that would be incurred upon occurrence of a counterparty's event of default, within 12 months from the reporting date, and are calculated as the product of the maximum loss and the probability a default event occurs.

The total losses over the life of the financial asset are the present value of the average future losses multiplied by the probability that a default event occurs in the life of the financial asset.

IFRS 9 introduces a *hedge accounting* model designed to represent in the financial statements the effect of an entity's risk management activities, focusing on the circumstance that if a risk item can be identified and measured, regardless of the type of risk and/or item, hedge accounting can be applied to the instrument used to hedge such risk, the only limitation being that the risk may affect the income statement or the statement of other comprehensive income (OCI).

In addition, the standard enables entities to use information produced internally as a basis for *hedge accounting*, without having to prove that they meet complex criteria and metrics designed solely for accounting purposes. The main changes concern:

- effectiveness test: the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged item and the hedging instrument (e.g. if there is a loss on the former there must be a profit on the latter);
- Covered items: not only financial assets and liabilities but any item or group of items as long as the risk is separately identifiable and measurable;
- cost of the hedge: the *time value* of an option, the *forward points*, the *spread* on a currency can be excluded from *hedge accounting* and recognized immediately as the cost of the hedge; accordingly, all *mark to market* fluctuations can then be temporarily recognized in the other comprehensive income (OCI);
- disclosure: a broader description of the risks hedged and the instruments used is provided, replacing the current disclosure based on the distinction between *cash flow hedges* and *fair value hedges*; these are accounting terminologies that often confuse investors, who are clearly more interested in risks and how they are hedged than in the accounting categories of these instruments.

The standard applies from 1 January 2018, though earlier application is permitted.

ACEA has performed an analysis for a preliminary evaluation of the impact of IFRS9. This evaluation, which is still in progress, may be subject to changes following the more detailed analysis to be completed during the first quarter of 2017. ACEA will choose the initial application method after this analysis.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014 IASB and FASB jointly published the new provisions for accounting revenues, after more than a decade of studies and consultation. In 2017 the new standard will replace IAS 18 (Revenues) and IAS 11 (Work in progress).

The fundamental steps for the accounting of revenue are:

- identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;
- identify the obligations (distinctly identifiable) in the contract;
- determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial components;
- allocate the price to each "performance obligation";
- recognise the revenue when the obligation is regulated, allowing for the fact that the services may not be provided at a specific time, but over a period of time.

The standard should not introduce particular differences to accounting the most common operations. Greater differences in the times required to recognise and determine amounts should be indicated in medium/long-term service contracts and agreements containing several obligations, on the basis of which the operators reported the major criticalities of the current regulation. The *disclosure* on revenue should be improved by providing more extensive qualitative and quantitative information so *stakeholders* can clearly understand the content and important elements to determine revenues.

The standard applies from 1 January 2018, though earlier application is permitted.

In April 2016, the IASB published some clarifications, which mainly consist of:

- identifying a service obligation (the promise to transfer an asset or a service to a customer) in a contract;
- determining whether a company is the contractor (the supplier of an asset or service) or an agent (responsible for organising the asset or service to be supplied); and
- determining whether the revenue deriving from the asset under concession should be recognised at a given time or throughout the duration of the concession.

In addition to these clarifications, the amendments include two additional findings to reduce costs and complexity for a company when initially applying the new standard.

The clarifications also apply from 1 January 2018, though earlier application is permitted.

ACEA has performed an analysis for a preliminary evaluation of the impact of IFRS15. This evaluation, which is still in progress, may be subject to changes following the more detailed analysis to be completed during the first quarter of 2017. ACEA will choose the initial application method after this analysis.

IFRS 16 LEASES

Issued in January 2016 to replace the previous standard on leasing, IAS 17 and the relevant interpretations, it identifies the criteria for recording, measurement and presentation and also the disclosure required with regard to leasing contracts for both parties to the contract, the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment between operating leases (the information for which is not in the financial statements) and financial leases (which are in the financial statements). The right to use an asset under leasing ("*right of use*") and the commitment undertaken will emerge in the financial information (IFRS 16 will be applicable to all transactions including the right of use, independently of the contractual form, i.e. leasing, rental or hiring). The main novelty is the introduction of the concept of control in the

definition. specifically, to determine whether a contract represents a lease or not, IFRS 16 requires it to be checked that the lessee has or does not have the right to control the use of a specific asset for a specific period of time.

There will not be any symmetry in accounting with the lessees; there will still be a separate accounting treatment according to whether the contract is an operating lease or a financial lease (on the basis of the guidelines in force today). On the basis of the new model, the lessee should state:

- a) in the Statement of financial position, the assets and liabilities of all leasing contracts with a duration of more than 12 months, unless the underlying assets are of modest value; and
- b) in the Income statement, the amortisations of the assets concerning the leases separately from the interest on the related liabilities.

As regards the lessor, the new standard should have a lesser impact on the financial statements (unless so-called "sub-leases" are undertaken), given that the current accounting will not change, except for the financial disclosure which must be quantitatively and qualitatively in excess of the previous one. The standard will apply from 1 January 2019, though earlier application is permitted should IFRS 15 – Revenue from contracts with customers also have been applied.

AMENDMENTS TO IAS12 - RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

Issued in January 2016, it provides clarifications on the methods of recording advance taxes concerning debt instruments valued at *fair value*. These amendments clarify the requirements for recording advance taxes with regard to unrealised losses, in order to eliminate the diversities in accounting practices. The amendments will be applicable, after endorsement, from financial years starting on 1 January 2017 or later. Earlier application is permitted.

"AMENDMENTS TO IAS 7: DISCLOSURE INITIATIVE"

Issued in January 2016, the amendments are applied to the assets and liabilities deriving from financing activities, defined as the assets and liabilities for which the cash flow has been or will be classified in the statement of cash flows as "cash flow from financing activities". The amendments require the *disclosure* of the changes to these assets/liabilities, distinguishing cash changes from non-cash changes (i.e. differences as a result of the effect of changes in exchange rates and changes in *fair value*). The IASB has advised that this disclosure be given in a reconciliation table between the balances at the start of the reporting period and those at the end for these assets/liabilities. The amendments are applicable from financial years starting on 1 January 2017 or later.

"AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS"

Issued in June 2016, these amendments:

- clarify that the fair value of a transaction with share-based payment settled in cash on the date of valuation (i.e. date of allocation, closure of each reporting period and rate of settlement) must be calculated taking into consideration the market conditions (for example: a target of the price of shares) and the conditions other than maturing, ignoring the conditions of service life and the conditions for achieving results other than the market results;

- clarify that share-based payments that are paid net of withholding at source should be entirely classified as transactions settled by shares (as long as they would have been classified as such if they had not been paid for net of withholding at source);
- provide information on the accounting treatment of the amendments under the terms and conditions determin-

ing the change of classification of share-based payments settled in cash to share-based payments settled through the issuing of shares.

The amendments will be applicable, after endorsement, from financial years starting on 1 January 2017 or later. The Group does not expect the future application of the amendments to have any impact.

INCOME STATEMENT

| Note Ref. | INCOME STATEMENT | 31.12.2016 | Related Parties | 31.12.2015 | Related Parties | Variation |
|-----------|---------------------------------------------------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| 1 | Revenue from sales and services | 172,761,892 | 168,903,126 | 168,975,160 | 163,114,164 | 3,786,732 |
| 2 | Other revenue and proceeds | 11,724,726 | 8,110,638 | 11,115,888 | 9,415,026 | 608,838 |
| | Net revenue | 184,486,618 | 177,013,764 | 180,091,048 | 172,529,190 | 4,395,570 |
| 3 | Staff costs | 47,232,084 | | 50,282,857 | | (3,050,772) |
| 4 | Costs of materials and overheads | 143,850,505 | 87,038,435 | 133,267,564 | 47,066,292 | 10,582,941 |
| | Operating costs | 191,082,589 | 87,038,435 | 183,550,421 | 47,066,292 | 7,532,169 |
| | Gross Operating Profit | (6,595,971) | 89,975,330 | (3,459,373) | 125,462,897 | (3,136,598) |
| 5 | Amortisation, depreciation, provisions and impairment charges | 24,565,384 | 0 | 9,810,941 | 0 | 14,754,443 |
| | Operating profit/(loss) | (31,161,355) | 89,975,330 | (13,270,314) | 125,462,897 | (17,891,041) |
| 6 | Financial income | 89,784,351 | 87,324,953 | 95,091,728 | 93,081,393 | (5,307,377) |
| 7 | Financial costs | 102,829,838 | 182,810 | 79,198,262 | 273,908 | 23,631,576 |
| 8 | Profits on Equity Investments | 146,246,661 | 146,246,661 | 146,438,113 | 146,438,113 | (191,452) |
| 9 | Losses on Equity Investments | 408,097 | 408,097 | 171,669 | 171,669 | 236,428 |
| | Profit/(loss) before tax | 101,631,722 | 322,956,036 | 148,889,597 | 364,536,827 | (47,257,875) |
| 10 | Taxation | (6,978,398) | 110,680,427 | 3,284,085 | (84,183,880) | (10,262,483) |
| | Net profit/(loss) from continuing operations | 108,610,120 | 212,275,610 | 145,605,512 | 448,720,707 | (36,995,391) |
| | Net profit/(loss) | 108,610,120 | 212,275,610 | 145,605,512 | 448,720,707 | (36,995,391) |

Amounts in Euros

STATEMENT OF COMPREHENSIVE INCOME

| STATEMENT OF COMPREHENSIVE INCOME | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------------------------|----------------|-----------------|-----------------|
| Net profit/(loss) | 108,610 | 145,606 | (36,995) |
| Provision for exchange rate difference | (10,051) | (14,878) | 4,827 |
| Tax on exchange rate difference | 2,412 | 4,531 | (2,119) |
| Gains/losses from exchange rate difference | (7,639) | (10,347) | 2,708 |
| Effective portion of the profit/(loss) on hedging instruments ("cash flow hedge") | 9,916 | 23,979 | (14,063) |
| Tax effect on the other profit/(loss) on hedging instruments ("cash flow hedge") | (2,380) | (8,110) | 5,730 |
| Profit/(Loss) from the effective portion on hedging instruments net of tax | 7,536 | 15,870 | (8,334) |
| Actuarial Profit/(Loss) on staff benefits included in the Shareholders' Equity | (1,466) | (1,613) | 147 |
| Tax effect on the other actuarial profit/(loss) on staff benefit plans | 378 | (626) | 1,004 |
| Actuarial profit/(loss) on defined benefit pension plans net of tax | (1,088) | (2,238) | 1,151 |
| Total of the comprehensive income components, net of tax | (1,191) | 3,285 | (4,475) |
| Total comprehensive profit/(loss) | 107,420 | 148,890 | (41,471) |

Amounts in thousand Euros

STATEMENT OF FINANCIAL POSITION

| Notes Ref. | ASSETS | 31.12.2016 | Related Parties | 31.12.2015 | Related Parties | Variation |
|------------|---------------------------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|
| 11 | Property, plant and equipment | 93,301,175 | 0 | 151,398,072 | 0 | (58,096,897) |
| 12 | Investment property | 2,605,762 | 0 | 2,697,177 | 0 | (91,416) |
| 13 | Other intangible fixed assets | 13,138,131 | 0 | 13,411,383 | 0 | (273,252) |
| 14 | Equity investments in subsidiaries and associates | 1,781,227,062 | 0 | 1,768,902,192 | 0 | 12,324,870 |
| 15 | Other equity investments | 2,350,061 | 0 | 2,350,061 | 0 | 0 |
| 16 | Deferred tax assets | 28,368,892 | 0 | 32,608,803 | 0 | (4,239,911) |
| 17 | Financial assets | 237,624,785 | 237,499,285 | 121,912,954 | 121,688,248 | 115,711,830 |
| 18 | Other non-current assets | 505,744 | 0 | 505,913 | 0 | (169) |
| | NON-CURRENT ASSETS | 2,159,121,611 | 237,499,285 | 2,093,786,555 | 121,688,248 | 65,335,056 |
| 19.a | Contract work in progress | 270,461 | 0 | 270,461 | 0 | 0 |
| 19.b | Trade receivables | 4,517,468 | 826,051 | 7,829,256 | 3,861,484 | (3,311,788) |
| 19.c | Intragroup trade receivables | 57,496,399 | 57,496,399 | 95,984,081 | 95,984,081 | (38,487,682) |
| 19.d | Other current assets | 25,377,834 | 2,344,743 | 24,070,128 | 2,342,631 | 1,307,707 |
| 19.e | Current financial assets | 5,617,294 | 0 | 5,633,545 | 0 | (16,252) |
| 19.f | Intragroup current financial assets | 1,499,970,797 | 1,499,970,797 | 1,195,870,014 | 1,195,870,014 | 304,100,783 |
| 19.g | Current tax assets | 77,372,271 | 36,052,908 | 47,484,321 | 24,608,700 | 29,887,950 |
| 19.h | Cash and cash equivalents | 577,333,987 | 0 | 773,511,579 | 0 | (196,177,592) |
| 19 | CURRENT ASSETS | 2,247,956,510 | 1,596,690,898 | 2,150,653,385 | 1,322,666,910 | 97,303,125 |
| | TOTAL ASSETS | 4,407,078,122 | 1,834,190,182 | 4,244,439,940 | 1,444,355,159 | 162,638,182 |

Amounts in Euros

| Notes Ref. | LIABILITIES | 31.12.2016 | Related Parties | 31.12.2015 | Related Parties | Variation |
|------------|------------------------------------------------------------|----------------------|--------------------|----------------------|--------------------|--------------------|
| | Shareholders' equity | | | | | |
| 20.a | share capital | 1,098,898,884 | 0 | 1,098,898,884 | 0 | 0 |
| 20.b | statutory reserve | 95,188,150 | 0 | 87,907,874 | 0 | 7,280,276 |
| 20.c | reserve for treasury shares | 0 | 0 | 0 | 0 | 0 |
| 20.d | other reserves | 69,100,401 | 0 | 72,222,702 | 0 | (3,122,301) |
| | retained earnings/(losses) | 84,707,292 | 0 | 52,656,010 | 0 | 32,051,282 |
| | profit (loss) for the year | 108,610,120 | 0 | 145,605,512 | 0 | (36,995,392) |
| 20 | SHAREHOLDERS' EQUITY | 1,456,504,846 | 0 | 1,457,290,981 | 0 | (786,135) |
| 21 | Staff termination benefits and other defined benefit plans | 26,443,781 | 0 | 29,846,837 | 0 | (3,403,056) |
| 22 | Provision for liabilities and charges | 37,002,454 | 0 | 42,786,400 | 0 | (5,783,946) |
| 23 | Borrowings and financial liabilities | 2,516,727,243 | 0 | 2,400,100,260 | 0 | 116,626,983 |
| 24 | Other liabilities | 0 | 0 | 0 | 0 | 0 |
| 25 | Provision for deferred taxes | 4,796,132 | 0 | 6,655,307 | 0 | (1,859,174) |
| | NON-CURRENT LIABILITIES | 2,584,969,611 | 0 | 2,479,388,804 | 0 | 105,580,807 |
| 26.a | Borrowings | 105,192,198 | 81,507,899 | 77,569,663 | 53,814,418 | 27,622,535 |
| 26.b | Trade payables | 206,553,391 | 97,497,909 | 155,686,721 | 50,718,070 | 50,866,670 |
| 26.c | Tax Payables | 36,543,734 | 9,129,171 | 55,847,952 | 26,656,133 | (19,304,218) |
| 26.d | Other current liabilities | 17,314,341 | 0 | 18,655,820 | 0 | (1,341,478) |
| 26 | CURRENT LIABILITIES | 365,603,664 | 188,134,979 | 307,760,154 | 131,188,622 | 57,843,510 |
| | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 4,407,078,122 | 188,134,979 | 4,244,439,940 | 131,188,622 | 162,638,182 |

Amounts in Euros

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2015

| € thousand | Share capital | Statutory reserve | Demerger reserve | Reserve for exchange differences | Reserve from valuation of financial instruments | Revenue reserves and actuarial profit/(loss) | Other reserves | Accumulated profit/(loss) | Profit/(loss) for the period | Total shareholders' equity |
|----------------------------------------------------------------------|------------------|-------------------|------------------|----------------------------------|-------------------------------------------------|----------------------------------------------|----------------|---------------------------|------------------------------|----------------------------|
| Balances as at 1 January 2015 | 1,098,899 | 83,428 | 102,567 | 19,894 | (48,773) | (7,542) | (3,778) | 63,181 | 89,601 | 1,397,478 |
| Appropriation of result for 2014: | | | | | | | | | | |
| Final distribution of dividends | | | | | | | | (10,546) | (85,101) | (95,647) |
| Statutory reserve | | 4,480 | | | | | | | (4,480) | 0 |
| Retaining earnings/ Loss coverage | | | | | | | | 21 | (21) | 0 |
| Other changes | | | | | | | 6,569 | | | 6,569 |
| Comprehensive income (loss) recorded in the period: | | | | | | | | | | |
| Profit and losses booked directly to Shareholders' equity net of tax | | | | (10,347) | 15,870 | (2,238) | | | | 3,285 |
| Distribution of advance on dividends | | | | | | | | | | 0 |
| Profit for the period | | | | | | | | | 145,606 | 145,606 |
| Total as at 31 December 2015 | 1,098,899 | 87,908 | 102,567 | 9,548 | (32,903) | (9,781) | 2,791 | 52,656 | 145,606 | 1,457,291 |

Amounts in thousand Euros

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2016

| € thousand | Share capital | Statutory reserve | Demerger reserve | Reserve for exchange differences | Reserve from valuation of financial instruments | Revenue reserves and actuarial profit/(loss) | Other reserves | Accumulated profit/(loss) | Profit/(loss) for the period | Total shareholders' equity |
|----------------------------------------------------------------------|------------------|-------------------|------------------|----------------------------------|-------------------------------------------------|----------------------------------------------|----------------|---------------------------|------------------------------|----------------------------|
| Balances as at 1 January 2016 | 1,098,899 | 87,908 | 102,567 | 9,548 | (32,903) | (9,781) | 2,791 | 52,656 | 145,606 | 1,457,291 |
| Appropriation of result for 2015: | | | | | | | | | | |
| Final distribution of dividends | | | | | | | | | (106,274) | (106,274) |
| Statutory reserve | | 7,280 | | | | | | | (7,280) | 0 |
| Retaining earnings/ Loss coverage | | | | | | | | 32,051 | (32,051) | 0 |
| Other changes | | | | | | | (1,932) | | | (1,932) |
| Comprehensive income (loss) recorded in the period: | | | | | | | | | | |
| Profit and losses booked directly to Shareholders' equity net of tax | | | | (7,639) | 7,536 | (1,088) | | | | (1,191) |
| Distribution of advance on dividends | | | | | | | | | | 0 |
| Profit for the period | | | | | | | | | 108,610 | 108,610 |
| Total as at 31 December 2016 | 1,098,899 | 95,188 | 102,567 | 1,909 | (25,367) | (10,868) | 860 | 84,707 | 108,610 | 1,456,505 |

Amounts in thousand Euros

STATEMENT OF CASH FLOWS

| | 31.12.2016 | Related Parties | 31.12.2015 | Related Parties | Variation |
|--------------------------------------------------------------------------------------|------------------|------------------|--------------------|------------------|--------------------|
| Cash flow from operating activities | | | | | |
| Profit before taxes | 101,632 | | 148,890 | | (47,258) |
| Depreciation/amortisation | 16,163 | | 16,195 | | (32) |
| Revaluations/impairment charges | (141,868) | | (144,894) | | 3,027 |
| Increase/(decrease) in provisions for liabilities | (5,784) | | (13,781) | | 7,997 |
| Net increase/(decrease) in staff termination benefits | (5,049) | | (3,676) | | (1,373) |
| Net financial interest expense | 13,045 | | (15,893) | | 28,939 |
| Income taxes paid | 0 | | (2,269) | | 2,269 |
| Cash flow generated by operating activities before changes in working capital | (21,861) | 0 | (15,429) | 0 | (6,432) |
| Increase in current receivables | 37,012 | 41,523 | (45,199) | (53,141) | 82,211 |
| Increase/decrease in current payables | 50,867 | 46,780 | 33,083 | (19,860) | 17,784 |
| Increase/(decrease) in inventories | 0 | | 0 | | 0 |
| Change in working capital | 87,879 | 88,303 | (12,116) | (73,002) | 99,995 |
| Change in other assets/liabilities during the period | (42,482) | (11,444) | 18,839 | 12,380 | (61,321) |
| TOTAL CASH FLOW FROM OPERATING ACTIVITIES | 23,536 | 76,859 | (8,706) | (60,622) | 32,242 |
| Cash flow from investment activities | | | | | |
| Purchase/sale of property, plant and equipment and intangible assets | 42,299 | | (11,703) | | 54,002 |
| Equity investments | (13,848) | | (32,309) | | 18,461 |
| Proceeds/payments deriving from other financial investments | (308,532) | (419,912) | 1,097,439 | 912,830 | (1,405,971) |
| Dividends received | 128,310 | 128,310 | 101,788 | 101,788 | 26,522 |
| Interest income received | 11,985 | (93,233) | 15,195 | (7,031) | (3,210) |
| TOTAL | (139,787) | (384,835) | 1,170,410 | 1,007,587 | (1,310,197) |
| Cash flow from financing activities | | | | | |
| Repayment of borrowings and long-term loans | 590,257 | | (356,562) | | 946,820 |
| Disbursement of borrowings/other medium/long-term loans | (500,000) | | 0 | | (500,000) |
| Decrease/increase in other short-term borrowings | 27,561 | 27,693 | (852,388) | (851,821) | 879,950 |
| Interest expense paid | (91,472) | (4,787) | (62,036) | (23) | (29,436) |
| Dividends paid | (106,274) | (106,274) | (95,647) | (95,647) | (10,627) |
| TOTAL CASH FLOW | (79,927) | (83,368) | (1,366,633) | (947,490) | 1,286,706 |
| Cash flows for the period | (196,178) | (391,343) | (204,929) | (525) | 8,751 |
| Net opening balance of cash and cash equivalents | 773,512 | 0 | 978,440 | 0 | (204,929) |
| Net closing balance of cash and cash equivalents | 577,334 | (391,343) | 773,512 | (525) | (196,178) |

Amounts in thousand Euros

NOTES TO THE INCOME STATEMENT

REVENUE

1. Revenue from sales and services – € 172,762 thousand

Revenue from sales and services can be broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------|----------------|----------------|----------------|
| Revenue from services to customers | 72,367 | 66,964 | 5,402 |
| from Roma Capitale public lighting service | 68,508 | 61,103 | 7,404 |
| from Naples Municipal public lighting service | 3,637 | 5,639 | (2,001) |
| other revenues | 221 | 222 | (1) |
| Revenue from Intragroup services | 100,395 | 102,011 | (1,615) |
| service contracts | 94,759 | 93,184 | 1,576 |
| other services | 5,636 | 8,827 | (3,191) |
| Revenue from Sales and Services | 172,762 | 168,975 | 3,787 |

The increase in revenue from services to customers of € 5,402 thousand is attributable to the combined effect of the increase in the fee for the public lighting service provided in the Municipality of Rome (+ € 7,404 thousand), offset by the reduction in fees for work performed as part of the service for public lighting management carried out in the Municipality of Naples (- € 2,001 thousand).

On 17 June 2016, a contract was stipulated with Roma Capitale modifying the contract for the service for public lighting management, as part of which the plan for the mass replacement of the light fittings used with LED lights was started, financed by Roma Capitale and to which the increase in revenue partly offset by the reduction in other fees provided by the contract is attributable.

The contract for the public lighting management service in the Municipality of Naples, which had been extended in July 2015, terminated on 31 October 2016.

Revenues from intragroup services recorded an overall decrease of € 1,615 thousand. This change results from (i) the increase in fees for service activities rendered on behalf of Group companies, mainly of an administrative, finan-

cial, legal and technical nature, (ii) the overall reduction in revenues from other services supplied to subsidiaries (- € 3,166 thousand), including some services included from 2016 in the service contract and revenues from out of service contract services concerning the *facility management* branch of ACEA transferred to the subsidiary Acea Elabori in 2016.

With regard to the service activities, the increase is attributable to the IT related services generated by the start-up of the "Template Acea2.0" management, partly offset by the nullity in the last two months of the year of the quota of the service contract concerning the *facility management* branch transferred.

2. Other revenue and proceeds – € 11,725 thousand

Increased by € 609 thousand compared to 31 December 2015, mainly as a result of the combined effect of lower non-recurring gains and compensation for seconded staff at companies in the Group, offset by lower reimbursements for damages, property proceeds and other revenue. The breakdown is as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------------------------------|---------------|---------------|------------|
| Non-recurring gains and other revenues | 3,945 | 3,660 | 285 |
| Seconded staff | 4,146 | 3,336 | 810 |
| Recharged cost for company officers | 2,839 | 2,826 | 14 |
| Property income | 756 | 1,037 | (281) |
| Reimbursement for damages, penalties, compensation | 39 | 258 | (219) |
| Revenue from Sales and Services | 11,725 | 11,116 | 609 |

COSTS

3. Staff costs – € 47,232 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------|---------------|---------------|----------------|
| Staff costs including capitalised costs | 53,759 | 56,260 | (2,501) |
| Staff employed in projects | (5,142) | (4,339) | (802) |
| Capitalised costs | (1,385) | (1,638) | 253 |
| TOTAL | 47,232 | 50,283 | (3,051) |

The decrease in staff costs including capitalised costs, amounting to € 2,501 thousand, stems partly from the reduction in the average workforce, as highlighted in the table

below, and in part from the partial release of the amounts allocated for the third round of the medium/long-term Incentive Plan, which was in excess of that allocated.

The staff costs are also inclusive, in addition to the capitalised costs, by € 5,142 thousand (+ € 802 thousand compared to 31 December 2015) representing the overall total of the cost of staff employed in projects, of which € 4,972 thousand for the Acea 2.0 Project for all companies in the

Group involved in the “communion” of the IT platform.

The following table shows the average and final number of staff by category, compared with the corresponding period in the previous year.

| Classification | Average number of employees | | | End-of-period number of employees | | |
|--------------------|-----------------------------|------------|-------------|-----------------------------------|------------|-------------|
| | 31.12.2016 | 31.12.2015 | Variation | 31.12.2016 | 31.12.2015 | Variation |
| Senior managers | 54 | 60 | (6) | 52 | 59 | (7) |
| Middle managers | 143 | 145 | (2) | 143 | 143 | 0 |
| White-collar staff | 404 | 419 | (15) | 363 | 411 | (48) |
| Blue-collar staff | 22 | 23 | (1) | 15 | 23 | (8) |
| TOTAL | 624 | 647 | (24) | 573 | 636 | (63) |

4. Cost of materials and overheads – € 143,851 thousand

Compared to 31 December 2015, there was an overall in-

crease in the costs of materials and overheads of € 10,583 thousand (+7.9%), broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------|----------------|----------------|---------------|
| Materials | 1,107 | 1,307 | (200) |
| Services and Contract work | 126,512 | 117,709 | 8,802 |
| Lease expense | 10,747 | 9,778 | 969 |
| Taxes and duties | 2,862 | 2,472 | 390 |
| General expenses | 2,623 | 2,001 | 622 |
| TOTAL | 143,851 | 133,268 | 10,583 |

The breakdown and variations in costs of materials and overheads by nature is as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|---------------------------------------------------------|----------------|----------------|---------------|
| Materials | 1,107 | 1,307 | (200) |
| Services and Contract work | 126,512 | 117,709 | 8,802 |
| Intragroup services | 48,348 | 39,739 | 8,609 |
| - Roma Capitale Public Lighting | 44,044 | 34,411 | 9,633 |
| - Public Lighting services - Municipality of Naples | 4,056 | 4,980 | (924) |
| Electricity and water consumption | 31,099 | 33,417 | (2,318) |
| - Roma Capitale Public Lighting Electricity Consumption | 28,291 | 30,396 | (2,104) |
| Professional freelance work | 10,478 | 10,109 | 369 |
| Works | 4,158 | 5,228 | (1,070) |
| Maintenance fees | 8,504 | 4,447 | 4,057 |
| Services to personnel | 3,186 | 4,059 | (873) |
| Surveillance services | 3,316 | 3,607 | (291) |
| Advertising and sponsorship costs | 2,877 | 2,405 | 473 |
| Cleaning, transport and portorage | 2,657 | 2,780 | (122) |
| Seconded staff | 4,748 | 3,406 | 1,341 |
| Postal expenses | 1,736 | 2,477 | (741) |
| Bank fees | 1,657 | 1,928 | (271) |
| Corporate Bodies | 664 | 780 | (116) |
| Telephone costs | 1,205 | 716 | 489 |
| Insurance costs | 399 | 475 | (76) |
| Travel and transfer expenses | 426 | 344 | 83 |
| Coordinated and continuous collaborations | 304 | 416 | (112) |
| Technical and administrative services | 462 | 645 | (183) |
| Printing costs | 54 | 32 | 22 |
| Other | 232 | 700 | (468) |
| Cost for use of third party assets | 10,747 | 9,778 | 969 |
| Leasing fees | 7,089 | 7,104 | (16) |
| Other rental Costs and Fees | 3,658 | 2,674 | 984 |
| Tax and Duties | 2,862 | 2,472 | 390 |
| General Expenses | 2,623 | 2,001 | 622 |
| Total Costs of Materials and Overheads | 143,851 | 133,268 | 10,583 |

The increase of € 10,583 thousand in costs of materials and overheads is due to a number of opposing factors. On one hand, the increase mainly due to the costs for the public lighting management service in the Municipality of Rome, totalling € 9,633 thousand, with specific regard to the mass replacement of light fittings with LED lights financed by Roma Capitale, partly offset by the reduction in the other fees provided in the contract, must be noted.

On the other, the reduction in the costs of materials and

overheads mainly concerning electrical consumption for the public lighting management service in the Municipality of Rome (€ 2,104 thousand) generated by the increased efficiency of LED lights over traditional ones must be noted. It should also be noted that the other rental costs and fees refer exclusively to *hardware* and *software* for the company data center.

As required by article 149-*duodecies* of the CONSOB Issuer Regulations, the fees paid to the Independent Auditors, EY, are shown in the table below.

| € thousand | Audit Related Service | Audit Services | Non Audit Services | Total |
|-------------|-----------------------|----------------|--------------------|-------|
| ACEA S.p.A. | 245 | 342 | 126 | 713 |

Note that the above remuneration refers to positions held in 2016, valid up to the date of publication of these Finan-

cial Statements.

5. Amortisation, depreciation, provisions and impairment charges – € 24,565 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------|---------------|--------------|---------------|
| Amortisation and depreciation | 16,163 | 16,195 | (32) |
| Provision for impairment of receivables | 4,787 | 1,450 | 3,337 |
| Provision for liabilities and charges | 3,615 | (7,834) | 11,450 |
| TOTAL | 24,565 | 9,811 | 14,754 |

Amortisation/depreciation amounted to a total of € 16,163 thousand, of which € 8,685 thousand referring to intangible assets and € 7,477 thousand to tangible assets. The entry into operation of new software aimed at enhancement and technological development has offset the end of the useful lifespan of previous investments.

Impairment of receivables amounted to a total of € 4,787 thousand and mainly relates to the risks connected to the

recoverability of receivables from Roma Capitale. The variation compared to the previous year is also due to the combined effect of increased allocations and releases of provisions hedging collections and transfers of receivables finalised in 2015.

The provision for liabilities amounted to a € 3,615 thousand. The breakdown by type and related effects are shown below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|---------------------------------------------|--------------|----------------|---------------|
| Early retirements and redundancies | 5,502 | 3,315 | 2,188 |
| Legale | 522 | 2,348 | (1,826) |
| Taxation dispute | 288 | 0 | 288 |
| Investees | 137 | 59 | 79 |
| Disputes with staff | 24 | 130 | (106) |
| Suppliers | 0 | 465 | (465) |
| Release of provision for legal risks | 0 | (4,200) | 4,200 |
| Release of provision for risks on investees | (460) | (9,937) | 9,477 |
| Release of provision for contributions | (2,398) | (14) | (2,384) |
| TOTAL PROVISIONS | 3,615 | (7,834) | 11,450 |

Compared to the previous year there was a reduction in the level of provisions related to expenses for implementing voluntary redundancy and resignation procedures (+ € 2,188 thousand) and also in the releases of excess provisions for € 11,293 thousand. The release in 2015 referred to € 9,826 thousand to ACEA Ato5. This is offset by a reduction in the

provisions for legal risks and for suppliers. With regard to the releases, it must be noted that the provisions for contributions were releases, given that they were found to be excessive. For more details, see that described in the paragraph in this document concerning the update on major disputes and litigation.

6. Financial income – € 89,784 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------|---------------|---------------|----------------|
| Income from Intragroup relations | 83,137 | 88,023 | (4,886) |
| Bank interest and income | 360 | 1,285 | (925) |
| Default interest with subsidiaries | 0 | 1,034 | (1,034) |
| Default interest with others | 938 | 0 | 938 |
| Recovery of discounting receivables | 863 | 971 | (108) |
| Income from Fair Value Hedge assessment | 298 | (247) | 544 |
| Financial income from public lighting contract | 274 | 403 | (129) |
| Interest on arrears from Roma Capitale | 3,914 | 3,621 | 293 |
| Total financial income | 89,784 | 95,092 | (5,307) |

The reduction in financial income of € 5,307 thousand is attributable for € 4,886 thousand to income from intragroup relations. This variation is due to the:

- zeroing of the awarding commissions that were provided by the centralised treasury contract for the credit line hedging the requirements generated solely by the investments that were ongoing as at 30 June 2015 (- € 5,622 thousand),
- the reduction of interest receivable on the revolving

credit line for € 2,061 thousand,

- the inclusion of interest receivable from long-term loans granted in favour of some subsidiaries for € 2,651 thousand.

Conversely, there were lower revenues from the application of the public lighting agreement and lower financial income from the *Fair Value Hedge* assessment of the derivative entered into on the € 600 million Bond placed on the market in September 2013.

7. Financial costs – € 102,830 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|---------------------------------------------------------|----------------|---------------|---------------|
| Interest on bonds | 65,869 | 66,519 | (650) |
| Costs for buyback of bonds | 32,065 | 0 | 32,065 |
| Interest Rate Swap costs | 1,342 | 2,679 | (1,337) |
| Interest on short-term borrowings | 19 | 927 | (908) |
| Interest on medium/long-term borrowings | 2,350 | 7,757 | (5,407) |
| Expenses from Intragroup relations | 0 | 2 | (2) |
| Financial costs from public lighting agreement | 171 | 252 | (81) |
| Other financial costs | 849 | 1,013 | (165) |
| Foreign exchange profit/(loss) | 148 | 24 | 125 |
| Interest paid on Equitalia and INPS instalment payments | 17 | 26 | (9) |
| Total Financial Costs | 102,830 | 79,198 | 23,632 |

The increase of € 23,632 thousand in the financial costs stems mainly from the surcharge for the buyback of bonds paid in order to withdraw from the market two sets of bonds (€ 31,382 thousand plus € 682 thousand in costs and fees), partly offset by the reduced interest on the short and medium/long-term debt (€ 6,315 thousand). This variation includes the effect of the advance reimbursement of € 300 million in mortgages in 2015 (€ 1,552 thousand)

and the purchase of two sets of bonds hedged by a new issue. The remainder of the variation is due to market rate trends. The costs net of *Interest Rate Swap* income on the bonds have improved by € 1,337 thousand.

As regards the average borrowing cost of ACEA, this increased compared to last year, from 3.04% in 2015 to 2.67% in 2016.

8. Profits on equity investments – € 146,247 thousand

Income from equity investments reduced by € 191 thousand

(from € 146,438 thousand) and the breakdown is summarised in the following table.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------------------|----------------|----------------|--------------|
| Dividend income | 146,247 | 146,173 | 74 |
| ACEA Ato2 | 63,735 | 71,260 | (7,525) |
| A.R.S.E. | 0 | 17,060 | (17,060) |
| areti | 44,057 | 25,875 | 18,181 |
| Acea Elabori | 7,229 | 7,999 | (771) |
| Acea Ambiente | 13,446 | 7,416 | 6,030 |
| Acque Blu Fiorentina | 5,092 | 4,780 | 312 |
| ACIP | 6,804 | 7,244 | (440) |
| Aquaser | 2,431 | 1,942 | 489 |
| Acea800 | 394 | 950 | (556) |
| Consorcio Agua Azul | 1,539 | 725 | 814 |
| Acea Dominicana | 335 | 530 | (195) |
| Intesa Aretina | 412 | 217 | 194 |
| Agua Azul Bogotá | 0 | 74 | (74) |
| Umbria Distribuzione Gas | 22 | 22 | 0 |
| Agua de San Pedro | 0 | 63 | (63) |
| Acque Blu Arno Basso | 718 | 0 | 718 |
| Ingegnerie Toscane | 35 | 17 | 18 |
| Gain on the transfer of the public lighting business unit | 0 | 265 | (265) |
| Total | 146,247 | 146,438 | (191) |

9. Losses on equity investments – € 408 thousand

These refer to the impairment of Acea Servizi Acque in liquidation.

10. Taxes – € - 6,978 thousand

Taxes for the period amounted to € -6,978 thousand.

In particular, the calculations of company taxes are affected by tax regulations applying to dividends received, provisions for risks, and the deductibility of interest paid by ACEA deriving from the Group tax consolidation.

Income tax for the year has a - 6,9% effect on the result before tax.

Total tax is the algebraic sum of the following components.

CURRENT TAXES

Current taxes amounted to € 97,007 thousand (€ 81,243 thousand at 31 December 2015) and refer to consolidated IRES (corporate income tax) calculated on the sum of the taxable income and tax losses of the companies in the tax consolidation arrangement.

This effect is cancelled by recognition of the proceeds resulting from the allocation of taxable income of the Companies participating in the tax consolidation. This effect is summarized in the table below which shows a reconciliation between the theoretical and actual tax rates.

The following table provides a reconciliation of the theoretical and effective tax charges.

| | 31.12.2016 | Variation % | 31.12.2015 | Variation % |
|------------------------------------------------------|----------------|---------------|----------------|-------------|
| profit before tax from continuing operations | 101,632 | | 148,890 | |
| Theoretical tax charge at 27.5% on profit before tax | 27,949 | 27.5% | 40,945 | 27.5% |
| Permanent differences* | (34,625) | (34.1%) | (37,661) | (25.3%) |
| IRES for the period** | (6,676) | (6.6%) | 3,284 | 2.2% |
| IRAP for the period** | (302) | (0.3%) | 0 | 0.0% |
| Annual income tax on continuing operations | (6,978) | (6.9%) | 3,284 | 2.2% |

* They mainly include the portion of untaxed dividends

** Including deferred taxes

DEFERRED TAXES

The 2016 Stability Law amended Article 77, paragraph 1 of the Consolidated Income Tax Act, by reducing the nominal corporate income tax rate (IRES) from 27.5% to 24%, effective for the tax periods following the one in progress at 31 December 2016. Net deferred taxes increased by € 2,126 thousand and represent the algebraic sum of provisions (€ 3,600 thousand) made primarily provisions for liabilities, provisions for impairment of receivables and provisions for defined benefit plans and uses (€ 5,725 thousand). Deferred tax liabilities increase taxes by € 666 thousand and represent the algebraic sum of uses (€ 589 thousand) relating to the taxable portion of dividends collected and provisions for the period, amounting to € 1,255 thousand.

TAX CONSOLIDATION EXPENSE AND INCOME

These amounted to € 106,776 thousand and represent the balance of the tax expense due from the Parent Company to companies included in the tax consolidation in return for the transfer of tax losses (€ 1,943 thousand) and the tax income recognized as counterparty to the taxable income transferred to the tax consolidation (€ 108,720 thousand). In accordance with the Group's general tax consolidation rules, the value of the loss is determined by applying the current IRES rate at the time to the total tax losses transferred.

RESOLUTIONS ON PROFIT FOR THE YEAR AND DISTRIBUTION TO SHAREHOLDERS

Dear Shareholders,

in inviting you to approve the financial statements, we propose that the profit of € 108,610,120.05 for the year ended on 31 December 2016 be allocated as follows:

- € 5,430,506.00 to the legal reserve, equal to 5% of the profit,
- € 103,085,734.90 to Shareholders, corresponding to a unit dividend of € 0.485
- € 93,879.15 to retained income.

It is also proposed that the amount of € 28,693,967.45, corresponding to a unit dividend of € 0.135, be allocated through

the use of the reserves of profits from previous years.

The total dividend (coupon no. 18) of € 131,779,702.35, equal to € 0.620 per share, will be paid out as of 21 June 2017, with coupon detachment on 19 June and record date on 20 June.

At the date of approval of the financial statements, treasury shares total 416,993.

ACEA S.p.A.
The Board of Directors

NOTES TO THE STATEMENT OF FINANCIAL POSITION - ASSETS

11. Tangible assets – € 93,301 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|--------------------------------------------|---------------|----------------|-----------------|
| Land and buildings | 77,554 | 135,146 | (57,592) |
| Plant and machinery | 6,139 | 4,655 | 1,484 |
| Industrial and commercial equipment | 831 | 933 | (102) |
| Other assets | 8,746 | 10,507 | (1,760) |
| Fixed assets in progress and prepayments | 31 | 157 | (126) |
| Total property, plant and equipment | 93,301 | 151,398 | (58,097) |

There was a reduction of € 58,097 thousand compared to 31 December 2015.

The decrease refers to the net effect between the investments in the period, totalling € 4,770 thousand, disposals of € 55,448 thousand and amortisation rates, which reached € 7,418 thousand.

The disposals refer to the transfer to the subsidiaries areti and ACEA Ato2 of part of the building used as the company headquarters.

Investments in the period include the remote control de-

VICES for the public lighting network in the Municipality of Rome, realised by ACEA on request by Roma Capitale in fulfilment of the service contract.

The other investments in the period mainly refer to the extraordinary maintenance of installations and the offices held under lease and investments in hardware required for the technological development projects in Acea2.0 and the enhancement and development of the IT network.

The following table shows the variations in the period.

| € thousand | 31.12.2015 | | VARIATIONS | | | | | 31.12.2016 | | |
|--------------------------------------------|-----------------|------------------|----------------|--------------|-----------|-----------------|----------------|------------------|-----------------|-----------------|
| | Historical cost | Accumul. deprec. | Net Value | Increases | Disposals | Amortis. | Cost | Accumul. deprec. | Net Value | Historical cost |
| Tangible assets | | | | | | | | | | |
| Land and buildings | 156,635 | (21,489) | 135,146 | 256 | 0 | (54,525) | (3,323) | 94,161 | (16,607) | 77,554 |
| Plant and machinery | 15,195 | (10,540) | 4,655 | 3,096 | 0 | (910) | (702) | 17,191 | (11,053) | 6,139 |
| Industrial and commercial equipment | 13,210 | (12,277) | 933 | 0 | 0 | 0 | (102) | 13,210 | (12,379) | 831 |
| Other assets | 49,636 | (39,129) | 10,507 | 1,417 | 127 | (13) | (3,291) | 51,049 | (42,302) | 8,747 |
| Fixed assets in progress and prepayments | 157 | 0 | 157 | 1 | (127) | 0 | 0 | 31 | 0 | 31 |
| Total property, plant and equipment | 234,833 | (83,435) | 151,398 | 4,770 | 0 | (55,448) | (7,418) | 175,643 | (82,341) | 93,301 |

12. Investment property – € 2,606 thousand

Investment property amounted to € 2,606 thousand, a reduction of € 91 thousand due to the disposals made during

the year of € 32 thousand and amortisation of € 59 thousand, and is primarily constituted by land and buildings not used in operations and held for rental purposes.

13. Intangible assets – € 13,138 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------|---------------|---------------|--------------|
| Industrial patents and intellectual property rights | 13,138 | 9,693 | 3,445 |
| Fixed assets in progress and prepayments | 0 | 3,718 | (3,718) |
| Total Intangible assets | 13,138 | 13,411 | (273) |

The following table shows the variations in the period:

| € thousand | 31.12.2015 | Variations | | | 31.12.2016 |
|-----------------------------------------------------|---------------|--------------|------------------|----------------|---------------|
| | Net Value | Increase | Reclassification | Amortis. | Net Value |
| Intangible assets | | | | | |
| Industrial patents and intellectual property rights | 9,693 | 3,791 | 8,340 | (8,685) | 13,138 |
| Other fixed assets | 0 | 0 | 0 | 0 | 0 |
| Fixed assets in progress | 3,718 | 4,621 | (8,340) | 0 | 0 |
| Total Intangible assets | 13,411 | 8,412 | 0 | (8,685) | 13,138 |

Investments mainly concerned the purchase and enhancement of software in support of the development of the

management systems for the IT platforms, corporate security and administrative management.

14. Equity investments in subsidiaries and associates – € 1,781,227 thousand

The item in question increased by € 12,235 thousand and the breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------|------------------|------------------|---------------|
| Equity investments in subsidiaries | 1,769,085 | 1,754,703 | 14,382 |
| Equity investments in associates | 12,142 | 14,200 | (2,058) |
| Total equity investments | 1,781,227 | 1,768,902 | 12,325 |

Equity investments in subsidiaries

The following table summarises the variations in 2016.

| Equity investments in subsidiaries | Historical cost | Reclassifications and other changes | Revaluations/ Impairment charges | Disposals | Net Value |
|---------------------------------------|-----------------|-------------------------------------|----------------------------------|-----------|---------------|
| Values at 31 December 2015 | 3,133,730 | (366,612) | (62,322) | (950,094) | 1,754,703 |
| Variations in 2016: | | | | | |
| - changes in share capital | 112 | 200 | 0 | 0 | 313 |
| - acquisitions/incorporations | 12,167 | 0 | 0 | 0 | 12,167 |
| - disposals/distributions | 0 | 0 | 0 | 0 | 0 |
| - reclassifications and other changes | 0 | 2,466 | 0 | 0 | 2,466 |
| - Impairment/revaluations | 0 | 0 | (563) | 0 | (563) |
| Total variations in 2016 | 12,280 | 2,666 | (563) | 0 | 14,382 |
| Values at 31 December 2016 | 3,146,010 | (363,946) | (62,885) | (950,094) | 1,769,085 |

The changes in the year mainly regard:

- € 12,167 thousand concerns:
 - 100% of the equity investment in Kyklos (€ 4,788 thousand) incorporated into Acea Ambiente (ex ARIA) by merger effective from 29 December 2016;
 - the acquisition of an equity investment amounting to 60.65% of the shares in Agua de San Pedro for € 6,023 thousand; this increase has led to the modification of the company relations, from associate to subsidiary;
 - the incorporation of Acea International SA (€ 600 thousand);
 - the increase in value of the equity investment in Acea Elabori (€ 756 thousand) in relation to the conferment of the facility management business unit;
- € 2,466 thousand for the reclassifications mainly relating to the equity investment previously held in Agua de San Pedro, reclassified from equity in investments in associates for € 2,058 thousand;

The following should also be noted:

- the reclassification of € 35,183 thousand made as a result of the partial spin off of the Rome Public Lighting unit of Acea Illuminazione Pubblica to areti;
- the reclassification of the value of the equity investment in Solemme, incorporated into Acea Ambiente (€ 5,633 thousand) on 29 December 2016.

In order to verify the recoverable amount of the investments, substantially all of ACEA's direct and indirect subsidiaries were tested for impairment.

The *impairment* procedure compares the carrying amount of equity investments with their economic value.

The test is performed to verify whether the equity investment has maintained its value by calculating the difference between the recoverable amount, which is the higher of the value in use and the *fair value* less costs to sell, and the *carrying amount*.

The value in use is the current value of expected financial

flows which can be assumed will derive from the continuing use of the equity investment assets as a whole. The *fair value* less costs to sell represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The 2016 *impairment test* provides an estimated interval of recoverable values for the individual investments in terms of use value in line with the methodology applied in the prior year, i.e. through the financial method, according to which the ability to generate cash flows is the fundamental element in the evaluation of an entity. The *post-tax* weighted average cost of capital was used to discount the operating cash flows.

The recoverable amount of equity investments – expressed in terms of value in use – was estimated using a combination of the financial method and sensitivity analyses.

The application of the financial method to calculate the recoverable amount and the subsequent comparison with the relevant carrying amounts thus involved, for each investment tested for impairment, estimating the *post-tax wacc*, the amount of operating cash flows (OV) and the *terminal value* (TV) and, in particular, the growth rate used in the cash flow projections beyond the plan horizon (g), the amount of the net financial position (NFP) and the amount of non-core activities (ACC).

The operating cash flows and the *Terminal value* were determined on the basis of the estimates and updated forecasts in the 2016-2020 Industrial Plan approved by the Board of Directors. The recoverable amount of the equity investments was determined as the sum of the present value of the cash flows under the Plan and the present value of the Terminal Value.

The following table shows the operating sectors to which the investments in the financial statements of the Parent Company refer. The discount rates used and time period of cash flows for each type of recoverable value considered are indicated for each operating area.

| Operating segment | Recoverable value | WACC | Terminal value | Cash flow period |
|----------------------------|-------------------|------|----------------------------------|------------------|
| Networks segment | | | | |
| Areti | Value in use | 5.6% | Residual value | Until 2021 |
| Water segment | Value in use | 5.4% | Residual value | Until 2021 |
| Energy segment: | | | | |
| Acea produzione | Value in use | 5.6% | In two stages | Until 2021 |
| Acea energia | Value in use | 7.8% | <i>Perpetuity without growth</i> | Until 2021 |
| Ecogena | Value in use | 6.0% | In two stages | Until 2021 |
| Environment segment | Value in use | 5.5% | In two stages | Until 2021 |

The Terminal Value was determined as follows:

- For Acea Produzione: two stages. The first stage is a normalized flow for the period 2021-2035 while the second stage comprises the residual value corresponding to the net invested capital as at 2035;
- For the Environment Segment: two stages. The first stage concerns the 2021-2038 period, while the second stage comprises the residual value corresponding to the net invested capital at the end of the useful life of the asset;
- for areti: the present value of the RAB at the end of the concession calculated in accordance with the legislation for the fifth regulatory period;
- for the Water segment: the present value of the residual value in the event of taking over when the concession expires.

The WACC has also been subjected to a sensitivity analysis.

It should be noted that:

- an increase of 0.4% in the actualisation rate determines a deficit in the equity investment in Acea Ato5 S.p.A.;
- an increase of 0.5% in the actualisation rate determines a deficit in the equity investment in Acea Ato5 S.p.A. and ECOGENA S.p.A.

The result of the impairment test confirms the recoverability of the value of the equity investments recorded.

EQUITY INVESTMENTS IN ASSOCIATES

These amounted to 12,142 thousand, and reduced as a result of the reclassification of the equity investment in Aguas de San Pedro in the equity investments in subsidiaries. The changes in the year are shown below.

| Investments in associates | Historical cost | Reclassifications | Revaluations/ impairment charges | Disposals | Net Value |
|---------------------------------------|-----------------|-------------------|----------------------------------------|-----------|----------------|
| Values at 31 December 2015 | 92,570 | 2,957 | (79,861) | (1,467) | 14,200 |
| Variations in 2016: | | | | | |
| - changes in share capital | 0 | 0 | 0 | 0 | 0 |
| - acquisitions/incorporations | 0 | 0 | 0 | 0 | 0 |
| - disposals/distributions | 0 | 0 | 0 | 0 | 0 |
| - reclassifications and other changes | 0 | (2,058) | 0 | 0 | (2,058) |
| - Impairment/revaluations | 0 | 0 | 0 | 0 | 0 |
| Total variations in 2016 | 0 | (2,058) | 0 | 0 | (2,058) |
| Values at 31 December 2016 | 92,570 | 899 | (79,861) | (1,467) | 12,142 |

15. Other investments – € 2,350 thousand

“Other investments” refers to equity investments in shares of companies that do not qualify as subsidiaries, associates or joint ventures. There were no variations during the year.

16. Deferred tax assets – € 28,369 thousand

These reduced by € 4,240 thousand compared to 31 December 2015.

The following table highlights the changes and balance at 31 December 2016 with regard to both the deferred tax assets and the Deferred Tax Provision.

With regard to the recoverability of prepaid taxes, it is noted that deferred tax assets are reviewed on the basis of ACEA's business plans and, as regards the time aspect, a reasonable estimate of the period in which the related difference is expected to reverse.

| € thousand | 31.12.2015 | Uses IRES / IRAP | Changes in equity | IRES/IRAP provisions | 31.12.2016 |
|------------------------------------------------|---------------|---------------------|----------------------|-------------------------|---------------|
| Deferred tax assets | | | | | |
| Tax losses | 0 | 0 | | 0 | 0 |
| Remuneration of BoD members | 0 | 0 | | 0 | 0 |
| Provisions for liabilities and charges | 6,463 | (4,060) | | 1,987 | 4,390 |
| Impairment of investments | 0 | 0 | | 0 | 0 |
| Provision for impairment of receivables | 5,495 | 0 | | 1,022 | 6,517 |
| Amortisation of intangible and tangible assets | 1,187 | (330) | | 323 | 1,180 |
| Amortisation of goodwill | 0 | 0 | | 0 | 0 |
| Defined benefit and defined-contribution plans | 6,980 | (1,083) | 265 | 231 | 6,392 |
| Others | 12,484 | (252) | (2,380) | 37 | 9,889 |
| Total | 32,609 | (5,725) | (2,114) | 3,600 | 28,369 |
| Deferred taxes | | | | | |
| Deferred tax on dividends | 705 | (471) | | 90 | 325 |
| Amortisation of intangible and tangible assets | 9 | (21) | 0 | 0 | (12) |
| Defined benefit and defined-contribution plans | 386 | (97) | (113) | 0 | 176 |
| Others | 5,555 | 0 | (2,412) | 1,165 | 4,308 |
| Total | 6,655 | (589) | (2,525) | 1,255 | 4,796 |
| Net total | 25,954 | (5,136) | 411 | 2,345 | 23,573 |

17. Non-current financial assets – € 237,625 thousand

An increase of € 115,712 thousand on the figure of €

121,913 thousand at 31 December 2015; their breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------|----------------|----------------|----------------|
| Financial receivables from Roma Capitale | 25,638 | 29,109 | (3,471) |
| Receivables due from subsidiaries | 179,623 | 55,929 | 123,693 |
| Receivables from others | 32,364 | 36,875 | (4,511) |
| TOTAL | 237,625 | 121,913 | 115,712 |

Receivables due from Roma Capitale decreased by € 3,471 thousand and refer to new investments in the Public Lighting service, such as plant upgrading, energy savings, legislative adjustments and technological innovation, which will be paid to ACEA, for an amount equal to tax amortisation, after 2016, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

Financial receivables from subsidiaries increased compared to 31 December 2015 by € 123,693 thousand as a result of the new medium and long-term financing contracts with some subsidiaries and as a result of the reclassification of the short-term financial receivables from a non-interest-bearing receivable from ACEA Ato5, given that the re-entry plan to be completed in 2028 has been finalised (€ 10,245 thousand), and their breakdown is as follows. These receivables are considered fully recoverable.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------------------------------------------------|----------------|---------------|----------------|
| Receivables for borrowings taken out | | | |
| ACEA Ato5 | 168,075 | 52,719 | 115,356 |
| Acea Ambiente S.r.l. (ex ARIA) | 3,604 | 0 | 3,604 |
| Crea Gestioni S.r.l. | 3,870 | 0 | 3,870 |
| Ecomed S.r.l. | 33 | 0 | 33 |
| Ombrone S.p.A. | 831 | 0 | 831 |
| Total | 176,413 | 52,719 | 123,693 |
| Other Financial Receivables | | | |
| Acea Ambiente S.r.l. (ex ARIA) | 3,210 | 3,210 | 0 |
| Total non-current financial receivables due from Subsidiaries | 179,623 | 55,929 | 123,693 |

The item **Amounts due from others**, amounting to € 32,364 thousand, results from application of the financial assets model envisaged by IFRIC 12 on service concession arrangements. This receivable represents the total investments made up to 31 December 2010 in relation to said service.

18. Other non-current assets – € 506 thousand

This item includes amounts owed for long-term deposits paid and there were no significant changes compared to the previous year.

19. Current assets – € 2,247,956 thousand

These recorded an increase of € 97,903 thousand (€ 2,150,653 thousand at 31 December 2015) and are broken down as follows.

19.a – Contract work in progress – € 270 thousand

There were no changes compared to 31 December 2015, and they represent works to construct Public Lighting plants, carried out under the service agreement with Roma Capitale and not yet completed at 31 December 2016.

19.b – Trade receivables – € 4,517 thousand

Trade receivables decreased by € 3,312 thousand compared to € 7,829 thousand at 31 December 2015.

Receivables from other customers

This item amounted to € 4,478 thousand net of the € 5,482 thousand provision for the impairment of receivables, and reduced by € 3,312 thousand.

This item includes receivables relating to accrued amounts due from private and public parties for services, with par-

ticular reference to public lighting services in the Municipality of Naples. It must be highlighted that in September 2016, the pro soluto transfer of the receivables accrued from the Municipality of Naples for € 3,678 thousand was finalised.

Provisions for the impairment of receivables

These amounted to € 5,482 thousand, an increase of € 165 thousand compared to last year.

Provisions for the impairment of receivables are based on analytical assessments, supplemented by assessments based on historical analyses of amounts due from customers broken down according to the default period, average collection terms, the type of action undertaken to recover the amount due and the status of the receivable concerned (ordinary, disputed, etc.).

19.c - Intercompany trade receivables – € 57,496 thousand

These reduced by € 38,488 thousand compared to 31 December 2015 (€ 95,984 thousand), and are broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-------------------------------------------------------|---------------|---------------|-----------------|
| Receivables due from the parent company Roma Capitale | 372 | 5,869 | (5,497) |
| Receivables from subsidiaries | 54,814 | 86,698 | (31,883) |
| Receivables from associates | 2,310 | 3,418 | (1,108) |
| Total intercompany trade receivables | 57,496 | 95,984 | (38,488) |

Receivables due from the parent company Roma Capitale

These reduced by € 5,497 thousand compared to 31 December 2015. The corresponding amount due concerning the Vatican City State (€ 20,516 thousand) for making the stock of trade receivables and payables more comparable

has been reclassified in the receivables from Roma Capitale. The following table outlines together the amounts due from ACEA's relations with Roma Capitale, as regards both the receivables and payables, including those of a financial nature, falling due within one year and after one year.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------|----------------|---------------|---------------|
| Receivables for invoiced services | 13,508 | 12,152 | 1,356 |
| Receivables for services to be billed | 374 | 2,604 | (2,230) |
| Total trade receivables | 13,882 | 14,756 | (874) |
| Financial receivables for invoices issued | 93,432 | 61,009 | 32,423 |
| Financial receivables for invoices to be issued | 14,954 | 9,561 | 5,393 |
| Total financial receivables for public lighting services | 108,387 | 70,570 | 37,817 |
| Total receivables due within one year (A) | 122,268 | 85,326 | 36,943 |

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------------|-----------------|----------------|----------------|
| Trade payables | 60 | 5 | 56 |
| Total payables due within one year (B) | 60 | 5 | 56 |
| Total (A) - (B) | 122,208 | 85,321 | 36,887 |
| Other financial loans and receivables/(borrowings) | 22,598 | (1,415) | 24,013 |
| of which: Financial liabilities (Dividends) | 0 | (30,524) | 30,524 |
| Other financial payables | (3,040) | 0 | (3,040) |
| of which: Medium/long-term receivables for public lighting | 25,638 | 29,109 | (3,471) |
| Provision for the impairment of receivables | (13,510) | (8,887) | (4,623) |
| Net Balance | 131,296 | 75,018 | 56,278 |

The change in receivables and payables results from items accrued in the period and as a result of the compensations and/or payments received.

The stock of receivables at 31 December 2016 increased by € 36,943 thousand compared to last year, which is entirely at-

tributable to the financial receivables for public lighting. The increase refers to the accrual of the annual payment, the adjustment as per the law provided by the contract in force, the modernisation of the security network, extraordinary maintenance and, lastly, the receivables due from the LED Plan agreement involving the replacement of old generation street lights.

Receipts were recorded in 2016, also through compensations, totalling € 45,305 thousand. The categories of receivables involved were:

- € 38,075 thousand in receivables provided by the contract in force (December 2015 to August 2016 fees);
- € 6,608 thousand in receivables concerning the new LED Plan agreement;
- € 391 thousand as reimbursement for stolen cables;
- € 231 thousand as reimbursement of receivables for public lighting in kindergartens.

On the payables side, there was an overall reduction of € 30,469 thousand as a result of the zeroing of the financial payables for dividends recorded on 31 December 2015.

It is noted that in June, the coupon was detached for the dividends accrued in 2015, amounting to € 54.306

thousand (payables recorded after deliberation by the shareholders' meeting on 28 April 2016).

On 17 June 2016, Roma Capitale and Acea Spa signed an agreement modifying the contract for the public lighting service. This agreement provides for the complete replacement of the light fittings used in street lights with LED-powered devices.

Receivables from subsidiaries

These amounted to a total of € 54,814 thousand, a reduction of € 31,883 thousand compared to last year. They relate mainly to services provided under service contracts. The change compared to the previous year was affected by the recognition of receivables arising from allocation of the costs incurred for the Acea2.0 Programme. The breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------|---------------|---------------|-----------------|
| ACEA Ato2 | 11,387 | 25,227 | (13,841) |
| ACEA Ato5 | 4,457 | 20,010 | (15,553) |
| Areti | 8,205 | 11,731 | (3,526) |
| Acea Energia | 5,082 | 4,626 | 455 |
| Publiacqua | 2,772 | 3,624 | (852) |
| Umbra Acque | 3,665 | 3,555 | 110 |
| Gesesa | 3,693 | 2,818 | 875 |
| GORI | 1,834 | 2,408 | (574) |
| Acque | 3,954 | 2,332 | 1,622 |
| Acquedotto del Fiora | 2,004 | 1,804 | 200 |
| Crea Gestioni | 2,208 | 1,668 | 540 |
| Acea8cento | 273 | 962 | (689) |
| Acea Elabori | 988 | 818 | 170 |
| Sarnese Vesuviano | 782 | 789 | (7) |
| Acea Illuminazione Pubblica | 0 | 679 | (679) |
| Acea Ambiente (ex ARIA) | 1,499 | 1,596 | (98) |
| Acea Servizi Acque | 6 | 382 | (376) |
| Acea Produzione | 87 | 376 | (288) |
| Acea Dominicana | 333 | 262 | 71 |
| Innovazione Sostenibilità Ambientale | 0 | 260 | (260) |
| Ingegnerie Toscane | 141 | 176 | (35) |
| Aquaser | 100 | 153 | (53) |
| Coema | 119 | 87 | 32 |
| Acque Industriali | 45 | 74 | (29) |
| Ombrone | 16 | 73 | (57) |
| Agua de San Pedro | 628 | 0 | 628 |
| GEAL | 235 | 0 | 235 |
| Acea Liquidation and Litigation S.r.l. (ex Elga Sud) | 87 | 17 | 69 |
| Others | 216 | 191 | 25 |
| TOTAL | 54,814 | 86,698 | (31,883) |

Receivables from associates

This item amounts to a total of € 2,310 thousand, a reduction of € 1,108 thousand compared to 31 December 2015.

€ 670 thousand of this change refers to the reclassification in receivables from subsidiaries of the amount due from Agua de San Pedro. The breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-------------------|--------------|--------------|----------------|
| Marco Polo | 1,236 | 1,236 | 0 |
| Azga Nord | 15 | 0 | 15 |
| Sogea | 150 | 603 | (453) |
| Sienergia | 639 | 639 | 0 |
| Agua de San Pedro | 0 | 670 | (670) |
| Umbriadue | 66 | 66 | 0 |
| Geal | 200 | 200 | 0 |
| Le Soluzioni | 4 | 4 | 0 |
| TOTAL | 2,310 | 3,418 | (1,108) |

Total trade receivables, gross of the bad debt provision, both to third party customers and intercompany, including to Roma Capitale, amounted to € 82,818 thousand and the ageing is provided below:

- Trade receivables not yet expired: € 52,255 thousand
- Past due trade receivables: € 30,563 thousand of which:
 - Within 180 days: € 6,237 thousand,
 - Between 180 and 360 days: € 2,332 thousand,

- Over 12 months: € 21,994 thousand.

19.d – Other current receivables and assets – € 25,378 thousand

These showed an increase of € 1,308 thousand and are broken down as follows. This change is essentially due to the acquisition of the equity investment in Acque Industriali, effective as of 2 January 2017.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------------------------------------------|---------------|---------------|--------------|
| Receivables due from Autoparco (car park) assignee | 10,250 | 10,250 | 0 |
| Receivables due from Laurentina Area assignee | 6,000 | 6,000 | 0 |
| Accrued income and prepayments | 2,366 | 2,133 | 233 |
| Other receivables | 2,313 | 1,343 | 970 |
| Receivables from reintegration of the Marco Polo business unit for payables to employees | 2,116 | 2,116 | 0 |
| Equitalia | 773 | 718 | 55 |
| Receivables due from social security institutions | 741 | 679 | 62 |
| Restricted receivables from disposal of the PV business unit | 397 | 397 | 0 |
| Receivables for staff termination benefits from single transfers | 229 | 227 | 2 |
| Advances to suppliers and deposits at third parties | 192 | 207 | (15) |
| TOTAL | 25,378 | 24,070 | 1,308 |

Restricted receivables from disposal of the PV business unit, recognized as a result of the transfer of the photovoltaic business to RTR Capital in late 2012, did not change compared to the previous year. Please note that this receivable, refers to an escrow account that was set up for an amount equal to the value of some plants that had to undergo formal checks by the seller.

Accrued income and prepayments relate essentially to the maintenance fees, insurance premiums and leasing contracts.

19.e – Current financial assets - € 5,617 thousand

The balance at 31 December 2016 is as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------|--------------|--------------|-------------|
| Receivables for managing the public lighting service | 5,328 | 5,360 | (32) |
| Receivables due from SEIN from liquidation of Acea ATO5 Servizi | 274 | 274 | 0 |
| Accrued income and prepayments on bank and post office accounts | 16 | 0 | 16 |
| TOTAL | 5,617 | 5,634 | (16) |

19.f – Intragroup current financial assets – € 1,499,971 thousand

Increased by € 304,101 thousand; the breakdown is as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------|------------------|------------------|----------------|
| Receivables due from the parent companies - Roma Capitale | 108,387 | 70,570 | 37,817 |
| Receivables from subsidiaries | 1,388,467 | 1,121,759 | 266,708 |
| Receivables from associates | 3,117 | 3,541 | (424) |
| TOTAL | 1,499,971 | 1,195,870 | 304,101 |

Receivables due from the parent companies - Roma Capitale

This item amounts to a total of € 108,837 thousand and refers to the receivables from Roma Capital in relation to the public lighting service contract, as mentioned earlier in the section of this document entitled “Trade Receivables

from Roma Capitale”.

Receivables from subsidiaries

These amounted to € 1,388,467 thousand (€ 1,121,759 thousand at 31 December 2015, and their breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------------|------------------|------------------|----------------|
| Receivables for cash pooling transactions | 1,255,525 | 951,264 | 304,261 |
| Current accrued finance income on loans and cash pooling transactions | 93,037 | 94,797 | (1,759) |
| Dividend receivables from subsidiaries | 5,250 | 20,498 | (15,248) |
| Loans to subsidiaries | 17,937 | 43,944 | (26,007) |
| Receivables for commission on guarantees given | 16,718 | 11,135 | 5,583 |
| Short-term EIB loans to subsidiaries | 0 | 122 | (122) |
| TOTAL | 1,388,467 | 1,121,759 | 266,708 |

The change compared to the previous year mainly stems from the increase in the bank account balances from the companies in the group which adhered to a *revolving credit line* facility, for hedging the requirements arising from needs concerning the working capital and invested capital, which accrues fixed-rate interest defined on the basis of the market rates applied for so-called hybrid issues in the *utilities* sector, updated on an annual basis, plus a *spread* linked to the level of exposure and the charge-back of the parent company’s rating costs.

loan with Crea Gestioni, which replaced the receivables due for shareholder loans classified under this item (€ 3,870 thousand) and the reclassification of the non-interest-bearing portion of the loan granted to ACEA Ato5, which involves a re-entry plan until 2018 (€ 10,245 thousand).

Receivables from associates

This item amounted to € 3,117 thousand at 31 December 2016, a reduction of € 424 thousand as a result of the reclassification of the dividend receivables from Agua de San Pedro to receivables from subsidiaries.

Receivables for dividends from subsidiaries reduced, mainly as a result of the distribution of dividends for 2014 that were not paid out in 2015 (€ 26,007 thousand). Receivables from subsidiaries for loans also decreased, mainly as a result of the stipulation of a medium/long-term

19.g – Current tax assets – € 77,372 thousand

These increased by € 29,888 thousand compared to the end of the previous year, and their breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------------------------|---------------|---------------|---------------|
| IRAP receivables for deposits paid | 2,157 | 2,157 | 0 |
| VAT receivables | 37,075 | 5,287 | 31,788 |
| IRES and IRAP receivables for which refund was requested in 2013 | 0 | 13,135 | (13,135) |
| Other tax receivables | 2,130 | 2,325 | (195) |
| Total receivables from the tax authorities | 41,362 | 22,904 | 18,458 |
| Tax consolidation receivables due from subsidiaries | 36,010 | 24,580 | 11,430 |
| Total tax receivables | 77,372 | 47,484 | 29,888 |

The VAT receivables arise from the Group VAT periodic settlements; no refund was requested and the receivable will be used in FY2017 monthly VAT settlements. The IRES and IRAP receivables for which reimbursement has been requested, relating to the refund applications submitted by the Group companies during 2013, entirely transferred in December 2016.

19.h – Cash and cash equivalents – € 577,334 thousand

These reduced by € 196,178 thousand (€ 773,512 thousand at 31 December 2015) and represent the balance of the bank and post office accounts held with various credit institutes and Italian Post Offices.

NOTES TO THE STATEMENT OF FINANCIAL POSITION - LIABILITIES

20. Shareholders' equity – € 1,456,505 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------|------------------|------------------|--------------|
| Share capital | 1,098,899 | 1,098,899 | 0 |
| Statutory reserve | 95,188 | 87,908 | 7,280 |
| Reserve for treasury shares in portfolio | 0 | 0 | 0 |
| Other reserves | 69,100 | 72,223 | (3,122) |
| Retained earnings | 84,707 | 52,656 | 32,051 |
| Profit/(loss) for the period | 108,610 | 145,606 | (36,995) |
| TOTAL | 1,456,505 | 1,457,291 | (786) |

The shareholders' equity reduced by € 786 thousand compared to 31 December 2015. The change mainly refers to the profit for the year and the effects generated by the allocation of the net profit for 2015, as well as the change in the *cash flow hedge* reserve.

The breakdown per item and relevant changes are shown below:

20.a – Share capital – € 1,098,899 thousand

This amounts to 1,098,899 thousand euros, represented by 212,964,900 ordinary shares with a value of € 5.16 each, as per the Shareholders' Register and is currently subscribed and paid in as follows:

- Municipality of Rome: 108,611,150 shares for a total par value of € 560,434 thousand,
- Market: 103,936,757 shares for a total par value of € 536,314 thousand,
- Treasury shares: 416,993 ordinary shares for a total par value of € 2,151 thousand.

20.b – Statutory reserve – € 95,188 thousand

This reserve reflects the allocation of 5% net profit for previous years, in accordance with article 2430 of the Italian Civil Code. There was an increase of € 7,280 thousand at 31 December 2016 compared to last year, as a result of the allocation of the 2015 profit.

20.c – Reserve for treasury shares in portfolio – € 0 thousand

Pursuant to art. 2428 of the Italian Civil Code, the treasury shares in portfolio consist of 416,993 shares with a par value of € 5.16 each (a total of € 2,152 thousand), representing 0.196% of the share capital.

At 31 December 2016 the reserve for treasury shares in portfolio amounted to € 3,853 thousand; the balance of the reserve offsets the value of the treasury shares accounted for as a reduction of shareholders' equity in compliance with IAS 32.

20.d – Other reserves - € 69,100 thousand

The composition and changes of the item in the period are shown below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-------------------------------------------------|---------------|---------------|----------------|
| Extraordinary reserve | 180 | 180 | 0 |
| Demerger reserve | 102,567 | 102,567 | 0 |
| Reserve for exchange differences | 1,909 | 9,548 | (7,639) |
| Reserve from valuation of financial instruments | (25,367) | (32,903) | 7,536 |
| Revenue reserves and actuarial profit/(loss) | (10,868) | (9,781) | (1,088) |
| Other reserves | 679 | 2,611 | (1,932) |
| TOTAL | 69,100 | 72,223 | (3,122) |

The reserve for exchange differences reduced by € 7,639 thousand and reflects the effect of valuation at the exchange rate of 31 December 2016 of the *private placement* in Yen signed in 2010.

The *cash flow hedge* reserve was a negative € 25,367 thousand. This reserve includes € 3,333 thousand from the neg-

ative differential resulting from the delta of conversion rates between that provided in the hedging contract and the rate recorded at the payment date of the bond (3 March 2010). The variations that occurred during the year include effect correlated to the transactions concerning the acquisition of the holdings in Kyklos from Aquaser (€ 1,932 thousand).

The following table shows the distributable and non-distributable reserves.

| Nature/description | Amount | Potential use | Available portion | Summary of uses during previous three financial years | |
|------------------------------------------------|----------------|--------------------------|-------------------|-------------------------------------------------------|----------------|
| | | | | To cover losses | Other purposes |
| Capital reserves: | | | | | |
| Reserve arising from the spin-off of ARSE | 6,569 | A, B, C | 6,569 | | |
| Revenue reserves from income statement: | | | | | |
| Statutory reserve | 95,188 | A, B | 95,188 | | |
| Extraordinary reserve | 180 | A, B, C | 180 | | |
| Demerger reserve | 102,567 | A, B, C | 102,567 | | |
| Retained earnings | 84,707 | A, B, C | 84,707 | | |
| Revenue reserves from O.C.I.: | | | | | |
| Cash flow hedge reserve | (25,367) | | (25,367) | | |
| Reserve for exchange differences | 1,909 | | 1,909 | | |
| Revenue reserves and actuarial profit/(loss) | (10,868) | | (10,868) | | |
| Other reserve | | | | | |
| Surplus from acquisition of Umbra Acque | (3,173) | | (3,173) | | |
| Surplus from acquisition of SAMACE | (785) | | (785) | | |
| Surplus from acquisition of Kyklos | (1,932) | | (1,932) | | |
| Reserve for treasury shares distributable | 0 | A, B, C | 0 | | |
| Reserve for treasury shares in portfolio | 3,853 | Treasury share guarantee | 3,853 | | |
| TOTAL | 252,849 | | 252,849 | | |
| Non-distributable portion | | | 58,825 | | |
| Remaining distributable portion | | | 194,025 | | |

* Legenda:

A = capital increase - B = to cover losses - C = to pay dividends

21. Staff termination benefits and other defined benefit plans – € 26,444 thousand

This item decreased by € 3,403 thousand and represents termination and other benefits payable to employees on retirement or termination of employment. The obligations which comprise this item are distinguished between defined benefit and defined contribution plans. The reduction in the payables for staff termination benefits has

reduced mainly as a result of the portion transferred to Acea Elabori with the *facility management* business unit, while the reduction in allocations to the medium and long-term Incentive Plan is due to the partial release of the amounts allocated for the third cycle of the medium and long-term Incentive Plan, which was in excess of that allocated.

The table below illustrates the breakdown:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|--------------------------------------------------------|---------------|---------------|----------------|
| Benefits payable upon termination of employment | | | |
| - Staff termination benefits | 7,465 | 8,558 | (1,093) |
| - Monthly bonuses | 1,236 | 1,329 | (93) |
| - Long-term incentive plans (LTIPs) | 780 | 2,346 | (1,566) |
| Total | 9,481 | 12,232 | (2,752) |
| Post-employment benefits | | | |
| - Tariff subsidies | 16,963 | 17,614 | (651) |
| TOTAL | 26,444 | 29,847 | (3,403) |

As for the calculation method used, note that the termination benefits are determined according to actuarial criteria; with reference to post-employment benefits, the calculation is based on the "projected unit credit method" which measures the company's liability at the end of the reporting period on the basis of the average current value of future services re-proportioned on the basis of the service performed by the worker at the time of calculation, with respect to that at the time of payment for the service.

The change is affected by (i) the provisions for the period, (ii) the exits occurred during the period and (iii) a reduction in the rate used for the valuation of liabilities.

In particular, as regards the economic and financial scenar-

io, a 1.31% discount rate was used for the evaluation compared to the 2.03% rate used last year.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation was based on returns, at the end of the reporting period, on securities of major companies listed on the same financial market as ACEA, and on returns on government bonds in circulation at the same date that have terms to maturity similar to the residual term of the liability for the workforce in question. In order to ensure consistency of valuation and comply with the provisions of IAS 19, the same basis has been used for the various types of plan.

In addition the following parameters were used for the evaluation:

| | December 2016 | December 2015 |
|-------------------------------|---------------|---------------|
| Discount Rate | 1.31% | 2.03% |
| Revenue growth rate (average) | 1.59% | 1.60% |
| Long-term inflation | 1.50% | 1.50% |

With regard to the measurement of the Group Employee Benefits (Staff termination benefits (TFR), Monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was performed to assess the changes in the

liability resulting from both positive and negative shifts of the rate curve (+ 0.5% shift /- 0.5% shift). The results of this analysis are summarized below.

| Type of plan | Discount rate | |
|----------------------------------|---------------------|---------------------|
| | +0,5% € thousand | -0,5% € thousand |
| Staff termination benefits (TFR) | -441 | +477 |
| Tariff subsidies | +327 | +1.796 |
| Monthly bonuses | +55 | +206 |

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

| Type of plan | -1 year of age € thousand |
|----------------------------------|------------------------------|
| Staff termination benefits (TFR) | -59 |
| Tariff subsidies | +304 |
| Monthly bonuses | +193 |

No sensitivity analyses were conducted on other variables such as, for example, the inflation rate.

22. Provisions for liabilities and charges – € 37,002 thousand

The following table shows a breakdown of provisions and changes compared to the end of the previous year:

| € thousand | 31.12.2015 | Utilisations | Reclassifications/ Releases | Provisions | 31.12.2016 |
|------------------------------------------------------------------|---------------|----------------|--------------------------------|--------------|---------------|
| Investees | 31,515 | 0 | (460) | 137 | 31,193 |
| Legale | 3,120 | (1,196) | 0 | 522 | 2,445 |
| Risks for contributions relating to social security institutions | 3,334 | 0 | (2,418) | 20 | 936 |
| Early retirements and redundancies | 3,098 | (8,049) | 0 | 5,502 | 551 |
| Other liabilities and charges | 1,708 | (154) | 0 | 24 | 1,578 |
| Tax | 12 | 0 | 0 | 288 | 299 |
| Total | 42,786 | (9,399) | (2,878) | 6,494 | 37,002 |

The main changes concerned:

- the risk provision concerning legal disputes, of which € 1,196 thousand was used for unfavourable sentences and an allocation of € 522 thousand,
- the provision allocated for redundancy and early retirement plans, of which € 8,049 thousand was used and the relevant procedures have ended. € 5,502 thousand was also allocated, again as regards this same plan,
- the allocation of a tax provision for hedging risks linked to taxation authority proceedings.

It should be recalled that the provision for investee liabilities, amounting to € 31,193 thousand, includes, with respect to the subsidiary GORI, an amount of € 22,127 thousand, for provisions made in previous years, related to the well-known water tariff issues.

23. Non-current borrowings and financial liabilities – € 2,516,727 thousand

These are broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------|------------------|------------------|----------------|
| Medium/long-term bonds | 2,045,702 | 1,904,022 | 141,681 |
| Medium/long-term borrowings | 471,025 | 496,078 | (25,054) |
| TOTAL | 2,516,727 | 2,400,100 | 116,627 |

Medium/long-term bonds

On 24 October 2016, as part of the liability management strategy aimed at extending the average duration of its debt and managing in advance a portion of the refinancing risk in the light of the unfavourable market conditions, ACEA acquired the following Series of Bonds:

- Bonds expiring in 2018 amounting to € 269,611,000; and
- Bonds expiring in 2020 amounting to € 77,225,000, for a nominal total of € 346,836,000. The buyback involved a loss of € 31,382 thousand plus costs concerning the transaction (therefore a total of € 32,065 thousand). ACEA simultaneously issued a bond for a total amount of € 500,000 thousand and a duration of 10 years at fixed rate, as part of the *Euro Medium Term Notes* (EMTN) programme. The issue was mainly aimed at refinancing the bonds bought back by ACEA and extending the average duration of the Company's debt, as well as reducing the average cost of same, considering the current trend in interest rates, with specific reference to the Euro zone.

The bond is exclusively for institutional investors.

The bonds have a minimum denomination of € 100,000 and will mature on 24 October 2026, pay a gross annual coupon of 1% and were placed at an issue price of 98.377%. The bond is regulated by British law. The settlement date has been set at 24 October 2016. Since this date, the bonds have been quoted on the regulated market of the Luxembourg Stock Exchange, where the information booklet concerning the EMTN programme is also available.

In detail, this item includes:

- **€ 600,686 thousand** (inclusive of accrued interest and contract related costs) relating to the 10-year fixed rate bond issued by ACEA in July 2014, as part of the *Euro Medium Term Notes* (EMTN) programme of € 1.5 billion. The bonds, which have a minimum denomination of 100 thousand euros and maturity 15 July 2024, pay a gross annual coupon of 2.625% and were placed at an issue price of 99.195%. The gross effective yield at maturity is 2.718% corresponding to a return of 128 base points on top of the 10-year *mid-swap* rate. The bonds are regulated by British law. The settlement date was 15 July 2014. Interest accrued during the period amounted to € 15,750 thousand,
- **€ 490,739 thousand** (inclusive of accrued interest) related to the bond issued by ACEA in October 2016 as part of the EMTN programme as described above,
- € 330,976 thousand (inclusive of accrued interest) related to the 5-year bond issued by ACEA in early September 2013 and maturing on 12 September 2018. This debt, net of the Fair Value of the positive items allocated in the financial management part of the income statement amounting to € 1,221 thousand, amounts to **€ 329,755 thousand**. The residual debt, after the acquisition and annulment of the bonds for a total nominal value of € 269,611 thousand, is as above.

The bonds pay a gross annual coupon of 3.75% and were placed at an issue price of 99.754%. The gross effective yield at maturity is therefore 3.805%, corresponding to a return of 230 base points on top of the reference yield (mid-swap at 10 years). The bonds are regulated by British law. The settlement date was 12 September 2013. Interest accrued during the period amounted to € 20,607 thousand,

- **€ 436,626 thousand** (including accrued interest) refer to a 10-year bond issued by ACEA in March 2010, maturing 16 March 2020. The bonds have a minimum denomination of € 50 thousand, pay one gross coupon annually of 4.5% and were placed at an issue price of 99.779. The gross effective yield at maturity is therefore 4.528% corresponding to a return of 120 base points on

top of the reference rate (mid-swap at 10 years). The bonds are regulated by British law. The settlement date was 16 March 2010. Interest accrued during the period amounted to € 21,842 thousand.

- € 163,107 thousand relating to the *Private Placement* which, net of the *Fair Value* of the hedge, a negative € 24,789 thousand, amounts to **€ 187,896 thousand**. The *fair value* was allocated to a specific shareholders' equity reserve. The exchange rate difference, negative by € 2,511 thousand, calculated at 31 December 2016 on the hedged instrument. The exchange rate at the end of 2016 was € 122.97 compared to € 131.07 at 31 December 2015. Interest accrued during the period amounted to € 4,279 thousand. This relates to a private bond loan (*Private Placement*) for 20 billion Japanese Yen with a 15-year maturity term (2025). The *Private Placement* was entirely subscribed by a single investor (AFLAC). The coupons are paid on a deferred half-yearly basis every 3 March and 3 September applying a fixed rate in Yen of 2.5%. At the same time, a *cross currency* transaction was carried out to transform yen to euros and the yen rate applied to a fixed euro rate. The *cross currency* transaction provides that the bank pays ACEA, on a deferred half-yearly basis, 2.5% on 20 billion Japanese Yen, while ACEA has to pay the bank the coupons on a deferred quarterly basis, at a fixed rate of 5.025%. The loan agreement and the hedge contract contain an option, in favour of the investor and the agent bank respectively, connected to the *trigger rating*: the payable and its derivative instrument can be fully recalled if ACEA's *rating* falls below the *investment grade* level or if the debt instrument loses its rating. At the end of the year, no conditions occurred to exercise the option.

Medium/long-term borrowings

These amounted to € 471,025 thousand, recording an overall variation of € 25,054 thousand, and represent the payables for the portions of capital and rates not yet reimbursed at 31 December 2016 and maturing beyond twelve months. The main borrowings, which are reported at 31 December 2016 inclusive of short-term portions, amounted to € 494,419 thousand overall and are described below :

- loan stipulated on 25 August 2008 for € 200,000 thousand for the water services segment investment plan (ACEA Ato2) with a term of 15 years. At 31 December 2016, this loan amounted to € 46,912 thousand. The first *tranche* of 150,000 thousand euros was disbursed in August 2008, and the interest rate is equal to the 6-month Euribor plus a spread of 7.8 basis points. In 2009, a second *tranche* was disbursed for € 50,000 thousand with an interest rate equal to the 6-month Euribor plus a spread of 0.646%, maturing on 15 June 2019;
- € 100,000 thousand loan drawn down on 31 March 2008 and maturing in 21 December 2021. The bank applies a floating rate of interest, with repayments to be made every six months; the first instalment was paid on 30 June 2010. At 31 December 2016 this loan amounted to € 46,912 thousand. Interest rate risk associated with the loan has been hedged via an *Interest Rate Swap*, with the aim of converting the underlying loan from floating to fixed rate. The *swap* matches the underlying loan repayment schedule. Based on IAS 39, the Company has tested the effectiveness of the hedge using *Hedge Accounting* under the *Cash Flow Hedge* model. The test revealed that the hedge is 98.52% effective, meaning that there was no ineffective portion to be recognized in the income statement. The negative *fair value* for the hedging instrument of € 5,255 thousand was recorded in a suitable reserve in the Shareholders' Equity;

- € 100,000 thousand loan taken out with the EIB in 2009 aimed to cover the requirements of the multi-year investment plan as part of the development and expansion of the electricity distribution network in Rome over a period of four years. The applied interest rate is 6-month Euribor plus a spread of 0.665% and maturity is set for the month of June 2018;
- EIB loan entered into on 23 December 2014 of € 200,000

thousand, aimed at supporting the liquidity needs of the multi-year investment plan in the water segment. The applied interest rate is 6-month Euribor plus a spread of 0.45% and maturity is set in the month of June 2030.

The following table shows a breakdown of borrowings by type of interest rate and term to maturity. The table also shows the short-term portions falling due within 31 December 2016, amounting to a total of € 23,394 thousand.

| € thousand | Total Residual Debt | By 31.12.2017 | Between 31.12.2017 and 31.12.2022 | After 31.12.2022 |
|-------------------------------------------------------------|---------------------|------------------|--------------------------------------|---------------------|
| fixed rate | 0 | 0 | 0 | 0 |
| floating rate | 447,507 | 15,059 | 259,948 | 172,500 |
| floating rate to fixed rate | 46,912 | 8,335 | 38,577 | 0 |
| Total medium/long-term and short-term borrowings | 494,419 | 23,394 | 298,525 | 172,500 |

See the paragraph on “Additional information on the financial instruments and risk management policies” for the information on the financial instruments.

This item reduced by € 1,859 compared to 31 December 2015.

See the table under the item “Deferred tax assets” in this document for the breakdown of the balance .

24. Other non-current liabilities – € 0 thousand

These amounted to zero at 31 December 2016.

25. Provision for deferred taxes – € 4,796 thousand

26. Current liabilities – € 365,604 thousand

This item increased by a total of € 57,844 thousand. The breakdown is as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|---------------------------|----------------|----------------|---------------|
| Borrowings | 105,192 | 77,570 | 27,623 |
| Trade payables | 206,553 | 155,687 | 50,867 |
| Tax payables | 36,544 | 55,848 | (19,304) |
| Other current liabilities | 17,314 | 18,656 | (1,341) |
| TOTAL | 365,604 | 307,760 | 57,844 |

26.a – Borrowings – € 105,192 thousand

Borrowings increased by € 27,623 thousand and the breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------|----------------|---------------|---------------|
| Due to subsidiaries and associates | 76,698 | 21,520 | 55,178 |
| Bank loans | 23,394 | 23,754 | (360) |
| Amounts due to Roma Capitale | 3,040 | 30,524 | (27,484) |
| Due to others | 2,059 | 1,771 | 288 |
| TOTAL | 105,192 | 77,570 | 27,623 |

The changes mainly concerned payables to subsidiaries and associates mainly in relation to (i) centralized treasury relations which increased by € 42,661 thousand due to the higher outstanding payables to companies in the Group recorded in the year and to (ii) the debt generated by the

transfer of IRES and IRAP receivables for which reimbursement was requested, concerning the claims made by companies in the Group in 2013. Details follow on the type of payables to Subsidiaries:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-------------------------------------------|---------------|---------------|---------------|
| Receivables for cash pooling transactions | 64,180 | 21,518 | 42,661 |
| Other borrowings | 12,519 | 2 | 12,517 |
| TOTAL | 76,698 | 21,520 | 55,178 |

The payables for bank loans changed as a result of the reimbursement of the loan portions expiring in 2016, mitigated by the increase in the prepayments accrued during the year.

The financial payables to Roma Capitale reduced by € 27,484 thousand as a result of the zeroing of the finan-

cial payables for dividends recorded at 31 December 2015, offset by the prepayment to Roma Capitale for the LED PLAN.

26.b – Trade payables – € 206,553 thousand

These are broken down as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|--------------------------------------------|----------------|----------------|---------------|
| Amounts due to third-party suppliers | 109,626 | 65,647 | 43,979 |
| Amounts due to subsidiaries and associates | 96,927 | 90,039 | 6,888 |
| TOTAL | 206,553 | 155,687 | 50,867 |

Amounts due **to third party suppliers** recorded an increase of € 43,979 thousand and the breakdown of the

balance is provided below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------|----------------|---------------|---------------|
| Payables for bills received | 60,320 | 31,626 | 28,694 |
| Payables for bills to be received | 49,306 | 34,021 | 15,284 |
| TOTAL | 109,626 | 65,647 | 43,979 |

As for trade payables for bills received amounting to € 60,320 thousand, it should be noted that the expired portion amounts to € 20,943 thousand, the remaining amount being due within the next twelve months.

There was an increase of € 6,888 thousand as regards the relations with **subsidiaries and associates**, which is analysed in the following table:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------|---------------|---------------|--------------|
| Acea Illuminazione Pubblica | 5,754 | 57,443 | (51,689) |
| ACEA Ato2 | 537 | 15,005 | (14,468) |
| Acea Energia | 8,990 | 8,897 | 93 |
| Publicacqua | 225 | 3,097 | (2,872) |
| Areti | 76,625 | 2,927 | 73,698 |
| Citelum Acea Napoli | 2,644 | 1,629 | 1,015 |
| Acea Domenicana | 100 | 0 | 100 |
| Acea8cento | 477 | 207 | 269 |
| Acea Ambiente (ex ARIA) | 190 | 141 | 48 |
| Acea Elabori | 604 | 114 | 490 |
| Abab | 78 | 78 | 0 |
| GORI | 87 | 77 | 10 |
| Other | 617 | 422 | 195 |
| TOTAL | 96,927 | 90,039 | 6,888 |

Note that the change in the amount due to Acea Illuminazione Pubblica and areti is due to the transfer of the Pub-

lic Lighting business unit from Acea Illuminazione Pubblica to areti on 29 December 2016.

26.c – Tax payables – € 36,544 thousand

These reduced by € 19,304 thousand and are broken down

as illustrated in the following table.

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|------------------------------------------------|---------------|---------------|-----------------|
| IRES and IRAP payables | 16,956 | 16,402 | 554 |
| Deferred VAT | 8,537 | 8,548 | (11) |
| Staff withholdings | 1,767 | 1,903 | (136) |
| Other tax payables | 15 | 93 | (78) |
| Total payables to the tax authorities | 27,276 | 26,947 | 329 |
| Tax consolidation payables due to subsidiaries | 9,268 | 28,901 | (19,633) |
| Total tax payables | 36,544 | 55,848 | (19,304) |

26.d – Other current liabilities – € 17,314 thousand

Their breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|----------------------------------------------------------------|---------------|---------------|----------------|
| Payables to social security and welfare institutes | 2,873 | 3,445 | (573) |
| Other payables to Subsidiaries and Associates | 5 | 5 | 0 |
| Other payables | 14,437 | 15,206 | (769) |
| <i>Amounts due to staff</i> | 7,065 | 7,801 | (736) |
| <i>collections from customers for reconciliation/refunding</i> | 5,373 | 5,388 | (14) |
| <i>Amounts due to various Municipalities</i> | 901 | 901 | 0 |
| <i>Insurance payables</i> | 579 | 582 | (3) |
| <i>Payables to Equitalia, due in instalments</i> | 188 | 255 | (67) |
| <i>Accrued liabilities and deferred income</i> | 78 | 0 | 78 |
| <i>Other payables</i> | 252 | 279 | (26) |
| TOTAL | 17,314 | 18,656 | (1,341) |

For greater clarity, it must be noted that the financial statements do not report payables falling due after five

years, other than those already mentioned in the item Borrowings.

RELATED PARTY TRANSACTIONS

ACEA AND ROMA CAPITALE

The Parent Company holds a controlling interest via its 51% holding in ACEA.

There are relations of a trade nature ongoing between ACEA and Roma Capitale, given that the company provides services in favour of the Municipality, with regard to the maintenance and enhancement of the public lighting plants. With regard to public lighting, the Group provides public lighting services on an exclusive basis within the Rome area. As part of the thirty-year free concession granted by the Municipality of Rome in 1998, the economic terms of the concession services are currently governed by a service contract signed by the parties, effective as of May 2005 until the concession expiry (31 December 2027), on the basis of the supplemental agreement signed by ACEA and Roma Capitale on 15 March 2011, modified in June by a private deed aimed at regulating commitments and obligations as a result of the implementation of the LED Plan.

The supplements in the supplemental agreement of 2011 regard the following elements :

- alignment of the term of the service contract with the expiry of the concession (2027), given that the contract is merely additional to the agreement;
- periodical update of the components of the payment concerning the consumption of electricity and maintenance;
- annual increase in the lump-sum payment with regard to the new lighting points installed.

Furthermore, the investments required for the service may be (i) applied for an funded by the Municipal Authorities or (ii) financed by ACES: in the first case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the second case, the Municipality is not bound to pay a surcharge; however, ACEA will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods. Moreover, it has been established that the qualitative/quantitative parameters will be renegotiated in 2018.

Upon natural or anticipated expiry, ACEA will be awarded an allowance corresponding to the residual carrying amount, which will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator.

Lastly, the contract sets out a list of events that represent a reason of early termination of the concession and/or resolution of contract by the will of the parties. Among these events, reference is made to newly arising needs attributable to the public interest including that set out in Article 23 bis of Law Decree 112/2008 repealed following the referenda of 12 and 13 June 2011, on the basis of which ACEA has the right to receive an allowance according to the discounted result of a defined percentage of the annual contractual amount multiplied by the number of years until expiry of the concession. Based on the fact that the supplementary agreement exceeds the reference thresholds set out by the Company

with regard to Related Party Transactions, it was analysed by the Board of Directors and approved during the meeting held on 1 February 2011, having obtained the favourable opinion of the Committee for Related Party Transactions. The reciprocal receivables and payables – with regard to payment terms and conditions – are governed by each single contract:

- for the public lighting service contract, payment shall be made within sixty days of receipt of the invoice and, in case of delayed payment, the legal interest rate will be applied for the first sixty days, after which the default interest rate will be applied, as set out from year to year by a Decree of the Ministry of Public Works and the Ministry of Economy and Finance,
- with reference to all other service contracts, the payment term for Roma Capitale as regards service contracts is sixty days from receipt of invoice, and in the case of late payment the parties have agreed to apply the current bank rate at the time.

The private deed signed in June by ACEA and Roma Capitale regulates the commitments and obligations due to the implementation of the LED Plan, modifying art. 21 of the Supplemental Agreement signed in 2011.

Specifically, the Plan involves the installation of 186,879 armourings at a rate of 10,000 per month starting from the thirty days subsequent to the signature of the agreement.; the fee is fixed at € 48 million for the entire LED Plan. 10% of this amount will be liquidated as an advance payment and the remainder on the basis of suitable bimonthly SALs, to be paid by Roma Capitale 80% within the thirty days closure of the SAL and the remainder within the fifteen days following the verification of the same SAL. The contract also involves mechanisms of incentives / fines for a number of installations in excess / less than those scheduled for each two-month period and a reduction of the payment recognised by Roma Capitale, to the extent of 50% of the counter value of the Energy Efficiency Securities due to ACEA for the LED Project.

As a result of the execution of the LED Plan, the parties have partially modified the price list and composition of the fee for managing the service.

The new installations and investments contribute towards the lump-sum fee by reason of the annual rate calculated according to the tax amortisation method provided for the installations involved in the specific intervention and the percentage reduction of the ordinary fee due from Roma Capitale, the amount of which is defined in the technical and economic project document.

A floating interest rate will remunerate the invested capital. As regards the entity of the relations between ACEA and Roma Capitale, see that illustrated and commented on the receivables and payables of the parent company in note no. 19.c in this document.

As regards the economic relations, the following is a summary of the costs and revenues at 31 December 2016 concerning the most significant relations.

| € thousand | REVENUES | | COSTS | |
|----------------------------------|---------------|---------------|------------|------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Public lighting service contract | 66,948 | 55,017 | 0 | 0 |
| TOTAL | 66,948 | 55,017 | 0 | 0 |

ACEA AND THE ROMA CAPITALE GROUP

ACEA also has relations of a trade nature with Companies,

Special Companies or Bodies controlled by Roma Capitale. The table below shows details of items linked to relations with entities owned by the Roma Capitale Group.

| Roma Capitale Group € thousand | Payables 31.12.2016 | Costs 31.12.2016 | Receivables 31.12.2016 | Revenue 31.12.2016 |
|-----------------------------------|------------------------|---------------------|---------------------------|-----------------------|
| AMA S.P.A. | 69 | 940 | 133 | 62 |
| AMA Soluzioni Integrate | 7 | 0 | 0 | 0 |
| ATAC S.P.A. | 0 | 0 | 386 | 2 |
| ROMA METROPOLITANE S.R.L. | 0 | 0 | 56 | 0 |
| FONDAZIONE CINEMA PER ROMA | 49 | 40 | 0 | 0 |
| RISORSE PER ROMA R.P.R. S.P.A. | 10 | 0 | 0 | 0 |
| ROMA MULTISERVIZI S.P.A. | 468 | 736 | 0 | 0 |
| BIOPARCO | 1 | 1 | 0 | 0 |
| Total | 604 | 1,717 | 576 | 64 |

ACEA AND THE SUBSIDIARIES

Financial relations

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

In the framework of the centralised management of financial services, the parent company ACEA has for some time adopted an inter-company treasury system in the Group, including inter-company finance relations, making it operative in many companies in the Group with which a suitable multi-annual inter-company finance agreement had been signed.

A new triennial inter-company finance contract was signed on 1 April 2016, as the previous one was deemed to be obsolete, as part of the renewal undertaken as part of the Acea2.0 project.

On the basis of this contract, ACEA makes available a medium-term revolving loan, the so-called "Inter-Company Finance Line", for an amount of up to a predetermined Plafond allocated for financing the financial requirements (i) due to needs relating to the working capital and (ii) in order for investments to be made.

Furthermore, ACEA makes available to the companies themselves credit lines on signature, for the same amount as the Bank Guarantees Plafond or through the direct release of corporate guarantees for the same amount as the Corporate Guarantees Plafond.

The functioning of this contract provides that every company which has specific peripheral bank accounts can permanently and on a daily basis carry out credit or debit transactions on the pool account of the Parent Company, zeroing the balance of its own bank accounts.

In the event of a negative daily inter-company balance, the companies recognise to the Parent Company interest payable calculated each year on the basis of a market interest rate, defined as the weighted mean of the rates applied on the market for so-called hybrid issues of capital or similar in the utilities sector (reviewed annually and if necessary increased by an additional margin substantially linked to the level of exposure of the beneficiary company with regard to the total

of the plafond granted to the Companies in the centralised treasury system). The interest rate applied in 2016 ranges from a minimum of 4.62% to a maximum of 5.78%.

In the event of a positive daily inter-company balance, ACEA recognises to the companies interest calculated quarterly by applying the interest rate resulting from the arithmetic mean of the daily "3 month EURIBOR" rates (Bloomberg) for the previous quarter.

The contractual terms applied are, at parity of credit standing and type of financial instrument, in line with those resulting from the reference market, supported by a benchmark prepared by a primary consultancy firm.

Trade relations

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.

As regards service agreements, with effect from 1 January 2014 and for a three year period, ACEA revised the list of offered services, aligned fees to market prices, made the service agreements compliant for regulatory purposes and under the Organisational, Management and Control model and introduced new SLAs (Service Level Agreements) to improve the level of service offered, to be compared to the related KPI (Key Performance Indicators).

Within the scope of the Acea2.0 project ACEA and the Area companies approved a contract for the implementation of major initiatives for (transversal and business) technological development by setting up a joint venture. The above contract contains economic – financial rules and regulations on participation to the joint venture.

ACEA also provides management, applicative management and maintenance services related to adhesion to the ACEA2.0 programme regulated by a suitable contract.

The contractual terms applied are, at parity of type of service rendered, in line with those resulting from the market.

ACEA AND THE MAIN COMPANIES OF THE CALTAGIRONE GROUP

| Caltagirone € thousand | Payables 31.12.2016 | Costs 31.12.2016 | Receivables 31.12.2016 | Revenue 31.12.2016 |
|--------------------------------------------------|------------------------|---------------------|---------------------------|-----------------------|
| PIEMME SPA - CONCESSIONARIA DI PUBBLICITÀ SPA | 40 | 55 | 0 | 0 |
| METROPOLITANA DI NAPOLI SPA | 0 | 0 | 18 | 261 |
| Total | 40 | 55 | 18 | 261 |

The impact of relations with related parties on the statement of cash flows is shown below. The impact of relations with related parties on the statement of financial position, the financial results and state-

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

| Statement of Financial Position | 31.12.2016 | Of which related party transactions | % impact | 31.12.2015 | Of which related party transactions | % impact | Variation |
|-------------------------------------|------------|-------------------------------------|----------|------------|-------------------------------------|----------|-----------|
| Financial assets | 237,625 | 237,499 | 99.9% | 121,913 | 121,688 | 99.8% | 115,712 |
| Trade receivables | 4,517 | 826 | 18.3% | 7,829 | 3,861 | 49.3% | (3,312) |
| Intragroup trade receivables | 57,496 | 57,496 | 100.0% | 95,984 | 95,984 | 100.0% | (38,488) |
| Other current assets | 25,378 | 2,345 | 9.2% | 24,070 | 2,343 | 9.7% | 1,308 |
| Intragroup current financial assets | 1,499,971 | 1,499,971 | 100.0% | 1,195,870 | 1,195,870 | 100.0% | 304,101 |
| Current tax assets | 77,372 | 36,053 | 46.6% | 47,484 | 24,609 | 51.8% | 29,888 |
| Borrowings | 105,192 | 81,508 | 77.5% | 77,570 | 53,814 | 69.4% | 27,623 |
| Trade payables | 206,553 | 97,498 | 47.2% | 155,687 | 50,718 | 32.6% | 50,867 |
| Tax Payables | 36,544 | 9,129 | 25.0% | 55,848 | 26,656 | 47.7% | (19,304) |

IMPACT ON THE INCOME STATEMENT

| Income Statement | 31.12.2016 | Of which related party transactions | % impact | 31.12.2015 | Of which related party transactions | % impact | Variation |
|----------------------------------|------------|-------------------------------------|----------|------------|-------------------------------------|----------|-----------|
| Revenue from sales and services | 172,762 | 168,903 | 97.8% | 168,975 | 163,114 | 96.5% | 3,787 |
| Other revenue and proceeds | 11,725 | 8,111 | 69.2% | 11,116 | 9,415 | 84.7% | 609 |
| Costs of materials and overheads | 143,851 | 87,038 | 60.5% | 133,268 | 47,066 | 35.3% | 10,583 |
| Financial income | 89,784 | 87,325 | 97.3% | 95,092 | 93,081 | 97.9% | (5,307) |
| Financial costs | 102,830 | 183 | 0.2% | 79,198 | 274 | 0.3% | 23,632 |
| Profits on Equity Investments | 146,247 | 146,247 | 100.0% | 146,438 | 146,438 | 100.0% | (191) |
| Losses on Equity Investments | 408 | 408 | 100.0% | 172 | 172 | 100.0% | 236 |

IMPACT ON THE STATEMENT OF CASH FLOWS

| Statement of Cash Flows | 31.12.2016 | Of which related party transactions | % impact | 31.12.2015 | Of which related party transactions | % impact | Variation |
|-------------------------------------------------|------------|-------------------------------------|----------|-------------|-------------------------------------|----------|-------------|
| Cash flow generated by operations | 23,536 | 76,859 | 326.6% | (8,706) | (60,622) | 696.4% | 32,242 |
| Cash flow generated by investment/disinvestment | (139,787) | (384,835) | 275.3% | 1,170,410 | 1,007,587 | 86.1% | (1,310,197) |
| Cash flow generated by loans | (79,927) | (83,368) | 104.3% | (1,366,633) | (947,490) | 69.3% | 1,286,706 |

LIST OF RELATED PARTY TRANSACTIONS

ACEA AND ROMA CAPITALE: LED PROJECT

The project involves the almost complete replacement of light fittings of existing street lighting installations in place in Roma Capitale with *Light Emitting Diode* (LED) equipment. Once obtained the reasoned binding opinion of the Board of Statutory Auditors, acting as "equivalent supervisory body" pursuant to paragraph 15 of Consob Communication

no. DEM / 10078683 of 24 September 2010, the Board of Directors approved the transaction on 22 April 2015 and granted the Chief Executive Officer *"the powers necessary for finalizing and signing the Implementing Instrument with Roma Capitale [...] with authority to make any non-material amendments and/or additions that are considered useful and/or necessary for the definitive and formal execution of the transaction"*. The private deed for the LED Plan was signed in June 2016.

UPDATE ON MAJOR DISPUTES AND LITIGATION

OTHER ISSUES

E.ON. Produzione S.p.A. proceedings against ACEA, ACEA Ato2 and AceaElectrabel Produzione

These proceedings were launched by E.ON. Produzione S.p.A., as successor to ENEL regarding a number of concessions for the abstraction of public water from the Peschiera water sources for electricity production, to obtain an order against the jointly and severally liable defendants (ACEA, ACEA Ato2 and AceaElectrabel Produzione) for payment of the subtension indemnity (or compensation for damages incurred due to illegitimate subtension), which remained frozen in respect of that defendant in the 1980s, amounting to € 46.8 million (plus the sums due for 2008 and later) or alternatively payment of the sum of € 36.2 million. As for the decision of the TRAP (Regional Court of Public Waters), before which a ruling is pending regarding the matter in question, to arrange for a court-appointed expert as regards the values of subtension for branching off, and subsequent reduction in hydroelectric production and indemnities due, the judge suspended the 3 October 2013 hearing where memoranda were presented concerning the partial payment of the unpaid fees. In the 9 January 2014 hearing, a decision on the case was not taken.

On 3 May 2014 the TRAP (Regional Court of Public Waters), in Sentence No. 14/14, quashed E.ON.'s applications ruling that the 1985 agreements are still valid, considering the application to be limited to the 'subtension price', ruling however that relevant to the measurement of adjustments to be inadmissible.

E.ON was ordered to pay 32 thousand euros for court costs plus accessory charges and Court appointed expert fees.

On 23 June 2014 E.ON filed an appeal with the Higher Court of Public Waters (TSAP), the first hearing of which will be held on 1 October 2014. After a number of procedural postponements, at the hearing of 14 January 2015, the proceedings were deferred to the hearing before the panel of judges on 10 May 2015, also with respect to the decision on the request for a new court appointed expert appraisal submitted by E.ON. As of 29 February 2016, the Higher Court of Public Waters had not yet passed sentence on the matter. In sentence no. 243/2016, the appeal was rejected, and E.O.N. was ordered to pay the legal cost involved.

In an appeal before the United sections of the Court of Cassation on 20 December 2016, the counterparty impugned the sentence of the TSAP; ACEA's counter-appeal was notified on 27 January 2017.

ACEA S.p.A. – SASI

In ruling 6/10, the TRAP (Regional Court of Public Waters) accepted the request submitted by ACEA against the Società Abruzzese per il Servizio Integrato S.p.A. (SASI) for the compensation of damage for the illegitimate withdrawal of water from the Verde river. ACEA was awarded € 9 million plus interest accrued from 14 June 2001 until 30 July 2013 in compensation for damages.

The sentence, which is not temporarily enforceable, was appealed by SASI before the TSAP (Higher Court for Public Waters) and ACEA filed a cross-appeal. In non-definitive judgment No. 117/13 on 11 June 2013 the TSAP, upholding one of the reasons for appeal, adjourned the proceedings appointing an expert to estimate the damage suffered by ACEA in the period 2010/2013. The TSAP set the hearing for 23 October 2013, then adjourned the proceedings until 27 November 2013. At this hearing the same court-ap-

pointed expert from the first instance was assigned to the case which was adjourned until 14 May 2014 for the court-appointed expert's findings. The court appointed expert appraisal was filed, which reduced the amount owed by SASI to € 6 million and, at the hearing on 28 January 2015, the Superior Court dismissed the adverse party application for a request for clarification to the expert, adjourning the case to 27 May 2015 for the decision. The case was again postponed to the hearing before the panel of judges on 25 November 2015 for the decision. In sentence no. 16/17 – filed on 1 February 2017 – the TSAP recognised to Acea the sum of € 6,063,361.00 plus legal interest compensating the readjusted annual amount from 2001 to 2010 and interest on arrears awaiting the decision. The terms for appealing to the Court of Cassation are pending.

A.S.A. – Acea Servizi Acqua - SMECO

By means of summons notified in autumn 2011, ACEA was summoned to court to respond to the alleged damage that it's even more unlikely non-compliance with unproven and inexistent obligations which are assumed to have been adopted under the shareholders' agreement relating to the subsidiary A.S.A. – Acea Servizi Acqua – would have caused to the minority shareholders of the latter, and their respective shareholders. The *claim* is worth over € 10 million.

The judge upheld SMECO's claim and appointed a court-appointed accountant to calculate the costs borne, loss of profit and any payable fees by effect of the seller's option in the shareholders' agreements.

At the hearing on 11 February 2014, which was held to discuss the comments on the expert report, the Judge granted the parties time to comment on the Court Expert Report and summoned the Expert for clarification at the hearing on 20 March 2014.

Following the above-mentioned comments, the Delegated Judge, at the hearing of 20 March 2014 issued a decision, substantially admitting the pleadings of the defence and of ACEA's appointed expert, postponed the case to the hearing on 1 July 2014, in order to better define, jointly with the parties and the party's appointed expert, the documentation to be acquired from Acea Ato 2 and proceed to supplement the Court Expert Report. During the hearing on 1 July 2014, the new Judge reserved a decision on the request for additional consultancy, which was subsequently rejected by decision issued outside the hearing. On 20 January 2015 the case was adjourned for judgment. By judgment no. 17154/15 of 17 August 2015, the Court entirely dismissed the application and ordered the parties to jointly reimburse the costs to ACEA which were assessed in € 50,000.00 in addition to incidental expenses. On 1 October 2015 SMECO lodged an appeal before the 2nd Civil Section of the Rome Court of Appeal General Docket 6033/15. At the hearing of 3 February 2016, the case was adjourned to 1 April 2018 for the closing statements.

Milano '90 dispute

This issue concerns Milano '90's failure to pay 5 million euros due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 million to € 23 million, while eliminating the *earn out*, setting 31 March 2009 as the payment deadline.

Given the purchaser's failure to act, the procedure to collect amounts due was initiated by preparing a notice warning Milano '90 to pay and through application for an injunction order which, on 28 June 2012, was granted in a temporarily executive form.

Therefore, the aforementioned injunction order was notified on 3 September 2012 and on 23 November, it was delivered to the Judicial Officer for third-party seizures, for the coercive collection of the amounts due.

Today, the objection by Milano '90 is pending before section X of the Court of Rome. An additional proceeding within this case was established pursuant to art. 649 of the Code of Civil Procedure, aimed at suspending the temporary execution of the challenged injunction order. This suspension was approved by the Judge.

Enforcement was also suspended, after the temporary enforcement of the injunction order.

At the hearing on 13 March 2014, the Judge reserved the decision as to the admission of evidence.

By decision dated 7 April 2014 the Judge, considering that a technical survey was needed to assess the land planning situation of the property and deciding to admit the witnesses' evidence as requested by ACEA, adjourned the hearing to 18 December 2014 for the witness hearing and engagement of the Court appointed expert. By decision dated 6 November 2015, the Judge, on request by the Court appointed expert, adjourned the case to 28 January 2016 for the filing of the technical consultancy document. The Judge then adjourned the case to 5 May 2016. The Court appointed expert filed the clarifications requested by the Judge on the evaluations already made on the actual value of the land and the case was adjourned to 15 June 2017 for the closing statements.

Trifoglio dispute

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant.

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (totalling € 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011.

In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Code of Civil Procedure. The hearing for the appearance of the parties before the court set for 13 November 2012 was postponed to 30 April 2013 following Trifoglio's call of a third-party to appear before the court (Piano Assetto C9 Stazione Ostiense Consortium).

In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

After turning the proceedings from summary to ordinary, the Court adjourned the case to 7 May 2014 for the admission of evidence, by granting the time limit for filing briefs pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure with effect from 14 January 2014.

Together with the submission of briefs pursuant to art. 183 no. 1 of the Italian Code of Civil Procedure, a new defence counsel for Trifoglio filed its appearance in the proceedings that charged ACEA for a new breach on account of the alleged impossibility to complete the development of the area covered by the sale agreement.

The hearing was postponed to 14 October 2014 for joinder of proceedings with another case, which has the same subject and was filed by ATAC Patrimonio, and for the possible joinder of proceedings with the case filed by Trifoglio (see below).

Case appearing as a defendant: in addition a new summons by Trifoglio was acknowledged, again concerning the deed of sale and aimed at having it declared null and void. In the summons, Trifoglio requested joinder with the proceedings instituted by ACEA, in addition to requesting the admission of an expert opinion. The summons, which as well as to ACEA was also served to ATAC Patrimonio, contains a claim for damages of approximately € 20 million.

In the briefs submitted pursuant to art. 183 no. 2 of the Italian Code of Civil Procedure, the counterparty requested the admission of the expert advice essentially to assess the possibility to proceed with development of the area.

At the hearing held on 27 May 2014 to discuss the summons filed by Trifoglio, the case was remanded to the District Presiding Judge who ruled the proceedings be readmitted to the Judge who heard the case brought by ACEA, as the cases are related. As matters stand, the questions raised by the opposing party appear to be groundless.

The cases were joined by the Judge before whom the case appearing as a plaintiff was pending and both cases were adjourned to the hearing on 7 April 2015, after questioning the Court appointed expert again. The case was adjourned to the hearing on 6 October 2015 for the final nomination of the Court appointed expert and conferment of duties to the expert, after solving the preliminary questions related to the prosecution. The hearing for discussing the report was set on 20 January 2016, on the basis of the request by the Court appointed expert to be assisted by other experts, and adjourned until 15 June 2016; the consultancy document was filed on said date. On 21 September 2016, the expert report was examined. After the claims made by the ACEA defence counsel, the judge, in decision dated 2 December 2016, merely summoned the Court appointed expert to appear again and provide clarifications on the method of calculation used and consequent fulfilment of the contractual guarantee, then adjourning the case until 14 February 2017. In the hearing on 14 February 2017, the Judge revoked the summoning of the Court appointed expert, thereby concluding the expert's involvement. Believing the case to be ready for a decision, the closing statements were adjourned until the hearing on 29 March 2017. In the hearing, the judge sent the case for ruling, assigning the terms for filing the closing statements and replies.

Kuadra dispute

Within the scope of the Kuadra S.r.l. dispute against the subsidiary Marco Polo S.r.l. in liquidation for alleged breach of contract related to participation in the Temporary Grouping of Companies for the CONSIP order, lawsuits were also filed against the same Kuadra S.r.l. and the shareholders of Marco Polo (therefore: ACEA, AMA and EUR) as well as Roma Capitale.

This summons was filed by the counterparty on the basis that Marco Polo was under the management and coordination of all direct and indirect Shareholders.

ACEA holds that, also in consideration of the generic nature of Kuadra S.r.l.'s reasoning attributing responsibility to the Shareholders of Marco Polo S.r.l. in liquidation, the risk of an unfavourable ruling is considered remote, while the indirect risk as a Marco Polo Shareholder, has already been considered in the assessment of risks with the subsidiary.

The case was adjourned until 19 January 2016 for the decision on the admission of evidence. The judge reserved his decision on the matter. In dissolution of the aforementioned reserve, the Judge rejected the preliminary claims made by the plaintiffs, adjourning the case to 4 October 2016 for the concluding statements. As a result of the beginning of discussions for the amicable settlement of the dispute, the hearing was adjourned to 20 February 2017 and again to 29 May 2017.

Dispute with Province of Rieti

The Province of Rieti served a summons to ACEA and ACEA Ato 2, requesting compensation (for various reasons) for the damage that it would suffer due to failure to approve the agreement on the so-called interference between the various services.

The Province of Rome, the Area Authority ATO2 Central Lazio Rome, Roma Capitale and the Lazio Region were also summoned together with ACEA and ACEA Ato 2.

The value of the dispute is high: to date approximately € 90 million (€ 25 million until 31 December 2005 and € 8 million per year for the subsequent period), but the structure of the defensive arguments is rather fragile, especially against ACEA. First the identification of the competent court appears open to challenge: the Ordinary Court in place of the Regional Court of Public Waters; second, the compensation liability for delay in approving the interference agreement is definitely not attributable to ACEA, since it was not due to the conduct of the company.

The case was adjourned to 14 July 2015 for the admission of evidence requested by the parties within the established time limit and was then adjourned again to 2 February 2017 for the concluding statements, given that this is a legal case with significant preliminary exceptions. Another adjournment to 19 September 2017 was ordered at the hearing.

Dispute with Giancarlo Cremonesi

Former ACEA Chairman, Giancarlo Cremonesi, filed an appeal before the Court of Rome, Employment section, asking for an order requiring the company to pay in his favour the remuneration not received due to the early termination of his office as well as the related non-material damages.

By sentence no. 4362 dated 5 May 2016, partially unfavourable (failure to recognise the request for compensation for damages), ACEA was ordered to pay the remuneration due. The payment was made in July 2016.

Dispute with Andrea Peruzi and Maurizio Leo

With similar actions brought before the Court Employment Division, former Directors of ACEA S.p.A. Peruzi and Leo, summoned ACEA and requested that the Company be ordered to pay in their favour the remuneration not received by them - amounting to 190 thousand and € 185 thousand respectively - due to the early termination of office, and compensation for pecuniary and non-pecuniary damage for various specified reasons, to be also quantified on an equitable basis.

ACEA filed its appearance and in the first place asserted the non-applicability of the employment law procedure and then the necessary transfer of the proceedings to the ordinary courts, as well as the lack of grounds of the claim.

The cases were postponed for the decision on the preliminary procedural issues to the hearing of 19 November 2015. At the hearing on 25 February 2016, the Court, by order of the same date, declared the lack of jurisdiction of the specialized Section and referred the case to the President of the Court for allocation to another section.

For **Maurizio LEO**, the case was resumed before the Companies Section of the Court of Rome and the next hearing has been adjourned to 23 January 2018 for the closing statements. For **Andrea PERUZY**, the case was also assigned to the Companies Section of the Court of Rome; the next hearing is scheduled for 12 February 2018 for the closing statements.

Former COS proceedings

The following cases related to the COS dispute are currently pending, concerning the ascertainment of illegality of the tender contract between ALMAVIVA Contact (formerly COS) and ACEA and the consequent right of the lenders to be recognised subordinate employment relations with ACEA S.p.A.

It must be noted that the majority of the cases have been settled and that seven of them are still pending at various levels as regards the validity of the claim (the ascertainment of the bogus nature of the tender and the right to employment relations).

On the basis of the sentences concerning the validity of the claim, the workers who won their cases (those in favour of whom subordinate employment relations with ACEA were recognised) then started cases for the quantification of their claims, in which it was demanded that ACEA pay the remuneration due as a result of the employment relations started. Given that there are multiple cases, and that they were undertaken by the same six workers, but referring to different periods in which the presumed receivables matured and have led to differing sentences pending at various levels of jurisdiction. Specifically, two cases are pending before the Court of Cassation (registered in 2012 and 2014, with hearing not yet set) following an appeal by the lenders who lost their appeal and ACEA has filed a counter appeal. The sums demanded have already been paid out in execution of the first level sentence then reformed, and there are no more outgoings currently expected.

An additional case has been settled at the first level in sentence 5538/15 dated 3 June 2015, rejecting the demand - concerning a certain timeframe - on the main basis that the six lenders had in the meantime still been employed by ALMAVIVA Contact (formerly COS) and were therefore earning income anyway.

The value of the demands totalled € 660 thousand plus supplements, but ACEA has not been convicted and has not therefore paid anything out.

However, the workers who lost their cases have appealed and the hearing has been set on 18 September 2017.

ARMOSIA Dispute

This is a lawsuit filed against the Injunction Decree issued by the Court of Rome - RG. 58515/14 against areti for the amount of € 226,621.34, demanded by Armosia MP for the rental fees for April, May and June 2014 for the building in Rome - Via Marco Polo, 31. The Injunction Decree was declared provisionally executive by ordinance dated 8 July 2015. In the hearing on 17 February 2016, the Judge adjoined this case with the other pending and filed under RG no. 30056/2014 before the Court of Rome, taken by ACEA and areti (transferee of the lease contract) in order to obtain the termination of the lease contract.

In this latter case, Armosia MP has also filed an unconventional remand for compensation for the damages incurred in consideration of the degrading condition of the building when it was released by areti. The demand made was for a total of about € 9 million. In the hearing on 17 February 2016, both ACEA and areti challenged this demand. The Judge called upon the Court appointed expert, adjourning the case to 14 March 2016 for the conferment of duties. In the hearing on 30 November 2016, after completion of the expert's duties, the case was adjourned to 24 May 2017 for debate and decision.

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets

and liabilities required by IFRS 7 based on the categories defined by IAS 39.

| € thousand | Held for trading financial instruments at fair value | Loans and receivables | Available-for-sale financial instruments | Carrying amount | Notes |
|-----------------------------------------------------------------------|------------------------------------------------------|-----------------------|------------------------------------------|------------------|-------|
| Non-current assets | 0 | 205,386 | 2,350 | 207,737 | |
| Other equity investments | 0 | | 2,350 | 2,350 | 15 |
| Financial assets due from Parent Company, subsidiaries and associates | 0 | 205,261 | 0 | 205,261 | 17 |
| Financial assets due from third parties | 0 | 126 | 0 | 126 | 17 |
| Current assets | 0 | 2,142,141 | 0 | 2,142,141 | |
| Trade receivables from customers | 0 | 4,517 | 0 | 4,517 | 19 |
| Trade receivables from related parties | 0 | 57,496 | 0 | 57,496 | 19 |
| Financial assets due from Parent Company, subsidiaries and associates | 0 | 1,497,175 | 0 | 1,497,175 | 19 |
| Financial assets due from third parties | 0 | 5,617 | 0 | 5,617 | 19 |
| Cash and cash equivalents | 0 | 577,334 | 0 | 577,334 | 19 |
| TOTAL FINANCIAL ASSETS | 0 | 2,347,527 | 2,350 | 2,349,877 | |

| € migliaia | Financial instruments held for trading | Liabilities at Fair Value | Liabilities at amortised cost | Carrying amount | Notes |
|------------------------------------------------------------------------------|----------------------------------------|---------------------------|-------------------------------|------------------|-------|
| Non-current liabilities | 0 | 4,034 | 2,512,693 | 2,516,727 | |
| Bonds | 0 | 0 | 2,022,134 | 2,022,134 | 23 |
| Bonds valued at FVH | 0 | (1,221) | | (1,221) | |
| Bonds valued at CFH | 0 | | 24,789 | 24,789 | |
| Bank borrowings (non-current portion) | 0 | 0 | 465,770 | 465,770 | 23 |
| Bank borrowings (non-current portion) measured at CFH | 0 | 5,255 | | 5,255 | |
| Current liabilities | 0 | 0 | 311,746 | 311,746 | |
| Bank borrowings | 0 | 0 | 0 | 0 | 26 |
| Bonds (current portion) | 0 | 0 | 0 | 0 | 26 |
| Bank borrowings (current portion) | 0 | 0 | 23,394 | 23,394 | 26 |
| Financial liabilities due to the Parent Company, subsidiaries and associates | 0 | 0 | 81,508 | 81,508 | 26 |
| Financial liabilities due to third parties | 0 | 0 | 290 | 290 | 26 |
| Trade payables | 0 | 0 | 109,626 | 109,626 | 26 |
| Trade payables due to Parent Company, subsidiaries and associates | 0 | 0 | 96,927 | 96,927 | 26 |
| TOTAL FINANCIAL LIABILITIES | | 4,034 | 2,824,439 | 2,828,473 | |

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The *fair value* of financial instruments that are not traded in an active market is determined using valuation models and techniques that make maximum use of market inputs or using the price supplied by a range of independent counterparties.

The *fair value* of medium/long-term financial assets and liabilities is calculated on the basis of the *risk less* and the *risk less adjusted* interest rate curves.

The *fair value* of trade receivables and payables falling due within twelve months was not calculated as their carrying amount approximates to fair value.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPE OF FINANCIAL RISKS AND RELATED HEDGING POLICIES

Foreign exchange risk

ACEA 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.

Liquidity risk

In the framework of the Group policy, ACEA's objective of managing the liquidity risk is to have a financial structure which, in compliance with the business objectives and the limits defined by the Board of Directors, ensures a liquidity level suited to the financial requirements, maintaining the correct

balance between duration and composition of payables. The process of liquidity risk management, which uses financial planning instruments for the outgoing and incoming cash flows which guarantee the treasury hedging and monitor the trends in the consolidated financial debt, is realised through both the centralised management of the treasury and through the support and assistance provided by the subsidiaries and associates which there is no centralised finance contract.

At 31 December 2016, the Parent Company held *uncommitted* credit lines totalling € 803 million, which are not used. No guarantees were issued to obtain these credit lines. At the end of the year, ACEA had no loans, term deposits and similar transactions.

Finally, as part of the *EMTN* programme of € 1.5 billion, approved in 2014, ACEA can issue bonds up to a total of € 400 million until 2019, given that in October 2016, bonds were placed with a value in the programme of € 500 million, which reduced the availability of the programme until its expiry.

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 on the markets, but rather a periodical analysis and control of positions based on specific needs. This type of management therefore involves daily activity on the markets, not for trading purposes but oriented rather towards the medium/long-term, with the objective of hedging the exposures identified.

ACEA has, up to now, opted to minimise the 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 the *cash flow* risk, given that it stabilises the financial outflows, whilst heightening exposure to the *fair value* risk in terms of changes in the market value of the debt.

An analysis of the consolidated debt position shows that the risk to which ACEA appears to be most exposed is the *fair*

value risk, being at 31 December 2016 composed of hedged fixed rate borrowings (73.2%), the hedging instruments thus being considered less exposed to the risk of variability of the future *cash flows*.

ACEA is consistent with its decisions regarding interest rate risk management, which essentially aims to both control and manage this risk and to optimise borrowing costs, taking account of *Stakeholders'* interests and the nature of the Group's activities, and based on the prudence principle and *best market practices*. The objectives of these guidelines are as follows:

- to identify, from time to time, the optimum mix of fixed and floating rate debt,
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business,
- to manage derivatives transactions solely for hedging purposes, should ACEA decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for *hedge accounting* (typically *cash flow hedges* and, under given conditions, *fair value hedges*).

It should be noted that ACEA has:

- swapped the € 100 million loan obtained on 27 December 2007 to a fixed rate. The *swap*, a *plain vanilla* IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021,
- completed a *cross currency* transaction to transform to euro – through a *plain vanilla* DCS *swap* – the currency of the private placement (yen) and the yen rate applied to a fixed euro rate through a *plain vanilla* IRS *swap*,
- swapped to floating rate € 300 million of the 5-year € 600 million fixed rate bond placed on the market in September 2013.

All the derivative instruments taken out by ACEA and listed above are non-speculative and the *fair values* of the same are respectively:

- negative for € 5.3 million (negative for € 7.0 million at 31 December 2015),
- negative for € 24.8 million (negative for € 33.0 million at 31 December 2015) and
- positive for € 1.2 million (positive for € 0.9 million in 2015).

The *fair value* of medium/long-term debt is calculated on the basis of the *risk less* and the *risk-adjusted* interest rate curves.

| € thousand | Amortised cost | RISK-FREE FV | increase/ (decrease) | RISK ADJUSTED FV | increase/ (decrease) |
|-----------------------------|------------------|------------------|----------------------|------------------|----------------------|
| | (A) | (B) | (A) - (B) | (C) | (A) - (C) |
| Bank Loans: | | | | | |
| Bonds | 2,045,702 | 2,070,005 | (24,303) | 1,956,898 | 88,804 |
| fixed rate | 0 | 0 | 0 | 0 | 0 |
| floating rate | 447,507 | 457,067 | (9,560) | 455,793 | (8,286) |
| floating rate to fixed rate | 46,912 | 47,936 | (1,024) | 46,947 | (35) |
| Total | 2,540,122 | 2,575,008 | (34,886) | 2,459,639 | 80,483 |

This analysis was also carried out using the “*risk-adjusted*” yield curve, i.e. a curve adjusted to take account of the level of risk and of ACEA’s sector of activity. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite *rating* ranging from BBB + and BBB- was used. A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying a constant

spread over the term structure of the *risk less* interest rate curve. This makes it possible to evaluate the impact on *fair value* and on future *Cash Flows* for both the individual instruments in the portfolio and the overall portfolio.

The following table shows the overall fair value changes of the debt portfolio based on parallel *shifts* (positive and negative) between -1.5% and +1.5%.

| Constant spread applied | Changes in Present Value (€ million) |
|-------------------------|--------------------------------------|
| -1.50% | (187.8) |
| -1.00% | (112.8) |
| -0.50% | (41.0) |
| -0.25% | (6.2) |
| 0.00% | 0.0 |
| 0.25% | 61.1 |
| 0.50% | 93.8 |
| 1.00% | 156.9 |
| 1.50% | 217.5 |

As regards the type of hedges for which the *fair value* is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they

are categorised as level 2; there were no reclassifications made to or from other *fair value* levels as defined by IFRS13 during the reporting period.

COMMITMENTS AND CONTINGENCIES

These amounted to € 1,007,802 thousand, a reduction of € 97,314 thousand compared to 31 December 2015 (€ 1,105,116 thousand).

The balance includes :

ENDORSEMENTS AND GUARANTEES ISSUED AND RECEIVED

This item had a positive net balance of € 173,646 thousand, resulting from endorsement and guarantees issued of € 224,615 thousand and those received amounting to € 50,969 thousand.

They recorded an increase of € 8,751 thousand compared to the end of last year.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

This item had a positive balance of € 585,514 thousand, comprising letter of patronage issued of € 585,717 thousand and letter of patronage received of € 203 thousand. There was an overall reduction of € 106,066 thousand during the course of the year.

The major changes concerned:

- the expiry of the guarantee issued to Acea Energia in the interest of e-distribution as back-to-back guarantee for the transport of electricity (€ 66,000 thousand at 31 December 2015),
- the reduction of the back-to-back guarantee to Cassa Depositi e Prestiti for the € 8,899 thousand loan granted to areti,
- the release of the guarantees to Deutsche Bank AG on behalf of Acea Energia as part of the ISAD Master Agreement (€ 10,000 thousand at 31.12.2015),
- the reduction in guarantees to various companies on behalf of Acea Energia, including Eni Trading & Shipping, AMS Voghera and Repower Italia, totalling € 19,721 thousand,
- the expiry of the Corporate guarantee to the former Shareholder of Aquaser for € 4,067 thousand,
- the issuing of a guarantee to UNICREDIT on behalf of ACEA Ato5 for € 6,306 thousand to hedge a guarantee issued by UNICREDIT to the AATO.

Third-party assets held under concession

These amounted to € 86,077 thousand and did not undergo changes compared to 31 December 2015; they refer to Public Lighting assets.

ANNEXES TO THE NOTES OF WHICH THEY ARE AN INTEGRAL PART

ANNEX 1: ANALYSIS OF NET DEBT

**ANNEX 2: STATEMENT OF CHANGES IN EQUITY
INVESTMENTS AT 31 DECEMBER 2015**

**ANNEX 3: NON-RECURRING MATERIAL
TRANSACTIONS PURSUANT TO CONSOB
RESOLUTION NO. 15519 OF 27 JULY 2006**

**ANNEX 4: POSITIONS OR TRANSACTIONS
DERIVING FROM UNUSUAL AND/OR
EXCEPTIONAL TRANSACTIONS**

ANNEX 5: SEGMENT INFORMATION (IFRS 8)

ANNEX 1: ANALYSIS OF NET DEBT AT 31 DECEMBER 2016

| € thousand | 31.12.2016 | Related parties | 31.12.2015 | Related parties | Variation |
|------------------------------------------------------------------------------------|--------------------|------------------|--------------------|------------------|---------------|
| Non-current financial assets | 126 | 0 | 225 | 0 | (99) |
| Intercompany non-current financial assets | 205,261 | 205,261 | 85,038 | 85,038 | 120,223 |
| Non-current borrowings and financial liabilities | (2,487,904) | 0 | (2,361,064) | 0 | (126,841) |
| Financial assets/(liabilities) deriving from measurement of derivative instruments | (28,823) | 0 | (39,037) | 0 | 10,214 |
| Net medium/long-term debt | (2,311,341) | 205,261 | (2,314,837) | 85,038 | 3,497 |
| Cash and cash equivalents and securities | 577,334 | 0 | 773,512 | 0 | (196,178) |
| Current financial assets/(liabilities) | (19,836) | (1,769) | (19,892) | (1,770) | 56 |
| Intragroup current financial assets/(liabilities) | 1,417,437 | 1,417,437 | 1,141,048 | 1,141,048 | 276,389 |
| Net short-term debt | 1,974,935 | 1,415,668 | 1,894,668 | 1,139,278 | 80,267 |
| Total net debt | (336,406) | 1,620,929 | (420,170) | 1,224,316 | 83,764 |

ANNEX 2: STATEMENT OF CHANGES IN INVESTMENTS AT 31 DECEMBER 2016

| € thousand | CHANGES DURING THE PERIOD | | | | | | 31.12.2016 |
|-------------------------------------------|---------------------------|---------------|-----------|--------------|-------------------------|------------------------|------------------|
| | 31.12.2015 | Acquisitions | Disposals | Reclass. | Increases/ Decreases | Impairments/ Losses | |
| Subsidiaries | | | | | | | |
| Areti S.p.A. | 648,651 | 0 | 0 | 35,183 | 28 | 0 | 683,861 |
| ACEA Ato2 S.p.A. | 585,442 | 0 | 0 | 0 | 0 | 0 | 585,442 |
| Acea8Cento S.p.A. | 120 | 0 | 0 | 0 | 0 | 0 | 120 |
| Consorcio Agua Azul | 5,113 | 0 | 0 | 0 | (142) | 0 | 4,970 |
| Acea Elabiori S.p.A. | 4,024 | 756 | 0 | 0 | 35 | 0 | 4,814 |
| Ecomed S.r.l. | 56 | 0 | 0 | 0 | 62 | 0 | 118 |
| Acea Energia S.p.A. | 277,044 | 0 | 0 | 0 | 0 | 0 | 277,044 |
| ACEA Ato5 S.p.A. | 13,934 | 0 | 0 | 0 | 0 | 0 | 13,934 |
| Aguazul Bogotà SA | 590 | 0 | 0 | 0 | 53 | 0 | 644 |
| Consorcio Acea Tradexco | 43 | 0 | 0 | 0 | 0 | 0 | 43 |
| Acea Dominicana SA | 606 | 0 | 0 | 0 | 4 | 0 | 610 |
| Acque Blu Arno Basso S.p.A. | 14,663 | 0 | 0 | 0 | 0 | 0 | 14,663 |
| Ombrone S.p.A. | 19,383 | 0 | 0 | 0 | 0 | 0 | 19,383 |
| Acque Blu Fiorentina S.p.A. | 43,911 | 0 | 0 | 0 | 0 | 0 | 43,911 |
| Acea Ambiente S.r.l. | 22,136 | 0 | 0 | 10,421 | 16 | 0 | 32,573 |
| Kykos | 0 | 4,788 | 0 | (4,788) | 0 | 0 | 0 |
| Umbra Acque S.p.A. | 6,851 | 0 | 0 | 0 | 0 | 0 | 6,851 |
| Aquaser S.r.l. | 5,401 | 0 | 0 | 0 | 16 | 0 | 5,417 |
| Crea Gestioni S.r.l. | 6,127 | 0 | 0 | 0 | 0 | 0 | 6,127 |
| Acea Gori Servizi S.c.a.r.l. | 1,659 | 0 | 0 | 0 | 0 | 0 | 1,659 |
| Solemme | 5,633 | 0 | 0 | (5,633) | 0 | 0 | 0 |
| Parco della Mistica | 10 | 0 | 0 | 0 | 50 | 0 | 60 |
| Sarnese Vesuviano S.r.l. | 163 | 0 | 0 | 0 | 0 | 0 | 163 |
| Acea Illuminazione Pubblica S.p.A. | 39,773 | 0 | 0 | (35,183) | 0 | 0 | 4,590 |
| Ingegnerie Toscane S.r.l. | 58 | 0 | 0 | 0 | 0 | 0 | 58 |
| Acea Liquidation and Litigation S.r.l. | 9,821 | 0 | 0 | 0 | 0 | 0 | 9,821 |
| Acea Produzione S.p.A. | 43,441 | 0 | 0 | 0 | 0 | 0 | 43,441 |
| Acea Energy Management S.r.l. | 50 | 0 | 0 | 0 | 0 | 0 | 50 |
| Agua De San Pedro SA | 0 | 6,023 | 0 | 2,058 | 35 | 0 | 8,117 |
| Acea International | 0 | 600 | 0 | 0 | 0 | 0 | 600 |
| Acea Servizi Acque S.r.l. in Liquidazione | 0 | 0 | 0 | 0 | 408 | (408) | 0 |
| Crea S.p.A. S.p.A. in Liquidazione | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hydreco Scarl in Liq. | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total subsidiaries | 1,754,703 | 12,168 | 0 | 2,058 | 565 | (408) | 1,769,085 |

CHANGES DURING THE PERIOD

| € thousand | 31.12.2015 | Acquisitions | Disposals | Reclass. | Increases/ Decreases | Impairments/ Losses | 31.12.2016 |
|-----------------------------------------------------|---------------|--------------|-----------|----------------|-------------------------|------------------------|---------------|
| Associates | | | | | | | |
| Aguas De San Pedro SA | 2,058 | 0 | 0 | (2,058) | 0 | 0 | 0 |
| Umbria Distribuzione Gas S.p.A. | 318 | 0 | 0 | 0 | 0 | 0 | 318 |
| Marco Polo S.p.A. in Liquidazione | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intesa Aretina S.r.l. | 11,505 | 0 | 0 | 0 | 0 | 0 | 11,505 |
| Citelum Napoli Pubblica Illuminazione S.c.a.r.l. | 306 | 0 | 0 | 0 | 0 | 0 | 306 |
| Sienergia S.p.A. in Liquidazione | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| DI.T.N.E. S.c.a.r.l. | 12 | 0 | 0 | 0 | 0 | 0 | 12 |
| Total Associates | 14,200 | 0 | 0 | (2,058) | 0 | 0 | 12,142 |

CHANGES DURING THE PERIOD

| € thousand | 31.12.2015 | Acquisitions | Disposals | Reclass. | Increases/ Decreases | Impairments/ Losses | 31.12.2016 |
|-----------------------------------------------|--------------|--------------|-----------|----------|-------------------------|------------------------|--------------|
| Other Companies | | | | | | | |
| Polo Tecnologico Industriale Romano S.p.A. | 2,350 | 0 | 0 | 0 | 0 | 0 | 2,350 |
| WRC PLC | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Companies | 2,350 | 0 | 0 | 0 | 0 | 0 | 2,350 |

**ANNEX 3: NON-RECURRING MATERIAL
TRANSACTIONS PURSUANT TO CONSOB
RESOLUTION NO. 15519 OF 27 JULY 2006**

No significant non-recurring transactions were carried out in the period.

**ANNEX 4: POSITIONS OR TRANSACTIONS
DERIVING FROM UNUSUAL AND/OR
EXCEPTIONAL TRANSACTIONS**

Pursuant to the CONSOB Ruling of 28 July 2006, we hereby declare that during 2016, ACEA S.p.A. did not enter into any exceptional and/or unusual transactions as defined by the above Ruling.

ANNEX 5: SEGMENT INFORMATION (IFRS 8)

| € thousand | Public Lighting | Corporate | TOTAL CONTINUING OPERATIONS | DISCONTINUING OPERATIONS | TOTAL |
|----------------------------------------------|-----------------|-----------|-----------------------------|--------------------------|------------------|
| Investments | 1,339 | 11,843 | 11,843 | 0 | 11,843 |
| Operating Segments | | | | | |
| Property, plant and equipment | 1,320 | 94,587 | 95,907 | 0 | 95,907 |
| Intangible Assets | 0 | 13,138 | 13,138 | 0 | 13,138 |
| Non-current financial assets | 0 | 1,783,577 | 1,783,577 | 0 | 1,783,577 |
| Other non-current trading assets | | | | | 28,875 |
| Other non-current financial assets | 57,877 | 179,748 | 237,625 | | 237,625 |
| Raw materials | 270 | 0 | 270 | 0 | 270 |
| Trade receivables | 3,713 | 805 | 4,517 | 0 | 4,517 |
| Trade receivables due from Parent Company | 0 | 372 | 372 | 0 | 372 |
| Receivables due from subsidiaries/associates | 3,040 | 54,084 | 57,125 | 0 | 57,125 |
| Other current trading assets | 616 | 102,134 | 102,750 | | 102,750 |
| Other current financial assets | 113,715 | 1,391,874 | 1,505,588 | 0 | 1,505,588 |
| Bank deposits | | | | | 577,334 |
| Total assets | | | | | 4,407,078 |

| € thousand | Public Lighting | Corporate | TOTAL CONTINUING OPERATIONS | DISCONTINUING OPERATIONS | TOTAL |
|---------------------------------------------------|-----------------|-----------|-----------------------------|--------------------------|------------------|
| Segment liabilities | | | | | |
| Trade payables | 94 | 109,532 | 109,626 | 0 | 109,626 |
| Trade payables due to Parent Company | 0 | 0 | 0 | 0 | 0 |
| Trade payables due to subsidiaries and associates | 88,732 | 8,195 | 96,927 | 0 | 96,927 |
| Other current trading liabilities | | | | | 53,858 |
| Other current financial liabilities | | | | | 105,192 |
| Defined benefit plans | 0 | 26,444 | 26,444 | 0 | 26,444 |
| Other provisions | 0 | 37,002 | 37,002 | 0 | 37,002 |
| Provision for deferred taxes | | | | | 4,796 |
| Other non-current trading liabilities | | | | | 0 |
| Other non-current financial liabilities | | | | | 2,516,727 |
| Shareholders' equity | | | | | 1,456,505 |
| Total Liabilities | | | | | 4,407,078 |

| € thousand | Public Lighting | Corporate | TOTAL CONTINUING OPERATIONS | DISCONTINUING OPERATIONS | TOTAL |
|-----------------------------------------------------------------------------|------------------------|------------------|------------------------------------|---------------------------------|------------------|
| Third party revenues | 72,268 | 11,823 | 84,091 | 0 | 84,091 |
| Inter-segment sales | 0 | 100,395 | 100,395 | 0 | 100,395 |
| Staff costs | 0 | (47,232) | (47,232) | 0 | (47,232) |
| Cost of materials and overheads | (76,826) | (67,025) | (143,851) | 0 | (143,851) |
| Gross Operating Profit | (4,558) | (2,038) | (6,596) | 0 | (6,596) |
| Amortisation, depreciation and provisions for the impairment of receivables | (4,641) | (19,924) | (24,565) | 0 | (24,565) |
| Impairment charges/ Reversal of impairment charges on non-current assets | 0 | 0 | 0 | 0 | 0 |
| Operating profit/(loss) | (9,199) | (21,963) | (31,161) | 0 | (31,161) |
| Financial (costs)/income (Costs)/Income from investments | | | | | (13,045) |
| Net profit/(loss) from discontinued operations | | | | | 145,839 |
| Profit/(loss) before tax | | | | | 101,632 |
| Taxation | | | | | 6,978 |
| | | | | | 108,610 |

Board of Statutory Auditors' Report to the Shareholders' Meeting

(pursuant to art. 153 of Legislative Decree 58/1998 and art. 2429, paragraph 2, of the Civil Code)

Dear Shareholders,
the Board of Statutory Auditors of Acea S.p.A. (hereinafter also “Acea” or “the Company”), pursuant to art. 153 of Legislative Decree no. 58/1998 (hereinafter also “CFA” - Consolidated Finance Act) and art. 2429, paragraph 2, of the Civil Code, is called upon to report to the Shareholders' Meeting, held to approve the Financial Statements, on the supervisory activity performed during the period and on any omissions and irregularities found. The Board of Statutory Auditors is also called upon to express possible proposals regarding the Financial Statements and their approval and on the matters of its competence.
This report refers to the activity performed by the Acea S.p.A. Board of Statutory Auditors in the financial period that closed on 31 December 2016.

Introduction

During the period that closed at 31 December 2016 the Board of Statutory Auditors performed the supervisory activity required by law, taking into account the principles of conduct recommended by the National Council of Accountants and Auditors, the CONSOB provisions on corporate control and the indications of the Self-Regulatory Code.

The activities described below, also carried out jointly with the Control and Risks Committee, were reported in the minutes of the 13 meetings of the Board of Statutory Auditors held in 2016.

The Board of Statutory Auditors has always attended the Board of Directors' meetings and those of the Control and Risks Committee. It has also attended the meetings of the Appointments and Remuneration Committee.

Appointment of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this report was appointed by the Shareholders' Meeting of 28 April 2016 and is composed of Enrico Laghi (Chairman), Rosina Cichello (standing auditor) and Corrado Gatti (standing auditor).

Carlo Schiavone and Lucia Di Giuseppe are alternate auditors.

The supervisory activity pursuant to art. 2403 of the Civil Code and art. 149 of the CFA

Pursuant to art. 2403 of the Civil Code and art. 149 of the CFA (Consolidated Finance Act), the Board of Statutory Auditors supervises:

- compliance with law and with the articles of association;
- respect for the principles of correct corporate governance;

- the adequacy of the organisational structure for the aspects of its competence, of the internal control system and of the administrative-accounting system, and the reliability of this latter in correctly representing business management facts;
- the concrete manner of the implementation of the corporate governance rules set out in the Codes of Conduct drawn up by regulated market management companies or by category associations, to which the Company, as it has informed the public, declares it adheres;
- the adequacy of the provisions issued by the Company to its subsidiaries pursuant to art. 114, paragraph 2.

Supervisory activities on compliance with law and with the articles of association

The Board of Statutory Auditors acquired the information for the performance of the supervisory duties assigned to the same by participating in the meetings of the Board of Directors and of its Committees, by interviews with the Management of the Company and of the Group, meetings with the auditing firm, analyses of the information flows acquired from the corresponding control bodies of the Company and of the Group and from the Company's structures, as well as other control activities.

The Board of Statutory Auditors:

- obtained from the Directors, at least once a quarter, information on the activity performed and on the transactions of major economic, financial and equity importance carried out by the Company, and on the Group's strategic guidelines. This Board of Statutory Auditors can reasonably guarantee that the actions carried out comply with the law and with the Articles of Association and are not clearly imprudent, hazardous, in potential conflict of interests or in contrast with the resolutions adopted by the shareholders' General Meeting or such as to compromise the Company's equity. Nor have any atypical or unusual transactions taken place;
- reports the following transactions and events of particular importance in 2016:
 - o on 19 February 2016 the Company's Board of Directors approved: (i) the strategic lines of the Acea Group for the period 2016-2020; (ii) the organisation plan of the Acea Group's offices in the Rome area; (iii) the updating of the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 (hereinafter, also the "Model");
 - o on 11 March 2016 the Board of Directors' approved the Group's business plan for the period 2016-2020. At the same meeting, the proposal for the distribution of a dividend of 0.50 per share was approved;
 - o on 1 April 2016 a new inter-company loan agreement with three-year effect was approved;
 - o on 12 May 2016 the Company's Board of Directors, in compliance with art. 14, paragraph 12, of Law no. 183/2011 and in continuance with the choice adopted by the previous Board of Directors, assigned the role of Supervisory Board, as contemplated by Legislative Decree 231/2001, to the Board of Statutory Auditors for a period equal to their term of office established by the shareholders' resolution that appointed said Board;
 - o on 31 May 2016, the Director Diane d'Arras resigned from office as an Acea Board Director, which the Company immediately disclosed to the market. At the meeting of 28 June 2016, to replace the outgoing member, the Board of Directors, having

acquired the favourable opinion of the Board of Statutory Auditors, co-opted Mr Angel Simon Grimaldos as an independent, non-executive Board Director;

- on 24 June 2016 Acea made available to the public at the Company's head office and on its Internet site (www.acea.it), the information document regarding the LED Plan, signed by Acea and Roma Capitale on 17 June 2016. Being a transaction with a related party, the Board of Statutory Auditors, intervening in the examination of the operation as the “equivalent controlling body”, as contemplated by paragraph 15 of CONSOB press release DEM/10078683 of 24 September 2010, had given its prior binding justified opinion;
- on 28 June 2016 the Company's Board of Directors resolved to grant an interest bearing shareholders' loan to Acea Ato 5 S.p.A. for a total amount of Euro 125,000,000.00;
- on 3 August 2016, Fitch Ratings communicated that it confirmed ACEA's rating of “BBB+” on the long-term debt and of “F2” on the short-term debt, with stable outlook. The Agency explained its confirmation of the rating and of the outlook on the basis of the Group's strategy on regulated business, the balanced financial structure and the increased visibility of the water service and electricity distribution activities after the recent price adjustments;
- on 12 October 2016 Acea announced the launch of a partial repurchase transaction addressed to bondholders for a cash consideration, of a nominal maximum amount of Euro 300 million. At the same time Acea communicated the issue of a new series of bonds as part of the “€ 1,500,000,000 Euro Medium Term Note” programme updated on 25 July 2016. On 19 October 2016 Acea successfully completed the placing of the bond issue for a total amount of Euro 500 million maturing at 10 years at fixed rate, within the sphere of the Euro Medium Term Notes (EMTN) programme. The bonds are subject to English law and are destined exclusively to institutional investors;
- on 10 November 2016 the Company's Board of Directors approved the 2016-2020 sustainability plan, also in implementation of the provisions of the Self-Regulatory Code of listed companies and of EU directive 2014/95, in the process of being adopted, pursuant to which, as of the financial statements for 2017, the annual report will have to be accompanied by the sustainability report;
- on 13 December 2016, Moody's communicated that it had confirmed Acea's rating of “Baa2” with stable outlook. The Agency explained that the confirmation of the outlook is mainly due to the positive business mix mainly focused on regulated activities. The “Baa2” rating reflects, among other things, the stable and transparent regulatory framework of the water sector, the solid financial structure and the credit metrics;
- pursuant to art. 151, paragraphs 1 and 2, of Legislative Decree no. 58/1998, exchanged information with the subsidiaries' Boards of Statutory Auditors on the activity carried out in 2016;
- in its role as Supervisory Board, assessed the relevant aspects pursuant to Legislative Decree no. 231/2001, and to this regard found no anomalies or significant facts that could be criticised;
- held periodic meetings with the representatives of the auditing firm in order to exchange, in compliance with art. 150, paragraph 3, of the CFA, data and information with relevance for the performance of its duties. To this regard, we point out that no relevant data or information to be reported herein came to light;

- issued the opinion required by art. 2386 of the Civil Code for the co-option of Angel Simon Grimaldos as an executive director;
 - received no reports as contemplated by art. 2408 of the Civil Code;
 - did not issue any opinions as contemplated by art. 2389, paragraph 3, of the Civil Code;
- The Board of Statutory Auditors, with regard to the Company's bodies and offices, also reports that:
- the Board of Directors held 10 meetings in 2016;
 - the Control and Risks Committee held 6 meetings in 2016;
 - the Appointments and Remuneration Committee held 4 meetings in 2016;
 - the Ethics Committee held 2 meetings in 2016;
 - the Transactions with Related Parties held 1 meeting in 2016. The Board of Statutory Auditors, in its role of "equivalent control body" pursuant to paragraph 15 of CONSOB Communication no. DEM/10078683 of 24 September 2010, held 2 meetings;
 - the Supervisory Board held 4 meetings in 2016;

Supervision on compliance with correct governance principles and on the adequacy of the organisational structure

The Board of Statutory Auditors:

- acquired knowledge and supervised, within its competence, on the adequacy of the Company's organisational structure and on respect for the principles of correct governance, by direct observations, obtaining information from the Company's department managers and meetings with the auditing firm for the reciprocal exchange of relevant data and information, and to this regard it has nothing in particular to report, the Company's organisational structure being substantially adequate for its needs and able to guarantee respect for the principles of correct governance;
- monitored and supervised the adequacy of the administrative and accounting system, and on its reliability to correctly represent the management facts, by obtaining information from the managers of the various departments, by examining company documents and by analysing the results of the work carried out by the auditing firm, regarding which it has no observations to make.

The Board of Statutory Auditors ascertained that adequate documentation regarding the items on the agendas of the Board of Directors' meetings was made available to the Directors and Statutory Auditors reasonably in advance.

On the basis of the information acquired, the Board of Statutory Auditors acknowledges that the management decisions were based on the principle of correct information and reasonableness, and that the Board Directors were aware of the risk of the effects of the transactions carried out.

The Board of Statutory Auditors found no atypical and/or unusual transactions, including those with related parties and infra-group transactions.

The Board of Statutory Auditors also assessed the adequacy of the information contained in the report on management regarding the non-existence of significant atypical and/or unusual transactions.

Supervision on the concrete methods of implementation of the corporate governance rules

In compliance with art. 149, paragraph 1, letter *c-bis*, of the CFA regarding the Board of Statutory Auditors' supervision *"of the concrete methods of implementation of the corporate governance rules contemplated by codes of conduct drawn up by regulated market management*

companies or by category associations, to which the Company publicly declares it adheres”, the Board of Statutory Auditors reports that it has supervised:

- the concrete method of implementation of the corporate governance rules set out in the Codes of Conduct to which the Company publicly declares it adheres. In compliance with art. 123-bis of the CFA, the Company has drawn up the Annual Report on Governance Report and the Ownership Structure for 2016, approved on 13 March 2017, in which information is given on (i) the corporate governance practices effectively applied by the Company; (ii) the main features of the internal risks and control system in force, also in relation to the financial reporting process of the Company and of the Group; (iii) the functioning mechanisms and the powers of the Shareholders' Meeting and the Shareholders' rights, and the methods by which they are exercised; (iv) the composition and the functioning of the administration and control bodies and of their committees, and all the other information required by art. 123-bis of the CFA;
- the adoption of the Remuneration Policy for Directors' and Key Managers, in line with the provisions of the Self-Regulatory Code of listed companies, issued by Borsa Italiana S.p.A., and the following Remuneration Report pursuant to art. 123-ter of the CFA;
- the application, during the period, of the Procedure for conferring mandates on auditing firms within the Acea Group, approved by the Acea Board of Directors on 7 October 2014, with effect as of 1 November 2014.

The Board of Statutory Auditors also declares: (i) that it has checked, as recommended by the Self-Regulatory Code of Borsa Italiana S.p.A., that its members have the requisites of independence prescribed by the said Code; (ii) that it can confirm the correct application of the criteria and the procedures for verifying the requisites of independence adopted by the Board of Directors to annually assess the independence of its members, and that the Board of Directors has carried out an assessment, based on substantial and consistent aspects, of the decisions adopted in respect of parties related to Acea, and that it has no observations to make.

Supervision of the adequacy of the instructions issued by the Company to its subsidiaries

Pursuant to art. 114, paragraph 2, of the CFA: (i) listed issuers instruct the subsidiaries to give all the information necessary to comply with the disclosure obligations of law; (ii) the subsidiaries immediately transmit the information requested.

The Board of Statutory Auditors has supervised the adequacy of the instructions issued to the subsidiaries, having ascertained that the Company is able to immediately and regularly comply with the disclosure obligations of law, also by obtaining information from the organisation's department managers and by periodic meetings with the auditing firm, for the reciprocal exchange of relevant data and information. To this regard, we have no particular observations to make.

Furthermore, the Boards of Directors of the subsidiary companies include, with operational powers, Directors and/or Managers of the parent Company, which guarantee coordination management and an adequate flow of information, supported by suitable accounting information.

Infra-group transactions and transactions with related parties

Pursuant to art. 2391-bis of the Civil Code and of CONSOB resolution no. 17221 of 12 March 2010 bearing “Regulations for transactions with related parties”, successively amended by CONSOB resolution no. 17389 of 23 June 2010, on 11 November 2010 the Acea Board of

Directors, with the favourable opinion of the Committee formed for the purpose composed of only independent directors (appointed pursuant to art. 4, paragraph 3, of said Regulation, by a specific Board of Directors' resolution), adopted the "Procedure for transactions with related parties".

Later, on 18 December 2013, the Acea Board of Directors, with the favourable opinion of the Committee for Transactions with Related Parties composed only of independent directors, unanimously approved the new "Procedure for transactions with related parties" (hereinafter, also the "Procedure"). The adoption of said new Procedure annuls and replaces, as of 1 January 2014, the Procedure for Transactions with Related Parties approved by the Board of Directors with resolution no. 61 of 11 November 2010.

Pursuant to art. 4 of said Regulations, we report that the Procedure adopted by the Company (i) is consistent with the principles contained in said Regulation and (ii) it is published on the Company's Internet site (www.aceaspa.it).

In 2016, on the basis of the information received, a series of infra-group transactions and transactions with third parties were carried out. The transactions with related parties were carried out, to the best of our knowledge, also subsequent to the supervisory activities carried out, in substantial adhesion to the Procedure and the Regulations adopted by Acea. The infra-group transactions that we examined were of an ordinary nature, inasmuch as essentially relating to the performance of commercial services and the reciprocal performance of administrative, financial and organisational activities. The above-mentioned transactions were carried out under normal conditions with standard parameters which reflect the effective use of the services which were performed for the Company. The non-infra-group transactions with related parties that we examined were also of an ordinary nature (inasmuch as falling within the ordinary exercise of the core business or the financial activity connected to the same) and they were concluded under conditions equivalent to those of the market, or standard conditions. The transactions with related parties are indicated in the commentary notes on the Company's and the consolidated financial statements, where the consequent economic effects are also reported.

The Board of Statutory Auditors reports that it met on 20 and 23 June 2016 in its capacity of "equivalent control body" pursuant to paragraph 15 of CONSOB communication DEM/10078683 of 24 September 2010, to examine a transaction with a related party (the "LED Project") and to issue the relative opinion.

In our opinion, all the above-mentioned transactions were carried out in the Company's interests and the prices and values were congruous.

Supervisory Activity pursuant to the Consolidated Act on the Legal Audit of Accounts

Pursuant to the Consolidated Act on the Legal Audit of Accounts (Legislative Decree no. 39/2010), the Board of Statutory Auditors (identified by the Consolidated Act as the "Internal Control and Legal Audit Committee") is called upon to supervise:

- (i) the financial reporting process;
- (ii) the efficiency of the internal control, the internal audit and the risk management systems;
- (iii) the legal audit of the annual accounts and of the consolidated accounts;
- (iv) the independence of the auditing firm, especially as regards the performance of non-audit services.

The Board of Statutory Auditors interacted with the Control and Risks Committee formed within the Board of Directors, to coordinate their respective duties and avoid overlapping

activities.

To this regard, the custom has been adopted according to which the entire Board of Statutory Auditors participates in the Control and Risks Committee activities when they regard issues of specific relevance in respect of Legislative Decree no. 39/2010, to streamline and facilitate coordination and the exchange of information between the two bodies.

In particular, the entire Board of Statutory Auditors participates in the Control and Risks Committee activities when they regard specific issues relating to: (i) the financial reporting process; (ii) the effectiveness of the internal control, internal auditing and risk management systems; (iii) the independent auditing of the annual and consolidated accounts; and (iv) the aspects relating to independence of the Auditing Firm.

With specific reference to the activities required under the Consolidated Act on the Legal Auditing of Accounts, we report as follows.

Supervision of the financial reporting process

The Board of Statutory Auditors checked on the existence of rules and procedures governing the drafting and disclosure of financial information. To this regard, the Report on Corporate Governance and the Ownership Structure defines the guidelines of reference for the institution and management of the system of administrative and accounting procedures for Acea and the consolidated companies, disciplining the relative steps and responsibilities.

The Board of Statutory Auditors, with the assistance of the Financial Reporting Manager, examined the procedures for drafting the Company's and the consolidated financial statements, as well as the other periodic accounting documents. The Board of Statutory Auditors also had evidence of the process that allows the Financial Reporting Manager and the delegated Director to issue the certifications required by art. 154-*bis* of the CFA.

The Board of Statutory Auditors was informed that the administrative/accounting procedures for the preparation of the financial statements and every other financial communication are provided under the responsibility of the Financial Reporting Manager who, together with the Managing Director, testifies to its adequacy and its effective application on the occasion of the Company's and the consolidated financial statements and the six-monthly interim report.

The Audit Department, on the basis of a plan approved by the Board of Directors, checks the adequacy of the design and execution of company and process controls.

The Board of Statutory Auditors therefore expresses its assessment of the adequacy of the financial information preparation process and maintains that there are no observations to submit to the Shareholders' meeting.

Supervision of the effectiveness of the internal control, the internal audit and the risk management systems and on the legal audit of the Company's and the consolidated accounts

The Board of Statutory Auditors, also together with the Control and Risks Committee, periodically met the Audit Department Manager, and was informed of the results of the audit actions aimed at verifying the adequacy and execution of the internal control system, compliance with law and with the Company's procedures and processes, and on the implementation of the relative improvement plans. It also received the Audit Plan for the financial period 2016, approved by the Board of Directors on 11 March 2016 (the content of which was positively assessed by the Control and Risks Committee and by the Board of Statutory Auditors in force on that date in the joint meeting of 7 March 2016) and it was periodically updated on the state of progress of the plan of the identified corrective actions. It also received: (i) on 8 March 2017, the Audit Department Manager's Report for the year 2016,

relating to the assessment of the internal control system, and (ii) on 13 March 2017, the Audit Department's Plan of Activities for 2017, which included activities for reporting improvements, continuous auditing, fraud risk prevention and management and quality assurance.

Every six months, it also received from the Control and Risks Committee the latter's report on the activities carried out.

With regard to the updating of the Organisational, Management and Control Model, we mention that the Board of Statutory Auditors in the role of Supervisory Board, pursuant to Legislative Decree 231/2001, directed and monitored the project activities performed for the updating of the Model, especially regarding the activities carried out for this purpose by the Audit Department, and on 15 December 2015 it expressed a favourable opinion on the approval of the new Model, which was then approved by the Company's Board of Directors on 19 February 2016. Further activities for updating the Model, in the light of changes in the law, were monitored by the Supervisory Board.

Lastly, the Board of Statutory Auditors periodically met the auditing firm EY S.p.A. (hereinafter also "EY"), which meetings did not bring to light any relevant facts to be reported concerning the audit activity or any important shortcomings on the completeness of the internal control system regarding, in particular, the financial reporting process, also as contemplated by art. 19, paragraph 3, of Legislative Decree 39/2010.

The Board of Statutory Auditors therefore states that it finds the entire financial information preparation process adequate and points out that there are no observations to submit to the Shareholders' meeting.

The independence of the auditing firm, especially as regards the performance of non-audit services

With regard to the annual confirmation of independence required by art. 17, paragraph 9, letter d) of Legislative Decree 39/2010, the Board of Statutory Auditors represents that it received said confirmation from the Auditing Firm with the transmission of the relative letter on 4 April 2017.

The Board of Statutory Auditors monitored the Auditing Firm's independence and, in particular, it received periodic evidence of the services, other than auditing, to be attributed (or attributed pursuant to specific regulatory provisions) to the legal auditor.

As can be understood from the consolidated financial statements of the Acea Group, in 2016 EY performed certain activities for the Group, summed up below:

| Company and period of reference <i>Amount in Euro</i> | Audit services | Audit related services | Non audit services | Total |
|----------------------------------------------------------|-----------------------|-------------------------------|---------------------------|------------------|
| Acea S.p.A. 2016 | 341,541 | 245,545 | 126,250 | 713,336 |
| Acea Group 2016 | 930,829 | 308,285 | 341,880 | 1,580,994 |
| Total Acea SpA and the Group | 1,272,370 | 553,830 | 468,130 | 2,294,330 |

The Board of Statutory Auditors considers that the above-mentioned fees are suitable for the dimension, complexity and features of the work carried out and it also maintains that the duties (and the relative fees) other than the audit are not such as to influence the legal auditor's independence.

With regard to the Auditing Firm, the Board of Statutory Auditors reports that on 4 April 2017 EY issued the report on the fundamental issues that came to light during the legal audit, from which no "significant shortcomings" emerge in the internal control system relating to financial information reporting. The Board of Statutory Auditors is monitoring the Company's action plan relating to the areas on which there is room for improvement.

The Company's Financial Statements, the Consolidated Financial Statements and the management report

Acea's financial statements, approved by the Company's Board of Directors on 13 March 2017, have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union, and in accordance with the provisions implementing art. 9 of Legislative Decree 38/2005.

We mention that, as of 1 January 2016, the following documents entered into force, already issued by the IASB and approved by the European Union, bearing amendments to the international accounting standards: IFRS 11 (Joint Control Agreements), IAS 16 (Fixed assets, plant and machinery), IAS 38 (Non-tangible assets) and IAS 27 (Separate financial statements).

With specific regard for the examination of the financial statements for the period which closed at 31 December 2016, the consolidated financial statements and the management report, the Board of Statutory Auditors represents:

- that the Company's and the consolidated financial statements have been drafted according to the structure and the schedules prescribed by the provisions in force;
- that the financial statements are accompanied by the Directors' management report which sums up the main risks and uncertainties and which illustrates the business outlook. It conforms to the provisions in force and is consistent with the Board of Directors' resolutions and with the results of the financial statements. It also contains adequate information on the business of the period and on infra-group transactions. The section on the reporting of transactions with related parties has been inserted, in compliance with the IFRS principles, in the explanatory notes on the financial statements;
- that the Report on Corporate Governance and the Ownership Structure, pursuant to art. 123-*bis* of the CFA, and the Remuneration Report pursuant to art. 123-*ter* of the CFA, have also been drafted;
- that the folder containing the financial statements was delivered to the Board of Statutory Auditors in time to be filed at the Company's head office together with this report;
- that it checked the logic underlying the assessment procedures applied and their correspondence to the logics of the international accounting standards;
- that it checked the correspondence of the financial statements to the facts and information that it learnt during the performance of its duties; and that it has no observations to this regard;

- that it has not found the application of any waivers contemplated by art. 2423, paragraph 4, of the Civil Code on the part of the Directors in their preparation of the financial statements;
- that the Acea Board of Directors, consistently with the indications of the joint Bank of Italy/CONSOB/ISVAP document of 3 March 2010, approved the impairment test and procedure autonomously before the approval of the draft financial statements, ascertaining correspondence with international accounting standard IAS 36. The explanatory notes on the financial statements contain information on and the results of the assessment processes carried out;
- on 4 April 2017, the auditing firm issued its own report containing its opinion on the conformity of the Company's and the consolidated financial statements to the International Financial Reporting Standards adopted by the European Union and to the provisions issued in implementation of art. 9 of Legislative Decree no. 38/05, and the consistency of the management report and of the information in the Report on Corporate Governance and the Ownership Structure with the financial statements. Said report, without observations, contains informative references.

Proposal to the Shareholders' Meeting

1. Financial Statements at 31 December 2016

The Board of Statutory Auditors expresses a favourable opinion on the approval of the Financial Statements at 31 December 2016, and it has no objections against the resolution proposal presented by the Board of Directors for the allocation of the result of the period.

2. The Group's Remuneration Policy

We inform you that the Board of Statutory Auditors has no objections to express on the Remuneration Policy submitted to the Shareholders' Meeting for consultation.

3. Renewal of the mandate for the legal audit of the accounts

With the approval of the financial statements at 31 December 2016, the mandate for the legal audit of the accounts conferred for the nine-year term 2008-2016 by Acea S.p.A. expires. Therefore Acea has opened the procedure for the selection of the new auditing firm to which to entrust the relative assignment for the financial periods 2017-2025, in conformity with the legislative and regulatory provisions in force.

The undersigned Board of Statutory Auditors, in its role as "Internal Control and Accounting Audit Committee", issued its recommendation on 10 March 2017 drafted according to arts. 13, paragraph 1, and 17, paragraph 1, of Legislative Decree no. 39 of 27 January 2010 as amended, respectively, by arts. 16 and 18 of Legislative Decree no. 135 of 17 July 2016, and art. 16 of EU Regulation no. 537/2014 of the European Parliament and Council of 16 April 2014.

* * *

Pursuant to art. 144-*quinquiesdecies* of the Issuers' Regulations, approved by CONSOB with resolution 11971/99 as successively amended, the list of the offices held by members of the

Board of Statutory Auditors in the companies referred to in Book V, Title V, Chapters V, VI and VII, of the Civil Code, is published by CONSOB on its Internet site (www.consob.it).

Rome, 4 April 2017

Prof. Enrico Laghi

Ms Rosina Cichello

Prof. Corrado Gatti



ACEA S.p.A.

Financial statements as at 31 December 2016

**Independent auditor's report in accordance with articles 14
and 16 of Legislative Decree n. 39, dated 27 January 2010**

Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

To the Shareholders of ACEA S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of ACEA S.p.A., which comprise the balance sheet as at 31 December 2016 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of ACEA S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ACEA S.p.A. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Emphasis of Matter

We draw your attention to the paragraph "Service Concession Arrangements", which describes with reference to the associated company GORI S.p.A., the reasons for requiring the provisions recognized in a prior year to be maintained.

In addition, we draw your attention to the paragraph "Related Party Transactions", which describes the nature and extent of the relationships that the ACEA Group has with related parties.

Our opinion is not qualified in respect of these matters.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information on Corporate Governance and the Company's Ownership Structure with the financial statements

We have performed the procedures required under audit standard (ISA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of ACEA S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion, the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership are consistent with the financial statements of ACEA S.p.A. as at 31 December 2016.

Rome, 4 April 2017

EY S.p.A.
Signed by: Massimo delli Paoli partner

This report has been translated into the English language solely for the convenience of international readers.



Certification of separate financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

1. The undersigned, Alberto Irace, as Chief Executive Officer, and Demetrio Mauro, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

- the consistency to the business characteristics and
- the effective application

of the administrative and accounting procedures for preparing the separate financial statements at 31 December 2016.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:

3.1 the separate financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 4 April 2017

signed by: Alberto Irace, The CEO

signed by: Demetrio Mauro, The Executive Responsible for Financial Reporting

This report has been translated into the English language solely for the convenience of international readers





CONNECTED TO YOUR WORLD.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

ACEA SPA 2016 FINANCIAL STATEMENTS

FORM AND STRUCTURE

GENERAL INFORMATION

The consolidated financial statements of the ACEA Group at 31 December 2016 were approved by Board of Directors' resolution on 13 March 2017. The Parent Company ACEA SpA is an Italian joint-stock company, with its registered office in Rome, at Piazzale Ostiense 2 and whose shares are traded on the Milan Stock Exchange.

The ACEA Group's principal operating segments are described in the Report on Operations.

COMPLIANCE WITH IAS/IFRS

This Annual Report, prepared on a consolidated basis, has been drawn up in accordance with the IFRS effective at the reporting date, as approved by the *International Accounting Standards Board* (IASB) and adopted by the European Commission according to the procedure set out in art. 6 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 and in accordance with art. 9 of Legislative Decree no. 38/05.

The international accounting standards comprise the *International Financial Reporting Standards* (IFRS), the *International Accounting Standards* (IAS) and the interpretations of the *International Financial Reporting Interpretations Committee* (IFRIC) and the *Standing Interpretations Committee* (SIC), collectively referred to as "IFRS".

BASIS OF PRESENTATION

The consolidated financial statements consist of the consolidated statement of financial position, consolidated income statement, statement of consolidated comprehensive income, consolidated statement of cash flows and the statement of changes in consolidated shareholders' equity. The Report also includes illustrative and supplementary notes prepared under the IAS/IFRS currently in effect.

The Income Statement is classified according to the nature of the costs, the items of the Statement of Financial Position according to the criterion of liquidity, with the items classified as current and non-current, while the Statement of Cash flows is presented using the indirect method.

The consolidated financial statements have been prepared in Euros and all amounts have been rounded off to the nearest thousand Euros, unless otherwise indicated.

The figures in these consolidated financial statements are comparable to the figures in the previous period.

ALTERNATIVE PERFORMANCE INDICATORS

On 5 October 2015, the ESMA (*European Security and Markets Authority*) published its own guidelines (ESMA/2015/1415) on the criteria for the presentation of the alternative performance indicators, which replaced the recommendations of CESR/05-178b as of 3 July 2016. These guidelines have been acknowledged in our system by Notification no. 0092543 of 3-12-2015 emanated by CONSOB. The content and meaning of the *non-GAAP* measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

- for the ACEA Group, *gross operating profit* is an operating performance indicator and as of 1 January 2014, includes the summary result of the joint ventures for which the consolidation method has been changed as a consequence of the entry into force of international accounting standards IFRS10 and IFRS11. The *gross operating profit* is the sum of Operating profit and "Amortisation, depreciation, provisions and impairment charges" as they are the main *non-cash* items. It must be noted that the *adjusted* economic data does not include the positive effect as a result of the elimination of the so-called *regulatory lag* and the negative effect as a result of the buyback of a portion of the bonds issued;
- the *net financial position* is an indicator of the ACEA Group's financial structure, the sum of 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;
- *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 when calculating the *net financial position*;
- *net working capital* is the sum of the current receivables, inventories, balance net of other current assets and liabilities and current payables, excluding the items considered in the calculation of the *net financial position*.

USE OF ESTIMATES AND ASSUMPTIONS

In application of IFRS, preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenue, costs, assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date. In making the estimates for the financial statements, the main sources of uncertainty that may have an impact on the evaluation processes are also considered. The actual amounts may differ from such estimates. Estimates are used for the recognition of provisions for credit risk, obsolescent inventories, impairment charges incurred on assets, the recoverability of prepaid tax assets, employee benefits, *fair value* of derivatives, revenue, taxes and other provisions. The estimates and assumptions are periodically reviewed and the impact of any change is recognised in the income statement.

The estimates have also taken into account assumptions based on market and regulatory parameters and information available when the financial statements were drawn up. The current events and circumstances affecting the assumptions as regards future development and events may, however, change as a result, for example, of changes in the market trends or applicable regulations that are beyond the control of the Company. These changes in assumptions are also reflected in the financial statements when they arise. In addition, it should be noted that certain estimation processes, particularly the more complex such as the calculation of any impairment of non-current assets, are generally performed in full only when drafting the annual financial statements, unless there are signs of *impairment* that call for immediate impairment testing.

For more details on the methods in question, reference is made to the following paragraphs.

CONSOLIDATION POLICIES, PROCEDURES AND SCOPE

CONSOLIDATION POLICIES

Subsidiaries

The basis of consolidation includes the Parent Company ACEA S.p.A., and the companies over which it directly or indirectly exercises control via a majority of the voting rights. Subsidiaries are consolidated from the date on which control is effectively transferred to the Group and are deconsolidated from the date on which control is transferred out of the Group.

According to accounting standard IFRS 10, control is obtained when the Group is exposed, or has the right to variable performance levels as a result of its relations with the subsidiary, and has the capacity, by exercising power of the subsidiary, to influence the relevant performance levels. Power is defined as the actual capacity to manage the activities of the subsidiary by virtue of substantial existing rights.

Control does not depend exclusively on the possession of the majority of the voting rights, but on the substantial rights of the investor over the subsidiary. Consequently, the opinion of the management team is required to evaluate specific situations leading to substantial rights attributing to the Group the power to manage the significant activities of the subsidiary so as to influence its performance. For the purpose of the assessment of control, management analyses all the events and circumstances, including agreements with the other investors, rights deriving from other contracts and potential voting rights (*call option*, *warrant*, *put option* given to minority shareholders, etc.). These other events and circumstances may be particularly significant to this assessment, especially if the Group owns less than the majority of the voting or similar rights of the subsidiary.

The Group reviews the existence of the conditions for control over a subsidiary when the events and circumstances indicate that one or elements considered in the initial assessment have changed.

Lastly, it should be noted that in assessing the requirements for control, no situations of de facto control were encountered.

Changes in the quota of possession in equity investments in subsidiaries which do not imply the loss of control are recorded as capital operations adjusting the quota attributable to the shareholders of the Parent Company and that to third parties to reflect the variation in the quota of possession. The difference between the payment made or received and the corresponding portion of shareholders' equity acquired or sold is recorded directly in the consolidated shareholders' equity.

When the Group loses control, the residual equity investment in the company previously controlled is re-measured at fair value (offset by the income statement) when control is lost. Furthermore, the portion of the OCI referring to the subsidiary in which control is lost is accounted as if the Group has directly disposed of the relevant assets or liabilities.

Where there is loss of control of a consolidated company, the consolidated financial statements include the results for the part of the reporting period in which the ACEA Group had control.

Joint ventures

A *joint venture* is a contractual arrangement in which the Group and other parties jointly undertake a business activity, i.e. a contractually agreed sharing of control whereby the strategic, financial and operating policy decisions can only be adopted with unanimous consent of the parties sharing control. The consolidated financial statements include the Group's share of the income and expenses of jointly controlled entities, accounted for using the equity method.

According to accounting standard IFRS11, a joint venture is an agreement in which two or more parties exercise joint control. Joint control is when the decisions concerning the significant activities of the joint venture require the unanimous consent of at least two of the parties to the agreement.

A joint venture may be seen as a *joint venture* or a *joint operation*. A *joint venture* is an agreement for joint control in which the parties exercising joint control have rights on the net assets of the agreement. A *joint operation* is a joint control agreement in which the parties exercising joint control have rights on the assets and obligations on the liabilities of the agreement.

In order to determine the existence of a joint venture and the type of joint control exercise, management gives its opinion, assessing the rights and obligations deriving from the agreement. To this end, management considers the legal structure and form of the agreement, the terms agreed between the parties in the contractual agreement and other events and circumstances if significant.

The Group reviews the existence of joint ventures when the events and circumstances indicate that one or more of the elements previously considered in assessing the existence of the joint venture and type of joint control exercised has changed.

Associates

An associate is a company over which the Group exercises significant influence, but not control or joint control, through its power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results of associates at Net equity, unless they are classified as held for sale, from the date it begins to exert significant influence until the date it ceases to exert such influence.

The opinion of management is required in order to determine the existence of significant influence, after examining all the events and circumstances.

The Group reviews the existence of significant influence when the events and circumstances indicate that one or more of the elements previously considered in assessing the existence of the significant influence has changed.

When the Group's share of an associate's losses exceeds the carrying amount of the investment, the interest is reduced to zero and any additional losses must be covered by provisions to the extent that the Group has legal or implicit loss cover obligations to the associate or in any event to make payments on its behalf. Any excess of the cost of the acquisition over the Group's interest in the fair value of the associate's identifiable assets, liabilities and contingent liabilities at the date of the acquisition is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subject to *impairment* test together with the value of the investment.

CONSOLIDATION PROCEDURES

General procedure

The financial statements of the Group's subsidiaries, associates and *Joint ventures* are prepared for the same accounting period and using the same accounting standards as those adopted by the Parent Company. Consolidation adjustments are made to align any dissimilar accounting policies applied.

All Intragroup balances and transactions, including any unrealised profits on Intragroup transactions, are eliminated in full. Unrealised losses are eliminated unless costs cannot be subsequently recovered.

The carrying amount of investments in subsidiaries is eliminated against the corresponding share of the shareholders' equity of each subsidiary, including any adjustments to reflect *fair values* at the acquisition date. Any positive difference is treated as "goodwill", while any negative difference is recognized through profit or loss at the acquisition date.

The minority interest in the net assets of consolidated subsidiaries is shown separately from shareholders' equity attributable to the Group. This interest is calculated on the basis of the percentage interest held in the *fair value* of assets and liabilities recognised at the original date of acquisition and in any changes in shareholders' equity after that date. Losses attributable to the minority interest in excess of their portion of shareholders' equity are subsequently attributed to shareholders' equity attributable to the Group, unless the minority has a binding obligation to cover losses and is able to invest further in the company to cover the losses.

Business combinations

Acquisitions of subsidiaries are accounted for under the acquisition method. The cost of the acquisition is determined as the sum of the fair value, at the date of exchange, of the assets acquired, the liabilities incurred or acquired, and the financial instruments issued by the Group in exchange for control of the acquired company.

The identifiable assets, liabilities and contingent liabilities of the acquired company that meet the conditions for recognition under IFRS3 are accounted for at fair value on the date of acquisition, with the exception of non-current assets (or disposal groups), which are classified as held for sale under IFRS5 and accounted for at fair value net of costs to sell.

If the business combination is achieved in stages, the *fair val-*

ue of the investment previously held has to be re-measured and any resulting gain or loss is recognized in profit or loss.

The purchaser has to recognise any contingent consideration at *fair value*, on the date of acquisition. The change in *fair value* of the contingent consideration classified as asset or liability is recognized according to the provisions included in IAS 39, in the income statement or in other comprehensive income. If the contingent consideration is classified in equity, its value is re-measured until its extinction is booked against equity.

The costs directly attributable to the acquisition are booked in the Income Statement.

The purchase cost is allocated by recording the assets, liabilities and contingent liabilities identifiable in the acquired entity at their fair value at the date of acquisition. Any positive difference between the amount transferred, valued at fair value at the date of acquisition, and the amount of any minority shareholding, with regard to the net value of the assets and liabilities identifiable in the acquired entity itself valued at fair value is booked as goodwill, or in the Income Statement, if negative.

For every business combination, the purchaser must value any minority stake in the acquired entity at *fair value* or in proportion to the share of the minority interest in net identifiable assets of the acquired entity.

Consolidation procedure for assets and liabilities held for sale (IFRS5)

Non-current assets and liabilities are classified as held for sale, in accordance with the provisions of IFRS5.

Consolidation of foreign operations

All the assets and liabilities of foreign operations denominated in a currency other than the Euro are converted using the exchange rates at the end of the reporting period. Revenue and costs are converted using average exchange rates for the period. Any conversion differences are recognised in a separate component of Shareholders' equity until the investment is sold.

Foreign currency transactions are initially recognised at the spot rate on the date of the transaction. Foreign currency assets and liabilities are converted at the exchange rate at the end of the reporting period. Conversion differences and those arising on disposal of the foreign operation are recognised under financial management in the income statement.

BASIS OF CONSOLIDATION

The ACEA Group's consolidated financial statements include the financial statements of the Parent Company, ACEA, and the financial statements of the Italian and foreign subsidiaries, for which, in accordance with the provisions of IFRS10, there is exposure to the variability of returns and of which a majority of voting rights in the ordinary meetings is held, either directly or indirectly, and consequently the ability to influence the investee returns by exerting management power. Entities that the Parent Company jointly controls with other parties are accounted for using the equity method.

A) CHANGES IN BASIS OF CONSOLIDATION

The basis of consolidation at 31 December 2016 has changed compared to that in the Consolidated Financial Statements for last year, as a result of the acquisition of 29.65% of Aguas de San Pedro which, in addition to the

portion already held (31%) has led to the exclusive control over the company, and therefore on 12 October 2016, the company was fully consolidated. Also in 2016, following the changes to the composition of the Board of Directors in relation to the number of Board members of CAEA, AguaA-zul Bogota was consolidated using the *Equity Method*. It must also be noted that ACEA International S.A., 100% owned by ACEA, was incorporated on 22 November 2016. The merger by incorporation of Voghera Energia Vendite in liquidation into Acea Energia also became effective during the first half of 2016.

B) UNCONSOLIDATED INVESTMENTS

Tirana Acque S.c.a.r.l. in liquidation, 40% owned by ACEA, is recognized at cost. The subsidiary is excluded from the scope of consolidation as it is not operational and its relevance in qualitative and quantitative terms is not significant.

ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

MEASUREMENT CRITERIA

Conversion of foreign financial statement items

ACEA SpA and its European subsidiaries have adopted the Euro (€) as their functional and presentation currency. Foreign currency transactions are initially recognised at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency using the exchange rate valid at the end of the reporting period. Exchange differences are recognised in the consolidated income statement, with the exception of differences deriving from foreign currency loans taken out in order to hedge a net investment in a foreign entity. Such exchange differences are taken directly to shareholders' equity until disposal of the net investment, at which time any differences are recognised as income or expenses in the income statement. The tax effect and tax credits attributable to exchange differences deriving from this type of loan are also taken directly to shareholders' equity. Foreign currency non-monetary items accounted for at historical cost are converted at the exchange rate valid on the date the transaction was initially recorded. Non-monetary items accounted for at fair value are converted using the exchange rate valid at the date the value was determined.

Revenue recognition

Revenue from sales and services is recognised when the significant risks and rewards associated with ownership of the goods have been transferred or when the service has been performed and is measured at *fair value* of the consideration received or to be received. Specifically:

- **Revenue from the sale and transport of electricity and gas** is recognised at the time the service is provided, even when yet to be billed, and includes an estimate of the quantities supplied to customers between their last meter reading and the end of the period. Revenue is calculated on the basis of the related laws, provisions contained in Electricity, Gas and Water Authority resolutions in effect during the period and existing provisions regarding equalisation. It must be noted that with regard to the valorisation of revenue from the transport of electricity, is the acceptance of in the tariff investments giving the right for the operator to be paid is virtually certain in the financial year in which they are realised, the corresponding revenue is ascertained by competence independently of the method in which it will be recognised financially as a result of resolution 654/2015 of the AEEGSI;
- **Revenue from integrated water services** is determined on the basis of the Water Tariff Method (MTI), valid for determining tariffs for the years 2016 to 2019, approved Resolution No. 643/13/R/idr and subsequent amendments by the AEEGSI. On the basis of the interpretation of the legal nature of the New Investment Fund tariff component the amount payable to the water companies is recognised as revenue where it is expressly recognised by the Area Authorities which establish its intended use. Revenue for the period also includes the adjustments to pass-through items (i.e. electricity, wholesale water) of which the aforementioned resolution provides specific details as well as any adjustments related to costs associated with the Integrated Water System incurred as a result of exceptional events (e.g. water emergencies, environmental emergencies) where their recognition is confirmed by the relevant investigations.

Financial income

Interest income is recognised on a time proportion basis that takes account of the effective yield on the asset (the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset). Interest is accounted for as an increase in the value of the financial assets recorded in the accounts.

Dividend income

Dividend income is recognised when the shareholder's unconditional right to receive payment is established. Dividend income is classified as a component of finance income in the income statement.

Grants

Grants related to plant investments received from both public and private entities are accounted for at *fair value* when there is reasonable assurance that they will be received and that the envisaged conditions will be complied with.

Water connection grants are recognised as non-current liabilities and taken to the income statement over the life of the asset to which they refer if they relate to an investment, or recognised in full as income if matched by costs incurred during the period.

Grants related to income (disbursed in order to provide an enterprise with immediate financial aid or as compensation for expenses and losses incurred in a previous period) are recognised in the income statement in full, once the conditions for recognition have been complied with.

Construction contracts in progress

Construction contracts in progress are accounted for on the basis of the contractual payments accrued with reasonable certainty, according to the percentage of completion method (so-called *cost to cost*), attributing revenue and profits of the contract to the individual reporting periods in proportion to the stage of contract completion. Any positive or negative difference between contract revenue and any prepayments received are recognised in assets or liabilities in the shareholders' equity.

In addition to contract fees, contract revenue includes variations, price changes and the payment of incentives to the extent that it is probable that they will form part of revenue and that they can be reliably determined. Ascertained losses are recognised regardless of the stage of contract completion.

Employee benefits

Employee benefits paid out when their employment terminates or subsequently in the form of defined benefit and defined contribution plans (such as Staff Termination Benefits, Bonuses, Tariff Subsidies, as described in the notes) or other long-term benefits are recognised in the period in which the related right accrues. The valuation of the liabilities is performed by independent actuaries. Such funds and benefits are not financed.

The cost of the benefits involved in the various plans is determined separately for each plan based on the actuarial valuation method, using the projected unit credit method to carry out actuarial valuations at the end of the reporting period.

The profit and loss deriving from the actuarial calculations are recorded in the comprehensive operating profit, therefore in a specific Shareholders' Equity Reserve, and are not subject to subsequent recognition in the income statement.

TAXATION

Taxes for the period represent the aggregate amount of current and deferred taxes.

Current taxes are based on the taxable profit (tax loss) for the period. Taxable profit (tax loss) differs from the accounting profit or loss as it excludes positive and negative components that will be taxable or deductible in other periods and also excludes items that will never be taxable or deductible. Current tax liabilities are calculated using the tax rates enacted or substantively enacted at the end of the reporting period, and taking account of tax instruments permitted by tax legislation (the domestic tax consolidation regime and/or tax transparency).

Deferred taxes are the taxes expected to be paid or recovered on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and the corresponding tax bases, accounted for using the liability method. Deferred tax liabilities are generally recognised on all taxable temporary differences, whilst deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Deferred tax assets and liabilities are not recognised if the temporary differences derive from goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, unless the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that, based on the plans approved by the Parent Company's Board of Directors, it is no longer probable that sufficient future taxable profit will be available against which all or part of the assets will be able to be recovered.

Deferred taxes are determined using tax rates that are expected to apply to the period in which the asset is realised or the liability settled. Deferred taxes are directly recognised in the income statement, with the exception of those relating to items directly recognized in the shareholders' equity, in which case the related deferred taxes are recognized in the shareholders' equity.

Tangible assets

Tangible assets are stated at historical cost, including any directly attributable costs of making the asset ready for its intended use, less accumulated amortisation and any accumulated impairment charges.

The cost includes the costs of dismantling and removing the asset and cleaning up the site at which the asset was located, if covered by the provisions of IAS37. The corresponding liability is recognized in the provisions for liabilities and charges. Each component of an asset with a cost that is significant in relation to the total cost of the item, and having a different useful life, is amortised separately.

The costs of improvements, modernization and transformation that increase the value of property, plant and equipment are capitalized when it is probable that they will increase the expected future economic benefits of the asset. Land, whether free of constructions or annexed to civil and industrial buildings, is not amortised as it has an unlimited useful life.

| | |
|-------------------------------------------------------------------------------------------------------------------------------|----------------|
| Amortisation is calculated on a straight-line basis over the expected useful life of the asset, applying the following rates: | |
| Plant and machinery used in operations | 1.25% - 6.67% |
| Other plant and machinery | 4% |
| Industrial and commercial equipment used in operations | 2.5% - 6.67% |
| Other industrial and commercial equipment | 6.67% |
| Other assets used in operations | 12.50% |
| Other non-operating assets | 6.67% - 19.00% |
| Motor vehicles used in operations | 8.33% |
| Other motor vehicles | 16.67% |

Plant and machinery in the course of construction for use in operations, or for purposes yet to be determined, is stated at cost, less any impairment charges. The cost includes any professional fees and, if applicable, interest expense capitalised. The amortisation of these assets, in line with all the other assets, begins when they are ready for use. In the case of certain complex assets subject to performance tests, which may be of a prolonged nature, readiness for use is recognised on completion of the related tests.

An asset held under a financial lease is amortised over its expected useful life, in line with assets that are owned, or, if earlier, on the basis of the expiry dates of the leasing contracts in force.

Gains and losses deriving from the disposal or retirement of an asset are determined as the difference between the net disposal proceeds and the net carrying amount of the asset and are recognised as income or expenses in the income statement.

Investment property

Investment property, represented by property held in order to earn rentals and/or for capital appreciation is stated at the purchase cost, including any negotiating costs less accumulated amortisation and any impairment charges.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The rates applied range from a minimum of 1.67% to a maximum of 11.11%.

Investment properties are eliminated from the accounts when they are sold or when the property is unusable over the long-term and its sale is not expected to provide future economic benefits.

The sale of properties which are then leased back are recorded in the accounts on the basis of the substantial nature of the transaction considered in overall terms. In this regard, see that described herein as regards Leases.

Any gain or loss deriving from the elimination of an investment property is recognised as income or expense in the income statement in the period in which the elimination takes place.

Leases

Leases are classified as finance leases when the terms of the contract substantially transfer all the risks and benefits of ownership of an asset to the lessee. All other leases are considered as operating leases.

Assets held under a finance lease are recognised as assets belonging to the Group and accounted for at amounts equal to fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The underlying liability to the lessor is included in the statement of financial position as an obligation to pay future lease payments. Payments for rentals are apportioned between principal and interest in order to achieve a constant interest rate on the residual liability.

Finance costs, whether certain or estimated, are recognised

on an accruals basis unless they are directly attributable to the acquisition, construction or production of an asset, which justifies their capitalisation.

Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. The benefits received or to be received as an incentive for entering into operating leases are also recognised on a straight-line basis over the lease term.

Intangible assets

Intangible assets are assets without an identifiable physical substance which are under the control of the company and capable of producing future economic benefits as well as goodwill acquired against valuable consideration. Intangible assets acquired separately are capitalised at cost, whilst those deriving from a business combination are capitalised at *fair value* at the date of acquisition. After initial recognition, intangible assets are carried at cost. The useful lifetime of an intangible asset may be defined as finite or indefinite. Intangible assets are tested for impairment annually: the tests are conducted in respect of each intangible asset or, if necessary, in respect of each cash-generating unit. Amortisation is calculated on a straight-line basis over the expected useful life of the asset, which is reviewed annually and any resulting changes, if possible, applied prospectively. Amortisation begins when the intangible asset is ready for use.

Gains and losses deriving from the disposal of an intangible asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

Goodwill

Goodwill from business combinations (among which, as an example only, the acquisition of subsidiaries, jointly controlled entities, or the acquisition of business units or other extraordinary transactions) represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary. Goodwill is recognised as an asset and is subject to an annual impairment review. Any impairment charges are immediately recognised in the income statement and are not subsequently reversed.

Goodwill emerging at the date of acquisition is allocated to each of the independent cash-generating units expected to benefit from the synergies deriving from the acquisition. Impairment charges are identified via tests that assess the capacity of each unit to generate cash sufficient to recover the portion of goodwill allocated to it. Should the recoverable amount of the cash-generating unit be less than the allocated carrying amount, an impairment charge is recognised.

On the sale of a subsidiary or jointly controlled entity, any unamortised goodwill attributable to it is included in the calculation of the gain or loss on disposal.

Concessions

This item includes the value of the thirty-year concession from Roma Capitale, on the assets consisting of water and water treatment installations, transferred to ACEA and subsequently, on 31 December 1999, to the spun-off company, ACEA Ato2. This amount refers to publicly owned assets belonging to the category of "incidental public property" for fresh and waste water services. This right is systematically amortised over the residual concession term (thirty years from 1998). The residual amortisation period is in line with the average term of contracts awarded by public tender.

This item also includes:

- the net value at 1 January 2004 of the goodwill deriving from the transfer of sewerage services to ACEA Ato2 by Roma Capitale with effect from 1 September 2002;

- the excess cost, attributable to this item, deriving from the acquisition of the A.R.I.A. Group, with particular reference to SAO, the company that manages the waste dump in Orvieto, now merged into ACEA Ambiente;
- the excess cost, attributable to this item, deriving from ACEA's acquisition of ACEA Ato5.

Concessions are amortised on a straight-line basis over the residual over the residual duration of the concessions in question.

Right on infrastructures

In fulfilment of IFRIC12, this item includes the aggregate amount of tangible infrastructures used for the management of the water service. The classification in this item stems from application of IFRIC 12 as of the 2010 financial year, on the basis of the intangible asset model: the aforementioned interpretation requires that, in lieu of recognizing all the physical infrastructure assets used for the service management, only one asset be recognized, representative of the concession holder's right to charge the fee to the public service users.

Replacement and scheduled maintenance costs are set aside in a special provision called "Provision for restoration costs".

Intellectual property rights

The costs related to this item are included under intangible assets and are amortized over an estimated useful life of three years/five years.

Impairment of assets

At the end of each reporting period, the Group reviews the value of its property, plant and equipment and intangible assets to assess whether there is any indication that an asset may be impaired ("*Impairment test*"). If any indication exists, the Group estimates the recoverable amount of the asset in order to determine the impairment charge.

When it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives, including goodwill, are tested for impairment annually and each time there is any indication that an asset may be impaired, in order to determine the impairment charge.

The test consists of a comparison between the carrying amount of the asset and its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In calculating value in use, future cash flow estimates are discounted from their actual value using a pre-tax rate that reflects current market assessments of the value of money and the risks specific to the business.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment charge is immediately recognised as an expense in the income statement, unless the asset is represented by land or buildings, other than investment property, carried at a revalued amount, in which case the impairment charge is treated as a revaluation decrease.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement, unless the asset is carried at a revalued amount, in which case the reversal is recognised in the revaluation reserve.

Where an impairment charge is recognised in the income statement, it is included among amortisation, depreciation and impairment charges.

Emission allowances, green certificates and white certificates

Different accounting policies are applied by the Group to allowances or certificates held for *own use* in the “Industrial Portfolio”, and those held for trading purposes in the “Trading Portfolio”.

Surplus allowances or certificates held for *own use*, which are in excess of the company’s requirement in relation to the obligations accruing at the end of the year, are accounted for at cost in other intangible assets. Allowances or certificates assigned free of charge are accounted for at a zero value. Given that these are assets for instant use, they are not amortised but are tested for *impairment*. The recoverable amount is the higher of the asset’s value in use and its market value.

The burden resulting from the fulfilment of the energy efficiency obligation is estimated on the basis of the average purchase price for the contracts entered into, taking into account the certificates in the portfolio at the financial statements date; a provision for liabilities is allocated for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution 13/2014/R/efr, to be paid at the time the certificates are delivered in fulfilment of the obligation.

Allowances or certificates held for trading in the “Trading Portfolio” are accounted for in inventories and measured at the lower of purchase cost and estimated realisable value, based on market trends.

Allowances or certificates assigned free of charge are accounted for at a zero value. Market value is established on the basis of any spot or forward sales contracts already signed at the end of the reporting period, or otherwise on the basis of market prices.

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost comprises all materials and, where applicable, direct labour, production overheads and all other costs incurred in bringing the inventories to their present location and condition. The cost is calculated using the weighted average cost formula. The net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary in order to make the sale.

Impairment charges incurred on inventories, given their nature, are either recognised in the form of specific provisions, consisting of a reduction in assets, or, on an item by item basis, as an expense in the income statement in the period the impairment charge occurs.

Financial Instruments

Financial assets and liabilities are recognised at the time when the Group becomes a party to the instruments’ contractual clauses.

Financial assets related to service concession arrangements

With reference to the application of IFRIC12 to the public lighting service concession, ACEA adopted the *Financial Asset Model* recognizing a financial asset to the extent that it has an unconditional contractual right to receive cash flows.

Trade receivables and other assets

Trade receivables, which have normal commercial terms, are recognised at face value less estimated provisions for the impairment of receivables.

The estimate of uncollectible amounts is made when it is deemed probable that the company will no longer be able to recover the full amount.

Trade receivables refer to the invoiced amount which, at the date of these financial statements, is still to be collected, as well as the portion of receivables for revenues for the period relating to invoices that will be issued later.

Financial assets

The financial assets are recognised and deleted from the financial statements on the basis of the negotiation date and are initially valued at cost inclusive of charges directly involved in their acquisition.

At the date of any future financial statements, the financial assets that the Group has a positive intention and ability to hold to maturity (held-to-maturity financial assets) are recognised at amortised cost using the effective interest method, less any impairment charges applied to reflect impairments.

Financial assets other than those held to maturity are classified as held for trading or as available for sale, and are stated at *fair value* at the end of each period.

When financial assets are held for trading, any gains and losses deriving from changes in *fair value* are recognised in the income statement for the period. In the case of financial assets that are available for sale, gains and losses deriving from changes in fair value are recognised directly in a separate item of shareholders’ equity until they are sold or impaired. At this time, the total gains and losses previously recognised in the shareholders’ equity are recycled through the income statement for the period. The total loss is equal the difference between the acquisition cost and current *fair value*.

The *fair value* of financial instruments traded on active markets is based on the quoted market prices (*bid prices*) at the end of the reporting period. The *fair value* of investments that are not traded on an active market is determined on the basis of quoted market prices for substantially similar instruments, or calculated on the basis of estimated future cash flows generated by the net assets underlying the investment. Purchases and sales of financial assets, which imply delivery within a timescale generally defined by the regulations and good practices of the market in which the exchange takes place, are recognised at the trade date, in other words the date on which the Group undertakes the commitment to either purchase or sell the asset.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are initially stated at *fair value*.

Subsequently to their initial recognition, they are carried at amortised cost on the basis of the effective interest method. At each reporting date, the Group assesses if a financial asset, or a group of financial assets, have been impaired. A financial asset or a group of financial assets is subject to impairment if, and only if, there is objective evidence of impairment, as a consequence of one or more events that occurred after initial recognition and which has had an impact on the future estimated cash flows. Impairment can be shown by indicators such as financial difficulties, failure to meet obligations, non-payment of significant amounts, probability that the debtor goes bankrupt or is subject to another form of financial reorganisation, and if objective data shows that there is a measurable decrease in future estimated cash flows.

Cash and cash equivalents

This item includes cash in bank accounts and cash on hand and deposits reimbursable on demand or in the very short-

term and other short-term, highly liquid financial investments which are readily convertible into cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are stated using the amortised cost method. Specifically, the costs incurred in obtaining borrowings (transaction costs) and any issue premiums or discounts are recognised as direct adjustments of the nominal value of the borrowing. The net financial costs are consequently re-determined on the basis of the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are initially recognised at *fair value* with a counter entry in the income statement; the *fair value* is then updated on subsequent reporting dates. They are designated as hedging instruments when the hedging relationship is formally documented at its inception and the periodically verified effectiveness of the hedge is expected to be high.

When the hedging derivatives hedge the risk of changes in the *fair value* involved in the hedging operation (*Fair Value Hedge*), the derivatives are recognised at *fair value* and the effects included in the Income Statement. Similarly, the adjustment of the *fair value* of the assets or liabilities being hedged are also included in the Income Statement.

When the risk of changes in the cash flow of the elements involved is hedged (*Cash Flow Hedge*), the variation of the portion of the *fair value* classified as effective is recognised in the Shareholders' Equity, the ineffective portion being recognised directly in the Income Statement.

Trade payables

Trade payables, which have normal commercial terms, are stated at face value.

De-recognition of financial instruments

Financial assets are derecognised when the Group has transferred all the related risks and the right to receive cash flows from the investments.

A financial liability (or portion of a financial liability) is de-recognised when, and only when, it is extinguished, in other words when the obligation specified in the relevant contract is fulfilled or cancelled or has expired.

If a previously issued debt instrument is repurchased, the debt is extinguished, even if the Group intends to resell it in the near future. The difference between the carrying amount and the amount paid is recognised in the income statement.

Provisions for liabilities and charges

Provisions for liabilities and charges are made when the Group has a present (legal or constructive) obligation as a result of a past event, if it is more likely than not that an outflow of resources will be required to settle the obligation and the related amount can be reliably estimated.

Provisions are measured on the basis of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and are discounted when the effect is significant.

Where the financial effect of time is significant and the obligation due dates can be reliably estimated, the provision is determined by discounting the expected future cash flows determined by taking into account the risks associated with the obligation at the average borrowing rate of the company; the increase in the provision resulting from the time value of money is recognized in the income statement under "Net financial income/(expense)".

When the liability regards the cost of dismantling and/or repairing of a tangible asset, the initial provisions are accounted for as a counter entry in respect of the asset to which they refer. The provisions are released to the income statement through depreciation of the item of property, plant and equipment to which the charge refers.

ACCOUNTING STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS APPLIED FROM 1 JANUARY 2016

As of 1 January 2016, the following documents have come into force, previously issued by the IASB and endorsed by the European Union, containing amendments to the international accounting standards:

IFRS 11: JOINT ARRANGEMENTS

On 7 May 2014 the IASB published the above *Amendments* to explain the accounting principles for acquisitions of interest in a *joint operation* that represents a *business*. If the *joint operation* is not a business, the acquisition must be recognized as separate acquisition of assets and liabilities without recognition of goodwill, deferred tax assets and by capitalizing any incidental expenses incurred.

IAS 16: PROPERTY, PLANT AND EQUIPMENT; IAS 38: INTANGIBLE ASSETS

On 13 May 2014 the IASB published the amendments to the two standards to explain that the depreciation and amortization methods based on revenues resulting from the asset (so-called *revenue-based method*) are not held to be appropriate as they only show the flow of revenues resulting from said asset and not, however, the method in which the economic benefits incorporated in the asset are used.

IAS 27: SEPARATE FINANCIAL STATEMENTS

By this amendment, the IASB introduced the ability to recognize investments in subsidiaries, associates or *joint ventures* in the separate financial statements using the equity method. This option, which was not permitted before, is in addition to the other two options that have been retained:

- cost method; or
 - at *fair value* in accordance with IAS 39 or IFRS 9.
- The option of using the equity method for all or some categories of investments will have to be applied retrospectively in the separate financial statements.

IAS 10: CONSOLIDATED FINANCIAL STATEMENTS; IAS 28: INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

On 11 September 2014 the IASB published these amendments in order to clarify the accounting treatment, both in the event of loss of control of a subsidiary (regulated by IFRS 10) and in the event of *downstream transactions* regulated by IAS 28, depending on whether the assets covered by the transaction constitute a business as defined by IFRS 3. If the assets covered by the transaction constitute a business, the gain has to be recognized in full in both cases (i.e. loss of control and *downstream transactions*), otherwise, in both cases, the gain has to be recognized only for the portion relating to non-controlling interests.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2012-2014 CYCLE)

On 25 September 2014 the IASB published the document “*Annual Improvements to IFRSs: 2012-2014 Cycle*”.

The document introduces amendments to the following standards:

- **IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*:** this amendment introduces a specific guidance on IFRS 5 in case an entity reclassifies an asset (or a disposal group) from the held-for-sale category to the held-for-distribution category (or vice versa), or when the requirements for classification of an asset as held-for-distribution are no longer satisfied. The amendments establish that: (i) such reclassification should not be considered as a change to a marketing plan or to a distribution plan and that the same classification and evaluation criteria continue to be valid, (ii) the assets that no longer meet the criteria for the *held-for-distribution classification* should be treated the same way as an asset that ceases to be classified as *held for sale*.
- **IFRS 7 *Financial Instruments: Disclosures*:** *servicing contracts*- The document regulates the introduction of additional guidance to clarify whether a *servicing contract* constitutes continuing involvement in a transferred asset for the purpose of disclosures on transferred assets. Paragraph 42C(c) of IFRS 7 states that an agreement under which an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entity does not in itself constitute continuing involvement for the purpose of applying transfer disclosure requirements. However, in practice, most of the contracts have additional aspects that lead to residual involvement in the asset: for example, when the amount and/or the term of the *servicing fee* are linked to the amount and/or term of the net collected cash flows. The proposed amendments, which will be applicable prospectively, should therefore add guidance on this aspect. *Applicability of the amendments to IFRS 7 on offsetting disclosure to condensed interim financial statements* - The document clarifies doubts regarding disclosures about offsetting financial assets and financial liabilities (effective for accounting periods beginning on or after 1 January 2013) in the interim financial statements and, where disclosure is required, whether the obligation applies to all interim financial statements after 1 January 2013 or to the interim report of the first year of application only. The document clarifies that the disclosure about offsetting financial assets and liabilities is not explicitly required for all interim financial statements. However, such disclosures may be necessary to fulfil the requirements of IAS 34, if the information is material.
- **IAS 19 *Employee Benefits* - *Discount rate: regional market issue*:** this document introduces amendments to IAS 19 to clarify that the *high quality corporate bonds* used to determine the discount rate of *Staff termination benefits* should be issued in the same currency used

for the payment of *benefits*. The proposed amendments clarify that the scope of the *high quality corporate bond* market to consider is the same as that of the currency.

- **IAS 34 Interim Financial Reporting – Disclosure of information “elsewhere in the interim report”**: the document proposes amendments to clarify the requirements when the information required is presented in the interim financial report but not in the interim financial statements. The amendment clarifies that said information is to be included through a *cross-reference* from the *interim financial statements* and other parts of the *interim financial report* and that said document has to be made available to people reading the financial statements in the same way and at the same time as for the *interim financial statements*.

AMENDMENTS TO IAS1 DISCLOSURE INITIATIVE

The amendments to IAS1 clarify some of the existing requirements of this principle, such as:

- the material nature of IAS1,
- the fact that specific lines in the tables of the financial year profit/(loss) of other components of the comprehensive income statement or statement of financial position may be separated,
- the fact that there is a certain amount of flexibility as regards the order of the notes to the financial statements,
- the fact that the other components of the comprehensive income statement concerning associates and *Joint ventures* carried using the equity method must be presented together in a single line and classified among the items that will not subsequently be classified in the income statement,
- a summary of the significant accounting standards applied, including:
 - the base (or bases) of measurement used in drawing up the financial statements;
 - the other accounting standards used to facilitate understanding of the financial statements.

The amendments also clarify the requirements that are applicable when sub-totals to the financial year profit/(loss) or the other components of the comprehensive income statement of the statement of financial position are presented.

AMENDMENTS TO IFRS10, IFRS12 AND IAS28 INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXCEPTION

The amendments to IFRS10 clarify that the exemption from presenting the consolidated financial statements is applicable to parent companies that are subsidiaries of an

investment entity, when the investment entity considers all its subsidiaries at *fair value*.

The amendments also clarify that only a subsidiary of an investment entity that is not in itself an investment entity and which provides support services to the investment entity is consolidated. All the other subsidiaries of an investment entity are considered at *fair value*. The amendments to IAS28 Investments in associates and *joint ventures* enable the investor to retain in the application of the equity method the consideration at *fair value* applied by the associates or joint ventures of an investment entity in evaluating its own investments in subsidiaries.

AMENDMENTS TO IAS 19 DEFINED BENEFITS PLAN: EMPLOYEE CONTRIBUTIONS

IAS 19 requires that an entity must consider the employee or third party contributions in accounting the defined benefit plans. When contributions are linked to the service rendered, they should be attributed to periods of service as a negative benefit. This amendment clarifies that if the total of the contributions is independent of the number of years of service, the entity is allowed to recognise these contributions as a reduction in the service cost for the period in which services are rendered rather than allocate the contribution to the period of service.

IFRS 3 BUSINESS COMBINATIONS

The amendment clarifies that all agreements concerning potential payments classified as liabilities (or assets) deriving from a business combination must be subsequently valued at Fair value with a counter entry in the income statement, whether they are within the scope of IFRS9 (or IAS 39, as the case may be) or otherwise. This is consistent with the accounting standards applied by the Group, and this amendment did not therefore have an impact.

IAS 24 DISCLOSURE OF RELATED PARTY TRANSACTIONS IN THE FINANCIAL STATEMENTS

The amendment is applicable retrospectively and clarifies that a management entity (an entity providing services to managers with strategic responsibilities) is a related party subject to the disclosure of related party transactions. Also, an entity which uses the services of a management entity must disclose the costs incurred for the management services. This amendment is not significant to the Group, as it does not use management services of other entities.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE AFTER THE END OF THE YEAR AND NOT ADOPTED IN ADVANCE BY THE GROUP

IFRS 9 FINANCIAL INSTRUMENTS

On 25 July 2014 the IASB published IFRS 9 Financial Instruments which addresses the classification and measurement of financial instruments, the *impairment* model and *hedge accounting*.

IFRS 9 replaces the accounting rules laid down by IAS 39 with regard to the recognition and measurement of financial instruments, including hedging transactions.

The standard envisages the following three categories for the classification of financial assets:

- financial assets measured at amortised cost;
- financial assets at fair value through profit or loss ("FVTPL");
- financial assets at *fair value* through other comprehensive income ("FVOCI").

With reference to this classification, the following additional provisions should be noted:

- "*non-equity trading instruments*", which should be classified as FVTPL, can be classified in the FVOCI category on the basis of an irrevocable decision of the reporting entity. In this case, the changes in *fair value* (including foreign exchange differences) are recognized in OCI and will never be reclassified in Profit/(loss) for the year;
- if the financial assets classified in the "*amortised cost*" or "FVOCI" category give rise to an "*accounting mismatch*", the reporting entity can irrevocably decide to use the "*fair value option*" by classifying these financial assets in the "FVTPL" category;
- with reference to "*debt instruments*" classified as FVOCI, it must be noted that interest income, *expected credit losses* and foreign exchange differences will have to be recognized in the profit/(loss) for the year. Conversely, the other effects arising from measurement at *fair value*, will be recognized in the Other Comprehensive Income and will be reclassified in the profit/(loss) for the year only if the financial asset is derecognized.

With regard to financial liabilities the standard proposes the classification already provided in IAS 39 but introduces an important innovation for financial liabilities classified as "FVTPL", as the portion of the change in *fair value* attributable to own credit risk will have to be recognized in OCI rather than in Profit/(loss) for the year as currently required by IAS 39. Thus, under IFRS 9, when an entity experiences a worsening in its credit risk, despite having to reduce the value of its liabilities at fair value, the effect of this reduction attributable to own credit risk will not lead to positive effects in profit/(loss) for the year but in the *Other Comprehensive Income*.

IFRS 9 introduces a new impairment model based on expected losses. The entity shall, immediately and regardless of whether a "trigger event" has occurred, recognise the expected future losses on financial assets, and must continually adjust the estimate, taking also into account the changes in the counterparty's credit risk, on the basis not only of past and current circumstances and data, but also paying due attention to future forecasts. The estimate of future losses should initially be made by reference to the expected losses over the next 12 months, and subsequently, with reference to the total losses over the life of the asset.

Expected losses over the next 12 months are the portion of the losses that would be incurred upon occurrence of a counterparty's event of default, within 12 months from the reporting date, and are calculated as the product of the maximum loss and the probability a default event occurs.

The total losses over the life of the financial asset are the present value of the average future losses multiplied by the probability that a default event occurs in the life of the financial asset.

IFRS 9 introduces a *hedge accounting* model designed to represent in the financial statements the effect of an entity's risk management activities, focusing on the circumstance that if a risk item can be identified and measured, regardless of the type of risk and/or item, hedge accounting can be applied to the instrument used to hedge such risk, the only limitation being that the risk may affect the income statement or the statement of other comprehensive income (OCI).

In addition, the standard enables entities to use information produced internally as a basis for *hedge accounting*, without having to prove that they meet complex criteria and metrics designed solely for accounting purposes. The main changes concern:

- effectiveness test: the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged item and the hedging instrument (e.g. if there is a loss on the former there must be a profit on the latter);
- Covered items: not only financial assets and liabilities but any item or group of items as long as the risk is separately identifiable and measurable;
- cost of the hedge: the *time value* of an option, the *forward points*, the *spread* on a currency can be excluded from *hedge accounting* and recognized immediately as the cost of the hedge; accordingly, all *mark to market* fluctuations can then be temporarily recognized in the other comprehensive income (OCI);
- disclosure: a broader description of the risks hedged and the instruments used is provided, replacing the current disclosure based on the distinction between *cash flow hedges* and *fair value hedges*; these are accounting terminologies that often confuse investors, who are clearly more interested in risks and how they are hedged than in the accounting categories of these instruments.

The new standard is applicable as of 1 January 2018. Earlier application is permitted provided that the IASB document has already been endorsed by the European Union.

The Group has performed an analysis for a preliminary evaluation of the impact of IFRS9. This evaluation, which is still in progress, concerns all of the Companies in the Group and may be subject to changes following the more detailed analysis to be completed during the first half of 2017. The Group will choose the initial application method after this analysis.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014 IASB and FASB jointly published the new provisions for accounting revenues, after more than a decade of studies and consultation. In 2017 the new standard will replace IAS 18 (Revenues) and IAS 11 (Work in progress).

The fundamental steps for the accounting of revenue are:

- identify the commercial contract, defined as a (written or verbal) agreement between two or more parties which results in rights and obligations with the customer having the right to legal protection;
- identify the obligations (distinctly identifiable) in the contract;
- determine the price of the transaction, as the fee the enterprise expects to receive for the transfer of assets or the performance of services to the customer, in accordance with the techniques in the Standard and depending on the possible presence of financial components;
- allocate the price to each "performance obligation";
- recognise the revenue when the obligation is regulated, allowing for the fact that the services may not be provided at a specific time, but over a period of time.

The standard should not imply particular differences in accounting the operations considered to be more common. More significant differences in the timing of the recording and quantitative determination should be noticeable in the medium and long-term service contract and the agreements containing more than one obligation, in which the operators had highlighted the main criticalities of the current standard. The disclosure of revenues should be improved through a more detailed qualitative and quantitative disclosure such as to enable the *stakeholders* to understand more clearly the contents and significant elements in the determination of revenues.

The standard is applicable from 1 January 2018, though earlier application is permitted.

In April 2016, the IASB published some clarifications, which mainly involve:

- the identification of a service obligation (the promise to transfer an asset or a service to a customer) in a contract;
- determining whether a company is the contractor (the supplier of an asset or service) or the broker (responsible for organising the asset or service to be supplied); and
- determining whether the revenue deriving from the asset under concession should be recognised at a given time or throughout the duration of the concession.

In addition to the clarifications, the amendments include two supplementary aspects to reduce cost and complexity during the initial application of the new standard.

The clarifications also apply from 1 January 2018, though earlier application is permitted.

The Group has performed an analysis for a preliminary evaluation of the impact of IFRS15. This evaluation, which is still in progress, concerns all of the Companies in the Group and may be subject to changes following the more detailed analysis to be completed during the first half of 2017. The Group will choose the initial application method after this analysis.

IFRS 16 LEASES

Issued in January 2016 to replace the previous standard on leasing, IAS 17 and the relevant interpretations, it identifies the criteria for recording, measurement and presentation and also the disclosure required with regard to leasing contracts for both parties to the contract, the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment between operating leases (the information for which is not in the financial

statements) and financial leases (which are in the financial statements). The right to use an asset under leasing ("*right of use*") and the commitment undertaken will emerge in the financial information (IFRS 16 will be applicable to all transactions including the right of use, independently of the contractual form, i.e. leasing, rental or hiring). The main novelty is the introduction of the concept of control in the definition. Specifically, to determine whether a contract represents a lease or not, IFRS 16 requires it to be checked that the lessee has or does not have the right to control the use of a specific asset for a specific period of time.

There will not be any symmetry in accounting with the lessees; there will still be a separate accounting treatment according to whether the contract is an operating lease or a financial lease (on the basis of the guidelines in force today).

On the basis of the new model, the lessee should state:

- a) in the Statement of financial position, the assets and liabilities of all leasing contracts with a duration of more than 12 months, unless the underlying assets are of modest value; and
- b) in the Income statement, the amortisations of the assets concerning the leases separately from the interest on the related liabilities.

As regards the lessor, the new standard should have a lesser impact on the financial statements (unless so-called "sub-leases" are undertaken), given that the current accounting will not change, except for the financial disclosure which must be quantitatively and qualitatively in excess of the previous one. The standard will apply from 1 January 2019, though earlier application is permitted should IFRS 15 – Revenue from contracts with customers also have been applied.

AMENDMENTS TO IAS 12 - RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES"

Issued in January 2016, it provides clarifications on the methods of recording advance taxes concerning debt instruments valued at *fair value*. These amendments clarify the requirements for recording advance taxes with regard to unrealised losses, in order to eliminate the diversities in accounting practices. The amendments will be applicable, after endorsement, from financial years starting on 1 January 2017 or later. Earlier application is permitted.

AMENDMENTS TO IFRS10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments deal with the conflict between IFRS10 and IAS28 as regards the loss of control of a subsidiary which is sold or conferred to an associate or by a *Joint venture*. The amendments clarify that the profit or loss resulting from the sale or conferment of assets constituting a business, as defined in IFRS3, between an investor and an associate or *Joint venture* must be entirely recognised. Any profit or loss resulting from the sale or conferment of assets that do not constitute a business is recognised only within the limits of the equity investment made by third party investors in the associate or *Joint venture*. The IASB has indefinitely deferred the date of application of these amendments, but should an entity decide to apply them in advance it must do so prospectively.

AMENDMENTS TO IAS 7 – DISCLOSURE

Document issued on 29 January 2016.

The amendments to IAS 7 Statement of cash flows applicable as of financial years starting on 1 January 2017 require that entities provide information on the changes to its financial liabilities, in order to enable users to better evaluate the reasons underlying the changes in the debts of the entity, including both changes linked to the cash flows and non-monetary changes. As of the initial application of this amendment, the entity need not present the comparative disclosure for preceding periods. The application of the amendments will mean the Group will need to provide additional disclosures.

AMENDMENTS TO IFRS 2. “CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS”

On 20 June 2016, the IASB published the document concerning amendments to IFRS2 “share-based payments”, which deal with three main areas: i) the effects of maturing on the measurement of a share-based payment transaction settled in cash; ii) the classification of a share-based payment transaction settled net of the obligations concerning withholdings at source; iii) the accounting applicable should a modification in the terms and conditions of a share-based payment transaction change its classification from settled in cash to settled using instruments representing capital. On initial adoption, the entities must apply the amendments without considering previous years, but retrospective application is allowed if chosen for all three and if the criteria are respected. The amendments are in force as of 1 January 2018, but earlier application is permitted.

CONSOLIDATED INCOME STATEMENT

| Notes ref. | | 31.12.2016 | With related parties | 31.12.2015 | With related parties | Variation |
|------------|-------------------------------------------------------------------------------------------------|------------------|----------------------|------------------|----------------------|------------------|
| 1 | Revenue from sales and services | 2,708,646 | | 2,800,570 | | (91,925) |
| 2 | Other revenue and proceeds | 123,772 | | 116,748 | | 7,024 |
| | Consolidated net revenue | 2,832,417 | 134,931 | 2,917,318 | 147,511 | (84,901) |
| 3 | Staff costs | 199,206 | | 211,157 | | (11,950) |
| 4 | Costs of materials and overheads | 1,766,209 | | 2,002,709 | | (236,499) |
| | Consolidated operating costs | 1,965,415 | 42,333 | 2,213,865 | 45,684 | (248,450) |
| 5 | Net income/(costs) from commodity risk management | 0 | | 0 | | 0 |
| 6 | Income/(Costs) from equity investments of a non-financial nature | 29,345 | | 28,501 | | 843 |
| | Gross Operating Profit | 896,347 | 92,598 | 731,954 | 101,827 | 164,392 |
| 7 | Amortisation, depreciation, provisions and impairment charges | 370,403 | | 345,489 | | 24,914 |
| | Operating profit/(loss) | 525,944 | 92,598 | 386,465 | 101,827 | 139,479 |
| 8 | Financial income | 17,258 | 4,256 | 20,163 | 335 | (2,904) |
| 9 | Financial costs | (128,822) | (3) | (111,246) | | (17,576) |
| 10 | Income/(Costs) from Equity Investments | 1,707 | | 1,010 | | 696 |
| | Profit/(loss) before tax | 416,087 | 96,850 | 296,392 | 102,163 | 119,694 |
| 11 | Taxation | 143,548 | | 114,847 | | 28,701 |
| | Net profit/(loss) | 272,539 | | 181,545 | | 90,994 |
| | Profit/(loss) attributable to non-controlling interests | 10,192 | | 6,553 | | 3,639 |
| | Net profit/(loss) attributable to the Group | 262,347 | | 174,992 | | 87,355 |
| 12 | Earnings (loss) per share attributable to Parent Company's shareholders | | | | | |
| | Basic | 1.2319 | | 0.8217 | | 0.4102 |
| | Diluted | 1.2319 | | 0.8217 | | 0.4102 |
| | Earnings (loss) per share attributable to Parent Company's shareholders, net of Treasury Shares | | | | | |
| | Basic | 1.2343 | | 0.8233 | | 0.4110 |
| | Diluted | 1.2343 | | 0.8233 | | 0.4110 |

Amounts in € thousand

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------------------------------------------------|----------------|-----------------|-----------------|-----------------|
| Net profit/(loss) | 272,539 | 181,545 | 90,994 | 50.1% |
| Profit/(Loss) from conversion of financial statements expressed in a foreign currency | 471 | (544) | 1,015 | (186.6%) |
| Provision for Exchange Rate Difference | (10,051) | (14,878) | 4,827 | (32.4%) |
| Tax on Exchange Rate Difference | 2,412 | 4,531 | (2,119) | (46.8%) |
| Gains/losses from exchange rate difference | (7,639) | (10,347) | 2,708 | (26.2%) |
| Effective portion of the profit/(loss) on hedging instruments ("cash flow hedge") | 13,714 | 26,404 | (12,690) | (48.1%) |
| Tax effect on the other profit/(loss) on hedging instruments ("cash flow hedge") | (3,694) | (8,825) | 5,130 | (58.1%) |
| Profit/(Loss) from the effective portion on hedging instruments net of tax | 10,019 | 17,579 | (7,560) | (43.0%) |
| Actuarial Profit/(Loss) on staff benefits included in the Shareholders' Equity | (8,184) | 3,868 | (12,052) | (311.6%) |
| Tax effect on the other actuarial profit/(loss) on staff benefit plans | 2,235 | (2,728) | 4,963 | (181.9%) |
| Actuarial profit/(loss) on defined benefit pension plans net of tax | (5,949) | 1,140 | (7,089) | (622.0%) |
| Total of the comprehensive income components, net of tax | (3,098) | 7,829 | (10,926) | (139.6%) |
| Total comprehensive income/(loss) | 269,441 | 189,374 | 80,067 | 42.3% |
| Net result of the Comprehensive Income Statement attributable to: | | | | |
| Group | 259,009 | 181,584 | 77,425 | 42.6% |
| Non-controlling interests | 10,432 | 7,789 | 2,643 | 33.9% |

Amounts in € thousand

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Notes ref. | € thousand | | 31.12.2016 | Related parties | 31.12.2015 | Related parties | Variation |
|------------|---------------------------------------------------|--|------------------|-----------------|------------------|-----------------|------------------|
| 13 | Tangible Assets | | 2,210,338 | | 2,087,324 | | 123,014 |
| 14 | Investment Property | | 2,606 | | 2,697 | | (91) |
| 15 | Goodwill | | 149,825 | | 155,381 | | (5,555) |
| 16 | Concessions | | 1,662,727 | | 1,520,304 | | 142,423 |
| 17 | Other Intangible Fixed Assets | | 158,080 | | 104,696 | | 53,384 |
| 18 | Equity investments in subsidiaries and associates | | 260,877 | | 247,490 | | 13,387 |
| 19 | Other Equity Investments | | 2,579 | | 2,750 | | (170) |
| 20 | Deferred tax assets | | 262,241 | | 274,577 | | (12,336) |
| 21 | Financial Assets | | 27,745 | 25,638 | 31,464 | 29,109 | (3,719) |
| 22 | Other Assets | | 34,216 | | 39,764 | | (5,547) |
| | NON-CURRENT ASSETS | | 4,771,235 | 25,638 | 4,466,446 | 29,109 | 304,790 |
| 23.a | Inventories | | 31,726 | | 26,623 | | 5,103 |
| 23.b | Trade Receivables | | 1,097,441 | 129,284 | 1,098,674 | 157,905 | (1,232) |
| 23.c | Other Current Assets | | 132,508 | | 130,675 | | 1,833 |
| 23.d | Current tax assets | | 74,497 | | 75,177 | | (680) |
| 23.e | Current Financial Assets | | 131,275 | 117,309 | 94,228 | 80,593 | 37,047 |
| 23.f | Cash and cash equivalents | | 665,533 | | 814,653 | | (149,120) |
| 23 | CURRENT ASSETS | | 2,132,981 | 246,593 | 2,240,030 | 238,498 | (107,049) |
| 24 | Non-current assets held for sale | | 497 | | 497 | | 0 |
| | TOTAL ASSETS | | 6,904,713 | 272,231 | 6,706,972 | 267,607 | 197,741 |

Amounts in € thousand

| Notes ref. | LIABILITIES | | 31.12.2016 | Related parties | 31.12.2015 | Related parties | Variation |
|------------|------------------------------------------------------------|--|------------------|-----------------|------------------|-----------------|-----------------|
| | Shareholders' Equity | | | | | | |
| | Share capital | | 1,098,899 | | 1,098,899 | | 0 |
| | Statutory reserve | | 95,188 | | 87,908 | | 7,280 |
| | Other reserves | | (351,090) | | (350,255) | | (835) |
| | Retained earnings/(losses) | | 565,792 | | 512,381 | | 53,411 |
| | Profit (Loss) for the year | | 262,347 | | 174,992 | | 87,355 |
| | Total Group Shareholders' Equity | | 1,671,136 | | 1,523,924 | | 147,211 |
| | Non-controlling interests | | 86,807 | | 72,128 | | 14,679 |
| 25 | Total Shareholders' Equity | | 1,757,943 | | 1,596,053 | | 161,890 |
| 26 | Staff termination benefits and other defined benefit plans | | 109,550 | | 108,630 | | 920 |
| 27 | Provision for liabilities and charges | | 202,122 | | 189,856 | | 12,266 |
| 28 | Borrowings and financial liabilities | | 2,797,106 | | 2,688,435 | | 108,672 |
| 29 | Other liabilities | | 185,524 | | 184,100 | | 1,425 |
| 30 | Provision for deferred taxes | | 88,158 | | 87,059 | | 1,099 |
| | NON-CURRENT LIABILITIES | | 3,382,460 | | 3,258,079 | | 124,381 |
| | Trade payables | | 1,292,590 | 148,998 | 1,245,257 | 157,020 | 47,334 |
| | Other current liabilities | | 273,782 | | 306,052 | | (32,270) |
| | Borrowings | | 151,478 | 4,010 | 259,087 | 35,931 | (107,609) |
| | Tax Payables | | 46,361 | | 42,346 | | 4,015 |
| 31 | CURRENT LIABILITIES | | 1,764,211 | 153,008 | 1,852,741 | 192,951 | (88,531) |
| 24 | Liabilities directly associated with assets held for sale | | 99 | | 99 | | 0 |
| | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 6,904,713 | 153,008 | 6,706,972 | 192,951 | 197,741 |

Amounts in € thousand

CONSOLIDATED STATEMENT OF CASH FLOWS

| € thousand | 31.12.2016 | Related parties | 31.12.2015 | Related parties | Variation |
|--------------------------------------------------------------------------------------|------------------|-----------------|------------------|-----------------|------------------|
| Cash flow from operating activities | | | | | |
| Profit before tax from continuing operations | 416,087 | | 296,392 | | 119,694 |
| Profit before tax from discontinued operations | - | | - | | - |
| Depreciation/amortisation | 254,247 | | 233,990 | | 20,258 |
| Revaluations/impairment charges | 33,643 | | 29,533 | | 4,110 |
| Increase/(decrease) in provisions for liabilities | 12,266 | | 21,138 | | (8,872) |
| Net increase/(decrease) in staff termination benefits | (8,683) | | (7,442) | | (1,241) |
| Gains on disposals | - | | - | | - |
| Net financial interest expense | 111,564 | | 91,083 | | 20,480 |
| Income taxes paid | (109,635) | | (109,256) | | (380) |
| Cash flow generated by operating activities before changes in working capital | 709,487 | | 555,438 | | 154,050 |
| Increase in current receivables | (56,652) | (28,621) | 120,504 | (1,705) | (177,156) |
| Increase/decrease in current payables | 47,334 | (8,021) | (23,321) | 26,147 | 70,655 |
| Increase/(decrease) in inventories | (5,103) | | 2,606 | | (7,709) |
| Change in working capital | (14,422) | | 99,788 | | (114,210) |
| Change in other assets/liabilities during the period | (49,391) | | 27,448 | | (76,839) |
| TOTAL CASH FLOW FROM OPERATING ACTIVITIES | 645,674 | | 682,673 | | (36,999) |
| Cash flow from investment activities | - | | - | | - |
| Purchase/sale of tangible fixed assets | (248,949) | | (189,252) | | (59,697) |
| Purchase/sale of intangible fixed assets | (318,472) | | (245,869) | | (72,603) |
| Equity investments | 9,481 | | 7,250 | | 2,231 |
| Purchase/sale of investments in subsidiaries | - | | (389) | | 389 |
| Proceeds/payments deriving from other financial investments | (33,328) | 33,246 | 1,553 | 4,988 | (34,881) |
| Dividends received | 9,318 | 9,318 | 7,137 | 7,137 | 2,181 |
| Interest income received | 22,178 | | 27,750 | | (5,571) |
| TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES | (559,772) | | (391,820) | | (167,952) |
| Cash flow from financing activities | - | | - | | - |
| Non-controlling interests in subsidiaries' capital increase | 3,129 | | 5,412 | | (2,283) |
| Repayment of borrowings and long-term loans | 239,167 | | (374,508) | | 613,676 |
| Disbursement of borrowings/other medium/long-term loans | (146,757) | | - | | (146,757) |
| Decrease/increase in other short-term borrowings | (107,609) | (31,921) | 67,774 | 27,702 | (175,383) |
| Interest expense paid | (112,273) | | (91,721) | | (20,552) |
| Dividends paid | (110,679) | (110,679) | (101,123) | (101,123) | (9,556) |
| TOTAL CASH FLOW FROM FINANCING ACTIVITIES | (235,022) | | (494,167) | | 259,144 |
| Changes in shareholders' equity after net profit | | | | | |
| Cash flows for the period | (149,120) | | (203,314) | | 54,194 |
| Net opening balance of cash and cash equivalents | 814,653 | | 1,017,967 | | (203,314) |
| Net closing balance of cash and cash equivalents | 665,533 | | 814,653 | | (149,120) |

Amounts in € thousand

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| € thousand | Share capital | Legal reserve | Other reserves | Profit for the period | Total | Non-controlling interests | Total shareholders' equity |
|------------------------------------------|------------------|----------------|----------------|-----------------------|------------------|---------------------------|----------------------------|
| Balances as at 01 January 2015 | 1,098,899 | 176,119 | 15,381 | 140,167 | 1,430,566 | 71,825 | 1,502,391 |
| Net profit (loss) | | | | 174,992 | 174,992 | 6,553 | 181,545 |
| Other comprehensive income (losses) | | | | 6,592 | 6,592 | 1,236 | 7,829 |
| Total comprehensive income (loss) | 0 | 0 | 0 | 181,584 | 181,584 | 7,789 | 189,374 |
| Appropriation of result for 2013 | | | 140,167 | (140,167) | 0 | 0 | 0 |
| Distribution of dividends | | | (95,647) | | (95,647) | (5,477) | (101,123) |
| Change in basis of consolidation | | | 7,421 | | 7,421 | (2,009) | 5,412 |
| Other changes | | (88,211) | 88,211 | | 0 | | 0 |
| Balances as at 31 December 2015 | 1,098,899 | 87,908 | 155,533 | 181,584 | 1,523,924 | 72,128 | 1,596,053 |

| € thousand | Share capital | Legal reserve | Other reserves | Profit for the period | Total | Non-controlling interests | Total shareholders' equity |
|------------------------------------------|------------------|---------------|----------------|-----------------------|------------------|---------------------------|----------------------------|
| Balances as at 01 January 2016 | 1,098,899 | 87,908 | 155,533 | 181,584 | 1,523,924 | 72,128 | 1,596,053 |
| Net profit (loss) | | | | 262,347 | 262,347 | 10,192 | 272,539 |
| Other comprehensive income (losses) | | | | (3,338) | (3,338) | 240 | (3,098) |
| Total comprehensive income (loss) | 0 | 0 | 0 | 259,009 | 259,009 | 10,432 | 269,441 |
| Appropriation of result for 2014 | 0 | 7,280 | 174,304 | (181,584) | 0 | 0 | 0 |
| Distribution of dividends | 0 | 0 | (106,274) | 0 | (106,274) | (4,405) | (110,679) |
| Change in basis of consolidation | 0 | 0 | (5,524) | 0 | (5,524) | 8,652 | 3,129 |
| Other Changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balances as at 31 December 2016 | 1,098,899 | 95,188 | 218,040 | 259,009 | 1,671,136 | 86,807 | 1,757,943 |

Amounts in € thousand

NOTES TO THE CONSOLIDATED INCOME STATEMENT

CONSOLIDATED NET REVENUE

Amounted to € 2,832,417 thousand at 31 December 2016

(€ 2,917,318 thousand at 31 December 2015), recording a decrease of € 84,901 thousand (-2.9%) compared to the previous year, and are broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------|------------------|------------------|-----------------|---------------|
| Revenue from sales and services | 2,708,646 | 2,800,570 | (91,925) | (3.3%) |
| Other revenue and proceeds | 123,772 | 116,748 | 7,024 | 6.0% |
| Consolidated net revenue | 2,832,417 | 2,917,318 | (84,901) | (2.9%) |

1. Revenue from sales and services – € 2,708,646 thousand
This item shows a total decrease of € 91,925 thousand (-3.3% compared to 31 December 2015), which closed with

an amount of € 2,800,570 thousand.

This item is broken down as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------------|------------------|------------------|-----------------|---------------|
| Revenue from electricity sales and services | 1,813,648 | 1,942,588 | (128,940) | (6.6%) |
| Revenue from gas sales | 62,258 | 79,293 | (17,036) | (21.5%) |
| Revenue from electricity incentives | 21,064 | 20,933 | 131 | 0.6% |
| Revenue from the Integrated Water Service | 629,214 | 582,592 | 46,622 | 8.0% |
| Revenue from Overseas Water Services | 11,761 | 9,898 | 1,862 | 18.8% |
| Revenue from biomass transfer and landfill operations | 44,727 | 37,522 | 7,206 | 19.2% |
| Revenue from services to customers | 98,358 | 95,257 | 3,101 | 3.3% |
| Connection fees | 27,616 | 32,487 | (4,871) | (15.0%) |
| Revenue from sales and services | 2,708,646 | 2,800,570 | (91,925) | (3.3%) |

REVENUE FROM ELECTRICITY SALES AND SERVICES

This item amounted to € 1,813,648 net of intercompany eliminations, and is broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------------|------------------|------------------|------------------|---------------|
| Electricity and heat generation | 31,017 | 37,522 | (6,506) | (17.3%) |
| Electricity sales | 1,226,359 | 1,455,312 | (228,953) | (15.7%) |
| Transport and metering of energy | 508,320 | 402,362 | 105,958 | 26.3% |
| Energy sales from WTE | 43,345 | 43,151 | 194 | 0.5% |
| Energy from photovoltaic plants | 377 | 398 | (21) | (5.3%) |
| Cogeneration | 4,231 | 3,843 | 387 | 10.1% |
| Total revenue from electricity sales and services | 1,813,648 | 1,942,588 | (128,940) | (6.6%) |

The major changes refer to:

- the reduction of € 228,953 thousand in revenue from the sale of electrical energy due to: i) the decrease in the volumes of electricity sold in the Protected Categories market (-6.6%), ii) the decrease in the volumes of electricity sold in the Free Market (-14.1%). The reduction mainly concerned the B2B industrial segment, and is mainly due to our continued efforts in the customer portfolio diversification strategy, which saw an increase in the *small business* and *mass market* segments in terms of number of customers served;
- the increase of € 105,958 thousand in revenue from the transport and metering of energy for the protected and free markets, as a result of the tariff dynamics and the effect of the regulatory changes which enable a better estimate to be made of distributor's right to be recognised the cost components linked to the investments made in a given financial year (repayment of the invested capital and amortisation rates) simultaneously to the realisation of the investments and start-up of the amortisation process. This has led to the inclusion of income for 2016 amounting to € 11,506 thousand.

REVENUE FROM GAS SALES

This item amounted to € 62,258 thousand, a decrease of € 17,036 thousand compared to 31 December 2015, mainly as a result of the lesser quantities sold by Acea Energia (-19.6 million cubic metres of gas to end users and wholesalers).

REVENUE FROM ELECTRICITY INCENTIVES

These amounted to € 21,064 thousand, an increase of € 131 thousand compared to last year. The item includes the recognition of revenue from green certificates: i) of Acea Produzione (€ 16,519 thousand) accruing in relation to energy produced at the Salisano and Orte plants and ii) of Acea Ambiente (€ 4,545 thousand) from revenue for green certificates deriving from a system of incentives for renewable sources from the Terni and San Vittore del Lazio WTE plants.

REVENUE FROM THE INTEGRATED WATER SERVICE

As already mentioned in the relevant paragraph, which see for more details and more detailed explanations, this item is almost exclusively produced by the Companies

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------------|----------------|----------------|---------------|-------------|
| ACEA Ato2 | 549,893 | 502,236 | 47,657 | 9.5% |
| ACEA Ato5 | 64,540 | 68,130 | (3,590) | (5.3%) |
| Crea Gestioni | 4,461 | 3,811 | 651 | 17.1% |
| Gesesa | 10,320 | 8,415 | 1,905 | 22.6% |
| Revenue from the Integrated Water Service | 629,214 | 582,592 | 46,622 | 8.0% |

The variation in ACEA Ato2 (+ € 47,657 thousand) is mainly due to the increase in the VRG for 2016 approved in the meeting on 27 July 2016 compared to the previous year (+ € 24,928 thousand), partially offset by the lower adjustments to pass-through items (electricity, concession fees), for € 1,239 thousand, in addition to the recognition of the premium (€ 23,060 thousand) due to ACEA Ato2 pursuant to art. 32, subsection a) of resolution 664/2015, calculated on the basis of the performance levels achieved in the second half of the year compared to the fixed standards and gross of the indemnities due to the users. On 7 March 2017, the verification of the STO concerning the achievement of the indicators at the basis of the premium was concluded successfully. The increase in Gesesa (+ 1,095 thousand) is mainly the result of the variation in the perimeter served.

managing the service in Lazio and, to a lesser extent, in Campania.

These revenues amounted to a total of € 629,214 thousand, an increase of € 46,622 thousand (+8.0%) compared to the previous year (€ 582,592 thousand).

Details of the breakdown by company are given below:

REVENUE FROM OVERSEAS WATER SERVICES

These amounted to € 11,761 thousand, up by € 1,862 thousand compared to the previous year (€ 9,898 thousand at 31 December 2015). The increase is mainly due to the variation in the area of consolidation following the complete consolidation of Aguas De San Pedro (+ € 7,389 thousand) and the Equity consolidation as of 1 July 2016 of Agua Azul Bogota (- € 5,713 thousand). The revenue from the latter under the same perimeter reduced by € 2,316 thousand due to the completion of the contracted works started in previous years and due to the exchange rate.

REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These amounted to € 44,727 thousand and increased by € 7,206 thousand compared to the previous year (€ 37,522 thousand).

The breakdown by company is provided below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------------------------|---------------|---------------|--------------|--------------|
| A.R.I.A. | 39,928 | 23,719 | 16,210 | 68.3% |
| SAO | 0 | 9,135 | (9,135) | (100.0%) |
| Aquaser | 4,799 | 3,552 | 1,247 | 35.1% |
| Solemme | 0 | 903 | (903) | (100.0%) |
| Innovation and sustainability | 0 | 213 | (213) | (100.0%) |
| Revenue from biomass transfer and landfill operations | 44,727 | 37,522 | 7,206 | 19.2% |

The trend in 2016 is mainly influenced by the merger by incorporation of Cao, Kyklos and Solemme into Acea Ambiente (ex ARIA) and of ISA into Aquaser in particular, under the same perimeter:

- Acea Ambiente + € 6,172 thousand following the major convergences of *pulper* to the WTE plants and the tariff effect.
- Aquaser + € 1,034 thousand as a result of the increased volumes of waste incoming to the landfill and the increase

in agriculture and composting tariffs.

REVENUE FROM SERVICES TO CUSTOMERS

These amounted to € 98,358 thousand (€ 95,257 thousand at 31 December 2015), an increase of € 3,101 thousand.

This type of revenue comprises:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------------|---------------|---------------|--------------|-------------|
| Public Lighting - Rome | 68,549 | 61,103 | 7,446 | 12.2% |
| Public Lighting - Naples | 3,637 | 5,639 | (2,001) | (35.5%) |
| Revenue from services requested by third parties | 11,899 | 15,980 | (4,082) | (25.5%) |
| Intercompany services | 7,682 | 5,923 | 1,759 | 29.7% |
| Photovoltaic | 210 | 279 | (69) | (24.7%) |
| GIP revenue | 6,380 | 6,332 | 48 | 0.8% |
| Revenue from services to customers | 98,358 | 95,257 | 3,101 | 3.3% |

The increase is mainly the result of: **i)** the agreement stipulated on 17 June 2016 between the Parent Company and Roma Capitale amending the service contract for managing the public lighting service, in the framework of which the plan for the mass replacement of the lighting devices with LED financed by Roma Capitale has been implemented (+ € 7,446 thousand); **ii)** the increase in revenue from services to companies in the Group (+ € 1,759 thousand). Conversely, the following must be noted: **i)** the reduction in

revenue from contract work ordered by third parties of € 4,082 thousand, mainly carried out by ACEA Ato2, **ii)** decreased revenue for Public Lighting from the municipality of Naples (- € 2,001 thousand), as the contract for managing the public lighting service in the Municipality of Naples extended from July 2015 terminated on 31 October 2016.

The following table shows the breakdown of this item by Operating Segment:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------|---------------|---------------|--------------|-------------|
| Environment | 176 | 267 | (90) | (33.8%) |
| Energy | 1,085 | 478 | 607 | 126.9% |
| Water | 12,146 | 15,788 | (3,642) | (23.1%) |
| Networks | 10,876 | 11,263 | (387) | (3.4%) |
| Parent Company | 74,074 | 67,461 | 6,613 | 9.8% |
| Revenue from services to customers | 98,358 | 95,257 | 3,101 | 3.3% |

CONNECTION FEES

They amounted to € 27,616 thousand, a decrease of € 4,871 thousand compared to the same period in the previous year, at 31 December 2015. They are broken down as follows:

- Energy Segment: € 13,899 thousand (- € 5,385 thousand),
- Water Segment: € 3,053 thousand (- € 915 thousand),
- Networks Segment: € 10,664 thousand (+ € 1,429 thousand).

2. Other revenue and proceeds – € 123,772 thousand

This item increased by € 7,024 thousand (+6.0%) compared to 31 December 2015, which closed with a total of € 116,748 thousand.

The change was mainly due to the following opposing effects:
(i) a € 2,862 thousand reduction in cancellation fees accrued on energy efficiency bonds due to the lesser

- quantities purchased during the year,
- (ii) a € 4,854 thousand reduction in repayments for damages and fines, mainly due to Acea Ambiente,
- (iii) reduced income from areti, as a result of the cancellation of the recognition by the CSEA – Cassa per i servizi energetici e ambientali of the 0.5% discount on the payment of the tariff components (- € 3,569 thousand),
- (iv) non-recurring gains of € 9,326 thousand mainly as a result of Acea Energia by effect of the ascertainment of energy items originating in previous years,
- (v) increased revenues in Acea Liquidation and Litigation (ex Elga Sud) of € 9,600 thousand linked to the effects of the contract signed in March 2006 for the marketing of the digital meters. This sale was part of a wider ranging trade agreement concerning several companies in the Group.

A breakdown of said item is shown in the table below.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------------------------|----------------|----------------|--------------|-------------|
| Contributions from Entities for EEC | 15,591 | 18,453 | (2,862) | (15.5%) |
| Non-recurring gains | 63,382 | 54,056 | 9,326 | 17.3% |
| Other revenues | 19,135 | 13,823 | 5,312 | 38.4% |
| Reimbursement for damages, penalties, compensation | 5,268 | 9,852 | (4,584) | (46.5%) |
| Feed-in-tariff | 4,764 | 4,281 | 484 | 11.3% |
| Government grant (ex Prime Ministerial Decree of 23/04/04) | 4,000 | 4,000 | 0 | 0.0% |
| Regional grants | 2,258 | 2,112 | 145 | 6.9% |
| Income from end users | 2,436 | 3,318 | (882) | 0.0% |
| Seconded staff | 1,751 | 2,179 | (428) | 0.0% |
| Property income | 1,684 | 1,934 | (251) | 0.0% |
| IFRIC 12 margin | 1,424 | 1,423 | 1 | 0.1% |
| Gains on asset disposals | 0 | 95 | (95) | 0.0% |
| Recharged cost for company officers | 971 | 1,029 | (57) | 0.0% |
| Service continuity bonuses | 1,108 | 192 | 915 | 476.4% |
| Other revenue and proceeds | 123,772 | 116,748 | 7,024 | 6.0% |

CONSOLIDATED OPERATING COSTS

As at 31 December 2016, these amounted to € 1,965,415 thousand (€ 2,213,865 thousand at 31 December 2015), a

decrease of € 248,450 thousand (-11,2%) compared to the previous year.

The breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------|------------------|------------------|------------------|----------------|
| Staff costs | 199,206 | 211,157 | (11,950) | (5.7%) |
| Costs of materials and overheads | 1,766,209 | 2,002,709 | (236,499) | (11.8%) |
| Consolidated operating costs | 1,965,415 | 2,213,865 | (248,450) | (11.2%) |

3. Staff costs – € 199,206 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------|----------------|----------------|-----------------|---------------|
| Staff costs including capitalised costs | 307,883 | 301,392 | 6,491 | 2.2% |
| Capitalised costs | (108,676) | (90,235) | (18,442) | 20.4% |
| Staff costs | 199,206 | 211,157 | (11,950) | (5.7%) |

The increase in staff costs, including capitalised costs, amounted to € 6,491 thousand and is affected by the increased staff costs in the Water (+ € 5,124 thousand), Networks (+ € 1,685 thousand) and Environment (+ € 1,237 thousand) Segments.

increase is the result of the high level of commitment of the staff of the Group towards the complex project for the modification of the IT systems and corporate processes (Acea2.0). The *go live* of the subsidiaries started in 2016, and these will end in the spring of 2017.

As regards the capitalised costs, these increased by € 18,442 thousand, determined mainly by the increase in the capitalised costs in all of the business segments. This

The following tables show the average and effective number of staff by Operating Segment compared with that for the previous year.

| | 31.12.2016 | Average number in the period | | |
|--------------------------|--------------|------------------------------|-----------|---------------|
| | | 31.12.2015 | Variation | Variation (%) |
| Environment | 238 | 216 | -22 | (10.2%) |
| Energy | 554 | 543 | 11 | 2.0% |
| Water | 2,335 | 2,301 | 34 | 1.5% |
| Lazio-Campania | 1,818 | 1,801 | 17 | 0.9% |
| Tuscany-Umbria | 0 | 0 | 0 | 0.0% |
| Overseas | 336 | 332 | 4 | 1.2% |
| Engineering and Services | 181 | 168 | 13 | 7.7% |
| Networks | 1,299 | 1,336 | -37 | (2.8%) |
| Parent Company | 622 | 634 | -12 | (1.8%) |
| TOTAL | 5,048 | 5,029 | 19 | 0.4% |

| | 31.12.2016 | Final consistency of the period | | |
|--------------------------|--------------|---------------------------------|------------|---------------|
| | | 31.12.2015 | Variation | Variation (%) |
| Environment | 247 | 227 | 20 | 8.8% |
| Energy | 561 | 549 | 12 | 2.2% |
| Water | 2,296 | 2,251 | 45 | 2.0% |
| Lazio-Campania | 1,796 | 1,812 | -16 | (0.9%) |
| Tuscany-Umbria | 0 | 0 | 0 | 0.0% |
| Overseas | 267 | 268 | -2 | 0.0% |
| Engineering and Services | 233 | 171 | 62 | 36.3% |
| Networks | 1,291 | 1,315 | -24 | (1.8%) |
| Parent Company | 573 | 636 | -63 | (9.9%) |
| TOTAL | 4,968 | 4,978 | -11 | 0.2% |

4. Cost of materials and overheads – € 1,766,209 thousand

This item reported an overall decrease of € 236,499

thousand (-11.8%) compared to 31 December 2015, which closed with a total of € 2,002,709 thousand.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|------------------|------------------|------------------|----------------|
| Electricity, gas and fuel | 1,349,331 | 1,612,357 | (263,025) | (16.3%) |
| Materials | 38,576 | 28,867 | 9,710 | 33.6% |
| Services | 216,791 | 228,359 | (11,568) | (5.1%) |
| Concession fees | 47,442 | 43,879 | 3,562 | 8.1% |
| Cost of leased assets | 25,968 | 22,939 | 3,029 | 13.2% |
| Other operating costs | 88,101 | 66,308 | 21,793 | 32.9% |
| Cost of materials and overheads | 1,766,209 | 2,002,709 | (236,499) | (11.8%) |

ELECTRICITY, GAS AND FUEL COSTS

This item includes:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------|------------------|------------------|------------------|----------------|
| Purchase of electricity | 863,316 | 1,081,745 | (218,430) | (20.2%) |
| Gas purchase | 14,535 | 22,904 | (8,368) | (36.5%) |
| Transport of electricity and gas | 456,352 | 488,306 | (31,954) | (6.5%) |
| White certificates | 13,300 | 18,141 | (4,841) | (26.7%) |
| Green certificates and Co2 rights | 1,829 | 1,261 | 568 | 45.0% |
| Electricity, gas and fuel costs | 1,349,331 | 1,612,357 | (263,025) | (16.3%) |

The change was mainly due to: **i)** lower costs relating to the procurement of electricity for the protected and free markets along with the related transport costs (respectively - € 218,430 thousand and - € 31,954 thousand. This reduction reflects the combined effect of lower energy sales, due to the diversification of the customer portfolio and the different quantity/price mix in the months and time ranges; **ii)** the costs incurred for the procurement of gas (- € 8,368 thousand); **iii)** a reduction in the cost of white certificates purchased by areti to meet regulatory

energy efficiency requirements, as a result of lower quantities purchased in 2016 (- € 4,578 thousand).

MATERIALS

The cost of materials amounted to € 38,576 thousand and represents the cost of materials used during the period net of capital expenditure, as shown in the table below.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------|---------------|---------------|---------------|--------------|
| Purchase of materials | 64,927 | 47,951 | 16,976 | 35.4% |
| Change in inventories | (3,826) | 2,275 | (6,101) | (268.1%) |
| Change in inventories | 61,102 | 50,227 | 10,875 | 21.7% |
| Capitalised costs | (22,525) | (21,360) | (1,165) | 5.5% |
| Materials | 38,576 | 28,867 | 9,710 | 33.6% |

The cost of materials net of the inventories showed an increase of € 10,875 thousand, which is substantially due to the Networks Segment (+ € 8,828 thousand) and Water Segment (+ € 2,389 thousand). The change in area of con-

solidation due to Agua de San Pedro amounted to € 350 thousand.

The costs for materials incurred by the operating segments are detailed below.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------|---------------|---------------|--------------|--------------|
| Environment | 4,738 | 4,826 | (88) | (1.8%) |
| Energy | 1,051 | 1,032 | 18 | 1.8% |
| Water | 14,650 | 12,376 | 2,274 | 18.4% |
| Networks | 17,207 | 9,459 | 7,749 | 81.9% |
| Parent Company | 930 | 1,174 | (244) | (20.8%) |
| Costs for Materials | 38,576 | 28,867 | 9,710 | 33.6% |

SERVICES AND CONTRACT WORK

This item amounted to € 216,791 thousand, an overall re-

duction of € 11,568 thousand from € 228,359 thousand at 31 December 2015. For an analysis of the breakdown, please see the following table:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------------|----------------|----------------|-----------------|---------------|
| Transport of electricity and gas | 43,718 | 49,252 | (5,534) | (11.2%) |
| Contract work | 31,847 | 37,931 | (6,085) | (16.0%) |
| Disposal and transport of sludge, slag, ash and waste | 27,251 | 23,958 | 3,293 | 13.7% |
| Other services | 31,366 | 29,083 | 2,283 | 7.9% |
| Payroll services | 13,313 | 15,922 | (2,609) | (16.4%) |
| Insurance costs | 10,728 | 12,076 | (1,347) | (11.2%) |
| Electricity, water and gas consumption | 4,457 | 6,574 | (2,117) | (32.2%) |
| Internal use of electricity | 6,808 | 7,541 | (733) | (9.7%) |
| Intragroup and other services | 5,903 | 7,486 | (1,583) | (21.2%) |
| Telephone and data transmission costs | 5,886 | 5,588 | 298 | 5.3% |
| Postal expenses | 4,088 | 7,682 | (3,594) | (46.8%) |
| Maintenance fees | 12,751 | 7,486 | 5,264 | 70.3% |
| Cleaning, transport and portorage | 3,406 | 4,044 | (639) | (15.8%) |
| Advertising and sponsorship costs | 5,062 | 3,736 | 1,326 | 35.5% |
| Corporate bodies | 2,448 | 3,050 | (603) | (19.8%) |
| Meter readings | 1,837 | 1,880 | (43) | (2.3%) |
| Bank charges | 2,624 | 2,503 | 121 | 4.8% |
| Travel and accommodation expenses | 1,343 | 1,271 | 73 | 5.7% |
| Seconded staff | 1,767 | 1,070 | 697 | 65.2% |
| Printing costs | 188 | 224 | (36) | (16.1%) |
| Costs for services | 216,791 | 228,359 | (11,568) | (5.1%) |

The change in the area of consolidation amounted to € 719 thousand, and the increase in this item under the same perimeter is € 12,287 thousand (+ 5.2%).

CONCESSION FEES

Concession fees totalled € 47,442 thousand (+ € 3,562 thousand compared to 2015) and referred to companies that manage Area Authorities under concession in Lazio and Campania. The following table shows a breakdown by Company, compared to the previous year.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------|---------------|---------------|--------------|-------------|
| ACEA Ato2 | 40,143 | 36,876 | 3,267 | 8.9% |
| ACEA Ato5 | 6,886 | 6,604 | 282 | 4.3% |
| Gesesa | 361 | 348 | 14 | 4.0% |
| Crea Gestioni | 52 | 52 | 0 | 0.0% |
| Concession fees | 47,442 | 43,879 | 3,562 | 8.1% |

See that described in the section entitled “Service concession arrangements” for more details.

COST OF LEASED ASSETS

This item amounted to € 25,968 thousand, an increase of € 3,029 thousand compared to last year (€ 22,939 thousand at 31 December 2015).

The following table illustrates the changes by operating segment:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------|---------------|---------------|--------------|--------------|
| Environment | 817 | 667 | 150 | 22.6% |
| Energy | 4,258 | 3,903 | 355 | 9.1% |
| Water | 6,437 | 4,998 | 1,439 | 28.8% |
| Networks | 3,709 | 3,592 | 116 | 3.2% |
| Parent Company | 10,747 | 9,778 | 969 | 9.9% |
| Cost of leased assets | 25,968 | 22,939 | 3,029 | 13.2% |

This item includes leasing fees for € 10,814 thousand (€ 10,844 thousand at 31 December 2015) and costs for oth-

er fees and rentals of € 15,154 thousand (€ 12,095 thousand at 31 December 2015).

OTHER OPERATING COSTS

These amounted to € 88,101 thousand at 31 December

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------------------|---------------|---------------|---------------|--------------|
| Taxes and duties | 12,686 | 11,541 | 1,145 | 9.9% |
| Compensation for damages and outlays for legal disputes | 5,797 | 3,747 | 2,050 | 54.7% |
| Contributions paid and membership fees | 2,413 | 2,709 | (296) | (10.9%) |
| General expenses | 5,806 | 6,926 | (1,120) | (16.2%) |
| Losses on asset disposals | 0 | 1,322 | (1,322) | (100.0%) |
| Non recurring losses | 61,399 | 40,063 | 21,336 | 53.3% |
| Other operating costs | 88,101 | 66,308 | 21,793 | 32.9% |

This increase mainly stems from the recognition of energy items from previous years partially hedged by the non-recurring gains on these items.

5. Net income/(Costs) from commodity risk management – € 0 thousand

At 31 December 2016, the change in the fair value of the financial contracts recognised in the consolidated income statement was € 0 thousand.

The portfolio of *Hedge Accounting* financial instruments represents the total component of the current portfolio.

For more details, see that described in the paragraph entitled “Additional disclosures on financial instruments and risk

2016, an increase of € 21,793 thousand. The following table shows their breakdown by type:

management policies” in the 2016 Consolidated Financial Statements. Please note that the assessment of counterparty risk carried out in accordance with IFRS 13 does not affect the effectiveness test carried out on the instruments measured under *Hedge Accounting* rules.

6. Income/(Costs) from equity investments of a non-financial nature – € 29,345 thousand

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

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------------------------|---------------|---------------|------------|-------------|
| GROSS OPERATING PROFIT | 146,463 | 143,875 | 2,588 | 1.8% |
| Amortisation, depreciation, impairment charges and provisions | (94,495) | (89,865) | (4,629) | 5.2% |
| Financial items | (7,257) | (7,930) | 673 | (8.5%) |
| (Costs)/Income from equity investments | (48) | 81 | (129) | (158.9%) |
| Taxation | (15,318) | (17,660) | 2,341 | (13.3%) |
| Total | 29,345 | 28,501 | 843 | 3.0% |

The Gross Operating Profit of these companies increased by € 2,588 thousand, mainly attributable to GORI (+ € 4,030 thousand) and Publiacqua (+ € 1,423 thousand), while that of Acque decreased (- € 3.259 thousand).

The change in amortisation, depreciation, impairment charges and provisions compared to 31 December 2015 is mainly due to:

- an increase in the amortisations recognised to Publiacqua of € 3,550 thousand and Acquedotto del Fiora of € 1,160 thousand as a result of the increased investments made, partially offset by the decrease in amortisation of Acque of € 1,617 thousand as a result of the modification of the water service agreement, extending the conces-

sion from 2021 to 2026,

- an increase in the impairment of receivables, especially as regards Gori (+ € 2,822 thousand),
- a reduction in the impairment charges and provisions, especially concerning Acquedotto del Fiora (- € 1,476 thousand), which had made provisions in 2015 to hedge the risk of tender reserves, and Publiacqua (- € 2,665 thousand), partially offset by the increase in those of Acque (+ € 2,133 thousand) concerning the IFRIC 12 recovery costs and GORI (+ € 1,026 thousand);

The details of the companies' valuation are as follows.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------|---------------|---------------|------------|-------------|
| Publiacqua | 12,422 | 11,572 | 851 | 7.4% |
| Acque Group | 6,963 | 7,767 | (804) | (10.4%) |
| Acquedotto del Fiora | 3,214 | 2,385 | 829 | 34.7% |
| Umbra Acque | (28) | (28) | (0) | 1.6% |
| Gori | 3,384 | 3,909 | (525) | (13.4%) |
| Nuove Acque and Intesa Aretina | 540 | 384 | 155 | 40.4% |
| Agua Azul | 1,053 | 1,095 | (42) | (3.8%) |
| Ingegnerie Toscane | 1,812 | 1,480 | 333 | 22.5% |
| Ecomed in liquidation | (15) | (62) | 48 | (76.5%) |
| Total | 29,345 | 28,501 | 843 | 3.0% |

7. Amortisation, depreciation, impairment charges and provisions – € 370,403 thousand

These increased by € 24,914 thousand compared to

the previous year.
Their breakdown is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------|----------------|----------------|---------------|-------------|
| Amortisation and depreciation | 254,247 | 233,990 | 20,258 | 8.7% |
| Provision for impairment of receivables | 64,694 | 59,044 | 5,650 | 9.6% |
| Provision for liabilities and charges | 51,462 | 52,455 | (994) | (1.9%) |
| Total | 370,403 | 345,489 | 24,914 | 7.2% |

AMORTISATION AND DEPRECIATION

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------|----------------|----------------|---------------|-------------|
| Depreciation | 125,215 | 122,451 | 2,765 | 2.3% |
| Amortization | 134,221 | 100,186 | 34,035 | 34.0% |
| Impairment charges | (5,189) | 11,353 | (16,542) | (145.7%) |
| Depreciation/amortisation | 254,247 | 233,990 | 20,258 | 8.7% |

The increase of € 20,258 thousand in amortisation and depreciation is broken down as follows:

- increase of € 2,765 thousand in the depreciation of tangible fixed assets;
- increase of € 34,035 thousand in the amortisation of intangible assets mainly as a result of the increase in investments in all business areas and also taking into account, for the water segment, of the regulatory changes and tariff updated concerning the invested capital;
- decrease of € 16,542 in impairment charges as a result of the costs allocated last year, for adjustment of the regulatory dynamics and the tariff updates of the invested capital on the basis of the choices made by the Operator. It must be noted that there was a € 1,428 thousand write-down of the goodwill with indefinite useful life of Ecogena as a result of the *impairment* test.

IMPAIRMENT CHARGES AND LOSSES ON RECEIVABLES

This item amounted to € 64,694 thousand, an increase of € 5,650 thousand, mainly related to: (i) ACEA Ato5 (+ € 9,817 thousand) due to the completion in 2015 of the analysis of the 2012-2015 tariffs which defined the amount of tariff adjustments payable to the Company, (ii) ACEA Ato2 (+ € 5,210 thousand), (iii) the Parent Company (+ € 3,337 thousand) and Acea Liquidation and Litigation (ex Elga Sud) (+ € 4,000 thousand). Contrarily, the impairment made by Acea Energia reduced (- € 15,259 thousand).

The breakdown by operating segment is provided below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------|---------------|---------------|--------------|-------------|
| Environment | 335 | 465 | (130) | (27.9%) |
| Energy | 46,012 | 57,064 | (11,052) | (19.4%) |
| Water | 10,807 | (4,506) | 15,313 | (339.8%) |
| Networks | 2,753 | 4,571 | (1,818) | (39.8%) |
| Parent Company | 4,787 | 1,450 | 3,337 | 230.1% |
| Impairment charges and losses on receivables | 64,694 | 59,044 | 5,650 | 9.6% |

PROVISIONS

es due to excesses, amounted to € 51,462 thousand and are broken down as follows:

The provisions at 31 December 2016, excluding the releas-

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------|---------------|---------------|--------------|---------------|
| Legal | 1,642 | 7,647 | (6,005) | (78.5%) |
| Tax | 1,930 | 1,371 | 559 | 40.8% |
| Regulatory risks | 7,907 | 8,678 | (771) | (8.9%) |
| Investees | 336 | 2,575 | (2,239) | (87.0%) |
| Contributory risks | 114 | 68 | 46 | 66.9% |
| Early retirements and redundancies | 22,569 | 14,754 | 7,815 | 53.0% |
| Contracts and supplies | 0 | 0 | 0 | |
| Insurance franchises | 1,634 | 1,895 | (261) | (13.8%) |
| Post mortem | 0 | 0 | 0 | |
| Concession fees | 0 | 0 | 0 | |
| Other liabilities and charges | 16,083 | 14,396 | 1,687 | 11.7% |
| Total | 52,214 | 51,384 | 830 | 1.6% |
| IFRIC 12 recovery charges | 11,116 | 8,171 | 2,945 | 36.0% |
| Total allocation | 63,329 | 59,555 | 3,774 | 6.3% |
| Releases | (11,868) | (7,099) | (4,768) | 67.2% |
| Total | 51,462 | 52,455 | (994) | (1.9%) |

The breakdown of provisions by operating segment are shown in the following table:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------|---------------|---------------|--------------|---------------|
| Environment | 5 | 441 | (436) | (98.8%) |
| Energy | 18,503 | 22,115 | (3,613) | (16.3%) |
| Water | 21,176 | 20,056 | 1,121 | 5.6% |
| Networks | 8,110 | 7,740 | 370 | 4.8% |
| Parent Company | 3,667 | 2,103 | 1,565 | 74.4% |
| Provisions | 51,462 | 52,455 | (994) | (1.9%) |

The most significant allocations made during the year were those for the following provisions:

- early retirement and redundancies (€ 22,569 thousand), representing the sums required to deal with the plan for the reduction of staff through the adoption of early retirement and voluntary redundancy programmes for the staff of the Group;
- regulatory risks (€ 7,907 thousand), regarding in particular: **i)** Acea Energia for € 3,600 thousand concerning the sanction imposed by ACGM for improper trade practices and **ii)** Acea Produzione for € 4,307 thousand, of which € 1,342 thousand concerning the additional capacity payment for 2011 to GDF Suez and the remainder concerning

- the additional fees due to Abruzzo Region on the basis of Regional Law no. 38 of 22/10/2013 and the potential cost of the excess charge of the Bacino Imbrifero Montano;
- tax provisions of € 1,930 thousand concerning the Acea Energia excises;
- legal provisions for € 1,642 thousand;
- the release of the provisions allocated in previous years (totalling € 11,868 thousand) regarding risks of a contributory and legal nature, mainly as a result of the favourable outcome of a litigation started against several companies in the Group.

Further information is provided in note 27 and in the section entitled "Update on major disputes and litigation".

8. Financial income – € 17,258 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------------------|---------------|---------------|----------------|----------------|
| Interest on loans and receivables | 4,014 | 3,757 | 256 | 6.8% |
| Bank interest income | 388 | 1,334 | (947) | (71.0%) |
| Interest on trade receivables | 9,737 | 12,933 | (3,196) | (24.7%) |
| Interest on other receivables | 634 | 697 | (63) | (9.1%) |
| Financial income from actualisation | 863 | 971 | (108) | (11.2%) |
| Financial income from measurement of fair value hedges | 298 | (247) | 544 | (220.8%) |
| Other income | 1,325 | 715 | 610 | 85.3% |
| Financial income | 17,258 | 20,163 | (2,904) | (14.4%) |

The financial income, amounting to € 17,258 thousand, showed a decrease of € 2,904 thousand compared to the previous year. The change is mainly due to the recognition of lesser financial

income from the customers of Acea Energia - € 5,121 thousand) and the decrease in the banking interest receivable by the Parent Company as a result of the reduction in cash on hand.

9. Financial costs – € 128,822 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------|----------------|----------------|---------------|--------------|
| Costs (Income) on <i>Interest Rate Swaps</i> | 1,342 | 2,679 | (1,337) | (49.9%) |
| Interest on bonds | 97,964 | 66,577 | 31,387 | 47.1% |
| Interest on medium/long-term borrowings | 18,089 | 24,237 | (6,148) | (25.4%) |
| Interest on short-term borrowings | 551 | 1,474 | (923) | (62.6%) |
| Default interest and interest on deferred payments | 1,435 | 3,087 | (1,652) | (53.5%) |
| Interest cost net of actuarial gains and losses | 2,038 | 1,897 | 141 | 7.4% |
| Commissions on receivables sold | 6,153 | 10,126 | (3,973) | (39.2%) |
| Interest on payments by instalment | 276 | 380 | (103) | (27.2%) |
| Other financial charges | 429 | 247 | 182 | 73.6% |
| Interest payable to end users | 436 | 648 | (212) | (32.7%) |
| Foreign exchange gains (losses) | 109 | (107) | 216 | (202.2%) |
| Financial expenses | 128,822 | 111,246 | 17,576 | 15.8% |

The financial costs, amounting to € 128,822 thousand, increased by € 17,576 thousand compared to 31 December 2015. The average overall “all in” cost of the ACEA Group’s debt was 2.94% at 31 December 2016, compared to 3.29% in the previous year.

With regard to financial costs related to borrowings, the following changes should be noted:

- recognition of the surcharge paid for the partial buy back of two portions of bond from the market (€ 31,382 thousand);
- net financial costs on *interest rate swaps* on bonds decreased by € 1,337 thousand compared to 31 December 2015;

- interest on medium and long-term borrowings decreased by € 6,148 thousand compared to 31 December 2015, as a result of the reduction in the interest rate;
- default interest and interest on deferred payments decreased by € 1,652 thousand compared to 31 December 2015 due to Acea Energia;
- commissions on receivables sold reduced by € 3,973 thousand compared to 31 December 2015 as a result of the reduction in the rate applied; also, less receivables were sold during the course of the year compared to 2015;
- the balance of foreign exchange gains and losses increased by € 216 thousand compared to 31 December 2015.

10. Income and costs from Equity Investments – € 1,707 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------------|--------------|--------------|------------|--------------|
| Income from investments in associates | 3,173 | 3,034 | 139 | 4.6% |
| (Costs) from investments in associates | (1,466) | (2,024) | 558 | (27.6%) |
| (Costs) and Income from investments | 1,707 | 1,010 | 696 | 68.9% |

The costs from equity investments refer to the consolidation under the equity method of some of the companies in the Group, mainly Geal (+ € 569 thousand), Sogea (- € 378 thousand), Sienergia (- € 191 thousand) and Amea (- € 460 thousand). In addition, € 2,521 thousand has been recognised as the surplus from the acquisition of equity investments in Agua San Pedro, involving the acquisition of exclusive control and thus its complete consolidation. It must also be noted that as of 1 July 2016, Aguazul Bogota changed from complete consolidation to equity consolidation; this operations has had a negative effect on this item for € 377 thousand.

11. Income Tax – € 143,548 thousand

Tax expenses for the year were € 143,548 thousand compared to € 114,847 thousand in the previous year.

The breakdown is essentially as follows:

- Current taxes: € 127,368 thousand (€ 105,101 thousand at 31 December 2015)
- Net deferred/(prepaid) taxes: € 16,180 thousand (€ 9,746 thousand at 31 December 2015).

It must be noted that 2015 was affected by the adjustment of deferred taxes as a result of the reduction provided for the 2016 Italian Stability Law in the IRES rate (from 27.5% to 24%.) as of 2017: the impact of this adjustment amounted to approximately € 19,871 thousand. The overall increase for the period, amounting to € 28,701 thousand, thus essentially derives from the increased pre-tax profit.

The table below shows the breakdown of taxes for the period and the correlated percentage weight calculated on consolidated pre-tax profit.

| € thousand | 2016 | % | 2015 | % |
|------------------------------------------------------------------|----------------|--------------|----------------|--------------|
| Pre-tax result of operating assets and discontinued assets | 416,087 | | 296,392 | |
| Theoretical tax charge calculated at 27.5% of the pre-tax profit | 114,424 | 27.5% | 81,508 | 27.5% |
| Net deferred taxes | 8,307 | 2.0% | 3,032 | 1.0% |
| Permanent differences | (15,181) | (3.6%) | 610 | 0.2% |
| IRES (Corporate Income Tax) for the period | 107,549 | 25.8% | 85,149 | 28.7% |
| Tax Assets | 7,873 | 1.9% | 6,710 | 2.3% |
| IRAP (Regional Income Tax) | 28,125 | 6.8% | 22,988 | 7.8% |
| Total taxes | 143,548 | 34.5% | 114,847 | 38.7% |

The tax rate for the period was 34.5% (38.7% in 2015).

12. Earnings per share

Earnings per share are calculated by dividing profit for the year attributable to ACEA by the weighted average number of ACEA shares outstanding during the year, excluding treasury shares. The weighted average number of shares outstanding is 212,547,907 at 31 December 2016. Earnings per share are calculated by dividing profit for the year attributable to ACEA by the weighted average number of ACEA shares outstanding during the

year, excluding treasury shares and including the number of shares that could potentially be put into circulation. At 31 December 2016, there were no shares that could potentially be put into circulation and, accordingly, the weighted average number of shares for the calculation of basic earnings per share coincides with the weighted average number of shares for the calculation of diluted earnings per share.

Earnings per share, determined in accordance with IAS 33, are shown below:

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------------------------|-------------|-------------|-----------|
| Net profit attributable to the Group (€/000) | 262,347 | 174,992 | 87,355 |
| Net profit attributable to ordinary equity holders of the Group (€/000) (A) | 262,347 | 174,992 | 87,355 |
| Weighted average number of ordinary shares for calculating the earnings per share | | | |
| - basic (B) | 212,964,900 | 212,964,900 | 0 |
| - basic (C) | 212,964,900 | 212,964,900 | 0 |
| Earnings per share (in €) | | | |
| basic (A/B) | 1.2319 | 0.8217 | 0.4102 |
| diluted (A/C) | 1.2319 | 0.8217 | 0.4102 |

| € thousand | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------------------------|-------------|-------------|-----------|
| Net profit attributable to the Group (€/000) | 262,347 | 174,992 | 87,355 |
| Net profit attributable to ordinary equity holders of the Group (€/000) (A) | 262,347 | 174,992 | 87,355 |
| Weighted average number of ordinary shares for calculating the earnings per share | | | |
| - basic (B) | 212,547,907 | 212,547,907 | 0 |
| - basic (C) | 212,547,907 | 212,547,907 | 0 |
| Earnings per share (in €) | | | |
| basic (A/B) | 1.2343 | 0.8233 | 0.4110 |
| diluted (A/C) | 1.2343 | 0.8233 | 0.4110 |

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At 31 December 2016, these amounted to € 6,904,713 thousand (€ 6,706,972 thousand at 31 December 2015), recording an increase of € 197,741 thousand or +3.0% compared to the previous year and are broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------|------------------|------------------|----------------|-------------|
| Non-current assets | 4,771,235 | 4,466,446 | 304,790 | 6.8% |
| Current assets | 2,132,981 | 2,240,030 | (107,049) | (4.8%) |
| Non-current assets held for sale | 497 | 497 | 0 | 0.0% |
| Total assets | 6,904,713 | 6,706,972 | 197,741 | 3.0% |

13. Tangible assets – € 2,210,338 thousand

The net book value of the infrastructures used for the distribution of electricity (€ 1,556,136 thousand) accounted for 70% of the tangible assets.

The remaining 30% refers to:

- systems belonging to companies in the Environment Segment for € 251,546 thousand,

- infrastructures in the Energy Segment for € 207,963 thousand,
- infrastructures of the Parent Company for € 96,520 thousand,
- infrastructures in the Water Segment for € 98,173 thousand.

The following table shows the breakdown and changes in tangible assets in 2016.

| € thousand | Land and buildings | Plant and machinery | Industrial equipment | Other assets | Fixed assets in progress | Assets to be relinquished | Total tangible assets |
|--------------------------------------------|--------------------|---------------------|----------------------|-----------------|--------------------------|---------------------------|-----------------------|
| Historic cost 31.12.2015 | 490,999 | 2,505,146 | 685,869 | 111,025 | 56,704 | 5,031 | 3,854,744 |
| Assets Held for Sale | - | - | - | - | - | - | - |
| Investments / Acquisitions | 6,836 | 112,077 | 58,336 | 8,744 | 34,135 | - | 220,129 |
| Divestments | (26) | (2,649) | (696) | (2,142) | (44) | - | (5,558) |
| Change in the basis of consolidation | 2,394 | 64,392 | (354) | 9,182 | (23,388) | - | 52,226 |
| Other Changes | (8,047) | (5,996) | (1,079) | 7,691 | (6,303) | 728 | (13,005) |
| Historic cost 31.12.2016 | 492,157 | 2,672,970 | 742,076 | 134,500 | 61,105 | 5,759 | 4,108,567 |
| 31.12.2015 | (123,571) | (1,364,136) | (198,705) | (78,092) | | (2,946) | (1,767,450) |
| Assets Held for Sale | - | - | - | - | - | - | - |
| Depreciation / Amortisation | (13,005) | (78,556) | (20,189) | (6,986) | | (421) | (119,156) |
| Divestments | - | 1,349 | 715 | 1,750 | | - | 3,814 |
| Change in the basis of consolidation | 85 | (15,203) | (11) | (4,817) | | - | (19,945) |
| Other Changes | 9,380 | (2,919) | 2 | (1,955) | | - | 4,509 |
| Accumulated depreciation 31.12.2016 | (127,111) | (1,459,464) | (218,188) | (90,100) | | (3,367) | (1,898,229) |
| Net value 31.12.2016 | 365,047 | 1,213,506 | 523,889 | 44,400 | 61,105 | 2,392 | 2,210,338 |

Capital expenditures increased compared to the previous year (€ 181,634 thousand at 31 December 2015) and amounted to € 220,129 thousand. Capital expenditures are primarily those carried out by:

- **Areti** for € 140,335 thousand for construction works, maintenance of HV lines, installation of primary and secondary stations, renewal, enhancement and maintenance of MV and LV lines and investments in technological platforms, also regarding the Acea2.0 Project;
- **Acea Ambiente** for € 32,584 thousand for investments in: (i) the completion and entry into operation of Line I of the San Vittore del Lazio plant; (ii) the works for the plant improvements which mainly concerned the furnace heater complex, the dehydration plant and the fumes dispersal system in the Terni plant; (iii) the works carried out for compacting the ground at the disposal plant and the installation in the ground of drainage pipes

for biogas; (iv) the works for the improvement and enhancement of the waste disposal plant in Orvieto;

- **Acea Produzione** for € 27,541 thousand referring to plant revamping works at the Tor di Valle hydroelectric station in Castel Madama and the re-qualification of the San Cosimato dam, the extension of the remote heating network in the Mezzocammino district of Rome and the repowering of the Tor di Valle station;
- **Acea** for € 4,770 thousand for extraordinary plant maintenance, the remote controlling devices for the public lighting network in the Municipality of Rome and investments concerning the hardware for the Acea2.0 project.

The **other changes** refer to reclassifications following the entry into operation of fixed assets under construction and to disposals/divestitures and write-down of assets.

14. Investment property – € 2,606 thousand

Investment property primarily includes land and buildings not used in operations and held for rental. The decrease compared to the end of last year, amounting to € 91 thousand, is mainly due to the disposals carried out during the year (€ 32 thousand) and depreciations.

15. Goodwill – € 149,825 thousand

At 31 December 2016, goodwill amounted to € 149,825 thousand (€ 155,381 thousand at 31 December 2015). The change compared to the previous year is due to the depreciation of the goodwill of Ecogena, equal to the residual goodwill in December 2015 (€ 1,428 thousand). The other changes refer to the reclassification due to the definitive allocation of the goodwill referring to Kyklos. The following table shows the single CGU per Operating Segment:

| | 31.12.15 | Acquisitions | Depreciation/ Impairment | Other changes | 31.12.16 |
|----------------------------|----------------|--------------|-----------------------------|----------------|----------------|
| Energy Segment | 140,010 | - | (1,428) | 11 | 138,593 |
| Renewable energy plants | 93,046 | - | (1,428) | - | 91,618 |
| Electricity Sales | 46,964 | - | - | 11 | 46,975 |
| Environment Segment | 15,371 | - | - | (4,139) | 11,232 |
| Composting Plants | 7,627 | - | - | (4,139) | 3,488 |
| Waste to Energy Plants | 7,744 | - | - | 0 | 7,744 |
| Goodwill | 155,381 | 0 | (1,428) | (4,128) | 149,825 |

It must be noted that:

- for the Energy Segment:
 - the “Renewable energy plants” CGU is formed by Acea Produzione and Ecogena;
 - the “Electricity Sales” CGU refers to Acea Energia.
- for the Environment Segment¹:
 - the “Waste to Energy” CGU is formed by the plants in San Vittore, Paliano and Terni (ex ARIA) and disposal plant in Orvieto (ex SAO);
 - the “Composting plants” CGU refers to the plants in Monterotondo and Sabaudia (ex Solemme) and that in Aprilia (ex Kyklos).

In compliance with IAS 36, said balance sheet item, given that it is an intangible asset with an indefinite useful life, is not subject to amortisation, but subject to an analysis of congruity on an annual basis or more frequently where events occur or there is a change of circumstances that may lead to impairments.

Goodwill emerging at the date of acquisition is allocated to each of the cash-generating units expected to benefit from the synergies deriving from the acquisition. Impairment charges are identified via tests that assess the capacity of each unit to generate cash sufficient to recover the portion of goodwill allocated to it.

The test to verify the value of goodwill is performed by calculating the difference between the recoverable amount, which is the higher of the value in use and the fair value less costs to sell, and the carrying amount of each Cash Generating Unit to which goodwill has been allocated.

The value in use is the current value of expected financial flows which can be assumed will derive from the continuing

use of the assets included in the CGU. The *fair value* less costs to sell represents the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties.

The 2016 impairment process provides an estimate of an interval concerning the recoverable value of the single *Cash Generating Units* (CGU) in terms of “value in use” on a continuous basis compared to the previous year, in other words through the actualisation of the cash flows of operating profits discounted at a *post-tax* actualisation rate expressing the average weighted cost of the capital.

The recoverable amount of the CGUs – expressed in terms of value in use – was estimated using a combination of the financial method and sensitivity analyses.

The application of the financial method to calculate the recoverable amount of the CGUs and the subsequent comparison with the relevant carrying amounts thus involved estimating the *post-tax wacc*, the amount of operating cash flows and the *terminal value* (TV) and, in particular, the growth rate used in the cash flow projections beyond the plan horizon.

The operating cash flows and the terminal value were determined on the basis of the updated estimates and forecasts set out in the 2016-2020 Industrial Plan approved by the Board of Directors.

The table below shows some of the CGUs that were allocated a significant goodwill value compared to the overall goodwill recognised in the financial statements, specifying the discount rates used and cash flows time horizon for each type of recoverable value considered.

| Operating Segment/CGU | Amount € millions | Recoverable value | WACC | Terminal value | Cash flow period |
|-----------------------------|-------------------|-------------------|------|---------------------------|------------------|
| Energy Segment: | | | | | |
| Renewable energy plants | 91.6 | value in use | 5.6% | in two stages | until 2021 |
| Electricity sales | 46.9 | value in use | 7.8% | Perpetuity without growth | until 2021 |
| Environment Segment: | | | | | |
| Waste to energy plants | 7.7 | value in use | 5.5% | in two stages | until 2021 |
| Composting plants | 3.5 | value in use | 5.5% | in two stages | until 2021 |

¹ SAO, Solemme and Kyklos were incorporated into Acea Ambiente (formerly ARIA) at 31 December 2016

The Terminal Value was determined as follows :

- for the “Renewable energy plants” CGU: in two stages. The first stage is a normalized flow for the period 2021-2035 while the second stage comprises the residual value corresponding to the net invested capital as at 2035,
- for the Environment Segment: two stages. The first stage concerns the 2021-2038 period and the second stage comprises the residual value corresponding to the net working capital until 2038.

Note also that a sensitivity analysis was conducted on the WACC. It should be noted that an increase of 0.5% in the discount rate results in a deficit in the “Renewable energy plants” CGU.

Following the impairment test, the values in the financial statements were confirmed, except for that specified above concerning the goodwill of Ecogena, since they are recoverable.

INTANGIBLE ASSETS

| € thousand | Patent rights | Other intangible assets | Fixed assets in progress | Concessions | Total Intangible assets |
|-----------------------------------|----------------|-------------------------|--------------------------|------------------|-------------------------|
| 31.12.2015 | 43,076 | 20,591 | 41,028 | 1,520,304 | 1,625,000 |
| Investments/ Acquisitions | (39,029) | (1,177) | - | (93,835) | (134,041) |
| Investments/ Acquisitions | 76,887 | 2,104 | 14,709 | 216,878 | 310,578 |
| Divestments | (97) | (1,384) | (351) | - | (1,832) |
| Change in basis of consolidation | 7,254 | 1,160 | (7,453) | 12,814 | 13,775 |
| Other changes | 46,570 | (469) | (45,340) | 6,566 | 7,327 |
| Historical cost 31.12.2016 | 134,660 | 20,826 | 2,593 | 1,662,727 | 1,820,807 |

These amounted to € 1,820,807 thousand, an increase of € 195,807 thousand compared to 31 December 2015, resulting from the net balance of investments, amounting to € 310,578 thousand, amortisations, amounting to - € 134,041 thousand and other changes for € 7,327 thousand. The change in basis of consolidation of € 13,775 thousand mainly concerns the complete consolidation of Aguas de San Pedro during the previous year, which was previously consolidated under the Equity method.

16. Concessions and Rights on Infrastructure – € 1,662,727 thousand

This item mainly refers to water services and basically includes:

- the values of concessions received from the municipalities (€ 150,036 thousand),
- the aggregate amount of tangible infrastructures used for the management of the water service (€ 1,512,691 thousand), in compliance with IFRIC 12.

Concessions refer for € 136,141 thousand to the thirty-year concession from Roma Capitale on the assets consisting of water and sewage treatment facilities and the right arising from taking over the management of the integrated water service in the Municipality of Formello. Rights are systematically amortised on the basis, respectively, of the remaining term of the concession signed between ACEA and Roma Capitale and the remaining term of the Management Agreement signed by the Mayors in AATO2. It should be noted that during the year, following the complete consolidation of Aguas de San Pedro, this item also includes the thirty-year concession for the management of the integrated water service in the city of San Pedro Sula in Honduras, for a total amount of € 12,814 thousand.

Investments for the year relating to **infrastructure rights** amounted to € 216,878 thousand and were mainly attributable to:

- ACEA Ato2 for € 191,279 for extraordinary maintenance, the refurbishment, modernisation, expansion and reclaiming of the water, sewage and sewage treatment facilities in the network;
- ACEA Ato5 for € 25,599 thousand for the replacement, maintenance and expansion of the water and sewage pipes and the sewage treatment facilities.

The item **Other changes** mainly includes the reclassifications for the entry into operation of assets and the value of assets originating from the acquisition of the business unit of 2iRete Gas S.p.A. regarding the management of the water service in the Municipalities of Colleferro and Valmontone (€ 1,794 thousand).

17. Other intangible assets – € 158,080 thousand

The increase over the previous year, amounting to € 53,384 thousand, arises from investments incurred in the period (€ 93,700 thousand), net of amortization (€ 14,562 thousand) and reclassifications following the entry into operation of the assets.

Capital expenditures carried out in 2016 totalled € 93,700 thousand and are mainly attributable to:

- Areti for € 56,224 thousand primarily for the costs incurred for the re-engineering of information and commercial distribution systems, the development of software related to Acea2.0, the Workforce Management project and the harmonisation of the metering support systems;
- Acea Energia for € 25,994 thousand for the implementation of the Acea2.0 project, the CRM systems and the enhancement of the billing software;
- the Parent Company for € 8,412 thousand for the acquisition and implementation of support software for the administrative management, personnel management and corporate security systems.

The item “**disposals and other changes**” includes the amount of the green certificates of Acea Produzione and Acea Ambiente totalling € 16,104 thousand. The reduction compared to the end of last year (- € 2,929 thousand) is a result of the net effect between the decrease in Acea Ambiente (- € 6,124 thousand) concerning the receipt of receivables accrued and the increase of € 3,195 thousand in Acea Produzione.

18. Investments in unconsolidated subsidiaries and associates – € 260,877 thousand

The composition of ACEA Group’s investment portfolio is shown in the following table.

| € thousand | 31.12.2015 | Impact on IS | Impact on SE | Change in basis of consolidation | Other Changes | 31.12.2016 |
|--------------------------------------------|------------|--------------|--------------|----------------------------------|---------------|------------|
| Investments in subsidiaries and associates | 247,490 | 28,320 | 792 | (6,476) | (9,248) | 260,877 |

The changes that occurred during the year refer to:

- valuations of companies consolidated using the equity method, whose impact on the income statement totalled € 28,320 thousand; these valuations are booked in the income statement mainly under "Income/costs from equity investments of a non-financial nature" (€ 29,345 thousand) and under "Income/costs from equity investments" (- € 815 thousand);
- the impact of valuations of companies consolidated using the equity method in the shareholders' equity (€ 792 thousand);

- dividends distributed by the companies for € 9,248 thousand. The remainder of the balance comprises the changes in basis of consolidation for € 6,476 thousand due to the complete consolidation of Aguas de San Pedro, consolidated under equity in 2015, and the consolidation *under the equity method* of Agua Azul Bogota, which will be completely consolidated next year.

Economic/financial and consolidated balance sheet data is provided for the principal investments in subsidiaries calculated using the equity method.

| 31.12.2016 € thousand | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Revenue | Net profit/ (loss) | NMP |
|--------------------------|-----------------------|----------------|----------------------------|------------------------|---------|-----------------------|----------|
| AZUL | 6,198 | 1,625 | (173) | (185) | 3,184 | 1,053 | 1,280 |
| INTESA ARETINA | 9,099 | 700 | - | (741) | 266 | (434) | 150 |
| NUOVE ACQUE | 19,305 | 5,367 | (12,700) | (2,810) | 9,263 | 973 | (6,959) |
| ECOMED | 3 | 376 | (4) | (385) | - | (15) | 165 |
| FIORA | 101,950 | 26,059 | (79,975) | (20,864) | 40,954 | 3,214 | (52,662) |
| GORI | 83,453 | 164,986 | (65,826) | (141,433) | 74,577 | 3,384 | (523) |
| Ingegnerie Toscane | 3,364 | 11,655 | (459) | (8,847) | 10,896 | 1,812 | (2,092) |
| ACQUE INDUSTRIALI | 1,461 | 3,547 | (650) | (3,318) | 3,875 | 5 | (524) |
| ACQUE SERVIZI | 985 | 11,902 | (1,030) | (8,450) | 10,164 | 375 | (1,141) |
| ACQUE | 181,564 | 46,634 | (132,967) | (50,905) | 67,770 | 6,583 | (92,080) |
| PUBLIACQUA | 185,424 | 56,916 | (106,733) | (44,451) | 97,811 | 12,422 | (52,399) |
| UMBRA | 55,305 | 14,559 | (30,679) | (29,245) | 27,560 | (28) | (13,154) |

| 31.12.2015 € thousand | Non-current assets | Current assets | Non-current liabilities | Current liabilities | Revenue* | Net profit/ (loss) | NMP |
|--------------------------|-----------------------|----------------|----------------------------|------------------------|----------|-----------------------|----------|
| AZUL | 6,375 | 1,243 | (312) | (302) | 3,229 | 1,095 | 850 |
| INTESA ARETINA | 8,096 | 598 | - | (471) | 266 | 345 | 316 |
| NUOVE ACQUE | 20,123 | 5,059 | (13,913) | (2,869) | 4,191 | 730 | (8,205) |
| ECOMED | 3 | 314 | - | (374) | - | (62) | 103 |
| FIORA | 99,781 | 21,687 | (80,523) | (17,132) | 39,802 | 2,385 | (51,918) |
| GORI | 73,076 | 162,167 | (64,421) | (133,092) | 75,665 | 3,909 | 1,677 |
| Ingegnerie Toscane | 3,205 | 8,219 | (464) | (6,151) | 9,407 | 1,480 | (1,666) |
| ACQUE INDUSTRIALI | 1,496 | 3,049 | (717) | (2,772) | 4,541 | (27) | (439) |
| ACQUE SERVIZI | 868 | 10,075 | (1,050) | (6,848) | 10,889 | 304 | (798) |
| ACQUE | 176,923 | 45,667 | (143,688) | (41,946) | 68,518 | 7,489 | (95,167) |
| PUBLIACQUA | 183,210 | 58,287 | (76,804) | (73,242) | 96,031 | 11,572 | (36,453) |
| UMBRA | 51,626 | 13,436 | (30,265) | (25,150) | 28,248 | (28) | (12,382) |

19. Other investments – € 2,579 thousand

This item, amounting to € 2,579 thousand (€ 2,750 thousand at the end of the previous year), consists of equity interests that do not qualify as subsidiaries, associates or joint ventures.

The change compared to the previous year amounts to € 170 thousand and refers mainly to adjustments of the exchange rate of investments in foreign currency.

20. Deferred tax assets – € 262,241 thousand

The deferred tax assets amounted to € 174,084 thousand net of the deferred tax provisions at 31 December 2016 (€ 187,518 thousand at 31 December 2015).

The changes in deferred tax assets are essentially correlated: (i) for € 27,756 thousand (€ 35,630 thousand at 31 December 2015) to the temporary differences between the carrying amounts recognised in the financial statements of subsidiaries, following transfers of business

units, and the corresponding amounts recognised in the consolidated financial statements, (ii) for € 19,565 thousand to risk provisions of taxation significance (€ 24,810 thousand at 31 December 2015), (iii) for € 52,445 thousand to provisions for doubtful receivables (€ 51,441 thousand at 31 December 2015), (iv) for € 12,778 thousand to defined benefit and defined contribution plans (€ 13,188 thousand at 31 December 2015), (v) for € 8,430 thousand to fair value depreciations of commodities and other financial instruments (€ 10,292 thousand at 31 December 2015).

The deferred tax assets provision specifically includes the deferred tax assets concerning the difference between the economic-technical amortisation rates applied to amortised assets and tax rates. This item comprises the profit for the period of € 5,401 thousand and allocations of - € 9.704 thousand.

The following table details the changes in this item:

| € thousand | 2015 | | Changes in 2016 | | | | |
|--------------------------------------------------------|----------------|----------------------------------|-------------------------------|---------------------------------|-----------------|-----------------|----------------------|
| | Balance | Change in basis of consolidation | Adjustments/Reclassifications | Changes in shareholders' equity | Utilisations | Rate adjustment | IRES/IRAP provisions |
| Deferred tax assets | | | | | | | |
| Tax losses | 677 | 0 | (0) | 0 | 0 | 0 | 677 |
| Remuneration of BoD members | 691 | 0 | 0 | 0 | (27) | 5 | 669 |
| Provision for liabilities and charges | 24,810 | 0 | 2 | 0 | (18,692) | 13,445 | 19,565 |
| Impairments of receivables and investments | 51,441 | 0 | (397) | 0 | (3,317) | 4,718 | 52,445 |
| Depreciation/amortisation | 117,322 | 0 | (596) | 0 | (8,696) | 9,611 | 117,640 |
| Defined benefit and defined contribution plans | 13,188 | 0 | 0 | 767 | (1,408) | 231 | 12,778 |
| Tax assets on consolidation adjustments | 35,630 | 0 | 0 | 0 | (7,873) | 0 | 27,756 |
| Fair value commodities and other financial instruments | 10,292 | 0 | 0 | (1,861) | 0 | 0 | 8,430 |
| Others | 20,529 | 1,357 | (64) | 334 | (1,632) | 1,758 | 22,282 |
| Total | 274,577 | 1,357 | (1,056) | (761) | (41,645) | 29,769 | 262,241 |
| Deferred taxes | | | | | | | |
| Depreciation/amortisation | 71,473 | 0 | (8) | 0 | (3,275) | 6,784 | 74,973 |
| Defined benefit and defined contribution plans | (74) | 0 | 0 | (1,302) | (218) | 72 | (1,522) |
| Fair value commodities and other financial instruments | 5,130 | 0 | 0 | 0 | 0 | 117 | 5,248 |
| Others | 10,530 | 0 | 51 | (1,946) | (1,907) | 2,730 | 9,459 |
| Total | 87,059 | 0 | 43 | (3,247) | (5,401) | 9,704 | 88,158 |
| Net | 187,518 | 488 | (229) | 2,486 | (36,244) | 20,065 | 174,084 |

The Group recognises deferred tax assets based on earnings forecasts in the Group's business plans, which confirm the probability that sufficient future taxable profit will be available against which all of the deferred tax assets recognised in the financial statements can be recovered.

21. Non-current financial assets – € 27,745 thousand

These amounted to € 27,745 thousand (€ 31,464 thousand at 31 December 2015), recording a decrease of € 3,719 thousand. This item mainly includes receivables due from Roma Cap-

itale for € 25,638 thousand, relating to new investments for the Public Lighting service, such as plant upgrading, energy savings, legislative adjustments and technological innovation, which will be paid to ACEA, for an amount equal to tax depreciation, after 2015, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

22. Other non-current assets – € 34,216 thousand

At 31 December 2016, these were broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|--------------------------------------|---------------|---------------|----------------|----------------|
| Receivables from the State | 113 | 1,138 | (1,025) | (90.0%) |
| Receivables for advance and deposits | 1,507 | 1,477 | 30 | 2.0% |
| Other receivables | 32,283 | 36,698 | (4,415) | (12.0%) |
| Accrued income and prepayments | 313 | 450 | (137) | (30.4%) |
| Other non-current assets | 34,216 | 39,764 | (5,547) | (14.0%) |

Other receivables totalled € 32,283 thousand (they were € 36,698 thousand at 31 December 2015) and refer to long-term receivables generated by the public lighting service agreement in the city of Rome, which represent the total investments made at 31 December 2010 for this ser-

vice, now due following adoption of the financial method according to IFRIC 12 as a result of the additional agreements between ACEA and Roma Capitale on the service agreement in question.

23. Current assets – € 2,132,981 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------|------------------|------------------|------------------|---------------|
| Inventories | 31,726 | 26,623 | 5,103 | 19.2% |
| Trade receivables: | | | | |
| Receivables from customers | 1,023,560 | 1,005,113 | 18,446 | 1.8% |
| Receivables due from the Parent Company | 45,611 | 63,679 | (18,067) | (28.4%) |
| Receivables from subsidiaries and associates | 28,271 | 29,882 | (1,611) | (5.4%) |
| TOTAL TRADE RECEIVABLES | 1,097,441 | 1,098,674 | (1,232) | (0.1%) |
| Other current receivables and assets | 132,508 | 130,675 | 1,833 | 1.4% |
| Current financial assets | 131,275 | 94,228 | 37,047 | 39.3% |
| Tax assets | 74,497 | 75,177 | (680) | (0.9%) |
| Cash and cash equivalents | 665,533 | 814,653 | (149,120) | (18.3%) |
| Current assets | 2,132,981 | 2,240,030 | (107,049) | (4.8%) |

INVENTORIES

These amounted to € 31,726 thousand (€ 26,623 thousand

at 31 December 2015); the breakdown by operating segment is as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------|---------------|---------------|--------------|--------------|
| Environment | 4,980 | 3,708 | 1,272 | 34.3% |
| Energy | 1,790 | 1,632 | 158 | 9.7% |
| Water | 7,433 | 7,069 | 364 | 5.2% |
| Networks | 17,252 | 13,944 | 3,309 | 23.7% |
| Parent Company | 270 | 270 | 0 | 0.0% |
| Total | 31,726 | 26,623 | 5,103 | 19.2% |

The increase is essentially attributable to areti (+ € 3,309 thousand) for the Networks Segment and Acea Ambiente (+ € 1,272 thousand) for the Environment Segment.

crease of € 1,232 thousand compared to the previous year, when the figure was € 1,098,674 thousand.

TRADE RECEIVABLES

These amounted to € 1,097,441 thousand, recording a de-

RECEIVABLES FROM CUSTOMERS

This item amounted to € 1,023,560 thousand, an increase of € 18,446 thousand compared to 31 December 2015.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------------|------------------|------------------|---------------|-------------|
| Receivables due from end users for bills issued | 397,726 | 428,469 | (30,743) | (7.2%) |
| Receivables due from end users for bills to be issued | 489,774 | 402,118 | 87,656 | 21.8% |
| Total receivables due from end users | 887,500 | 830,587 | 56,913 | 6.9% |
| Receivables from other customers | 135,995 | 153,451 | (17,456) | (11.4%) |
| Other current receivables and assets | 64 | 21,075 | (21,010) | (99.7%) |
| Total receivables | 1,023,560 | 1,005,113 | 18,446 | 1.8% |

The table below summarises the changes by operating segment:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------|------------------|------------------|---------------|-------------|
| Environment | 38,244 | 29,742 | 8,501 | 28.6% |
| Energy | 389,092 | 505,292 | (116,200) | (23.0%) |
| Water | 480,873 | 411,736 | 69,138 | 16.8% |
| Networks | 110,031 | 29,690 | 80,341 | 270.6% |
| Parent Company | 5,320 | 28,653 | (23,333) | (81.4%) |
| Total | 1,023,560 | 1,005,113 | 18,446 | 1.8% |

Receivables are stated net of the Provision for Impairment of Receivables which at 31 December 2016 amounted to - € 344,445 thousand, an increase over the previous year

of € 24,250 thousand. The table below shows the trends in receivables gross and net of the provision for the impairment of receivables.

| € million | 31.12.2016 | | | 31.12.2015 | | | Variation | | |
|--------------|-------------------|----------------------|------------------|-------------------|----------------------|------------------|-------------------|----------------------|-----------------|
| | Gross Receivables | Impairment Provision | Net Receivables | Gross Receivables | Impairment Provision | Net Receivables | Gross Receivables | Impairment Provision | Net Receivables |
| | (a) | (b) | (c) | (d) | (a)-(c) | (b)-(d) | | | |
| Environment | 41,372 | (3,128) | 38,244 | 32,567 | (2,824) | 29,742 | 8,805 | (304) | 8,501 |
| Energy | 646,225 | (257,133) | 389,092 | 744,186 | (238,894) | 505,292 | (97,961) | (18,239) | (116,200) |
| Water | 547,449 | (66,576) | 480,873 | 467,748 | (56,013) | 411,736 | 79,701 | (10,563) | 69,138 |
| Networks | 122,156 | (12,126) | 110,031 | 46,835 | (17,145) | 29,690 | 75,321 | 5,020 | 80,341 |
| Corporate | 10,803 | (5,482) | 5,320 | 33,971 | (5,318) | 28,653 | (23,169) | (165) | (23,333) |
| Total | 1,368,005 | (344,445) | 1,023,560 | 1,325,308 | (320,195) | 1,005,113 | 42,697 | (24,250) | 18,446 |

Environment segment receivables

These amounted to € 38,244 thousand overall, an increase of € 8,501 thousand compared to 31 December 2015. The increase is due for € 5,759 thousand to Acea Ambiente and for € 2,742 thousand to Aquaser.

protected and free markets and by gas sales. The decrease compared to 2015 amounts to - € 116,200 thousand.

The provision for impairment of receivables at 31 December 2016 amounted to € 257,133 thousand, with an increase net of uses of € 18,239 thousand compared to 31 December 2015.

Energy segment receivables

These amounted to € 389,092 thousand and are primarily generated by the sale of electricity to customers on the

Water segment receivables

These totalled € 480,873 thousand and were composed as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------|----------------|----------------|---------------|--------------|
| Italian Water Services | 471,903 | 409,758 | 62,145 | 15.2% |
| Lazio-Campania | 471,837 | 409,486 | 62,350 | 15.2% |
| Tuscany-Umbria | 66 | 272 | (205) | (75.7%) |
| Overseas Water Services | 8,741 | 1,621 | 7,120 | 439.2% |
| Engineering and Laboratory Services | 230 | 357 | (127) | (35.6%) |
| Total | 480,873 | 411,736 | 69,138 | 16.8% |

The increase of € 69,138 thousand compared to 2015 is mainly attributable to the tariff changes of ACEA Ato2 (+ € 52,358 thousand) and ACEA Ato5 (+ € 6,335 thousand). The provision for impairment of receivables at 31 December 2016 amounted to € 66,576 thousand, with an increase net of uses of € 10,563 thousand compared to 31 December 2015.

5,482 thousand, remaining substantially unchanged compared to the end of last year.

In 2016, receivables amounting to a total of € 1,397,420 thousand were transferred pro-soluto, of which € 190,625 thousand due from Public Administrations (these were € 1,515,918 thousand and € 182,400 thousand respectively in 2015).

Network segment receivables

These stood at € 110,031 thousand, an increase of € 918,341 thousand compared to 31 December 2015, which refers exclusively to areti as a result of the effects of the regulatory changes contained in resolution 654/2015/Reel of the AEEGSI, which have led to the recognition of the income deriving from the elimination of the so-called *regulatory lag* (€ 111,505 million). For more details, see the comments on the trends in the operating segments.

For more information on the aging of receivables, reference is made to the section entitled "Additional information on financial instruments and risk management policies" in the annex to this document.

RECEIVABLES FROM THE PARENT COMPANY ROMA CAPITALE

The provision for impairment of receivables at 31 December 2016 amounted to € 12,126 thousand, with a decrease of € 5,020 thousand essentially due to the removal of some receivables from end users.

Trade receivables due from Roma Capitale totalled € 58,791 thousand at 31 December 2016 (€ 72,203 thousand at 31 December 2015).

The total amount of receivables, including financial receivables resulting from the public lighting contract and both short and medium/long-term receivables, amounts to € 167,177 thousand, compared to € 142,773 thousand at the end of last year.

Parent Company receivables

These amounted to a total of € 5,320 thousand, a decrease of € 23,333 thousand compared to 31 December 2015. The change is primarily due to the reclassification to receivables from the Vatican City of the corresponding payables (€ 20,516 thousand), in order to make the stock of trade receivables and payables more comparable.

The following table shows together the amounts deriving from the relations between Roma Capitale and the ACEA Group, and also those concerning the credit and debit positions, including the items of a financial nature.

The provision for impairment of receivables stood at €

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------|---------------|--------------|---------------|-----------------|
| RECEIVABLES | 179,636 | 163,389 | 16,247 | 9.9% |
| PAYABLES (including dividends) | (142,286) | (162,070) | 19,784 | (12.2%) |
| Balance (Receivables - Payables) | 37.350 | 1.319 | 36.031 | 2,731.0% |

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

| Receivables from Roma Capitale | 31.12.2016 | 31.12.2015 | Variation |
|-----------------------------------------------------------------|----------------|----------------|-----------------|
| Utility receivables | 34,220 | 46,756 | (12,535) |
| Contract work and services | 20,320 | 17,722 | 2,598 |
| Other receivables: seconded staff | 184 | 184 | 0 |
| Total services billed | 54,724 | 64,662 | (9,937) |
| Grants receivable | 2,402 | 2,402 | 0 |
| Total services requested | 57,126 | 67,063 | (9,937) |
| Receivables for bills to be issued: Public Lighting | 374 | 2,604 | (2,230) |
| Receivables for bills to be issued: other | 1,291 | 2,537 | (1,245) |
| Total services to be billed | 1,665 | 5,140 | (3,475) |
| Advances | 0 | 0 | 0 |
| Total trade receivables | 58,791 | 72,203 | (13,413) |
| Financial receivables for Public lighting services | 108,387 | 70,570 | 37,817 |
| Financial receivables for billed Public lighting services | 93,432 | 61,009 | 32,423 |
| Financial receivables for Public lighting services to be billed | 14,954 | 9,561 | 5,393 |
| Total receivables due within one year (A) | 167,177 | 142,773 | 24,404 |

| Payables to Roma Capitale | 31.12.2016 | 31.12.2015 | Variation |
|---------------------------------------------------------------------|------------------|------------------|-----------------|
| Electricity surtax payable | (15,260) | (15,232) | (28) |
| Concession fees payable | (112,715) | (99,339) | (13,376) |
| Total trade payables | (127,974) | (114,571) | (13,403) |
| Total payables due within one year (B) | (127,974) | (114,571) | (13,403) |
| Total (A) - (B) | 39,203 | 28,202 | 11,001 |
| Other financial receivables/(payables) | 22,598 | (6,186) | 28,783 |
| Dividends payable to Parent Company Municipality of Rome | 0 | (35,295) | 35,295 |
| Other payables to Roma Capitale | (3,040) | 0 | (3,040) |
| Medium/long term financial receivables for Public lighting services | 25,638 | 29,109 | (3,471) |
| Other trade receivables/(payables) | (24,451) | (20,697) | (3,753) |
| Net balance | 37,350 | 1,319 | 36,031 |

The change in receivables and payables results from items accrued in the period, the effects of items offset and collections occurred exclusively in June.

The stock of total receivables at 31 December 2016 increased by € 13,413 thousand compared to the previous year; specifically the following changes occurred:

- a decrease of € 3,652 thousand in water utility receivables;
- a decrease of € 9,063 thousand in electricity utility receivables;
- an increase of € 2,598 thousand in the receivables for bills issued, due to public lighting works and water works;
- a reduction of € 3,475 thousand in trade receivables for bills to be issued, due to works concerning new public lighting installations.

As regards the financial receivables for public lighting services, an increase of € 37,817 thousand was recorded as a result of the accrual of the annual payment, the adjustment as per the contract in force and the formation of new items in the receivables for the modernisation of the security network, extraordinary maintenance and progress of the LED plan to be attributed to the new Led Plan agreement for the replacement of old street light fittings.

In 2016, € 29,119 thousand were offset, by which the financial receivables concerning the payments due for the public lighting contract were closed, against the payables for divi-

dends accrued and due to ACEA for the whole of 2014.

In 2016, there were collections amounting to € 92,415 thousand; the main categories of receivables involved are listed below:

- € 39,785 thousand in water utility receivables, of which € 9,011 thousand for bills issued during the previous year;
- € 6,934 thousand in electricity utility receivables for bills issued in 2015;
- € 38,075 thousand in receivables from the contract in force (payments from December 2015 to August 2016);
- € 6,608 thousand in receivables due from the new Led Plan agreement;
- € 391 thousand for the repayment of thefts of cables;
- € 231 thousand for the repayment of receivables for public lighting works and kindergarten services;
- € 389 thousand in receivables concerning the water and waterworks contract.

On the liability side, there was an overall reduction of € 22,760 thousand. The main changes are those listed below:

- increase in payables of ACEA Ato2 as a result of the concession fee accrued during the period (+ € 30,277 thousand);
- COSAP registration accrued for 2016 by the subsidiary areti (+ € 1,412 thousand);
- reduction of the ACEA Ato2 concession fee for 2012 as a result of the offsets for the period of which above (- € 16,852 thousand);

- zeroing of the financial payables for dividends accrued by the Parent Company recognised at 31 December 2015 (- € 30,524 thousand);
- zeroing of the financial payables for dividends accrued by the subsidiary ACEA Ato2 recognised at 31 December 2015 (- € 4,770 thousand);
- reduction due to the new road cables regulations (- € 2,300 thousand).

It must be noted that the coupon concerning the dividends accrued by the Parent Company for 2015 amounting to € 54.3 million was detached in June (payables recognised

following resolution by the shareholders' meeting on 28 April 2016).

The dividend accrued by ACEA Ato2 for the 2015 profits, totalling € 2,337 thousand, was paid out in December 2016.

On 17 June 2016, Roma Capitale and ACEA S.p.A. signed an agreement modifying the contract for the public lighting service. This agreement includes the complete replacement of the light fittings in the street lights with LED fittings, forecasting the creation of new cost items and the transformation/elimination of those already recognised and which are included, albeit partially, in this report.

TRADE RECEIVABLES FROM ASSOCIATES AND JOINT VENTURES

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------|---------------|---------------|----------------|----------------|
| Receivables from associates | 3,838 | 5,188 | (1,349) | (26.0%) |
| Receivables from joint ventures | 24,433 | 24,694 | (262) | (1.1%) |
| Total | 28,271 | 29,882 | (1,611) | (27.1%) |

Receivables from associates

These receivables totalled € 3,838 thousand (€ 5,188 thousand at 31 December 2015) and primarily refer to receivables from Marco Polo for € 1,236 thousand, receivables from Umbria Due Servizi Idrici for € 1,167 thousand, receivables from Sogea for € 390 thousand and receivables from Si(e)nergia in liquidation for € 639 thousand.

Receivables from Joint Ventures

These receivables totalled € 24,433 thousand (€ 24,694

thousand at 31 December 2015), down by € 262 thousand; they refer to amounts due from companies consolidated using the equity method. In particular the balance consists of € 14,195 thousand in receivables recognised in ACEA due from its subsidiaries and € 8,713 thousand in Sarnese Vesuviano due from its subsidiary GORI. The receivables recognised in ACEA from its subsidiaries are affected by the recognition of receivables for the attribution of costs incurred for the Acea2.0 programme and represent the awarding of the joint investment.

OTHER CURRENT RECEIVABLES AND ASSETS

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------|----------------|----------------|--------------|-------------|
| Receivables from others | 119,714 | 117,866 | 1,848 | 1.6% |
| Accrued income and prepayments | 10,850 | 12,809 | (1,959) | (15.3%) |
| Receivables for commodity derivatives | 1,944 | 0 | 1,944 | 100.0% |
| Total | 132,508 | 130,675 | 1,833 | 1.4% |

Receivables from others

These totalled € 119,714 thousand; the following table

analyses the main items contributing towards the balances compared to the previous year:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------------------------------------------------------------------|----------------|----------------|--------------|-------------|
| Receivables due from Equalisation Fund for energy equalisation | 37,747 | 12,224 | 25,523 | 208.8% |
| Receivables from Equalisation Fund for Tariff Contribution from meeting the targets | 14,339 | 12,642 | 1,697 | 13.4% |
| Other receivables due from Equalisation Fund | 10,658 | 38,928 | (28,270) | (72.6%) |
| Financial receivables due from Trifoglio Immobiliare | 10,250 | 10,250 | 0 | 0.0% |
| Regional grants receivable | 6,841 | 7,355 | (515) | (7.0%) |
| Receivables due from INPS for welfare contributions in accordance with art. 41, para. 2, sub. A of Law 488/1999 | 4,576 | 5,408 | (832) | (15.4%) |
| Receivables from Equitalia | 4,264 | 4,168 | 96 | 2.3% |
| Security deposits | 3,077 | 3,368 | (291) | (8.6%) |
| Receivables from social security institutions | 3,697 | 3,475 | 222 | 6.4% |
| Receivables from individual transfers | 4,373 | 4,373 | 0 | 0.0% |
| Suppliers' advances | 2,773 | 2,072 | 701 | 33.8% |
| Receivables from Municipalities | 1,085 | 0 | 1,085 | 100.0% |
| Receivables from factor for transfer | 62 | 62 | 0 | 0.0% |
| Other Receivables from PL Naples | 616 | 858 | (242) | (28.2%) |
| Employees advances | 0 | 45 | (45) | (99.6%) |
| Other receivables | 15,356 | 12,638 | 2,718 | 21.5% |
| Total | 119,714 | 117,866 | 1,848 | 1.6% |

Accrued income and prepayments

These amounted to € 10,850 thousand (€ 12,809 thousand at 31 December 2015) and refer mainly to rent on public land, rentals and insurance. They decreased by € 1,959 thousand.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------|---------------|---------------|--------------|---------------|
| VAT receivables | 48,783 | 16,272 | 32,510 | 199.8% |
| IRAP and IRES receivables | 3,557 | 31,362 | (27,805) | (88.7%) |
| Municipal and provincial surcharge, revenue tax | 3,502 | 4,001 | (499) | (12.5%) |
| Other tax receivables | 18,655 | 23,542 | (4,887) | (20.7%) |
| Total | 74,497 | 75,176 | (680) | (0.9%) |

CURRENT TAX ASSETS

These amounted to € 74,497 thousand (€ 75,176 thousand at 31 December 2015) and include:

CURRENT FINANCIAL ASSETS

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------------------------------------|----------------|---------------|---------------|--------------|
| Financial receivables from the Parent Company | 108,387 | 70,570 | 37,817 | 53.6% |
| Financial receivables from associates and joint ventures | 6,038 | 6,776 | (738) | (10.9%) |
| Financial receivables from third parties | 16,851 | 16,883 | (32) | (0.2%) |
| Total | 131,275 | 94,228 | 37,047 | 39.3% |

Financial receivables from the Parent Company

These amounted to € 108,387 thousand, an increase of € 37,817 thousand compared to 31 December 2015. They represent the unconditional right to receive cash flows in line with the methods and timing envisaged in the service agreement for public lighting management. Further details are provided in the note entitled "Receivables due from the Parent Company Roma Capitale".

Financial receivables from associates and joint ventures

These amounted to € 6,038 thousand (€ 6,776 thousand at 31 December 2015) and refer to € 2,795 thousand for a loan, including accrued interest, disbursed in November 2010 to Sienergia in liquidation to cover certain investment projects, € 2,872 thousand recognised in Crea Gestioni with Umbriadue Servizi and € 322 thousand for a loan granted to the company Citelum Acea Napoli Pubblica Illuminazione.

Financial receivables from third parties

These amounted to € 16,851 thousand (€ 16,883 thousand at 31 December 2015) and are mainly broken down as follows:

- € 10,700 thousand recorded in ACEA Ato5. This amount

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------|----------------|----------------|------------------|----------------|
| Environment | 23 | 328 | (305) | (93.0%) |
| Energy | 6,429 | 6,805 | (376) | (5.5%) |
| Water | 81,595 | 35,223 | 46,371 | 131.7% |
| Networks | 154 | (200) | 354 | (177.3%) |
| Parent Company | 577,332 | 772,497 | (195,165) | (25.3%) |
| Total | 665,533 | 814,653 | (149,120) | (18.3%) |

refers to the receivable from the ATO and accrued over three years; one-third of the above amount was due December 31 of each year, with the first instalment due 31 December 2007. The Settlement Agreement entered into by the Company and the ATO concerns the issue of higher operating costs incurred in the 2003-2005 period and provides for the recognition of higher costs net of sums relating to (i) the tariff portion - corresponding to amortisation/depreciation and return on inflated invested capital - relating to the investments set out in the Area Plan and not carried out in the first three-year period (ii) the portion of inflation accrued on concession fees and (iii) fines for the non-fulfilment of contractual obligations in the three-year period,

- € 5,328 thousand accrued for the management of the public lighting service.

Cash and cash equivalents

The balance at 31 December 2016 of bank current accounts and postal accounts, opened with the various banks and Post Offices by the consolidated companies, except by companies held for sale, amounted to € 665,533 thousand. A breakdown and changes in this item by operating segment are shown in the table below:

24. Non-current assets held for sale/Liabilities directly associated with assets held for sale – € 397 thousand

The balance at 31 December 2016 amounted to € 397 thousand, unchanged from 31 December 2015. It includes the recognition of € 497 thousand as the fair value of the repurchase commitment, if certain contractual conditions

are not satisfied, as a result of the possible exercise of the put option granted to the buyer of the PV business unit, and the recognition of € 99 thousand for the amount due to the buyer for the repayment of equity corresponding to the plants subject to the put.

LIABILITIES

At 31 December 2016, these amounted to € 6,904,713

thousand (€ 6,706,972 thousand at 31 December 2015) and increased by € 197,741 thousand (+3.00%) over the previous year; they are broken down as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------------|------------------|------------------|----------------|-------------|
| Shareholders' equity | 1,757,943 | 1,596,053 | 161,890 | 10.1% |
| Non-current liabilities | 3,382,460 | 3,258,079 | 124,381 | 3.8% |
| Current liabilities | 1,764,211 | 1,852,741 | (88,530) | (4.8%) |
| Liabilities directly associated with assets held for sale | 99 | 99 | 0 | 0.0% |
| Total Liabilities | 6,904,713 | 6,706,972 | 197,741 | 3.0% |

25. Shareholders' equity – € 1,757,943 thousand

The consolidated shareholders' equity at 31 December 2016 amounted to € 1,757,943 thousand (€ 1,596,053 thousand at 31 December 2015).

The changes that occurred during the year are shown in the relevant table.

Share capital

The share capital is € 1,098,899 thousand, represented by 212,964,900 ordinary shares with a par value of € 5.16 each, as shown in the Shareholders' Register. The share capital is subscribed and paid-up in the following manner:

- **Roma Capitale: 108,611,150** ordinary shares with an overall par value of € 560,433 thousand
- **Free Float: 103,936,757** ordinary shares with an overall par value of € 536,314 thousand;
- **Treasury shares: 416,993** ordinary shares for a total par value of € 2,152 thousand.

Legal reserve

The legal reserve includes 5% of the profits from previous years, in accordance with article 2430 of the Italian Civil Code, and it refers to the legal reserve of the parent company amounting to € 95,188 thousand.

Other reserves and retained earnings

At 31 December 2016, these amounted to € 214,702 thousand compared to € 162,126 thousand at 31 December 2015. The difference of € 52,576 thousand stems, in addition to the allocation of the previous year's profit, from: **i)** the distribution of dividends by the parent company for € 106,274

thousand and **ii)** the reduction of - € 5,949 thousand in the actuarial profit and loss reserve net of the tax reserve, **iii)** the increase in *cash flow hedge* reserves for financial instruments and *commodities* of € 10,019 thousand (net of the relevant tax reserve, **iv)** the reduction in the exchange rate reserve of € 7,639 thousand.

At 31 December 2016, ACEA held 416,993 treasury shares in its portfolio, to be used for future medium/long-term incentive schemes. As things stand, there are no medium/long-term share-based payment schemes planned.

Non-controlling interests

Non-controlling interests totalled € 86,807 thousand, an increase of € 14,679 thousand. The difference between the two periods under comparison mainly reflects the combined effect of the portion of net profit attributable to minority interests, the decrease in shareholders' equity as a result of the distribution of dividends from net profit for 2015 and the change in the basis of consolidation after the acquisitions during the period of Aguas De San Pedro and the Equity consolidation of Aguazul Bogota.

26. Staff termination benefits and other defined benefit plans – € 109,550 thousand

At 31 December 2016, these amounted to € 109,550 thousand (€ 108,630 thousand at 31 December 2015) and represent termination and other benefits payable to employees subsequent to their retirement or termination of employment. The following table shows the change in actuarial liabilities during the year:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------|----------------|----------------|------------|-------------|
| Benefits payable upon termination of employment | | | | 0,0% |
| - Staff termination benefits | 65,848 | 64,012 | 1,836 | 2.9% |
| - Monthly bonuses | 10,961 | 10,020 | 941 | 9.4% |
| - Long-Term Incentive Plans (LTIP) | 780 | 2,346 | (1,566) | (66.8%) |
| Post-employment benefits | | | | 0,0% |
| - Tariff subsidies | 31,961 | 32,252 | (291) | (0.9%) |
| Total | 109,550 | 108,630 | 920 | 0.9% |

The change is affected not only by the allocation, which following the reform in staff termination benefits, is representative of staff termination benefits up to 31 December 2006, but also by the impact of the review of the discount rate used for evaluation in accordance with IAS19.

As required by paragraph 78 of IAS 19, the interest rate used to calculate the present value of the obligation was based on returns, at the end of the reporting period, on

securities of major companies listed on the same financial market as ACEA, and on returns on government bonds in circulation at the same date that have terms to maturity similar to the residual term of the liability for the workforce in question.

As regards the economic and financial scenario, the following table shows the main parameters used for the evaluation.

| | December 2016 | December 2015 |
|-------------------------------|---------------|---------------|
| Discount rate | 1.31% | 2.03% |
| Revenue growth rate (average) | 1.6% | 1.6% |
| Long-term inflation | 1.5% | 1.5% |

With regard to the measurement of the Group Employee Benefits (Staff termination benefits (TFR), Monthly bonuses, tariff subsidies for current and retired staff) a sensitivity analysis was performed to assess the changes in

the liability resulting from both positive and negative flat shifts of the rate curve (+ 0.5% shift /- 0.5% shift). The results of this analysis are summarized below.

| Type of plan | +0.5% | -0.5% |
|----------------------------------|------------|------------|
| | € millions | € millions |
| Staff termination benefits (TFR) | -3.8 | +4.2 |
| Tariff subsidies | +0.4 | +3.3 |
| Monthly bonuses | +0.1 | +1.4 |

In addition, a sensitivity analysis was carried out in relation to the age of the workforce, assuming one year less than the actual age.

| Type of plan | -1 year of age |
|----------------------------------|----------------|
| | € millions |
| Staff termination benefits (TFR) | +0.2 |
| Tariff subsidies | +1.0 |
| Monthly bonuses | +1.3 |

No sensitivity analyses were conducted on other variables such as, for example, the inflation rate.

27. Provisions for liabilities and charges – € 202,122 thousand

At 31 December 2016, the provisions for liabilities and charges amounted to € 202,122 thousand (€ 189,856 thousand at 31 December 2015) and are intended to cover potential liabilities that may derive from pending litigations, estimated on the basis of information provided by the company's internal and external legal advisors. The provisions do not take account of the effects of litigation that is expected

to be concluded in the company's favour or of litigations where the potential liability arising from a negative outcome is merely considered possible.

When calculating the size of the provisions, account is taken both of the estimated costs that may derive from litigation or other disputes arising during the year and an update of estimates of the potential liabilities deriving from the litigation involving the Company in previous years.

The following table shows a breakdown of provisions and changes during the period:

| € thousand | 31.12.2015 | Utilisations | Provisions | Payment of Redundancy Funds | Reclassifications/ Other changes | 31.12.2016 |
|-----------------------------------------------------|----------------|-----------------|---------------|-----------------------------|----------------------------------|----------------|
| Legal | 20,232 | (2,832) | 1,642 | (8,012) | 0 | 11,030 |
| Tax | 2,689 | (313) | 1,930 | 0 | 56 | 4,361 |
| Regulatory risks | 54,218 | (4,858) | 7,907 | 0 | 0 | 57,267 |
| Investees | 5,650 | (787) | 336 | 0 | (482) | 4,717 |
| Contributory risks | 6,540 | (125) | 114 | (3,856) | (2) | 2,671 |
| Early retirements and redundancies | 3,481 | (23,918) | 22,569 | 0 | 0 | 2,132 |
| Post mortem | 23,044 | 0 | 0 | 0 | 0 | 23,044 |
| Concession fees | 0 | 0 | 0 | 0 | 0 | 0 |
| Insurance excess | 1,192 | (811) | 1,634 | 0 | 0 | 2,015 |
| Other liabilities and charges | 21,554 | (14,584) | 16,083 | 0 | 9,460 | 32,513 |
| Subtotal Provisions for Liabilities and Charges | 0 | 0 | 0 | 0 | 0 | 0 |
| Provision for restoration charges | 138,599 | (48,228) | 52,214 | (11,868) | 9,032 | 139,749 |
| Insurance excess | 51,257 | 0 | 11,116 | 0 | 0 | 62,373 |
| Covenants | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Provisions for Liabilities and Charges | 189,856 | (48,228) | 63,329 | (11,868) | 9,032 | 202,122 |

The main changes are due to:

- the **legal disputes provision** which decreased by € 9,202 thousand as a result of: (i) the allocations for € 1,642 thousand, (ii) the utilisations for € 2,832 thousand and (iii) the payment of redundancy funds, mainly referring to the payment in ACEA Ato2 of € 7,364 thousand due to the favourable outcome of the litigation for the recognition of substitution indemnities of the Peschiera for energy production;
- the **regulatory risk provision** which increased by € 3,049 thousand, mainly as a result of the allocation concerning the sanction imposed by the AGCM on Acea Energia (€ 3,600 thousand) and Acea Produzione for the risks linked to the capacity payment and the additional fees due to Abruzzo Region on the basis of Regional Law 38 of 22/10/2013 and the possible charge of the excess fee of the Bacino Imbrifero Montano (respectively for € 1,342 thousand and € 3,737 thousand). The utilisations in Acea Energia and areti exit the provision, for € 2,980 thousand and € 1,878 thousand respectively, due to the closure of sanctioning procedures for the determination of energy items for previous years;
- the provision for covering the costs of the **early retirement and redundancy** plan, which decreased by € 1,350 thousand net of utilisations compared to 31 December 2015,
- the **provision for restoration charges** which increased by € 11,116 thousand due to the allocations made in 2016 concerning the costs necessary to maintain the infra-

structure used for the management of the water service in good condition;

- the **other provisions** recognised in Acea Energia, ACEA Ato2 and ACEA Ato5, which include the provisions recognised as a result of the amendment made by Law 208/2015 to the discipline of VAT variation notes following the termination due to non-fulfilment of the contracts for the supply of electricity, gas and water. The provision amounts to € 9,220 thousand in total and is allocated to hedge the eventual restitution of VAT to the State in the event of customers in arrears paying following the issuing of the variation note;
- the **provision for contributory risks** to cover the litigations of a contributory nature (- € 3,869 thousand), which reduced due to the release of the provisions allocated in previous years.

See note 7 for more details on the nature of the allocations.

ACEA considers that the settlement of ongoing disputes and other potential disputes should not create any additional charges for Group companies, with respect to the amounts set aside, which represent the best estimate possible on the basis of elements available as of today.

For further information please refer to the section entitled "Update on major disputes and litigation".

28. Payables and other non-current financial liabilities – € 2,797,106 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------|------------------|------------------|----------------|-------------|
| Bonds | 2,045,702 | 1,904,022 | 141,681 | 7.4% |
| Medium/long-term borrowings | 751,404 | 784,413 | (33,009) | (4.2%) |
| Total | 2,797,106 | 2,688,435 | 108,671 | 4.0% |

The figures in the table include the *fair value*, at 31 December 2016, of hedging instruments entered into by ACEA,

which are shown separately from the hedged instrument in the table below.

| € thousand | Hedged instrument | Fair value of derivative | 31.12.2016 | Hedged instrument | Fair value of derivative | 31.12.2015 |
|---------------------------------------------------------|-------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
| Bonds | 2,022,134 | 23,568 | 2,045,702 | 1,866,346 | 37,676 | 1,904,022 |
| Medium/long-term borrowings | 746,149 | 5,255 | 751,404 | 769,837 | 7,004 | 784,413 |
| Non-current borrowings and financial liabilities | 2,768,283 | 28,823 | 2,797,106 | 2,636,183 | 44,680 | 2,688,435 |

BONDS

On 24 October 2016, as part of the liability management strategy aimed at extending the average duration of its debt and managing in advance a portion of the refinancing risk in the light of the unfavourable market conditions, ACEA acquired the following Series of Bonds:

- Bonds expiring in 2018 amounting to € 269,611,000; and
- Bonds expiring in 2020 amounting to € 77,225,000, for a nominal total of € 346,836,000. The buyback involved a loss of € 31,382 thousand plus costs concerning the transaction.

ACEA simultaneously issued a bond for a total amount of € 500,000 thousand and a duration of 10 years at fixed rate, as part of the *Euro Medium Term Notes* (EMTN) programme.

The issue was mainly aimed at refinancing the bonds bought back by ACEA and extending the average duration of the Company's debt, as well as reducing the average cost of same, considering the current trend in interest rates, with specific reference to the Euro zone.

The bond is exclusively for institutional investors.

The bonds have a minimum denomination of € 100,000 and will mature on 24 October 2026, pay a gross annual coupon of 1% and were placed at an issue price of 98.377%. The bond is regulated by British law. The settlement date has been set at 24 October 2016. Since this date, the bonds have been quoted on the regulated market of the Luxembourg Stock Exchange, where the information booklet concerning the EMTN programme is also available.

The bonds amount to a total of € 2,045,702 thousand (€ 1,904,022 thousand at 31 December 2015) and refer to:

- € 600,686 thousand (inclusive of accrued interest and contract related costs) relating to the 10-year fixed rate bond issued by ACEA in July 2014, as part of the Euro Medium Term Notes (EMTN) programme of € 1.5 billion. The interest accrued in the period amounted to € 15,750 thousand.
- € 490,739 thousand (inclusive of accrued interest) related to the bond issued by ACEA in October 2016 as part of the EMTN programme.
- € 330,976 thousand (inclusive of accrued interest) re-

lated to the 5-year bond issued by ACEA in early September 2013 and maturing on 12 September 2018.

This debt, net of the Fair Value of the positive items allocated in the financial management part of the income statement amounting to € 1,221 thousand, amounts to € 329,755 thousand. This is residual debt, after the acquisition and annulment of the bonds for a total nominal value of € 269,611 thousand.

The interest accrued in the period amounted to € 20,607 thousand.

- € 436,626 thousand (including accrued interest) refer to a 10-year bond issued by ACEA in March 2010, maturing 16 March 2020. The interest accrued in the period amounted to € 21,892 thousand. This is the residual debt, after the acquisition and annulment of the bonds for a total nominal value of € 77,225 thousand.
- € 163,107 thousand relating to the *Private Placement* which, net of the *Fair Value* of the hedge, a negative € 24,789 thousand, amounts to € 187,896 thousand. The *fair value* was allocated to a specific shareholders' equity reserve, being effectively hedged. The exchange rate difference, negative by € 2,511 thousand, calculated at 31

December 2016 on the hedged instrument was allocated to a specific exchange rate reserve. The exchange rate at the end of 2016 was € 122.97 compared to € 131.07 at 31 December 2015. Interest accrued during the period amounted to € 4,279 thousand.

MEDIUM/LONG-TERM BORROWINGS (INCLUDING SHORT-TERM PORTIONS)

They totalled € 784,678 thousand (€ 830,421 thousand at 31 December 2015) and include : (i) principal outstanding falling due beyond twelve months amounting to € 738,857 thousand (€ 784,413 thousand at 31 December 2015), (ii) the portions of the same borrowings falling due in the twelve months thereafter, totalling € 45,821 thousand (€ 46,008 thousand at 31 December 2015) and (iii) € 6,421 thousand as the negative *fair value* of interest rate risk and currency risk hedges.

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

| Bank Borrowings | Total Residual Debt | Due by 31.12.2017 | between 31.12.2017 and 31.12.2022 | Due after 31.12.2022 |
|-----------------------------|---------------------|----------------------|--------------------------------------|-------------------------|
| fixed rate | 286,906 | 19,831 | 93,436 | 173,639 |
| floating rate | 450,860 | 17,655 | 260,247 | 172,958 |
| floating rate to fixed rate | 46,912 | 8,335 | 38,577 | 0 |
| Total | 784,678 | 45,821 | 392,260 | 346,597 |

The *fair value* of ACEA hedging derivatives was a negative € 5,255 thousand and decreased by € 1,749 thousand compared to 31 December 2015 (negative € 7,004 thousand).

The Group's principal medium/long-term borrowings are subject to *covenants* to be complied with by the borrowing companies in accordance with normal international practices.

In particular, the loan taken out by Areti is subject to a *financial covenant* expressed in the current agreement as a two decimal places ratio of 0.65 between net financial debt and the sum of net financial debt and shareholders' equity, which must not be exceeded at the end of each reporting period; this ratio must be complied with by both the borrowing company and the ACEA Group. The ratio, calculated with the same criteria as the aforementioned agreement, has been complied with in 2016.

The loan agreements entered into by the Parent Company envisage:

- standard Negative Pledge and Acceleration Events clauses;

- clauses requiring compulsory credit rating monitoring by at least two major agencies;
- clauses requiring the company to maintain a credit rating above certain levels;
- the obligation to arrange insurance cover and maintain ownership, possession and usage of the works, plant and machinery financed by the loan through to the maturity date;
- periodic reporting requirements;
- clauses giving lenders the right to call in the loans on the occurrence of a certain event (i.e. serious errors in the documentation provided when negotiating the agreement, default on repayments, the suspension of payments), giving the bank the right to call in all or a part of the loan.

There were no indicators that may have implied the failure to respect the covenants in 2016.

Information on the fair value of the above borrowings is provided in the section entitled "*Additional disclosures on financial instruments and risk management policies*".

29. Other non-current liabilities – € 185,524 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------|----------------|----------------|--------------|-------------|
| Advances received | 113,815 | 110,688 | 3,127 | 2.8% |
| Water connection fees | 23,352 | 24,017 | (665) | (2.8%) |
| Capital grants | 19,864 | 20,687 | (823) | (4.0%) |
| Accrued liabilities/deferred income | 28,493 | 28,709 | (215) | (0.8%) |
| Total other liabilities | 185,524 | 184,100 | 1,425 | 0.8% |

ADVANCES FROM END USERS AND CUSTOMERS

The Advances received include: (i) the total security deposits and consumer advances of the water companies and (ii) the total of the advances concerning the liabilities for advances on consumption of electricity paid by customers of

the Enhanced Protection service, accrue interest according to the conditions established by AEEGSI rules (Resolution No. 204/99).

The following table provides the breakdown by industrial area:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------|----------------|----------------|--------------|-------------|
| Energy | 44,790 | 42,410 | 2,379 | 5.6% |
| Water | 68,232 | 67,761 | 471 | 0.7% |
| Networks | 770 | 494 | 276 | 55.9% |
| Parent Company | 23 | 23 | 0 | 0.0% |
| Total | 113,815 | 110,688 | 3,127 | 2.8% |

CAPITAL GRANTS AND WATER CONNECTION FEES

These mainly refer to connection fees in ACEA Ato2 for € 18,593 thousand and ACEA Ato5 for € 4,759 thousand. The item also includes € 19,864 thousand (€ 20,687 thousand at 31 December 2015) for grants accounted for in liabilities and progressively recognised in the income statement of each year over the term of the underlying investment to which the grant is associated. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

amount equal to the depreciation generated by the associated capital expenditure. In particular, this item includes the residual grant received by areti for the replacement of electromechanical meters with electronic meters (AEEGSI Resolution No. 292/06).

30. Provision for deferred taxes – € 88,158 thousand

At 31 December 2016 the provisions totalled € 88,158 thousand (€ 87,059 thousand at 31 December 2015).

In particular, these provisions include the deferred taxes linked to the difference between the economic and technical rates of depreciation applied to the depreciated assets and tax-related issues. This item also includes the utilisations in the period for € 5,401 thousand and the allocations for € 9,704 thousand. See note 20 for more details.

ACCRUED LIABILITIES AND DEFERRED INCOME

These amounted to € 28,493 thousand and mainly refer to grants received, recognised in the income statement by an

31. Current liabilities – € 1,764,211 thousand

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------|------------------|------------------|-----------------|---------------|
| Borrowings | 151,478 | 259,087 | (107,609) | (41.5%) |
| Trade payables | 1,292,590 | 1,245,257 | 47,334 | 3.8% |
| Tax payables | 46,361 | 42,346 | 4,015 | 9.5% |
| Other current liabilities | 273,782 | 306,052 | (32,270) | (10.5%) |
| Current liabilities | 1,764,211 | 1,852,741 | (88,531) | (4.8%) |

BORROWINGS

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------------|----------------|----------------|------------------|----------------|
| Short-term bank credit lines | 7,139 | 12,710 | (5,571) | (43.8%) |
| Bank loans | 45,821 | 46,008 | (187) | (0.4%) |
| Amounts due to the parent company Roma Capitale | 3,040 | 35,295 | (32,254) | (91.4%) |
| Payables to associates and joint ventures | 596 | 596 | 0 | 0.0% |
| Payables due to third parties | 94,882 | 164,480 | (69,598) | (42.3%) |
| Total | 151,478 | 259,087 | (107,609) | (41.5%) |

Short-term bank credit lines

These amounted to € 7,139 thousand (€ 12,710 thousand at 31 December 2015), with a decrease of € 5,571 thousand, mainly attributable to the companies in the Environment and Energy Segments. The effect of the complete consolidation of Aguas De San Pedro amounted to € 2,157 thousand.

current portion of bank loans falling due within twelve months. Further details are provided in note 28 of these notes.

Bank loans

These amounted to € 45,821 thousand and refer to the

Due to the Parent Company Roma Capitale

These amounted to € 3,040 thousand and show a decrease of € 32,254 thousand, linked to the distribution of dividends. See that described in the corresponding item in the assets as regards the change in this item compared to 31 December 2015.

Payables to associates and joint ventures

These amounted to € 596 thousand and are unchanged compared to last year.

Payables due to third parties

These amounted to € 94,882 thousand (€ 164,480 thousand at 31 December 2015). The breakdown of this item is essentially as follows:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|------------------------------------------|---------------|----------------|-----------------|----------------|
| Dividends payable to shareholders | 810 | 401 | 409 | 102.0% |
| Environment | 349 | 158 | 190 | 120.3% |
| Water | 460 | 242 | 219 | 90.4% |
| Parent Company | 1 | 1 | 0 | 0.0% |
| Payables due to third parties | 94,072 | 164,079 | (70,007) | (42.7%) |
| Environment | 1,101 | 5,936 | (4,835) | (81.5%) |
| Energy | 42,933 | 43,306 | (373) | (0.9%) |
| Water | 17,379 | 44,243 | (26,864) | (60.7%) |
| Networks | 30,600 | 68,824 | (38,224) | (55.6%) |
| Parent Company | 2,058 | 1,769 | 289 | 16.3% |
| TOTAL | 94,882 | 164,480 | (69,598) | (42.3%) |

There was a reduction of € 70,007 thousand in the payables due to third parties, mainly linked to the reduction in

the payables to factors for the transfer of receivables.

TRADE PAYABLES

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-------------------------------------------|------------------|------------------|---------------|-------------|
| Payables due to third party suppliers | 1,149,172 | 1,092,264 | 56,909 | 5.2% |
| Amounts due to the Parent Company | 139,245 | 147,259 | (8,014) | (5.4%) |
| Payables to Associates and Joint Ventures | 4,173 | 5,734 | (1,561) | (27.2%) |
| Trade Payables | 1,292,590 | 1,245,257 | 47,334 | 3.8% |

Payables due to third-party suppliers

Trade payables amounted to € 1,149,172 thousand. the increase of € 56,909 thousand is the result of contrasting factors, as follows:

- **Environment Segment:** the increase of € 19,631 thousand is mainly attributable to Acea Ambiente;
- **Energy Segment:** reduced by € 28,103 thousand compared to 31 December 2015, mainly for Acea Energia. The effect is attributable to the reduction in purchased volumes and the simultaneous decrease in prices;
- **Water Segment:** the decrease of € 8,475 thousand compared to 31 December 2015 is mainly attributable to ASEA Ato2 (- € 25,598 thousand), partially offset by an increase in ACEA Ato5 payables (+ € 18,891 thousand) and Genesa payables (+ € 2,666 thousand);
- **Networks Segment:** increased by € 27,716 thousand compared to 31 December 2015, mainly for areti, also as a result of the partial non-proportional spin-off of Acea Illuminazione Pubblica in areti;
- **Parent Company:** increased by € 46,139 thousand compared to 31 December 2015, mainly due to the increased investments in technological infrastructures, also regarding the Acea2.0 Project.

The Group has *factoring* agreements, typically in the form of *reverse factoring*. On the basis of the contractual structure, the supplier has the possibility of transferring at its own discretion the receivables due from the company to a financial institute. In some cases, the payment ties envisaged in the bill can be further delayed in agreement between the supplier and the Group; such delays are cost-bearing. In the event of delays, a quantitative analysis is conducted to verify the substantiality or otherwise of the modification of the contractual terms, by preparing a quantitative test in accordance with that envisaged by IAS39 AG62. In this context, the relations, which retain the primary obligation with the supplier and for which the eventual delay, if granted, does not imply a significant modification of the terms of payment, retain their nature and therefore remain classified in the trade liabilities.

Trade payables due to the Parent Company Roma Capitale

These amounted to € 139,245 thousand and are described in paragraph 23 of these notes, together with the trade receivables.

Trade payables to associates and joint ventures

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------------------|--------------|--------------|----------------|----------------|
| Payables to joint ventures | 338 | 3,485 | (3,146) | (90.3%) |
| Payables to associates | 3,835 | 2,249 | 1,586 | 70.5% |
| Total | 4,173 | 5,734 | (1,561) | (27.2%) |

The payables to associates mainly include the payables due to the Acque Group, while the payables to joint ventures mainly

refer to the payables recognised in ACEA to the joint venture Citelum Napoli Pubblica Illuminazione (€ 2,644 thousand).

TAXES PAYABLE

These amounted to € 46,361 thousand (€ 42,346 thousand at 31 December 2015) and include € 24,478 thousand for IRES and IRAP tax payables for the period and € 38,397 thousand for VAT.

The increase of € 4,015 thousand is the result of the taxes payable for the period.

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|---------------------------------------------|----------------|----------------|-----------------|----------------|
| Amounts due to social security institutions | 17,345 | 18,126 | (780) | (4.3%) |
| Accrued expenses | 281 | 321 | (40) | (12.5%) |
| Other current liabilities | 256,155 | 287,605 | (31,450) | (10.9%) |
| Total | 273,782 | 306,052 | (32,270) | (10.5%) |

OTHER CURRENT LIABILITIES

These amounted to € 273,782 thousand and are broken down as in the following table:

Amounts due to social security institutions

These amounted to € 17,345 thousand (€ 18,126 thousand

at 31 December 2015) and are broken down as follows by Operating Segment:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|----------------|---------------|---------------|--------------|---------------|
| Environment | 822 | 745 | 77 | 10.4% |
| Energy | 2,016 | 1,944 | 72 | 3.7% |
| Water | 6,013 | 6,290 | (277) | (4.4%) |
| Networks | 5,622 | 5,702 | (80) | (1.4%) |
| Parent Company | 2,872 | 3,445 | (573) | (16.6%) |
| Total | 17,345 | 18,126 | (780) | (4.3%) |

Payables for commodity derivatives

This item amounted to € 0 thousand and represents the Fair Value of some financial contracts stipulated by Acea Energia.

Other current liabilities

These amounted to € 256,155 thousand, a decrease of € 31,450 thousand compared to 31 December 2015. This item consists of:

| € thousand | 31.12.2016 | 31.12.2015 | Variation | Variation % |
|-----------------------------------------------------------------------------------|----------------|----------------|-----------------|----------------|
| Payables to Equalisation Fund | 49,066 | 89,678 | (40,612) | (45.3%) |
| Payables to municipalities for concession fees | 56,299 | 53,737 | 2,562 | 4.8% |
| Payables for collections subject to verification | 60,824 | 58,202 | 2,623 | 4.5% |
| Amounts due to staff | 41,450 | 32,756 | 8,694 | 26.5% |
| Other payables to Municipalities | 8,883 | 9,748 | (865) | (8.9%) |
| Payables to Equitalia | 7,257 | 9,168 | (1,911) | (20.9%) |
| Payables for solidarity contributions | 4,760 | 13,130 | (8,369) | (63.7%) |
| Payables for environmental premium Art. 10 of AT14 agreement of 13/08/2007 | 1,547 | 3,200 | (1,653) | (51.7%) |
| Payables for purchase of surface rights | 917 | 1,017 | (100) | (9.8%) |
| Amounts due to end users for refund of Tariff Component as per referendum outcome | 11 | 48 | (37) | (77.4%) |
| Payables for purchase of business units | 7,486 | 2,644 | 4,843 | 183.2% |
| Other payables | 17,655 | 14,277 | 3,378 | 23.7% |
| Other current liabilities | 256,155 | 287,605 | (31,450) | (10.9%) |

The change, amounting to € 31,450 thousand, mainly refers to the combined effect of the following contrasting factors:

- - € 40,612 thousand for lower payables to the Equalisation Fund from areti following the payment of monthly fees in arrears;
- - € 8,369 thousand for the payables to the STO for revenue from the application of the solidarity contribution (this revenue is allocated to a provision for tariff facilitations for families in difficulty);
- + € 8,694 thousand in amounts due to staff, in particular

due to the complete consolidation of Aguas de San Pedro for € 3,376 thousand, the increase in the payables of ACEA Ato2 (+ € 2,265 thousand) and areti (+ € 3,454 thousand);

- + € 4,843 due to payables recognised in ACEA Ato2 for the purchase of business units.
- + € 2,562 thousand for payables to Municipalities for concession fees; the balance is due to contrasting factors, on one hand the increase of € 12,814 thousand as a result of the complete consolidation of Aguas de San Pedro, on the other the reduction in the payables of ACEA Ato2 (- € 9,611 thousand) and ACEA Ato5 (- € 808 thousand).

PURCHASES IN THE YEAR

ACEA purchased 29,65% of Aguas de San Pedro in the last quarter of 2016

| Net Acquired Assets | Carrying amount of the Acquired Company | Assumed Realisation Value | Fair Value |
|------------------------------------------------------------|------------------------------------------------|----------------------------------|-------------------|
| Tangible Assets | 1,525.8 | | 1,525.8 |
| Intangible Assets | 12,614.6 | | 12,614.6 |
| Equity investments | 0.0 | | 0.0 |
| Inventories | 353.6 | | 353.6 |
| Advances | 407.2 | | 407.2 |
| Trade receivables | 2,343.8 | | 2,343.8 |
| Other receivables | 75.8 | | 75.8 |
| Financial receivables | 0.0 | | 0.0 |
| Funds and banks | 453.2 | | 453.2 |
| Staff termination benefits and other defined benefit plans | 0.0 | | 0.0 |
| Provision for deferred tax liabilities | 0.0 | | 0.0 |
| Provisions for liabilities and charges | 0.0 | | 0.0 |
| Tax payables | (130.2) | | (130.2) |
| Trade payables | (4,377.9) | | (4,377.9) |
| Payables to the parent company Acea | 0.0 | | 0.0 |
| Other payables | (851.5) | | (851.5) |
| Bank borrowings | (4,257.3) | | (4,257.3) |
| Other financial payables | (276.0) | | (276.0) |
| Goodwill allocated | 0.0 | | 0.0 |
| NET BALANCE | 7,881.0 | 0.0 | 7,881.0 |
| Gains | | | 1,857.6 |
| Investment price | | | 6,023 |
| Repayment of financial payables | | | 0.0 |
| Total paid out | | | 6,023.4 |
| Net outgoing cash flow due to the purchase | 0.0 | | 5,570.2 |
| Cash payment of the purchase price | | | 6,023.4 |
| Cash and cash equivalents acquired | | | (453.2) |

Amounts in € thousand

The purchase can be considered to be final.

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2016, they totalled € 540,401 thousand (€ 610,991 thousand at 31 December 2015), a reduction of € 70,590 thousand.

The breakdown is as follows:

- the issue of a bank guarantee for € 100,000 thousand issued in January 2012 by Cassa Depositi e Prestiti in the interests of the European Investment Bank for the loan agreement signed between ACEA and the EIB on 14 September 2009;
- € 100,000 thousand for the guarantee agreement entered into by the European Investment Bank and Cassa Depositi e Prestiti on 9 July 2013, with reference to the loan agreement of € 100,000 thousand entered into on 25 October 2012 by ACEA and the European Investment Bank;
- € 65,189 thousand for the bank guarantees issued by Acea Energia, mostly in favour of Terna and Eni Trading & Shipping relative to the electricity dispatch service contract;
- € 68,277 thousand in favour of the Acquirente Unico and in the interests of Acea Energia as a back-to-back guarantee relating to the electricity sale agreement signed between the parties;
- € 53,666 thousand in the form of a bank guarantee issued by ACEA to Cassa Depositi e Prestiti in relation to refinancing of the loan issued to ACEA Distribuzione. This is a sole guarantee giving the lender first claim and covering all obligations linked to the original loan (€ 493 million). The sum of € 53,666 thousand refers to the guaranteed portion exceeding the loan originally disbursed (€ 439 million);
- € 10,000 thousand for the Global Guarantee issued in favour of Axpo Italia in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions agreed or to be agreed between the parties;
- € 24,871 thousand issued by insurance institutions on behalf of Acea Ambiente (ex ARIA): **(i)** in favour of the Province of Terni for the management of landfill operations and post-closure operations (€ 15,492 thousand) and waste disposal (€ 3,157 thousand) and **(ii)** in favour of suppliers to back contracts (€ 6,642 thousand);
- the guarantee of € 19,000 thousand in favour of EDF Trading in the interest of Acea Energia as counter guarantee for the transactions in the framework of electricity trading;
- € 15,000 thousand in the form of a guarantee in favour of Enel Trade in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- € 14,883 thousand for the bank guarantees issued by Areti in favour of Terna for the contract for the electricity transmission service;
- € 8,000 thousand for the guarantee in favour of Iren Mercato S.p.A. for the precise fulfilment of the EFET agreement entered into in July 2012 between the beneficiary company and Acea Energia;
- € 4,202 thousand for the bank guarantee issued in favour of Roma Capitale in relation to the "Progetto Tecnologico" contract for the construction of the new multi-service pipe network of Via Tiburtina and adjacent streets, in the interest of ACEA Distribuzione for € 2,701 thousand and ACEA Ato 2 for € 1,501 thousand;
- € 3,712 thousand for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, renewed in October 2014;
- € 1,295 thousand relating to the bank guarantee issued by Banco Bilbao Vizcaya Argentaria in favour of GSE for the correct fulfilment of ARIA's obligation to make the reimbursement to GSE;
- € 6,306 thousand relating to ACEA Ato5 and specifically a surety required obligatorily by art. 31 of the Technical Regulation, released by UNICREDIT in favour of the AATO, calculated on 10% of the triennial average of the Financial Plan – Tariffs of the Framework Plan of the A.A.T.O.

SERVICE CONCESSION ARRANGEMENTS

The ACEA Group operates water, environmental and public lighting services under concession; It also manages the selection, treatment and disposal of urban waste produced in municipalities in ATO 4 Ternano–Orvietano via Acea Ambiente (ex ARIA) which the company SAO is now part of as a result of the merger which became effective at the end of December 2016.

As for the water - environment segment, the ACEA Group provides the **Integrated Water Service** (SII) under a concession arrangement in the following regions:

- Lazio, where ACEA Ato2 S.p.A. and ACEA Ato5 S.p.A. provide services in the provinces of Rome and Frosinone, respectively,
- Campania, where G.O.R.I. S.p.A. provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvio area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river ,
- Tuscany, where the ACEA Group operates in the province of Pisa, through Acque S.p.A., in the province of Florence, through Publiacqua S.p.A., in the provinces of Siena and Grosseto, through Acquedotto del Fiora S.p.A. and in the province of Arezzo through Nuove Acque S.p.A. It also provides the service in Lucca and province of Lucca through the company GEAL S.p.A.,
- Umbria, where the Group operates in the province of Perugia, through Umbra Acque S.p.A.

The Group is also in charge of several former CIPE services in the province of Benevento with GESESA S.p.A. and in the municipalities of Termoli and Campagnano with Crea Gestioni S.r.l.

For additional information on the legislative and regulatory framework, please refer to the Report on Operations.

PUBLIC LIGHTING - ROME

The service is carried out by the Parent Company based on a deed of concession issued by Roma Capitale for a period of thirty years (from 1 January 1998). No fee was paid for this concession, which is implemented through a special service agreement, which given its accessory nature, expires on the same date of the concession (2027).

The service agreement provides for an annual update of the fee concerning consumption of electricity and maintenance and the annual increase of the lump-sum fee in relation to the new lighting installed.

Furthermore, the investments required for the service may be (i) applied for and funded by the Municipal Authorities or (ii) financed by Acea: in the first case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the second case, the Municipality is not bound to pay a surcharge; however, ACEA will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.

Moreover, it has been established that qualitative/quantitative parameters shall be renegotiated in 2018.

Upon natural or early expiry - also due to cases envisaged under Decree Law 138/2011 - ACEA will be awarded an allowance corresponding to the residual carrying amount, that will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator.

Finally, the contract sets out a list of events that represent a reason of anticipated revocation of the concession and/or resolution of contract by the will of the parties. Among these events, reference is made to newly arising needs linked with public interests, according to which ACEA has the right to receive an allowance according to the product, that is discounted based on the percentage of the annual contractual amount and the number of years until expiry of the concession.

On the basis of the number of public lighting plants as at 31 December 2009, the supplemental agreement establishes the ordinary annual fee as € 39.6 million, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.

In June, ACEA and Roma Capitale signed a private deed aimed at regulating commitments and obligations deriving from the implementation of the LED Plan and, consequently, modifying article 2.1 of the Supplementary Agreement signed in 2011.

Specifically, the plan involves the installation of 186,879 armouring systems at a rate of 10,000 per month starting from the thirty days subsequent to the signing of the agreement. The payment involved is € 48 million for the entire LED Plan. 10% of the amount will be paid in advance and the remainder on the basis of two-month SAL to be paid by Roma Capitale within thirty days of the closure of the SAL, for 80%, and the remaining 15% within fifteen days of the verification of the same SAL. The contract also provides for mechanisms of incentives/fines for installations above/below the planned number for each two-month period and a reduction of the payment recognised to the City of Rome of 50% of the economic counter value of the Energy Efficiency Bonds due to ACEA for the LED Project. As a result of the execution of the LED Plan, the parties have partially modified article 2.1 of the Supplementary Agreement of 2011 with regard to the price list and breakdown of the payment for managing the service.

INTEGRATED WATER SERVICE

Lazio - ACEA Ato2 S.p.A. (Ato 2 - Central Lazio - Rome)

ACEA Ato2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and Rome Provincial Authority (representing the Authority for the ATO comprising 112 municipalities, including Roma Capitale). In return for award of the concession, ACEA Ato2 pays a fee to all the municipalities based on the date the related services are effectively acquired, which is expected to occur gradually: to date, the survey work (including that for municipalities already taken over) has been completed for 94 municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT).

During the course of the year, the Company purchased:

- as of 1 June 2016, the sewage and waste treatment services for the Municipality of Bracciano as regards the part strictly concerning the Co.B.I.S. purifier, while the purchase of the local sewage and waste treatment services of the waste treatment network of Castel Giuliano is suspended and conditioned by the conclusion of the works for the refurbishment of the purifier itself. Lastly, the management of the drinking water service will become executive once ACEA Ato2 has completed the

works required for the re-functioning and refurbishment of the existing local drinking water plants;

- at the end of December 2016, the water service for the Municipality of Pomezia, previously managed under protected conditions by Infrastrutture Distribuzione Gas (formerly Edison Distribuzione Gas). The purchase was made through the purchase of the business unit for 5.5 million, which may be subjected to an adjustment agreed between the parties on the basis of the updating of some items of the business unit purchased. The price also includes the value of the assets realised up to 30 September 2016, calculated by the STO as a total of € 5.3 million.

Lastly, it must be noted that the procedures for the purchase of the Integrated Water Service of the Municipalities of Civitella San Paolo, Morlupo and Rignano Flaminio have been started. In particular, for the latter Municipality, the Agreement for the payback of the investments on the basis of the prescriptions of the Conference of Mayors has been signed.

As regards the **tariff proposals for 2016-2019**, the Conference of Mayors in ATO2 Central Lazio – Rome, in its session on 27 July 2016, definitively approved the 2016-2019 regulatory scheme and all the documentation in support of the relevant tariff proposals (Plan of Interventions, Technical and economic data updates, Economic-Financial Plan, explaining the ties to the revenue of the Operator and the theta tariff multiplier, Accompanying Report) in addition to the Management agreement, signed on 6 August 2002, integrated and modified to take into account the new discipline introduced specifically by Resolution 656/15 and the same Resolution 664/2015, which approved the tariff method for the second regulatory period (MTI-2).

The Tariff proposal approved by the Conference substantially reiterates, in terms of numbers and assumptions, the basis of the proposal published on the STO website on 24 May and re-proposed as a shared proposal in the claim submitted by ACEA Ato2 on 27 May 2016 in application of art. 7.5 of resolution 664/2015, but making some changes to the recovery dynamics of the tariff adjustments due for 2016 and 2017 (totalling € 60.1 million) in subsequent years. A financial charge has been recognised for this time delay as compensation.

Due to this deferral of an exclusively financial nature for the Operator, the tariff multiplier for 2016 is 1 (no increase compared to the tariffs applied in 2015) and, for the following years, increases of 4.8%, 6.01% and 5.94% respectively are envisaged for 2017, 2018 and 2019.

The essential contents of the proposal approved by the Conference of Mayors on 27 July are:

- the adoption of the regulatory scheme for the IV quadrant of which in art. 1 of Annex A to resolution 664/2015/R/IDR (presence of high investments compared to the value of the existing infrastructures and pro-capita opex less than the average national value determined by the Authority), therefore with the application of the maximum threshold of annual tariff increase of 8.5%;
- the provision of investments for 2016-2019 amounting to € 820 million;
- the adoption, in order to determine the FNI_{new} component, of the ψ parameter value of 0.6 (the maximum value allowed is 0.8). This component therefore amounts to € 23.7 million for 2016;
- the use of the above component entirely to finance new investments of less than € 2 million as of 2017, to be used for tariff facilitations for less well-off users;
- the use of the unspent amount of the solidarity contribution collected throughout 2015 (€ 13.2 million) to reduce

the adjustments due for 2016;

- the reduction in the equity increases for 2014 and 2015 of the amount due to the application of the MALL parameter for 2012-2015 (€ 9.4 million), resulting in a positive tariff impact for users due to the non-recognition of the capital costs referable to the latter;
- the adoption of the request made by the STO (and shared with the Operator) as per art. 32 of Annex A to Resolution 664/2015, which envisages the recognition of awards for achieving standards that improve on those established by the AEEGSI in Resolution 655/2015;
- determination of the tariff multiplier to be applied to the 2015 tariffs, equal to:
 - 1.000 for 2016;
 - 1.048 for 2017;
 - 1.111 for 2018;
 - 1.177 for 2019.

In Resolution 674 of 17 November 2016, the AEEGSI definitively approved the 2016-2019 tariffs proposed by the Conference of Mayors, with some specific limitations:

- non-recognition of the financial charges for the delay in adjustments (€ 4.0 million) and the differences for 2014 and 2015 in the concession fees between that covered by the tariff and the amount recognised to the Municipalities (€ 2.5 million);
- complete recovery of the tariff adjustments by the end of 2019;
- the charges relating to system changes are recovered through the component Rc rather than as an integration of the endogenous operating costs;
- sending by the EGA, within 30 days of the publication of the resolution, of the Service Charter as modified in agreement with the Operator and Consumer Associations in the area in question, fully adjusted to the contractual quality prescriptions in Resolution 655/2015.

The Authority has also determined the maximum values of the tariff multipliers, confirming the values for 2016 and 2017 (1.000 and 1.048 respectively) and reducing those for the following years 2018 and 2019 (1.107 and 1.173 respectively).

On the basis of the above prescriptions, the STO has re-determined the 2016-2019 tariff and sent the relevant complete documentation to the AEEGSI and the Operator on 20 December.

As regards the Service Charter, the STO sent the proposal for the new Integrated Service Charter to the Authority and the Consumer Associations on 6 December 2016, adjusted to the new contractual quality regulations introduced in resolution 655/2015 and to that deliberated by the Conference of Mayors on 27 July and approved by the Authority as regards the request for the recognition of awards for the achievement of quality standards in excess of those provided in Resolution 655. The Service Charter sent, prepared in agreement with the Operator, will be submitted for approval by the next Conference of Mayors, to be called after the Consumer Associations have made their observations.

While awaiting final approval, the Technical Operating Secretariat intends to confirm that the Service Charter in force is that annexed to the Management Agreement signed on 6 August 2002, as modified according to the law by AEEGSI resolution 655/2015 and by the decisions of the Conference of Mayors on 27 July 2016 as regards the improved standards and awards mechanism.

On the basis of AEEGSI resolution 674/2016, the revenue for the period has been valorised, amounting to € 533.7

million. This includes the estimate of the adjustment of pass-through items, the FNI component (€ 23.7 million) and the differences from the adjustment of the estimates of the pass-through items recognised in 2014 and 2015 (- € 1.8 million). As regards the award for the Operator for achieving the improved standards with respect to those of the AEEGSI in resolution 655/2015, it should be noted that the revenue includes € 23.1 million including indemnities due to the customers. On 7 March 2017, the STO successfully concluded the verifications concerning the calculation of the indicators on which the award is based.

Lazio - ACEA Ato5 S.p.A. (Ato 2 - Southern Lazio - Frosinone)

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 - Southern Lazio-Frosinone involves a total of 85 municipalities for a total population of around 490,000 inhabitants, about 480,000 inhabitants supplied and a number of end users equal to around 185,700. To date, three municipalities are awaiting completion of the process: Atina, Cassino centro and Paliano, as a result of issues that have emerged over the years:

- **Municipality of Paliano:** due to the continuing inactivity of the Municipal Authority in handing over the installations of the S.I.I. in the area of the municipality, and also the vain attempt to enter into an agreement protocol aimed at ending the various ongoing problems which have until now prevented the formalisation of the transfer to the S.I.I., on 18 February 2016, ACEA Ato5 filed a petition at the Administrative Court of Lazio – Latina Section against the Municipality of Paliano and AMEA in order to obtain the entire delivery of the works, assets and plants and compensation of the damage incurred as a result of the malicious failure to observe the deadline for the conclusion of the procedure. The Administrative Court of Latina settled the matter in a ruling declaring the cessation of the scope of the dispute (as a result of the adoption by the Municipality of the express procedure by which the Authority, overcoming the disputed silence on the matter, rejected the ACEA demand to hand over the assets concerning the SII) and also ordering the Municipality to pay for the legal costs, quantified as € 1,500.00. The Company then filed another petition before the Administrative Court of Latina in order to obtain the annulment of the procedure in which the Municipality had opposed its own denial of the transfer of the service. The hearing in this regard has still not been set.
- **Municipality of Cassino:** due to the continuing inactivity of the Municipal Authority as regards the obligation to hand over the installations of the S.I.I. – confirmed by the Council of State in ruling no. 2614/2015 – the Company requested that the Council of State make the above ruling executive and appoint a Commissioner for the purpose, appointed in ruling no. 2086/2016. The latter, in the person of an official of the Prefecture of Frosinone authorised by the Prefect, signed on 2 August 2016 at the Municipal Authority headquarters in Cassino the report in which the management of the local territory (about 13,000 utilities) was transferred to the Company, the effect of which was delayed for 30 days. However, the Municipality of Cassino attempted to block

the effect of the measure taken by the Commissioner, impugning the relevant deeds before the administrative judge and through the publication of a Mayor's ordinance to this effect.

The Company challenged the above ordinance before the Council of State in order to obtain, after suspending the effects, its nullity due to breaches and/or elusion of the judgement in ruling no. 2614/2015 by the Council of State itself. The date for the hearing has not yet been set, although the Company's lawyers have made a formal request soliciting this matter.

In the meantime, on 25 October 2016, the Company submitted to the State Attorney's Office of Cassino a report accusing the Municipality of Cassino, so that criminal proceedings could be taken against the conduct, unsustainable for some time, of the Municipal Administrator, who blatantly showed no intention of honouring the obligations required by the Cooperation Agreement and the Management Agreement for the Integrated Water Service, or fulfilling the many rulings issued by the administrative judges, now no longer in judgement, ascertaining not only the obligatory nature of the principles of conduct of the aforementioned Municipality and also the unfounded nature in fact and law of the complaints made by the Authority during the legal proceedings.

Additionally, on 28 December 2016, the Company on one hand reiterated to the Regional Attorney's Office of the Court of Accounts its previous request made on 9 July 2014, in order to be informed on the activities started by the Attorney's Office to ascertain eventual irregularities in the accounts of the Municipality, concerning the sums due to the Operator for the treatment service, for which the amount charged to users is currently collected by the Municipality, as the service is supplied by ACEA Ato5. On the other hand, it notified the Municipality of Cassino a notification of arrearage so that it could return to the Company the tariff portion concerning the sewage and waste treatment service. As regards this notification, the Municipal Administration replied stating that it was impossible to quantify the tariff portion for the sewage and waste treatment service collected, and in February 2017, the Company called for a meeting at the AATO5 offices, reiterating the urgent need to settle the ascertainment of the sums due, in order to demand the definition of that due by the above Authority.

As regards the **tariff proposals for 2016-2019**, the Company sent to the Area Authority the documentation required for the preparation of the tariffs for the second regulatory period pursuant to resolution 664/2015/R/idr. However, as they have not been approved within the deadlines set in this resolution, the Company, pursuant to articles 7.5 and 7.6 of resolution 664/2015, submitted the 2016-2019 tariff request on 30 May 2016, the essential contents of which are:

- the adoption of the regulatory scheme for the V quadrant;
- the adoption, in order to determine the FNI new component, of the ψ parameter value 0.8. This component therefore amounts to € 7.6 million for 2016;
- in continuity with resolution 51/2016, the adoption of a cost of arrears equal to that provided for Southern Italy (7.1%);
- preparation of a reasoned request for the recognition of additional costs ($Opex_{QC}$), concerning aspects regarding adjustment to the service quality Standards defined by the AEEGSI in Annex A to resolution 655/2015, for about € 2 million;
- determination of the tariff multiplier to be applied to the 2015 tariff, equal to 1.08 for each from 2016 to 2019 inclusive.

Subsequently to the notification to fulfil of the AEEGSI to the Area Authority, the Conference of Mayors met on

13 December 2016 and, among other things, approved in decision no. 6 the 2016-2019 tariff proposal, which differs compared to that submitted by the Operator on the following points:

- valorisation of the FNI component on the basis of a ψ parameter of 0.4 rather than 0.8
- recognition of an arrears charge of 3.8% rather than 7.1%

| 2016 | 2017 | 2018 | 2019 |
|-------|-------|-------|-------|
| 1.080 | 1.166 | 1.260 | 1.360 |

The company has filed an appeal for the annulment of decision no. 6 and the date of the hearing has not yet been set.

On the basis of the tariff proposal approved by the Conference of Mayors on 13 December 2016, the revenue for 2016 has been quantified, amounting to € 69.4 million including the estimate of the adjustment of the pass-through items and the FNI component for € 3.9 million.

As regards the tariff adjustments, it must be noted that:

- the back-dated ones referring to 2006 – 2011, quantified by the Commissioner as € 75.2 million, have been confirmed by the Council of State in ruling no. 1882/2016, thereby rejecting the appeal made by the Optimal Territorial Area Authority (AATO) no.5 for the annulment of the Commissioner's decree. The remainder to be billed amounted to € 20.4 million in December 2016;
- those accrued in the first regulatory period (2012-2015) amount to € 57.1 million and, in fulfilment of AEEG-SI resolution 51/2016, will be recovered as of 2019. The aforementioned resolution successfully concluded the preliminary AEEGSI proceedings started in February 2015 which, in addition to approving the measure of the adjustments and their financial recovery, provisionally recognised, while awaiting the settlement /by the EGA) of the procedure implemented on request by the company, an unpaid ratio equal to at least that envisaged for Southern Italy (6.5%). The Directors, also supported by authoritative legal opinion, believe that the fines of € 11 million for presumed non-fulfilments in 2014 and 2015 are not due, and have for this reason been the subject of an appeal before the Administrative Court of Latina, as described in more detail below; they are not therefore included in the financial statements;
- those accrued in 2016 amount to € 15,6 million.

With regard to the relations between ACEA Ato5 and the Area Authority, 2016 was characterised by complex matters which led to conflicts during the legal proceedings. Specifically:

- on 18 February 2016, in decision no. 1/2016 published on 26 February, the Conference of Mayors denied the go-ahead for the planned merger by incorporation of ACEA Ato5 into ACEA Ato2. The company believed the deed to be illegitimate and challenged it before the Administrative Court of Latina. The preliminary hearing was held on 23 February 2017, after which the judges were undecided on the matter;
- on 18 February 2016, in decision no. 2, the Conference of Mayors started the procedure for the contractual settlement ex art. 34 of the Awarding Agreement and, in March, in execution of the aforementioned resolution, it accused the Company of a series of contractual breaches, ordering it – pursuant to and by effect of art. 1454 of the Civil Code – to deal with the claimed breaches and produce justifications for them within six months. The Company appealed against decision no. 2 and the aforementioned

- non-recognition of the component $Opex_{qc}$. It also reduced the adjustments accrued in the first regulatory period (component Rc_{tot}) by applying fines for presumed non-fulfilments in 2014 and 2015, for about € 11 million.
- The tariff multipliers approved in the above meeting for each year are as follows:

tioned fulfilment order before the Administrative Court of Latina (no. 316/2016) on 22 April 2016. On 26 July, the President of the EGA also notified ACEA Ato5 of the application and quantification of the fines for 2014 and 2015 pursuant to Chapters 30.1 and 30.2 of the Technical Regulation. On 19 October 2016, submitting additional reasons for appeal no. 316/2016, the Company challenged the procedure for the quantification and application of the fines. In the session on 13 October 2016, the Conference of Mayors decided not to approve the proposal by the STO as regards the non-existence of the conditions required to proceed with the termination of the contract (also in the light of the counter-statements submitted by the Company), therefore leading to the adoption in the session on 13 December of decision no. 7 for the termination of the Management Agreement. This decision was challenged by the company through the submission of further additional reasons for appeal no. 316/2016 on 9 February 2016, before the Administrative Court of Latina, simultaneously demanding compensation for damages.

Given that the EGA has terminated the contractual relations with ACEA Ato5, the latter must ensure the continuation of service management activities until the EGA has identified the new Operator to take over from ACEA Ato5. It must be noted that:

- pursuant to art. 7 of the Management Agreement, ACEA Ato5 is bound to ensure the continuation of the service until hand over to the new Operator, in any event not beyond the deadline for 12 months, extendable for a further six months under the same terms and conditions;
- the STO itself, in its consultation paper on the matter of 27 October 2016 estimated that not less than three/four years (timeframe reflecting what happened in the original awarding) will be required for the completion of the various procedures necessary for the identification of the new Operator. Also, in its aforementioned report, the STO deemed that ACEA Ato5 must be paid a residual amount of more than one hundred million Euros for the residual value of the amortisable assets which, pursuant to and by effect of art. 26 of the Technical Regulation, the new Operator will have to take over once identified. As stated by the STO itself in the above report, these amounts are immediately payable to the outgoing Operator on termination of the contractual relations.

The public hearing for the discussion of appeal no. 316/2016 is to be held on 23 November 2017.

The resolution concerning contractual termination appears to be complicated by numerous formal and procedural technicalities strongly undermining its legitimacy. The procedure is also lacking in the procedures for identifying the new Operator, and gives no indication on the methods and obligations for the transfer of the SII to the new Operator or the duration of the continuation period that the Company is bound to for at least one year, which can be extended for a further six months.

Decision no. 2 was taken by the Conference of Mayors, albeit with the negative opinion of the STO supported by that of the external legal consultant. The STO believes that, also in the light of the counter statements made by the Company, there have been no serious breaches such as to prejudice or risk prejudicing the continuity and quality of the services awarded or the achievement of the targets in the plan.

As regards the presumed breaches, which have, among other things, led to the application of the fines during the tariff proposal stage, these are often non-existent, as demonstrated by the Operator in its counter statements, without adequate preliminary inquiries and surely not such as to determine the termination of the contract.

In 2012, the Company had taken out an injunction decree for the recovery of the receivables deriving from the transactive deed in 2007, amounting to € 10.7 million signed by the company and the EGA, aimed at settling the excess costs incurred by the Operator in the first management triennium (2003/2005), amounting to a total of € 21.5 million, in which the EGA undertook to pay the agreed amount (€ 10.7 million) without increasing the tariff. Subsequently, on 22 May 2012, the EGA appealed against this decree before the Court of Frosinone. On 28 February 2017, the ruling passed by the Court of Frosinone in which it revoked the injunction decree issued in 2012 for the aforementioned amount, deeming the 2007 transactive deed null and void, was filed, and the re-conventional subordinate demand by ACEA Ato5 for the payment of the major costs incurred (and originally requested) totalling € 21.5 million was rejected and the repetition of the preliminary proceedings ordered as regards the re-conventional demand filed by the STO concerning the payment of the leasing fees. The Company is preparing an appeal against this ruling. The Directors, supported by authoritative legal opinions, believe that the receivables is not annulled by the ruling, given that the stated nullity of the transaction does not imply that the Operator no longer has the right to claim remuneration for excess costs incurred that are not covered by the tariff.

Campania – GORI S.p.A. (Sarnese Vesuviano)

On the basis of a thirty-year agreement entered into with the Area Authority of Sarnese Vesuviano on 30/09/2002, GORI was awarded the management of the integrated water service in 76 Municipalities in the provinces of Naples and Salerno. For the awarding of the service, GORI paid a concession fee to the granting authority (Area Authority of Sarnese Vesuviano) on the basis of the date of effective takeover of the service. The management perimeter has remained substantially unchanged compared to the previous year, as the service management takeover has now been completed; 76 municipalities are managed, which are all of those in ATO no. 3 in Campania.

Tariffs: First regulatory period

On 10 March 2016, the preliminary proceedings concerning the approval of the tariff proposals of the ATO3 by the AEEGSI were finally concluded successfully with the publication of resolution 104/2016/R/idr containing: "Approval, for the purpose of valorising the adjustments in the framework of the tariff method for the second regulatory period MTI-2, of the tariff predispositions concerning the Sarnese Vesuviano Optimal Territorial Framework, for the period 2012-2015". Specifically, the AEEGSI:

- approved the maximum applicable measure of the tariff multipliers for each year, specifically: 2012: $\vartheta=1.065$; 2013: $\vartheta=1.134$; 2014: $\vartheta=1.236$; 2015: $\vartheta=1.347$;
- consequently established the amount of the adjustments to be recovered in years subsequent to 2015 as € 38.9 million (Group quota € 14.4 million);

- requested the Authority to adjust the Economic-Financial Plan to the values approved in the same resolution, also taking into account the adjustment of the cost item Owners' Mortgages (MTp) 2013 due to its inaccurate valorisation, to be made to the adjusted payments the methods of recognition of which are provided as of 2016;
- requested the Authority to send, within 30 days of the publication of the procedure, "the outcomes of the checks carried out on the assumptions on which the treatment of the cost component for wholesale purchases are based, and especially the forecasts in the Agreement, signed on 24 June 2013, regulating the relations between Campania Region, Area Authority, Acqua Campania S.p.a. and FGORI S.p.a., which the same subject will have taken into account in quantifying the back-dated items for periods prior to the transfer to the Authority of the regulation and control over the sector, also requesting that it be verified that the same agreement is compatible with the principle of complete integration (confirmed in the jurisprudence recalled above), in the light of the dispositions introduced by the Authority starting from 2012".

In April, the Authority acknowledged the prescriptions of the AEEGSI, detecting a material error for 2013 of about € 4 million concerning the wholesale water tariff reduction, as the 2013 Regulating Agreement already included a reduction of 25%.

This error will be recovered in the tariff determinations for the second regulatory period, in which the portion of the mortgages not recognised in 2013 will also be recovered.

Tariffs: Request for economic and financial stability and arrears claim

Pursuant to art. 32.2 of Annex A to resolution 643/2013/R/idr and pursuant to resolution 122/2015/R/idr, in order to access the equalisation measures of an advance and financial nature for the tariff adjustments, on 23 March 2016, the Company submitted a formal request for stability, submitting a group of measures, including access to equalisation, which it was hoped would be accepted, thereby implying the definitive end of the situation of financial imbalance in the management of ATO3. Simultaneously, and in relation to the aforementioned stability request, a request was also submitted for the recognition of the effective cost of arrearage for 2014 and 2015, pursuant to art. 30.3 of Annex A to AEEGSI resolution 643/2013/R/idr.

The conclusions of ATO3 concerning the preliminary inquiries on the request were formalised in the concluding minutes on 18 May 2016. The Authority believes that the reasons on which the request was made are founded and therefore the conditions are in place for proceeding with the proposal for the adoption of the stability measures contained in the request with the modifications introduced with specific reference to the scenario involving the transfer of the so-called Regional Works. These stability measures must therefore be included in and form the scope of the Economic and Financial Plan to be prepared as part of the tariff fulfilments provided in resolution 664/2015. ATO3 reached the same conclusions with regard to the request for the recognition of the effective cost of arrearage for 2014 and 2015. See the following paragraph for more details.

Tariffs: Tariff proposals for the second regulatory period

The Sarnese Vesuviano Area Authority, in consideration of the need to jointly evaluate (within the prescribed terms, in other words 60 days of receipt) the aforementioned stability request submitted by the Operator on 23/03/2016, submitted a request for the extension of the terms to 30 May 2016 to the Authority on 29 April 2016. However, as this deadline passed without the Authority fulfilling, despite the preliminary inquiries by the commission-

ing management structure, the Operator submitted a request for tariff updating pursuant to article 7.5 of resolution 664/2015/R/idr on 15 June 2016, thereby sending to the Authority, the Region and the AEEGSI the tariff proposal for 2016-2019. The regulatory scheme prepared by the Company takes into account the dispositions of resolution 664/2015 (and decisions 2 and 3 of 2016) and also, for the specific purpose of accelerating the process of approval of the tariffs, the indications of the Authority resulting from the concluding minutes of the preliminary inquiries concerning the economic-financial stability request and the validation of the data on which the 2016-2019 tariff proposal is based.

It must also be noted that the 2016-2019 tariffs submitted by GORI takes into account and includes the following, in addition to the stability request and that for the recognition of the effective cost of arrearage:

- the request for the recognition of Opnew, pursuant to art. 23.6 of Annex A to AEEGSI resolution 664/2015/R/idr, submitted together with the tariff update request for the recognition of the endogenous operating costs and updatable as regards the systematic change of the perimeter of the activities of the Operator following the implementation of the management of the Regional Works once transferred;
- the request for additional costs OpexQC concerning the activities undertaken in order to adjust the service quality standards defined by the AEEGSI in resolution 655/2015/R/idr. In this regard, it must be noted that the Area Authority, in the context of the aforementioned concluding minutes for data validation, gave its opinion on this claim by the Operator, deeming only the costs of external services to be admissible and not those for internal staff, in consideration of the synergies and efficiency achievable in relation to the Regional Works staff to be seconded in 2016-2019;
- the containment of the tariff increase within the maximum annual variation threshold established in art. 3.2 of Annex A to AEEGSI resolution 664/2015/R/idr. The adjustments thus generated are to be considered merely as a financial deferment sustainable by virtue of, and therefore conditioned by, the hoped for access to financial equalisation. In the framework of the tariff update request, the Operator also requested that the AEEGSI approve, simultaneously to and in the context of the procedure for tariff approval, the economic-financial stability measures, and especially financial equalisation.

The stability request annexed to the 2016-2019 tariffs is based, among other things, on the hypothesis that Campania Region grants the payment in instalments of the debts accrued in 2013-2016. Should this not be the case, GORI reserves the right to request an increase in the financial equalisation provisions of up to a total of € 230 million.

On 8 August 2016, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in decision no. 19, subsequently modified by decision no. 20 of 1 September 2016, approved the regulatory scheme of ATO3 Sarnese Vesuviano pursuant to 664/2015/R/IDR, in which, as specified in the accompanying methodological report, *“the tariff proposal submitted by the Operator GORI Spa on 15/06/2016 is to be deemed as superseded”*. The following points describe the main assumptions on which the tariff proposal by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority for the second regulatory period are based:

- transfer of Regional Works by the end of 2019, on the basis of the draft framework agreement regulating the transfer in question, which was signed by Campania Region and the Commissioner of Sarnese Vesuviano on 3 August 2016;

- additional costs for the activities undertaken for adjustment to the service quality standards defined by the AEEGSI in resolution 655/2015/R/idr (OpexQC), amounting to € 3.3 million, with the full recognition of that requested by the Operator in the request submitted to the Authority on 23/05/2016, drawn up pursuant to art. 23.3 of Annex A to AEEGSI resolution 664/2015/R/idr for the recognition of these costs;
- billing of the back-dated adjustments in four years, starting in 2020;
- recovery of the 2012-2015 tariff adjustments within the growth limits of the tariff multiplier, in three years starting in 2020;
- redrafting of the Plan of Interventions proposed by the Operator in the framework of the tariff update request of 15 June 2016, eliminating one significant intervention;
- payment in instalments over ten years of the payables to shareholders, retaining the hypothesis made by the Operator in the request;
- payment in instalments over four years of the payables for SII mortgages;
- extension of the payables to Campania Region for the services rendered in 2013-2016 to the end of 2016 without providing for payment of the debts in instalments;
- access to the equalisation provisions for up to € 245 million, with repayment in eleven years starting in 2020 at the rate applied by the CSEA.

The tariff proposal deliberated by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority also envisages tariff increases within the limits of the multiplier for 2016 and 2017 (9%) and an increase of 5% for 2018 and 2019.

Also on 8 August 2016, in Campania Region Management Decision no. 4, Campania Region approved the tariffs for the second regulatory period 2016-2019 of the virtual Wholesaler Campania Region/Acqua Campania. Independently of the aspects of doubtful legitimacy concerning the subject responsible for the preparation of the tariffs of the wholesaler, the tariffs proposed by the Region have some elements that are inconsistent with the tariff proposal prepared by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority for the second regulatory period. Specifically, the effects of AEEGSI resolution 338/2015/R/idr in which the Authority approved the official tariffs for Campania Region for 2012-2015, are calculated in a manner differing from that envisaged in the resolution by the Commissioner (who operated consistently with that already established by the Authority in the framework of the tariff approvals for ATO no. 4 Sele, resolution no. 76/2016/R/idr, and ATO no. 3 Sarnese Vesuviano, resolution no. 104/2016/R/idr), envisaging that the tariffs for 2012-2014 remain unchanged and that the negative adjustments be recovered partly in the four-year period 2016-2019 and partly after 2020. Also, the tariff proposal by Campania Region does not take into account the reduction of the perimeter managed (and the consequent transfer of the management costs) concerning the aforementioned framework agreement regulating the transfer of the regional works, signed by the Area Authority on 3 August 2016, which envisages a triennial chronological schedule beginning in 2016.

Also because of this misalignment, GORI challenged both the commissioner’s resolution no. 19/2016 and Regional Management Decree no. 4/2016 before the Administrative Court of Naples.

The revenue for the year has been quantified on the basis of resolution 19/2016 of the Extraordinary Commissioner and amounts to € 181.4 million (€ 67.2 million attributable to the Group) and includes the estimate of the adjustment of pass-through items and, for the component hedging the cost of arrearage, the differences deriving from AEEGSI resolution 104/2016.

The Tariff adjustments due to GORI up to 31 December 2016 amount to € 230.4 million (€ 85.4 million attributable to the Group) and comprise: (i) the back-dated items accrued up to 31 December 2011, for € 122.5 million, (ii) the tariff adjustments accrued in the first regulatory period (2012-2015) for € 91.5 million and (iii) the adjustments accrued in 2016 for € 16.4 million.

For the above reasons and despite the above-mentioned significant uncertainty (mainly related to the billing times of tariff adjustments for pre-2012 prior-year items and the relevant collections, the procedure for approving the above applications for recognition of arrearage and stability submitted to the competent Authorities, as well as the agreement reached to pay the debt with the Regional Authority in instalments as a result and within the scope of the stability measures to be adopted), which have an evident impact of a financial nature, the preconditions of a going concern have been met as it is believed a settlement will be found for the above proceedings and agreements within reasonable time in the suggested manner.

In this regard, given the current financial tension, it has been deemed opportune to retain the allocation made in previous years amounting to € 39.2 million, € 44.1 million allocated in 2011, concerning the persistence of the uncertainty characterising GORI's operations.

In financial terms, on 23 April 2014 a contract was signed to reschedule the loan which matured in June 2011 into a multi-year loan with maturity 31 December 2021. The loan has an interest rate equal to the 6-month Euribor plus a spread of 5.5 percentage points maturing on 30 June and 31 December each year.

Campania – GESESA S.p.A. (Ato1- Calore Irpino)

The Company operates in Optimal Territorial Area ATO no. 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service (SII) in Municipalities in the Province of Avellino and Benevento. The Company manages the SII in 20 Municipalities in the Province of Benevento with a total resident population of 115,000 inhabitants served in an area of about 673 km² and 54,000 users. Currently, the Authority, in consultation with the Extraordinary Commissioner in accordance with Decree of the Regional Government No. 813/2012, has not yet appointed a Sole operator to manage the SII.

ATO 1, within the scope of a more extensive question concerning the planning and management of Water Resources in the Campania Region, recently implemented the guidelines for the Mission Structure on the Planning and Management of Water Resources, aimed at promoting the common cause of the ex-Area Authorities to find a Sole operator that answers to the same Authorities.

Following the approval of Regional Law 15/2015 on the re-organisation of the Campania Integrated Water Service, GESESA is currently preparing a plan of aggregation with other companies in the sector to create a subject that may be considered the sole manager of ATO1.

In August 2016, all the documentation containing the data and calculation tools regarding the tariff proposal for 2016-2019 useful in terms of submitting to the competent Authority the tariff adjustment request was sent to the Calore Irpino A.T.O., and the outcome is being awaited.

Tuscany – Acque S.p.A. (Ato2 – Basso Valdarno)

The management agreement, which came into force on 1 January 2002 with an initial twenty-year duration (the current expiry date is in 2026) 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 regards to the **extension of the concession to 2026**, on 29 February 2016, the Company received from the bank brokering the loan contract signed in 2006 a letter of consent for the extension of the service concession to 2026. Consequently, on 10 March 2016, after obtaining the go-ahead from the AIT, the Board of Directors of Acque authorised the Chief Executive Officer to sign the acceptance of the letter of consent and the agreement modifying the loan contract signed in 2006.

As a result, on 6 April 2016, Acque and the AIT signed the deed making the modification to the concession for the water service effective, with the new expiry date reviewed to 2026 compared to the previous deadline of 2021. The signature of the modification agreement also integrated some obligations envisaged in the loan contract entered into in 2006. Specifically, it is now envisaged that the Company must provide the broker bank with an annual certification signed by the legal representative of the independent auditing firm certifying, among other things, that the calculated ADSCR (*Annual Debit Service Cover Ratio*) parameter referring to the closure of the year complies with that envisaged in the contractual clauses. Specifically, as of 31 December 2015, should the ADSCR parameter certified by the equal to or more than 1.1, the Company can distribute dividends for a maximum of € 3.0 million in addition to the dividends received from the equity investments in other companies which are always available for distribution to the shareholders. However, should the ADSCR parameter measured and certified be less than 1.1, the company can only distribute to the shareholders the dividends from equity investments in other companies. It is also envisaged that an advance repayment of the debt in 2017, 2018 and 2019 be made: the amount to be repaid will correspond to the lower of 50% of the cash surpluses at the end of the year and € 6.0 million. The amount paid in advance will be used to reduce the repayments in capital for subsequent years to expiry.

As regards the **tariffs**, as of 1 January 2016, in implementation of that envisaged in AEEGSI resolution 664/2015, art. 9.1, paragraph a) approving the 2016-2019 tariff method, the Company has applied to the structure of the tariffs due the tariff increase envisaged for 2016 by the last PEF approved by the AEEGSI in resolution 402/2014. The tariffs may be subjected to adjustment following the approval of the definitive tariffs by the AIT and the AEEGSI.

As regards the tariffs for the second regulatory period, in agreement with the Tuscany Water Authority, and after the expiry of the 30 April 2016 deadline for sending tariff proposals by the Area Authorities, Acque did not submit a tariff update request pursuant to paragraph 7.5 of

AEEGSI resolution 664/2015/R/idr, also in consideration of the complexity of the fulfilments required by the resolution itself, including the modification of the agreement for awarding the service, for which the opinion of the financing entities is required.

However, on 27 June 2016, the AEEGSI sent to the AIT and the Company a formal notification to fulfil pursuant to art. 1 of Resolution 307/2016/R/idr, establishing a deadline of 30 days from receipt of same for the dispatch of the proposed tariff for the second regulatory period 2016-2019. Therefore, on 27 July 2016, Acque submitted the 2016-2019 tariff request pursuant to articles 7.5 and 7.6 of resolution 664/2015.

On 5 October 2016, in resolution no. 28, the AIT approved the tariff for 2016 and the remaining years of the second regulatory period in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding agreement. The tariff determinations envisage the recognition of an award ex article 32.1, subsection) of resolution 664/2015. This has not yet been approved by the AEEGSI.

The proposal approved by the AIT envisages a multiplier of 6.8% for 2016, which is the same as that envisaged in the previous PEF.

Revenues for the period amounted to a total, including the adjustment of pass-through items, of € 140.9 million (€ 63.4 million attributable to the Group) and represent the best estimate made on the basis of the tariff proposal approved by the AIT in October 2016.

The new Service Charter has been finalised with the Tuscany Water Authority and the association of consumer representatives, and was approved in resolution 21 of 22 July 2016.

With regard to the main **disputes** of the Company, it should be noted that:

- an appeal was lodged to the Council of State against the ruling issued on 22 April 2013 by the Tuscany Regional Administrative Court which dismissed the appeal filed by Acque for cancellation of Co.N.Vi.Ri. resolution No. 60 of 27 April 2011, related to the re-examination of the review for the 2005-2008 period of the Toscana – Basso Valdarno AATO 2 area plan. The proceedings are currently pending,
- in November 2014, the company was served a writ of summons by CONSIAG SpA to appear before the court of Florence. Until 31 December 2001, CONSIAG was the water service operator for the consortium municipalities, all of which are part of the ATO 3, except for the municipality of Montespertoli that is included in ATO2. In addition to Acque, the summons was also notified to the Tuscan Water Authority and to all the public shareholders of Acque. With regard to Acque, CONSIAG is claiming a 0.792% interest in the company and compensation for a total amount of € 1,989,834, as a result of the service carried out in the municipality of Montespertoli. On the other hand, the Municipality of Montespertoli already had an indirect interest in Acque, through Publiservizi (shareholder of Acque with 19.26% of the shares) of which it is a shareholder with a 0.98% stake. The Company believes these claims are groundless.

Toscana – Publiacqua S.p.A. (Ato3 – Medio Valdarno)

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, ab-

straction 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 the awarding of the related contracts.

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

With regard to the **tariffs**, as of 1 January 2016, in implementation of that envisaged in AEEGSI resolution 664/2015, art. 9.1, paragraph a) approving the 2016-2019 tariff method, the Company has applied to the structure of the tariffs due the tariff increase envisaged for 2016 by the last PEF approved by the AEEGSI in resolution 402/2014. The tariffs may be subjected to adjustment following the approval of the definitive tariffs by the AIT and the AEEGSI.

In relation to the 2016-2019 tariffs, on 27 June 2016, the AEEGSI sent to the Tuscany Water Authority and the Tuscan operators (and thus also Publiacqua) a formal notification to fulfil pursuant to art. 1 of Resolution 307/2016/R/idr and article 3, paragraph 1, sub. f) of the DPCM of 20 July 2012. The company then completed the documentation required and prepared the specific regulatory scheme, deeds and data in paragraph 7.3 of resolution 664/2015/R/idr required to update the tariffs for the second regulatory period. Therefore, on 27 July 2016, Acque submitted the 2016-2019 tariff request pursuant to articles 7.5 and 7.6 of resolution 664/2015. On 5 October 2016, in resolution no. 29, the AIT approved the tariff for 2016 and the remaining years of the second regulatory period in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding agreement. The tariff determinations envisage the recognition of an award ex article 32.1, subsection) of resolution 664/2015. This has not yet been approved by the AEEGSI.

Furthermore, in resolution 27/2016, the AIT approved the new tariff range in which new types of utility have been introduced envisaging a variation in the consumption ranges attributed to the various utilities. The most significant of these is the breakdown of domestic use into resident and on-resident.

The revenues for 2016 were calculated on the basis of AIT resolution 32/2016 and amount to a total of € 223.6 million (€ 89.4 million attributable to the Group), including the adjustment of pass-through items.

In terms of **funding sources**, on 30 April 2015, the Company signed with the EIB a loan of € 50 million maturing at the end of 2020. On 30 March 2016, a loan contract was signed maturing on 30 June 2021 for € 110 million, which had been paid out in its entirety as of the date of this document. This loan has partly been used to repay the ongoing loans and mortgages.

Tuscany - Acquedotto del Fiora S.p.A. (Ato6 - Ombrone)

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) is to supply integrated water services on an exclusive basis in 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 regard to the 2016-2019 **tariffs**, the Company sent to the AIT the documentation required for determining the tariffs for the second regulatory period; as for the other Tuscan water companies, on 27 June 2016, the AEEGSI sent to the AIT and the Company a formal notification to fulfil pursuant to art. 1 of Resolution 307/2016/R/idr, establishing a deadline of 30 days from receipt of same for the dispatch of the proposed tariff for the second regulatory period 2016-2019. Therefore, on 27 July 2016, Acquedotto del Fiora submitted the 2016-2019 tariff request pursuant to articles 7.5 and 7.6 of resolution 664/2015. On 5 October 2016, in resolution no. 32, the AIT approved the tariff for 2016 and the remaining years of the second regulatory period in addition to the 2016-2021 Plan of Interventions, the Economic-Financial Plan and the new awarding agreement: the tariff calculations envisage the recognition of the additional costs (OpexQC) concerning aspects linked to adjustment to the Service quality standards, for € 0.8 million, and the FNI component for € 8.0 million. The proposal approved by the AIT envisages a tariff multiplier of 4.4% for 2016. This has not yet been approved by the AEEGSI.

The revenues for 2016 were calculated on the basis of AIT resolution 32/2016 and amount to a total of € 96.6 million (€ 38.6 million attributable to the Group), including the adjustment of pass-through items.

In terms of **funding sources**, Acquedotto del Fiora signed a loan contract in June 2016 for € 143 million maturing at the end of 2025. The loan is paid out at a variable rate and envisages guarantees on the current accounts and receivables of the Company and the pledge on the shares of Acquedotto del Fiora that are owned by Ombrone. In order to protect itself from an excessive market volatility, in line with that stated in the *term sheet*, in the light of the economic convenience and financial risk evaluations, the Company implemented among some of the Financing Entities a *plain vanilla* type hedge of 70% of the “Loan” until its maturity date, through the finalisation of *Interest Rate Swap* transactions to transform the variable rate to fixed rate. The pay-back of the loan started in December 2016.

Umbria – Umbra Acque S.p.A. (Ato1 – Umbria 1)

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. (concession expiry 31 December 2027). A stake in the company (40% of the shares) was acquired on 1 January 2008.

The company performed its activities in all 38 Municipalities constituting ATOs 1 and 2.

The tariff calculations for the second regulatory period were carried out in the session of the Sole Assembly of ATO1 and ATO2 at the end of June and definitively approved by the AEEGSI in resolution 764/2016/R/idr of 15 December 2016. The national Regulator has substantially confirmed the tariff proposal approved by the EGA which for 2016 envisages a tariff multiplier of 1.055 and the recognition of the component linked to commercial quality (so-called OPEXqc) amounting to € 150 thousand. This component amounts to € 2 million for the following years.

On the basis of the calculations made by the AEEGSI, the revenues for the year were valorised, amounting to a total of € 60.5 million (€ 24,2 million attributable to the Group), including the adjustment of pass-through items,

and also including a FoNI component of € 0.3 million (€ 0.1 million attributable to the Group), entirely allocated to the tariff discounts for disadvantaged users.

It must be noted that the Economic-Financial Plan approved in the aforementioned resolution 764/2016 envisages a plan for the repayment of the residual debt at 31 December 2015 (about € 12.5 million) to the Municipalities for the fee due, as per the Agreement, for the repayment of the mortgage rates contracted by the Municipalities for the realisation of the Integrated Water Service. The plan envisages the repayment of the debt in five annual payments from 2017 at constant rates.

It must also be noted that, through the submission of an Extraordinary Appeal to the Head of State filed by the legal counsel of the Umbro Acqua Pubblica Committee against ATI Umbria 1 (and against Ati Umbria 2 and Umbra Acque S.p.A. as co-interested parties), Resolution no. 6 of 28/04/2015 was challenged for annulment after suspension, in which the ATI1 had approved the adjustments for the 2003/2011 back-dated items (the annual fees prior to the advent of the AEEGSI, on which residual tariff duties were due to the ATI), with the consequent request for payment on the part of the utility Operator. In this Appeal, the Umbro Acqua Pubblica Committee claimed both formal technicalities (such as the failure to publish on the official noticeboard by ATI Umbria 1 the Resolution in its final version and the relevant annexes, which ATI Umbria 1 then attempted to remedy this by subsequently issuing validation deeds) and technicalities concerning the disputed legitimacy of this document approving the adjustments in supposed breach of the principle of the retroactivity of the tariff. This appeal is a rather “justice” type of remedy, a burden of an administrative nature, which the accused ATI Umbria 1 and the co-interested party Umbra Acque have challenged in a request for the transposition of the appeal to the jurisdiction of the Umbra Regional Administrative Court and the plaintiffs, by deed dated 22/02/2016, ritually appeared before the Umbria Regional Administrative Court, with the reserve to submit additional reasons, for the annulment after suspension of Resolution no. 6 of 28/04/2015 and relevant annexes, in which the ATI Umbria 1 approved the adjustments for the 2003/2011 backdated items.

We believe that the risk of losing the case is remote, given that the ATI resolution is based on the dispositions contained in AEEGSI resolution no. 643/2013 (it was therefore legitimated and bound to do so) and the calculation of the adjustment is a consequence of that envisaged by the normalised method then in force and the dispositions of conventional regulations (and therefore a right of the company). It is also very obvious that the eventual, albeit improbable, negative outcome of the dispute would generate costs that could not fail to be restored during the tariff review, as this could even be reasonable grounds for an extraordinary review of the tariffs.

On 29 April, the Company was notified, by registered letter, of the additional Extraordinary Appeal before the Head of State in which the Umbro Acque Pubbliche Committee challenged the deed of validation of ATI Umbria 1 adopted in Shareholder’ Meeting Resolution no. 13 dated 30.11.2015 concerning the adjustment of the backdated items already deliberated by ATI Umbria 1 in the previous measure no. 6 of 28.04.2015, which was the subject of a previous dispute (Extraordinary Appeal transposed to the Umbria Regional Administrative Court). The final considerations made for the preceding dispute are also valid for that one.

RELATED PARTY TRANSACTIONS

ACEA GROUP AND ROMA CAPITALE

Trading relations between ACEA Group companies and Roma Capitale include the supply of electricity and water and provision of services to the Municipality.

Among the principal services are the management, maintenance and upgrading of public lighting facilities and, with regard to environmental-water services, the maintenance of fountains and drinking fountains, the additional water service, as well as contract work.

Such relations are governed by appropriate service contracts and the supply of water and electricity is conducted on an arm's length basis.

It must be pointed out that ACEA and ACEA Ato 2, re-

spectively, provide public lighting and integrated water services under the terms of two thirty-year concession agreements. Further details are provided in the section entitled "Service concession arrangements".

For further information regarding relations between the ACEA Group and Roma Capitale, reference should be made to the disclosures regarding receivables and payables vis à vis the Parent Company in note 23 of this document.

As regards economic relations, the following table shows details of revenues and costs at 31 December 2016 of the ACEA Group (compared to those for the previous year) deriving from the most significant financial relations.

| € thousand | REVENUES | | COSTS | |
|---------------------------------------|------------|------------|------------|------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Supply of fresh water | 35,914 | 37,216 | | 0 |
| Supply of Electricity | 0 | 13,724 | | 0 |
| Public lighting service contract | 68,508 | 55,017 | | 0 |
| Public lighting contract interest | 3,914 | 3,621 | | 0 |
| Water maintenance service contract | 139 | 217 | | 0 |
| Monumental fountain service contract | 139 | 217 | | 0 |
| Realization of water sanitation works | 557 | 0 | | |
| Concession fee | 0 | 0 | 25,646 | 21,601 |
| Rental expenses | 0 | 0 | 120 | 138 |
| Taxes and duties | 0 | 0 | 6,293 | 5,560 |

During the course of the year, Roma Capitale mainly through payments paid out a total amount of € 108.784 thousand. Reference should be made to note

23 for details on the impact of these transactions, while the table below summarises the changes in receivables and payables.

| € thousand | 31.12.2015 | Collections/Payments | Accruals 2016 | 31.12.2016 |
|-------------|------------|----------------------|---------------|------------|
| Receivables | 163,325 | (87,609) | 103,889 | 179,604 |
| Payables | 162,005 | (108,784) | 89,062 | 142,284 |

ACEA GROUP AND ROMA CAPITALE GROUP

The ACEA Group also maintains trading relations with other companies, special companies and entities owned by Roma Capitale, concerning the supply of electricity and water.

The supply of services to entities owned by the Roma Cap-

itale Group is also conducted on an arm's length basis. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts deriving from relations between the ACEA Group and entities owned by the Roma Capitale Group.

| Roma Capitale Group | Trade payables | Costs | Trade receivables | Revenues |
|--------------------------|----------------|--------------|-------------------|---------------|
| AMA S.P.A. | 201 | 1,485 | 7,387 | 9,598 |
| ATAC S.P.A. | 317 | 268 | 4,794 | 2,171 |
| ROMA MULTISERVIZI S.P.A. | 468 | 736 | 0 | 0 |
| Total | 985 | 2,489 | 12,181 | 11,769 |

ACEA GROUP AND MAIN CALTAGIRONE GROUP COMPANIES

The ACEA Group companies maintain trading relations that mainly concern the supply of electricity and water. The supply of services to entities owned by this company is

also conducted on an arm's length basis. The prices applied to sales of electricity to free market users are in line with the sales policies of Acea Energia.

The following table shows the most significant amounts deriving from relations between the ACEA Group the main companies in the sphere of the Caltagirone Group as at 31 December 2016.

| € thousand | Revenues | Costs | Receivables | Payables |
|-------------------|----------|-------|-------------|----------|
| Caltagirone Group | 3,731 | 8,848 | 2,156 | 3,633 |

ACEA GROUP AND SUEZ ENVIRONNEMENT COMPANY SA GROUP

At the reporting date there were no relationships with the Suez Group.

LIST OF SIGNIFICANT RELATED PARTY TRANSACTIONS

ACEA and Roma Capitale: LED Project

The project involves the almost complete replacement of light fittings of existing street lighting installations in place in Roma Capitale with *Light Emitting Diode* (LED) equipment. Once obtained the reasoned binding opinion of the Board of Statutory Auditors, acting as "equivalent supervisory body" pursuant to paragraph 15 of Consob Communication no. DEM / 10078683 of 24 September 2010, the Board of Directors approved the transaction on 22 April 2015 and granted the Chief Executive Officer "the powers necessary for

finalizing and signing the Implementing Instrument with Roma Capitale [...] with authority to make any non-material amendments and/or additions that are considered useful and/or necessary for the definitive and formal execution of the transaction". The private deed concerning the LED Plan was signed in June 2016.

The table below shows the percentage weight of transactions with related parties on the statement of financial position, the income statement and the cash flow statement.

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

| € thousand | 31.12.2016 | With related parties | Weight | 31.12.2015 | With related parties | Weight |
|--------------------------|------------|----------------------|--------|------------|----------------------|--------|
| Financial Assets | 27,745 | 25,638 | 92.40% | 31,464 | 29,109 | 92.5% |
| Trade Receivables | 1,097,441 | 129,284 | 11.80% | 1,098,674 | 157,905 | 14.4% |
| Current Financial Assets | 131,275 | 117,309 | 89.40% | 94,228 | 80,593 | 85.5% |
| Trade Payables | 1,292,590 | 148,998 | 11.50% | 1,245,257 | 157,020 | 12.6% |
| Borrowings | 151,478 | 4,010 | 2.60% | 259,087 | 35,931 | 13.9% |

IMPACT ON THE INCOME STATEMENT

| € thousand | 31.12.2016 | With related parties | Weight | 31.12.2015 | With related parties | Weight |
|-----------------------------------|------------|----------------------|--------|------------|----------------------|--------|
| Consolidated net revenue | 2,832,417 | 134,931 | 4.8% | 2,917,318 | 147,511 | 5.1% |
| Consolidated operating costs | 1,965,415 | 42,333 | 2.2% | 2,213,865 | 45,684 | 2.1% |
| Total Financial (Expense)/ Income | (111,564) | 4,253 | (3.8%) | (91,083) | 335 | (0.4%) |

IMPACT ON THE STATEMENT OF CASH FLOWS

| € thousand | 31.12.2016 | With related parties | Weight | 31.12.2015 | With related parties | Weight |
|---------------------------------------------------------------|------------|----------------------|---------|------------|----------------------|----------|
| Increase in receivables included in the working capital | (56,652) | (28,621) | 50.5% | 120,504 | (1,705) | (1.4%) |
| Increase/decrease in payables included in the working capital | 47,334 | (8,021) | (16.9%) | (23,321) | 26,147 | (112.1%) |
| Proceeds/payments deriving from other financial investments | (33,328) | 33,246 | (99.8%) | 1,553 | 4,988 | 321.2% |
| Dividends received | 9,318 | 9,318 | 100.0% | 7,137 | 7,137 | 100.0% |
| Decrease/Increase in other short-term borrowings | (107,609) | (31,921) | 29.7% | 67,774 | 27,702 | 40.9% |
| Dividends paid | (110,679) | (110,679) | 100.0% | (101,123) | (101,123) | 100.0% |

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

SAO (now incorporated into Acea Ambiente) tax inspection

In October 2008, the Revenue Agency notified the company with two notices of assessment which reassessed, inter alia, the tax reports for the tax years 2003 and 2004 with regard to the IRES tax. The alleged irregularities arise from the application of Article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

The appeals filed by the Company were merged by the Tax Commission of Terni which, in the month of May 2009, upheld the application for suspension filed by SAO and in November 2009 stayed the proceedings by raising the issue of the constitutionality of Article 14, paragraph 4 bis of Law no. 537 of 24 December 1993, upon which the tax assessment was based. By decision of March 2011 the Constitutional Court dismissed the constitutionality issue and remanded the proceedings to the Tax Commission of Terni. In January 2013, the Commission upheld the appeals filed by SAO and ordered the Agency Revenue to pay 50% of the legal costs incurred by the Company.

By judgment 419/04/14 issued on 24 February 14, filed in July 2014, the Regional Tax Commission of Umbria rejected the appeal filed by the Revenue Agency, ordering it to pay the legal costs. On 21 September 2015, the company received from the State Attorney General the appeal lodged with the Supreme Court by the Revenue Agency against the aforementioned ruling 419/04/14: SAO (now Acea Ambiente) filed its appearance with its defence statement and simultaneous conditional cross-appeal notified on 28 October 2015. To date no date has been fixed for the hearing before the Supreme Court.

In addition to the above, in November 2008, the Revenue Agency notified the company, and the former Parent Company EnerTAD S.p.A., with a notice of assessment that reassessed the IRES tax due for the 2004 tax period, establishing an additional tax charge of € 2.3 million for taxes, net of penalties, where applicable. The alleged irregularities arise from the application of Article 14, paragraph 4-bis of Law no. 537 of 24 December 1993.

SAO defence arguments were upheld by both the Provincial and the Regional Tax Commission. In February 2013, the Revenue Agency appealed to the Supreme Court and the company filed its appearance.

It is believed that the actions of the tax authorities mentioned above are illegitimate, and that the risk of having to pay the full amount is remote, which previous shareholder (Enertad, now Erg Renew) will be obliged to pay on the basis of the guarantees issued as part of the purchase/sale agreement regarding the shares of the direct parent company A.R.I.A. S.r.l. (now Acea Ambiente).

For the sake of completeness, we also mention that in January 2009, the company challenged the decision ref. no. 2008/27753 of 27 November 2008 by which the Revenue Agency suspended the payment of a VAT refund claimed by the Company for the 2003 tax year. This refund amounting to 1.3 million euros, was recognized by the tax authorities, but it was suspended as a precautionary measure due to the above mentioned tax assessments. The Tax Commission, with Ruling issued following the hearing held in March 2010, upheld the appeal lodged by the company, thus cancelling the cited measure against the aforementioned ruling. The Revenue Agency submitted an appeal in September 2010. The proceedings are in progress. It should be noted that the receivable concerning the above VAT refund was sold for valuable consideration in

July 2010. The buyer lodged an appeal, simultaneously requesting discussion at a public hearing for the cancellation of measure 73747/2011 by which the Terni Provincial Department of the Revenue Agency declared the sale of said VAT credit from SAO to said assignee to be unacceptable. By ruling no. 52/04/12 issued on 3 October 2011 and filed on 26 March 2012, the Perugia Regional Tax Commission rejected the appeal filed by the Tax Authorities, with reimbursement of costs. The Revenue Agency appealed to the Supreme Court and the company filed its appearance.

Areti tax inspection

In the Report on Findings (PVC) concerning the general inspection for 2010, an assessment was also made for the years from 2008 to 2012 on the taxation treatment of some items that were previously inspected and had a multi-annual validity. On the basis of the report in the PVC, the Lazio DRE – Major Taxpayer's Office, notified on 23 December 2014 two separate notifications of assessment for 2009, once concerning the direct taxes (IRES and IRAP) and once concerning the indirect taxes (VAT). The Company filed a preventive request on 17 February 2015 and the Office recognised the validity of the reasons submitted by areti in relation to its own operations and ordered the complete annulment of the deed concerning the direct taxes. As regards the VAT inspection, the Office partially recognised the reasons put forward by the Company and consequently ordered the partial annulment of the deed of assessment, bringing the total request to € 129 thousand plus sanctions. The Company has deemed it opportune, as regards the VAT inspection, to undertake a tax-related lawsuit.

On the basis of the same presupposition of the notification made in the PVC, the Lazio DRE – Major Taxpayers' Office notified on 19 May 2016 two notifications of assessment concerning VAT for 2011 and 2012 for € 299 thousand plus sanctions and interest. The company has submitted a request for a tax settlement, and after the joint questioning phase and official proceedings, the office deemed that the tax settlement proceedings be concluded unsuccessfully. On 17 October 2016, the Company filed an appeal against the notifications of assessment within the terms of the law.

Lastly, it should be noted that on 12 April 2016, the Company was sent a notification of assessment concerning the IRAP treatment of electricity tariff discounts to employees for the 2011 fiscal year; the dispute involves the amount of € 59 thousand. The Company has filed an appeal against the notification of assessment within the terms of the law in this case as well.

Tax disputes/lawsuits with ARSE

In January 2016, ARSE, a company at the time already closed due to complete spin-off, was informed of a notification of liquidation of the complementary register fee concerning the requalification of the conferment transaction and subsequent transfer of the equity investment in Apollo S.r.l., a company in the photovoltaic segment. The tax demanded, including interest, amounts to € 672 thousand. The beneficiaries of the ARSE – ACEA spin-off, Acea Liquidation and Litigation (ex Elga Sud) and Acea Produzione, believe the notification of liquidation is groundless as regards both the obvious technicalities in terms of its form and as regards the dispute involved in the notification. A request for protection was filed with the request for the total annulment of the deed, and should this request not be accepted, an appeal will be filed before the Tax Commission.

On 14 June 2012, the Company was delivered a Report on Findings from the Italian Financial Police - Rome Tax Police Department following its inspection to check the correct use of the tax suspension provisions under the VAT tax warehouse system pursuant to article 50-bis of Law Decree no. 331 of 30 August 1993 ("VAT Warehouses"), relating to certain assets imported by the company in 2009, 2010 and 2011.

Based on the alleged abusive use of the aforementioned system by the company, the inspectors charged the company with failure to pay VAT on imports - for 2009, 2010 and 2011 - amounting to a total of € 16,198,714.87.

On 6 August 2012 the company submitted a defence brief pursuant to art. 12, paragraph 7, of Law no. 212 of 27 July 2000 concerning the findings contained in the aforementioned Report on Findings.

The issue relating to the concepts of simulated warehouses and the introduction of goods to the country is particularly well-known and debated, and has been the subject of numerous papers on practices issued by the Customs Authority and several cases of legal intervention.

The company considers that all the factual and legal conditions envisaged in the regulation on the use of VAT Warehouses, as interpreted by the relevant administrative bodies, were fully satisfied and therefore the aforementioned Report on Findings is without grounds.

With regard to VAT warehouses, please also note that, as concerns the particular case of the provision of services for the assets held at the VAT warehouses (case set forth in letter h) of art. 50-bis of Law Decree no. 331/1993), art. 34, paragraph 44 of Law Decree no. 179 of 18 October 2012 recently amended art. 16, paragraph 5-bis of Decree Law no. 185 of 29 November 2008 (on the authoritative interpretation of letter h) of art. 50-bis noted above) establishing, for that case, that VAT must be deemed definitively paid if, when the merchandise is taken from the VAT warehouse for marketing within the country, the regulations set forth in paragraph 6 of art. 50-bis of Decree Law 331/93 are correctly implemented, or the reverse charge procedures pursuant to art. 17, paragraph 2, of Presidential Decree no. 633 of 26 October 1972 are correctly applied. That approach appears also supported by Circular no. 16/D of 20 October 2014 issued by the Customs Agency following the Court of Justice's decision of 17 July 2014 no. C-272/13.

Customs verification of Umbria Energy S.p.A.

On 15 January 2016, the Perugia Customs Office notified a payment notice to Umbria Energy in relation to a report on findings which reported the failure to pay excise duties and surcharges on electricity for the period 2012 - 2013 for a total amount of € 548 thousand.

Against this measure, the Company is preparing an appeal before the relevant Tax Commission to obtain acknowledgement of its correct conduct.

OTHER ISSUES

ACEA Ato5 - Pre-2012 Tariffs

By appeal filed by ACEA Ato5 before the Regional Administrative Court of Latina, the AATO 5 (Area Authority) was convicted and ordered to deal with the calculation of the integrated water service tariff for the years 2006, 2007, 2008 and 2009; the definitive tariff for 2010; the triennial review of the Area Plan for 2011-2013 and the tariff for 2011. Because of the lack of action of the AATO, the Regional Administrative Court ordered the Commissioner appointed in the aforementioned ruling to make it executive, in ordinance no. 116 of 2012.

In resolution of 30 May 2013, the Commissioner determined the tariff adjustments.

During the month of June 2015, the Regional Administrative Court of Latina dismissed the application for the annulment of the above determination of the Commissioner brought on 31 July 2013 by the Area Authority, as destitute of legal basis. The dispute was settled in ruling no. 1882/2016, in which the Council of State rejected the appeal filed by AATO 5 and, by effect, confirmed the ruling of the Regional Administrative Court of Latina, which stated the legitimacy of the operation of the Commissioner.

ACEA Ato5 - 2016-2019 Tariff

On 9 February 2017, the Company filed an appeal before the Lazio Regional Administrative Court of Latina for the annulment of Resolution no. 6 of 13 December 2016 in which the Conference of Mayors of AATO 5 approved the tariff proposal of the SII for the regulatory period 2016-2019, envisaging the amount of adjustments for the period less than that determined by in the Operator's bid (e 77 million against about € 35 million). The different calculation method used by the STO is essentially due to four regulatory items: **(i)** the amount of the FNI (psi coefficient of 0.4 rather than the 0.8 proposed by the Company); **(ii)** the recognition of the arrearage costs (3.8% of the returns rather than 7.1%); **(iii)** the recognition of the quality charges (Opex qc), which were actually zeroed and not recognised by the STO; **(iv)** the fines totalling about € 11 million. The public hearing for discussing this matter has not yet been set.

ACEA Ato5 - Injunction Order requested for credit collection on the settlement agreement of 2007 with AATO5

With regard to the € 10.7 million receivable for higher costs incurred in the 2003-2005 period, pursuant to the Settlement agreement of 27 February 2007, on 14 March 2012, ACEA Ato5 lodged an appeal for an injunction order concerning the receivables recognised by the A.ATO to the company due to the higher costs incurred by the Operator in the first three years of management (2003-2005), totalling € 21.5 million.

Accepting the appeal, the Court of Frosinone issued Injunction Order no. 222/2012, enforceable immediately, notice of which was served to the Area Authority on 12 April 2012.

By notice dated 22 May 2012, the AATO sent notice of its opposition to the injunction order, requesting the cancellation of the order and, as a precautionary measure, the suspension of its provisional enforcement. Moreover, as a counterclaim, it submitted a claim for the payment of concession fees totalling € 28,699,699.48.

ACEA Ato5 appeared before the court in the proceedings against the injunction order, challenging the adversary's demands and in turn formulating a counterclaim for the payment of the entire amount of higher costs incurred by the Operator and originally requested, totalling € 21,481,000.00.

Following the hearing on 17 July 2012, the Judge - in an Order filed on 24 July - suspended the temporary enforcement of the injunction order, and postponed to a later date the discussion of the merits of the issue.

The judge also rejected the request for an order of payment of the concession fees submitted by the A.ATO.

During the hearing on 21 November 2014, the judge withdrew its reservations on the motions for admission of evidence filed by the parties and fixed the hearing for the final statements at 15 November 2016. In the hearing, the Judge granted the terms for the closing statements and replies and withheld the decision, which was filed on 28 February 2017.

The civil Judge revoked the injunction order issued in 2012, rejected the subordinate settlement request by ACEA Ato5 and filed the remission of the preliminary proceedings of the case as regards the settlement request proposed by the STO concerning the payment of the concession fees. The Company is appealing against this decision.

ACEA Ato5 – Termination of the Management Agreement

The Company has appealed (no. 316/2016) against resolution no. 2 by the Conference of Mayors of 18 February 2016, in which the procedure was started for contractual termination and the consequent notice to fulfil was sent to the Company in March 2016. It has also challenged resolution no. 7 of 13 December 2016 in which termination was decided, submitting additional reasons for appeal no. 316 and simultaneously demanding compensation for damages. The public hearing for discussing the merits of the issue has been fixed at 23 November 2017. For more details on the contents of the proceedings mentioned, see the paragraph entitled “*Information on concession arrangements*”.

ACEA Ato5 - Consorzio ASI

Injunction Order undertaken by the Consorzio ASI for the repayment of the portion of the treatment service carried out on behalf of ACEA Ato5 (value € 6,470.824.39). The order was challenged and the hearing has been set at 28 April 2017.

GORI – Dispute over water supplies: ARIN

Several judgments are pending concerning disputes between GORI and A.R.I.N. S.p.A. (Now Azienda Speciale ABC) in relation to the cost of water supplies provided in favour of ATO 3.

ABC operates, obviously, in the territory of the Municipality of Naples and is the special company of that municipality that has taken the place of A.R.I.N. S.p.A. The Municipality of Naples belongs to the territory of ATO 2 “Naples-Volturno” of the Campania Region.

On the basis of very old concession agreements ABC uses its own sources of supply (Serino Aqueduct of ATO 1 in the Campania Region and the well field of Casalnuovo in ATO 2 in the Campania Region) and also purchases water from the Campania Region.

Currently, ABC supplies water wholesale directly to several municipalities, to GORI and even to the Region.

The matter in dispute is that the tariff ABC applies to sub-contractors is about two times higher than the regional tariff; the regional rate is equal to 0.225² €/m³ while the ABC's tariff is currently 0.56 €/m³.

On the contrary, ABC should be applying the tariff for water distributed wholesale in respect of the EU and national cost orientation principle (see the most recent AEEGSI provisions on the subject) i.e., with the aim of recovering only “actual costs” incurred to distribute the water, also in consideration of the fact that ABC is not authorized to sell water wholesale.

Moreover, the assessments currently carried out by AEEGSI as part of the preliminary joint investigation and the recent analysis submitted by the Commissioner of the Napoli Volturno Area Authority, have established that the unit cost of the water supplied by ABC is certainly lower than that currently applied and, according to the above analysis, it amounts to 0.33748 €/cm against the value declared by ABC of 0.56 €/m³.

Obviously, this situation causes an increase of cost on the integrated water service tariff of ATO no. 3, with repercussions on end users in the municipalities of that ATO.

The above considerations were extensively reported and discussed at a Services Conference called for this purpose by the Sarnese Vesuviano Area Authority, during which it was considered - following the outcome of a special technical investigation - that the operating costs for abstraction works are considerably lower than the tariff applied by ABC to its sub-suppliers. These management costs would be much lower in consideration of the fact that the transport/vectoring of water wholesale is mainly done so that the typical and significant costs (mainly energy-related) for “raising” the water are not incurred. It does not appear to be justifiable that the municipality of Naples determines tariffs (applied by ARIN) which impact the end users of other municipalities and even of another A.T.O. (ATO 3, to be precise). For these reasons, the dispute between ABC (former A.R.I.N. S.p.A.) and GORI is still ongoing.

For these reasons in 2013 GORI challenged (i) before the Campania Regional Administrative Court, the measures by which ABC has determined, on the basis of AEEGSI Resolutions no. 585/2012 and no. 88/2013, the new tariff applied to sub-distributors, and (ii) before the Lombardy Regional Administrative Court, AEEGSI Resolution no. 560/2013, with regard to the portion that approved the rates applied by ABC in 2013.

There are currently 10 pending judgements between ABC and GORI, including the two above-mentioned before the Campania Regional Administrative Court of Naples and the Lombardy Regional Administrative Court of Milan.

Lastly, it should be noted that the Civil Court of Naples may lean towards not recognising the claims of ABC should there not be a written utility contract in force between the two parties (ABC and GORI).

In any event, the due application of the regulatory framework concerning unbundling should as of 2017 favour the settlement of the dispute on the basis of the presupposition that the costs for each segment of the integrated water cycle must be detailed.

GORI – Dispute against the Campania Regional Government for annulment of Regional Council Resolution No. 172/2013 - part defining the methods for transferring Regional Works

It should be noted that the proceeding in question, started by an appeal by GORI for the annulment of the resolution by Campania Regional Council no. 172/2013 was settled in ruling by the Campania Regional Administrative Court of Naples, no. 1544 of 24 March 2016, which stated the lack of interest, due first and foremost to the dispositions of Regional Law no. 5/2015 which have superseded resolution no. 172/2013. The Regional Administrative Court thus shared the arguments put forward by GORI, but excluding its responsibility invoked by the Region for the delayed transfer of the Regional Works concerning the integrated water system in ATO 3 still managed by the Region itself.

E.ON. Produzione S.p.A. proceedings against ACEA, ACEA Ato2 and AceaElectrabel Produzione

These proceedings were launched by E.ON. Produzione S.p.A., as successor of ENEL regarding a number of concessions for the abstraction of public water from the Peschiera water sources for electricity production, to obtain an order against the jointly and severally liable defendants (ACEA, ACEA Ato2 and AceaElectrabel Produzione) for payment of the sub-tension indemnity (or compensation for damage incurred due to illegitimate sub-tension), which remained frozen to that set in the 1980s, amounting to € 48.8 million (plus the sums due for 2008 and later) or alternatively payment of the sum of € 36.2 million.

² This value does not take into account the effects of AEEGSI Resolution 338/2015/R/idr.

As for the decision of the TRAP (Regional Court of Public Waters), before which a ruling is pending regarding the matter in question, to arrange for a court-appointed expert as regards the values of sub-tension for branching off, and subsequent reduction in hydroelectric production and indemnities due, the judge suspended the 3 October 2013 hearing where memoranda were presented concerning the partial payment of the unpaid fees. In the 9 January 2014 hearing, a decision on the case was not taken.

On 3 May 2014 the TRAP (Regional Court of Public Waters), in Ruling No. 14/14, quashed E.ON's applications ruling that the 1985 agreements are still valid, considering the application to be limited to the 'sub-tension price', ruling however that relevant to the measurement of adjustments to be inadmissible.

E.ON was ordered to pay 32 thousand euros for court costs plus accessory charges and Court appointed expert fees. On 23 June 2014 E.ON filed an appeal with the Higher Court of Public Waters, the first hearing of which will be held on 1 October 2014. After a number of procedural postponements, at the hearing of 14 January 2015, the proceedings were deferred to the hearing before the panel of judges on 10 May 2015, also with respect to the decision on the request for a new court appointed expert appraisal submitted by E.ON. As of 29 February 2016, the Higher Court of Public Waters had not yet issued a ruling. The appeal was rejected in ruling no. 243/2016, and E.ON was ordered to pay the legal costs.

By appeal before the United Sections of the Court of Cassation on 20 December 2016, the counterparty challenged the ruling of the TSAP; ACEA's counter appeal was notified on 27 January 2017.

ACEA S.p.A. – SASI

In ruling 6/10, the TRAP (Regional Court of Public Waters) accepted the request submitted by ACEA against the Società Abruzzese per il Servizio Integrato S.p.A. (SASI) for the compensation of damage for the illegitimate withdrawal of water from the Verde river. ACEA was awarded 9 million euros, plus interest accrued from 14 June 2001 until 30 July 2013 as compensation for the damage suffered.

The sentence, which is not temporarily enforceable, was appealed by SASI before the TSAP (Higher Court for Public Waters) and ACEA filed a cross-appeal. In non-definitive judgment No. 117/13 on 11 June 2013 the TSAP, upholding one of the reasons for appeal, adjourned the proceedings appointing an expert to estimate the damage suffered by ACEA in the period 2010/2013. The TSAP set the hearing for 23 October 2013, then adjourned the proceedings until 27 November 2013. At this hearing the same court-appointed expert from the first instance was assigned to the case which was adjourned until 14 May 2014 for the court-appointed expert's findings. The court appointed expert appraisal was filed, which reduced the amount owed by SASI to 6 million euros and, at the hearing on 28 January 2015, the Higher Court dismissed the adverse party application for a request for clarification to the expert, adjourning the case to 27 May 2015 for the decision. The case was again postponed to the hearing before the panel of judges on 25 November 2015 for the decision. In ruling no. 16/17, filed on 1 February 2017, the TSAP recognised to Acea the sum of € 6,063,361.00 plus offsetting legal interests on the sum reviewed year by year from 2001 to 2010 and interest on arrears from decision to payment. The terms for appealing to the Court of Cassation are pending.

A.S.A. – Acea Servizi Acqua - SMECO

By means of summons notified in autumn 2011, ACEA was summoned to court to respond to the alleged damage that

its alleged non-compliance with unproven and non-existent obligations which are assumed to have been adopted under the shareholders' agreement relating to subsidiary A.S.A. – Acea Servizi Acqua – would have caused to minority shareholders of the latter, and their respective shareholders. The claim is worth over € 10 million.

The judge upheld SMECO's claim and appointed a court-appointed accountant to calculate the costs borne, loss of profit and any payable fees by effect of the seller's option in the shareholders' agreements.

At the 11 February 2014 hearing held to discuss the comments on the expert's statement, the Judge set a time limit for the parties to present notes to the court-appointed expert and called the court-appointed expert for clarifications on 20 March 2014.

Following the above-mentioned comments, the Delegated Judge, at the hearing of 20 March 2014 issued a decision, substantially admitting the pleadings of the defence and of ACEA's appointed expert, postponed the case to the hearing on 1 July 2014, in order to better define, jointly with the parties and the party's appointed expert, the documentation to be acquired from ACEA Ato 2 and proceed to supplement the Court Expert Report. During the hearing on 1 July 2014, the new Judge reserved a decision on the request for additional consultancy, which was subsequently rejected by decision issued outside the hearing. On 20 January 2015 the case was adjourned for judgment. By judgment no. 17154/15 of 17 August 2015, the Court entirely dismissed the application and ordered the parties to jointly reimburse the costs to ACEA which were assessed in 50,000 euros in addition to incidental expenses. On 1 October 2015 SMECO lodged an appeal before the 2nd Civil Section of the Rome Court of Appeal General Docket 6033/15. At the hearing of 3 February 2016, the case was adjourned for the conclusions to 11 April 2018.

Volteo Energie

ARSE (and therefore Acea Produzione and beneficiary of the total spin-off of ARSE) submitted an application for an injunction order against Volteo Energie, to which only partially paid PV panels were supplied. The residual debt is approximately 2 million euros. The counterparty opposed the immediately notified claim, and also submitted claims for compensation for alleged production gaps in the supply. While the proceedings continue - and without prejudice to the fact that any faults in the panels can be charged back to the manufacturer - by order on 12 February 2013, the Court approved provisional enforcement of the injunction order for € 1,283,248.02 plus interest and costs (suspending a decision on the remaining € 654,136.66 until the end of the enquiry).

After requisition of € 1,347,787.38, Volteo proposed the payment of the amount due in instalments.

They have already paid the entire amount of the requisition equal to € 1,347,787.38. The proceedings continue to evaluate the portion of ARSE receivables not covered by the provisional enforcement and to examine Volteo's application for acknowledgment of the penalty and damages. The case was adjourned to 21 October 2014 to hear the witnesses and, after that, appointment of a court-appointed expert if necessary, while a settlement of the dispute does not seem probable. The lawsuit, after rejection of the request for a court appointed expert, was adjourned for the decision to the hearing of 5 July 2016. In a partially favourable ruling filed on 26 November 2016, the Court revoked the Injunction Order challenged and, acknowledging the payment of € 1,283,248.02 by Volteo Energie, as per ordinance of 6 February 2013 which had granted the provisional partial execution of the Injunction Order, declared that Volteo En-

ergie did not owe the counterparty anything else. The costs were 1/3 offset and Volteo Energie has been ordered to pay the remainder, totalling € 25 thousand. Unless challenged, the ruling will become final on 26 May 2017.

Milano '90 dispute

This issue concerns Milano '90's failure to pay 5 million euros due for the balance of the sale price of the area in the municipality of Rome with access from via Laurentina No. 555, formalised on 28 February 2007 and with a subsequent supplementary deed of 5 November 2008. With the supplementary deed, the parties agreed to change the fee from € 18 million to € 23 million, while eliminating the *earn out*, setting 31 March 2009 as the payment deadline.

Given the purchaser's failure to act, the procedure to collect the amounts due was initiated by preparing a notice pay addressed to Milano '90 and through application for an injunction order which, on 28 June 2012, was granted in a temporarily enforceable form.

Therefore, the aforementioned injunction order was notified on 3 September 2012 and on 23 November, it was delivered to the Judicial Officer for third-party seizures, for the coercive collection of the amounts due. Today, the objection by Milano '90 is pending before section X of the Court of Rome. An additional proceeding within this case was established pursuant to art. 649 of the Code of Civil Procedure, aimed at suspending the temporary execution of the challenged injunction order. This suspension was approved by the Judge. The executive proceedings started after the granting of provisional executive status to the decree now suspended is also suspended.

At the hearing on 13 March 2014, the Judge reserved the decision as to the admission of evidence.

By decision dated 7 April 2014 the Judge, considering that a technical survey was needed to assess the land planning situation of the property and deciding to admit the witnesses' evidence as requested by ACEA, adjourned the hearing to 18 December 2014 for the witness hearing and engagement of the Court appointed expert. By ruling of 6 November 2015, the Investigating Judge, on request by the court-appointed expert, adjourned the case to 28 January 2016 for the filing of the technical consultancy. The Judge did not decide, adjourning to 5 May 2016. The court-appointed expert filed the clarifications requested by the judge on the evaluations given on the actual value of the land and the case was adjourned to 15 June 2017 for the closing statements.

Trifoglio dispute

The complex dispute consists of a case filed as a plaintiff and also a case appearing as a defendant.

Case filed as a plaintiff: this issue concerns the breach by Trifoglio of its obligation to pay the balance of the amount due (€ 10.3 million), pursuant to the sale contract regarding the so-called Autoparco property, which should have been paid on 22 December 2011.

In consideration of Trifoglio's breach, a notice was served aimed at signing a deed to voluntarily terminate the sale agreement of 22 December 2010, and then to file a claim before the Court of Rome, pursuant to art. 702-bis of the Code of Civil Procedure. The hearing for the appearance of the parties before the court set for 13 November 2012 was postponed to 30 April 2013 following Trifoglio's call of a third-party to appear before the court (Piano Assetto C9 Stazione Ostiense Consortium).

In the meantime, ATAC Patrimonio filed a claim for the termination of the sale agreement of 22 December 2010 for the portion for which it is responsible.

After turning the proceedings from summary to ordinary, the Court adjourned the case to 7 May 2014 for the admission of evidence, by granting the time limit for filing briefs pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure with effect from 14 January 2014.

Together with the submission of briefs pursuant to art. 183 no. 1 of the Italian Code of Civil Procedure, a new defence counsel for Trifoglio filed its appearance in the proceedings that charged ACEA for a new breach on account of the alleged impossibility to complete the development of the area covered by the sale agreement.

The hearing was adjourned to 14 October 2014 for joinder of proceedings with another case, which has the same subject and was filed by ATAC Patrimonio, and for the possible joinder of proceedings with the case filed by Trifoglio (see below).

Case appearing as a defendant: in addition a new summons by Trifoglio was acknowledged, again concerning the deed of sale and aimed at having it declared null and void. In the summons, Trifoglio requested joinder with the proceedings instituted by ACEA, in addition to requesting the admission of an expert opinion. The summons, which as well as to ACEA was also served to ATAC Patrimonio, contains a claim for damages of approximately € 20 million. In the briefs submitted pursuant to art. 183 no. 2 of the Italian Code of Civil Procedure, the counterparty requested the admission of the expert advice essentially to assess the possibility to proceed with development of the area. At the hearing held on 27 May 2014 to discuss the summons filed by Trifoglio, the case was remanded to the District Presiding Judge who ruled the proceedings be readmitted to the Judge who heard the case brought by ACEA, as the cases are related. As matters stand, the questions raised by the opposing party appear to be groundless.

The cases were joined before the Court that was hearing the case filed as plaintiff by the company, and both actions were adjourned to the hearing on 7 April 2015 after reformulation of the questions submitted to the Court Appointed Expert. The case was postponed to the hearing on 6 October 2015 for the final appointment of the expert by the court and assignment of the mandate, once the preliminary procedural issues have been solved. The hearing for discussion of the appraisal was scheduled for 20 January 2016 on request of the court appointed expert to make use of assistants and the case was subsequently adjourned to 15 June 2016 for the filing of the expert's report. The consultancy was filed on said date. On 21 September 2016, the expert examination was conducted. As a result of the claims by ACEA's defence, the judge, in ruling of 2 December 2016, merely called upon the court-appointed expert again for clarifications on the calculation method used and consequent fulfilment of the contractual guarantee, adjourning the case to 14 February 2017. In the hearing on 14 February 2017, the Judge revoked the procedure for calling upon the court-appointed expert, thereby ending the expert's involvement. Deeming the case ready for settlement, it was adjourned to 29 March 2017 for the closing statements. In the hearing, the judge sent the case for ruling, assigning the terms for filing the closing statements and replies.

Kuadra dispute

Within the scope of the Kuadra S.r.l. dispute against the subsidiary Marco Polo S.r.l. in liquidation for alleged breach of contract related to participation in the Temporary Grouping of Companies for the CONSIP order, lawsuits were also filed against the same Kuadra S.r.l. and the shareholders of Marco Polo (therefore: ACEA, AMA and EUR) as well as Roma Capitale.

This summons was filed by the counterparty on the basis that Marco Polo was under the management and coordination of all direct and indirect Shareholders.

ACEA holds that, also in consideration of the generic nature of Kuadra S.r.l.'s reasoning attributing responsibility to the Shareholders of Marco Polo S.r.l. in liquidation, the risk of an unfavourable ruling is considered remote, while the indirect risk as a Marco Polo Shareholder, has already been considered in the assessment of risks with the subsidiary.

The case was adjourned to 19 January 2016 for the decision on the admission of evidence. The judge reserved the decision on the matter. Annulling said reserve, the Judge rejected the claims demanded by the plaintiffs, adjourning the case to 4 October 2016 for the closing statements. As a result of the start of negotiations for the amicable settlement of the dispute, the hearing was adjourned to 20 February 2017 and again to 29 May 2017.

ACEA S.p.A. and ACEA Ato2 S.p.A. - Province of Rieti

The Province of Rieti served a summons to ACEA and ACEA Ato 2, requesting compensation (for various reasons) for the damage that it would suffer due to failure to approve the agreement on the so-called interference between the various services.

The Province of Rome, the Area Authority ATO2 Central Lazio Rome, Roma Capitale and the Lazio Region were also summoned together with ACEA and ACEA Ato 2.

The value of the dispute is high: to date approximately € 90 million (€ 25 million until 31 December 2005 and € 8 million per year for the subsequent period), but the structure of the defensive arguments is rather fragile, especially against ACEA. First the identification of the competent court appears open to challenge: the Ordinary Court in place of the Regional Court of Public Waters; second, the compensation liability for delay in approving the interference agreement is definitely not attributable to ACEA, since it was not due to the conduct of the company.

The case was adjourned to 14 July 2015 for the admission of evidence requested by the parties within the established time limit and was postponed again to the hearing of 2 February 2017 for the submission of the closing statements, since the proceedings involve legal issues with relevant preliminary objections. At the hearing, the case was further adjourned to 19 September 2017.

Dispute with Giancarlo Cremonesi

Former ACEA Chairman, Giancarlo Cremonesi, filed an appeal before the Court of Rome, Employment section, asking for an order requiring the company to pay in his favour the remuneration not received due to the early termination of his office as well as the related non-material damages. In ruling no. 4362 of 5 May 2016, partially unfavourable (failure to recognise the request for compensation for damages), ACEA was ordered to pay the remuneration due. This was done in July 2016.

Dispute with Andrea Peruzi and Maurizio Leo

With similar actions brought before the Court Employment Division, former Directors of ACEA S.p.A. Peruzi and Leo, summoned ACEA and requested that the Company be ordered to pay in their favour the remuneration not received by them - amounting to € 190 thousand and € 185 thousand respectively - due to the early termination of office, and compensation for pecuniary and non-pecuniary damage for various specified reasons, to be also quantified on an equitable basis. ACEA filed its appearance and in the first place asserted the non-applicability of the employment law procedure and then the necessary transfer of the proceedings to the ordinary courts, as well as the lack of grounds of the claim.

The cases were postponed for the decision on the preliminary procedural issues to the hearing of 19 November 2015. At the hearing on 25 February 2016, the Court, by order of the same date, declared the lack of jurisdiction of the specialized Section and referred the case to the President of the Court for allocation to another section.

For **Maurizio LEO**, the case was resumed before the Companies Section of the Court of Rome and the next hearing has been adjourned to 23 January 2018 for the closing statements. For **Andrea PERUZY**, the case was also assigned to the Companies Section of the Court of Rome; the next hearing is scheduled for 12 February 2018 for the closing statements.

Former COS proceedings

The following cases related to the COS dispute are currently pending, concerning the ascertainment of illegality of the tender contract between ALMAVIVA Contact (formerly COS) and ACEA and the consequent right of the lenders to be recognised subordinate employment relations with ACEA S.p.A.

It must be noted that the majority of the cases have been settled and that seven of them are still pending at various levels as regards the validity of the claim (the ascertainment of the bogus nature of the tender and the right to employment relations).

On the basis of the sentences concerning the validity of the claim, the workers who won their cases (those in favour of whom subordinate employment relations with ACEA were recognised) then started cases for the quantification of their claims, in which it was demanded that ACEA pay the remuneration due as a result of the employment relations started. Given that there are multiple cases, and that they were undertaken by the same six workers, but referring to different periods in which the presumed receivables matured and have led to differing sentences pending at various levels of jurisdiction. Specifically, two cases are pending before the Court of Cassation (registered in 2012 and 2014, with hearing not yet set) following an appeal by the lenders who lost their appeal and ACEA has filed a counter appeal. The sums demanded have already been paid out in execution of the first level sentence then reformed, and there are no more outgoings currently expected.

An additional case has been settled at the first level in sentence 5538/15 dated 3 June 2015, rejecting the demand - concerning a certain timeframe - on the main basis that the six lenders had in the meantime still been employed by ALMAVIVA Contact (formerly COS) and were therefore earning income anyway.

The value of the demands totalled € 660 thousand plus supplements, but ACEA has not been convicted and has not therefore paid anything out. However, the workers who lost their cases have appealed and the hearing has been set on 18 September 2017.

ARMOSIA Dispute

This is a lawsuit filed against the Injunction Decree issued by the Court of Rome - RG. 58515/14 against areti for the amount of € 226,621.34, demanded by Armosia MP for the rental fees for April, May and June 2014 for the building in Rome - Via Marco Polo, 31. The Injunction Decree was declared provisionally executive by ordinance dated 8 July 2015. In the hearing on 17 February 2016, the Judge adjoined this case with the other pending and filed under RG no. 30056/2014 before the Court of Rome, taken by ACEA and areti (transferee of the lease contract) in order to obtain the termination of the lease contract.

In this latter case, Armosia MP has also filed an unconventional remand for compensation for the damages incurred

in consideration of the degrading condition of the building when it was released by areti. The demand made was for a total of about € 9 million. In the hearing on 17 February 2016, both ACEA and areti challenged this demand. The Judge called upon the Court appointed expert, adjourning the case to 14 March 2016 for the conferment of duties. In the hearing on 30 November 2016, after completion of the expert's duties, the case was adjourned to 24 May 2017 for debate and decision.

Enel Green Power preliminary proceedings (subtension fees)

On 4 September 2014, Enel Green Power (EGP) requested that ACEA Ato2 pay the amounts due as the adjustment of the subtension fees concerning the derivation for hydroelectric and drinking water use of the "Le Capore" sources, quantified as about € 17 million (excluding VAT) for 2009-2013, demanding the actualisation of the ACEA-ENEL 1985 agreements, applying as calculation parameter the Single National Price (rather than the "price of HV electricity for resale in the Municipality of Rome" envisaged in the aforementioned agreements). The request was immediately challenged, recalling the

jurisprudence that was applied to the E.ON. case which had an identical scope and was rejected at the first and second levels, on the finding of the validity of the price agreed and the non-existence of mechanisms of automatic integration of the agreements. The bill concerning the claimed updating of fees was thus returned to EGP and the unilaterally and illegitimately calculated economic claim was rejected in its entirety.

In a note of 30 October 2016, ECP invited ACEA Ato2 to a technical discussion aimed at renegotiating the clauses of the agreement concerning the calculation of the amounts due; in a note of 1 December 2016, ACEA Ato2 – reiterating that stated in its previous correspondence concerning the proper application and execution of the ongoing contract – declared that it was willing to begin the requested technical discussion, highlighting that the tariff regime that had since come into force made it necessary for said discussion to be coordinated by the Technical Operating Secretariat (STO). The aforementioned note therefore requested the STO to call the relevant preliminary meeting. The Technical Operating Secretariat is still in the process of calling the parties to said meeting.

ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

| | Held for trading financial instruments at fair value | Loans and receivables | Available-for-sale financial instruments | Carrying amount | Notes |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|--------------------------|---------------------------------------------|--------------------|-------|
| Non-current assets | 0 | 27,745 | 2,579 | 30,324 | |
| Other equity investments | | | 2,579 | 2,579 | 15 |
| Financial assets due from Parent Company, subsidiaries and associates | | 25,671 | | 25,671 | 17 |
| Financial assets due from third parties | | 2,074 | | 2,074 | 17 |
| Current assets | 0 | 1,913,155 | 0 | 1,913,155 | |
| Trade receivables from customers | | 1,023,560 | | 1,023,560 | 19 |
| Trade receivables from related parties | | 49,449 | | 49,449 | 19 |
| Other current assets: fair value evaluation of differential and swap contracts on commodities with effect on the shareholders' equity ^(*) | | 1,944 | | 1,944 | 19 |
| Other current assets: energy equalisation and specific | | 16,961 | | 16,961 | 19 |
| Other current assets: subsidiaries | | 24,433 | | 24,433 | 19 |
| Financial assets due from Parent Company, subsidiaries and associates | | 114,424 | | 114,424 | 19 |
| Financial assets due from third parties | | 16,851 | | 16,851 | 19 |
| Cash and cash equivalents | | 665,533 | | 665,533 | 19 |
| TOTAL FINANCIAL ASSETS | 0 | 1,940,900 | 2,579 | 1,943,479 | |

^(*) This is the fair value evaluation of contracts for the purchase and sale of commodities in the scope of IAS 39, the differences in which are recognised in the income statement or shareholders' equity.

| | Financial instruments held for trading | Liabilities at Fair Value | Liabilities at amortised cost | Carrying amount | Notes |
|-------------------------------------------------------------------|----------------------------------------|---------------------------|-------------------------------|------------------|-------|
| Non-current liabilities | 0 | 4,034 | 2,780,525 | 2,760,991 | |
| Bonds | | | 2,022,134 | 2,022,134 | 23 |
| Bonds valued at FVH | | (1,221) | | | |
| Bonds valued at CFH | | | 24,789 | | |
| Bank borrowings (non-current portion) | | | 733,602 | 733,602 | 23 |
| Bank borrowings (non-current portion) measured at CFH | | 5,255 | | 5,255 | 23 |
| Current liabilities | 0 | 0 | 1,444,068 | 1,444,068 | |
| Bank borrowings | | | 52,960 | 52,960 | 26 |
| Payables to third parties | | | 9,524 | 9,524 | 26 |
| Financial liabilities due to factor | | | 85,357 | 85,357 | 26 |
| Financial liabilities due to subsidiaries and associates | | | 3,636 | 3,636 | 26 |
| Trade payables | | | 1,149,172 | 1,149,172 | 26 |
| Trade payables due to Parent Company, subsidiaries and associates | | | 143,418 | 143,418 | 26 |
| TOTAL FINANCIAL LIABILITIES | 0 | 4,034 | 4,224,593 | 4,205,059 | |

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The *fair value* of financial instruments that are not traded in an active market is determined using valuation models and techniques that make maximum use of market inputs or using the price supplied by a range of independent counterparties.

The *fair value* of medium/long-term financial assets and liabilities is calculated on the basis of the *risk less* and the *risk less adjusted* interest rate curves.

The *fair value* of trade receivables and payables falling due within twelve months was not calculated as their carrying amount approximates to fair value.

In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPE OF FINANCIAL RISKS AND RELATED HEDGING POLICIES

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.

MARKET RISK

The Group is exposed to market risk, represented by the risk that the fair value or future cash flows of a financial instrument fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades.

Through the Risk Control unit, with specific regard to the activities of ACEA Energia, Acea Spa 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 Segment.

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 daily). The execution of those activities is distributed between the *Risk Control Unit* and the *Risk Owners*.

Specifically:

- on an annual basis, risk indicator measurements, i.e. limits in force, must be re-examined, and these must be observed in risk management. These activities are the responsibility of the Chief Financial Officer with the help of Risk Control;
- on a daily basis, the Risk Control Unit is required to check the exposure to market risk of the companies in the Energy Segment and to check compliance with the limits defined.
- The relevant reports are sent to the Top Management on a daily and monthly basis. As required by the Internal Control System, the Risk Control Unit is responsible for sending ACEA's Internal Audit Department the required information in the proper format.

The risk limits of the Energy Segment are defined in such a way as to:

- minimise the overall risk of the entire segment,
- guarantee the necessary operating flexibility in the provisioning of commodities and hedging activities,
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges.

Market risk can be described as the "Price Risk", i.e. the risk related to the variation in *commodity* prices, and the "Volume Risk", i.e.:

- for Acea Energia this is the risk connected with the variation in the volumes effectively sold compared to estimated volumes in sales contracts with end users (sales profiles),
- for Acea Produzione this is the risk related to the variation in the volumes produced and volumes sold.

Risk analysis and management objectives are as follows:

- to protect the primary margin against unforeseen and unfavourable short-term shocks in the energy market which affect revenues or costs,
- to identify, measure, manage and represent the exposure to risk of all ACEA operating companies in the Energy Segment,
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise,
- delegate the job of defining the necessary strategies for hedging individual risks to Risk Owners, in respect of pre-established minimum and maximum levels.

The evaluation of risk exposure involves the following activities:

- aggregation of the commodities and structure of the risk books,
- detailed analysis of the time pattern of purchases and sales and limiting open positions, namely the exposure from physical purchases and sales of individual commodities, within set volume limits;
- creation of reference scenarios (prices, indexes),
- calculation of risk indicators/metrics (Volumetric exposure, VAR, PAR, price range),
- checking compliance with risk limits in force.

| Swaps | Purpose | Purchases/Sales | Fair Value in € thousand | Amount recognised to shareholders' equity | Amount recognised in the income statement |
|-----------|-----------------------|---------------------------------|--------------------------|-------------------------------------------|-------------------------------------------|
| PUN | Hedge power portfolio | Electricity Purchases and Sales | 1,972 | 1,972 | 0 |
| IT CONSIP | Hedge power portfolio | Electricity Purchases and Sales | (28) | (28) | 0 |
| | | | 1,944 | 1,944 | 0 |

In March 2009, the IASB issued an amendment to IFRS 7, introducing a series of changes aimed at adequately meeting the need for greater transparency resulting from the financial crisis and linked to elevated uncertainty over market prices. These changes included the establishing of the fair value hierarchy. In particular, the amendment defines three levels of fair value (IFRS 7, para. 27A):

- level 1: if the financial instrument is listed on an active market;
- level 2: if the fair value is measured according to assessment techniques referring to inputs observable in the market, other than the listings of the financial instrument;
- level 3: if the fair value is calculated according to assessment techniques referring to inputs that cannot be observed in the market.

It should be noted that, as regards the types of commodities for which fair value is calculated,

- for derivatives on individual commodities (PUN - single national price - standard base load products, Peak/Off Peak) the fair value level is 1 given they are listed on active markets,
- for complex indexes (ITRemix, PUN profiled products, ...) the fair value level is 2 given these derivatives are the result of formulas containing a mix of commodities listed on active markets.

Finally, it should be noted that, as of 2014, the Group has applied the rules laid down in EC regulations 148 and 149/2013 (jointly and together with Regulation 648/2012, EMIR) and is currently defined as NFC - (Not Financial Counterparty).

Transactions in financial instruments are entered into for the purpose of hedging the risk of fluctuations in commodity prices and in compliance with the provisions of the Risk Management Guidelines for the Energy Segment. In this regard, ACEA, through the Risk Control Unit, ensures the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia, in line with the guidelines of ACEA's Internal Control and Risk Management System.

With regard to the commitments made by the Group to stabilize the cash flows of electricity purchases and sales for next year, it should be noted that all the hedges in place can be accounted for as *cash flow hedges* as the effectiveness of the hedge can be proved. The financial instruments used fall under swaps and contracts for difference (CFD).

The objectives and policies for market risk, counterparty credit risk and regulatory risk management are detailed in the relevant section of the Report on Operations, to which reference is made.

It should be noted that the hedges effected on the purchases and sales portfolio were conducted with leading operators in the electricity market and the financial sector. As required by accounting principle 3 issued by the OIC (Italian Accounting Body), in accordance with former article 2427-bis of the Italian Civil Code, the information necessary for the description of transactions carried out, are shown below, aggregated by hedged index, effective as of 1 January 2017:

Liquidity risk

ACEA's liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the ACEA Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a centralised finance contract.

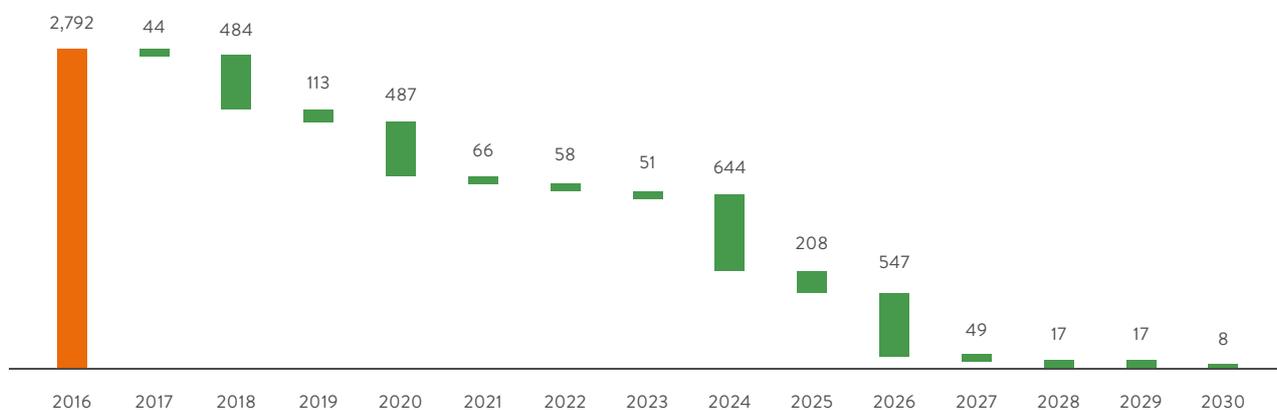
At 31 December 2016 the Parent Company held uncommitted credit lines totalling € 803 million, which are not used. No guarantees were issued to obtain these credit lines.

On the amounts drawn down, ACEA pays an interest rate equal to the one, two, three or six month Euribor (depending on the period of use chosen beforehand), plus a *spread* which, in some cases, may vary in line with the *rating* assigned to the Parent Company. In some cases, there is also a *utilisation* fee linked to the amount disbursed.

At the end of the year, ACEA had no loans in the form of term deposits.

As part of the EMTN programme of € 1.5 billion, approved in 2014, ACEA can issue bonds up to a total of € 400 million until 2019.

The graph below depicts the future development of all debt maturities, forecast based on the situation at the end of the year.



Regarding the trade payables (€ 1,149 million) it should be noted that the portion which is due to expire in the next twelve months amounted to € 950.4 million. The amount already expired of € 198.6 million will be paid by the first quarter of 2017.

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. In particular, 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 in 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 *stock* of debt.

An analysis of the consolidated debt position shows that the risk ACEA is exposed to is mainly in the form of *fair value* risk, being composed of hedged fixed rate borrowings (71.6%) as at 31 December 2015, and to a lesser extent to the risk of fluctuations in future cash flows.

ACEA is consistent with its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of *Stakeholders'* interests and the nature of the Group's activities, and based on the prudence principle and *best market practices*. The main objectives of these guidelines are as follows:

- to identify, from time to time, the optimum mix of fixed and floating rate debt;
- to pursue a potential optimisation of borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business;
- to manage derivatives transactions solely for hedging purposes, should ACEA decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and Statement of Financial Position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

The Group currently uses derivative instruments to hedge interest rate risk exposure for ACEA which:

- swapped the 100 million euros loan obtained on 27 December 2007 to a fixed rate. The swap, a plain vanilla IRS, was entered into on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021,
- completed a cross currency transaction to transform to euro – through a plain vanilla DCS swap – the currency of the private placement (yen) and the yen rate applied to a fixed euro rate through a plain vanilla IRS swap,
- swapped to floating rate € 300 million of the 5-year € 600 million fixed rate bond placed on the market in September 2013.

All the derivative instruments taken out by ACEA and listed above are non-speculative and the *fair values* of the same are respectively:

- negative for € 5.3 million (negative for € 7.0 million at 31 December 2015),
- negative for € 24.8 million (negative for € 33,0 million at 31 December 2015) and
- positive for € 1.2 million (positive for € 0.9 million at 31 December 2015).

The *fair value* of medium/long-term debt is calculated on the basis of the *risk-free* and the *risk-adjusted* interest rate curves.

| Bank Loans: | Amortised cost (A) | RISK-FREE FV (B) | Delta (A)-(B) | RISK ADJUSTED FV (C) | Delta (A)-(C) |
|-----------------------------|-----------------------|---------------------|------------------|-------------------------|------------------|
| Bonds | 2,045,702 | 2,257,902 | (212,199) | 2,144,795 | (99,092) |
| fixed rate | 286,906 | 373,252 | (86,346) | 352,433 | (65,528) |
| floating rate | 450,860 | 460,614 | (9,754) | 459,341 | (8,482) |
| floating rate to fixed rate | 46,912 | 47,936 | (1,024) | 46,947 | (35) |
| Total | 2,830,380 | 3,139,703 | (309,323) | 3,003,517 | (173,137) |

This analysis was also carried out using the “*risk-adjusted*” yield curve, i.e. a curve adjusted to take account of the level of risk and of ACEA’s sector of activity. A curve populated with fixed rate bonds denominated in EUR, issued by domestic companies in the public utilities sector with a composite rating ranging from BBB + and BBB- was used.

A sensitivity analysis has been carried out on medium/long-term financial liabilities using stress testing, thus applying

a constant spread over the term structure of the risk-free interest rate curve.

This makes it possible to evaluate the impact on *fair value* and on future *Cash Flows* for both the individual instruments in the portfolio and the overall portfolio.

The following table shows the overall fair value changes of the debt portfolio based on parallel *shifts* (positive and negative) between -1.5% and +1.5%.

| Constant spread applied | Changes in Present Value (€ million) |
|-------------------------|--------------------------------------|
| (1.50%) | (187.8) |
| (1.00%) | (112.8) |
| (0.50%) | (41.0) |
| (0.25%) | (6.2) |
| 0.00% | 0.0 |
| 0.25% | 61.1 |
| 0.50% | 93.8 |
| 1.00% | 156.9 |
| 1.50% | 217.5 |

As regards the type of hedges for which the *fair value* is calculated and with reference to the hierarchies required by the IASB, given they are composite instruments, they are categorised as level 2 in the *fair value* hierarchy.

Credit risk

ACEA drew up the guidelines of the *credit policy* which established different credit management strategies depending on the various types of customers and receivables. Through flexibility criteria and on the strength of the activities managed, as well as 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).

The key principles on which the risk management strategies are based are as follows:

- definition of the customer cluster categories through the abovementioned segmentation criteria;
- standard cluster management in ACEA Group companies, based on the same risks and commercial characteristics, of defaulting end users;
- collection methods and instruments used;
- uniformity of standard criteria regarding the application of default interest;
- receivables payable by instalments;
- definition of the necessary responsibilities/authorisations for any exceptions;
- adequate reporting and training of dedicated staff.

The Credit Management unit was set up within the Administration, Finance and Control function of ACEA; the main responsibilities of the new unit are to develop credit management policies, provide guidance on actions to be taken and analyse and continuously monitor the progress of loan related activities for any corrective action.

The *Credit Management* Unit monitors the performance of receivables on an ongoing basis and provides periodic management reports (monthly) by segment and by company.

As for the ***distribution of electricity*** activities, credit risk is associated with relations with wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers. The services are strictly regulated by AEEGSI resolutions.

The key principles on which the credit risk management strategies are based are as follows:

- homogeneous management of sellers’ receivables, deemed of equal risk;
- uniformity of standard criteria for the application of default interest;
- credit risk mitigation through guarantees provided by the sellers; on this aspect of the new network code allows sellers to submit a public rating, in place of the guarantee, provided it exceeds certain thresholds and is issued by certified bodies;
- adequate monitoring through credit ageing reports;
- training of dedicated staff.

Credit management starts with the “behavioural score” or knowledge of the individual reseller through the constant analysis of payment attitudes/habits and is subsequently broken down into a series of targeted actions ranging from phone collection activities carried out in-house, reminders sent electronically, sending of notice letters via registered post, as provided under Resolution ARG/elt 4/08, to termination of the transportation contract.

As regards the ***supply of electricity and gas***, credit risk is measured beforehand, especially in relation to the sale of gas and electricity to industrial and business customers.

The activity is performed in accordance with the *Credit Risk Policy Manual* rules, and with specific internal procedures issued by *Credit Management*, through an in-house process that involves a creditworthiness evaluation, assignment of an internal rating and recognition of the maximum limits of financial exposure to the counterparty.

Customer evaluation

In Acea Energia, the first step in credit management is the prior assessment of the client. The aforementioned central Credit Management unit has the task, among others, to make a customer evaluation prior to activating the contract (for the free market). Throughout 2015 a preliminary scoring system was available, centrally implemented and managed by *Credit Management*, through which immediate pre-assessments can be made upon acquisition of the customer, including for domestic customers.

The system is directly usable by Acea Energia and by the commercial agencies mandated by Acea Energia. Specific *scorecards* were defined to refine the prior assessment of *small business* and *retail* customers; in parallel, also the

preliminary analysis of *large business* customers was implemented as of September 2015 on the same platform; in this respect, specific workflows were defined that support the timely analysis of prospective customers, also using updated accounting and commercial information.

To support credit management activities, as early as April 2014, Credit Management issued four procedures: "Scoring and credit to customers", "Payments by instalment", "Repayment plans and Settlement agreements" and "Cancellations".

ACEA Energia uses the credit management application system called "Credit Care" for all its clients, especially for the automatic management of strategies for individual customer clusters.

In recent years, in-court and out-of-court recovery was strengthened, with specific reference to legal litigation activities and using the services offered by market operators for the bulk recovery of receivables.

On the management side, activities successfully continued for the collection matching process, acting both on the collection channels and the application systems, and with regard to the number of dedicated employees.

With regards to the **supply of water**, the implementation of credit risk management strategies starts with a macro-distinction between public sector end users (municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users;
- variable risk of insolvency and late payment risk for private sector end users.

As regards credits due from public sector end users, which account for over 40% of the past due receivables, they are converted to cash through without-recourse factoring to financial partners, while a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements, where applicable.

Credit management for private sector end users, which

represent approximately 60% of past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to disconnection of defaulting end users and receivable factoring transactions.

In order to reduce the formation of overdue receivables, mainly related to delivery issues, a huge effort was undertaken in ACEA Ato2 to clean the customer database, especially in high turnover areas, where most of the arrearage is concentrated. This work was also preliminary to the implementation of the new SAP ISU, user management system, successfully launched in September 2015 and which, in its future releases, will also involve credit management activities.

Finally, by decree of the Minister of Economy and Finance of 16 September 2015, published in the Official Gazette of 30 September 2015, no. 227, ACEA Ato 2 was authorized to make collections through enforcement procedures (through Equitalia) and to preliminary rely on tax injunctions, which replace the injunction orders pursuant to art. 17, paragraphs 3-bis and 3-ter of Legislative Decree no. 46/1999. On one hand, the public relevance of receivables arising from the integrated water service was acknowledged; on the other hand this will enable the company to be even more effective in the recovery of payments from delinquent customers, as it is now able to rely on a tool typically used for the collection of taxes.

The aging of the Trade Receivables is as follows, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables: € 1,368 million
- Trade receivables not yet expired: € 631 million
- Past due trade receivables: € 737 million, of which:
 - Within twelve months: € 198 million
 - Over twelve months: € 539 million.

ANNEXES

A. LIST OF CONSOLIDATED COMPANIES

C. REMUNERATION OF DIRECTORS,
STATUTORY AUDITORS, KEY MANAGERS
AND INDEPENDENT AUDITORS

B. RECONCILIATION OF SHAREHOLDERS' EQUITY
AND STATUTORY PROFIT – CONSOLIDATED

D. SEGMENT INFORMATION:
STATEMENT OF FINANCIAL
POSITION AND INCOME STATEMENT

A. LIST OF CONSOLIDATED COMPANIES

| Name | Registered office | Share Capital (in Euros) | % interest | Group's consolidated interest | Method of Consolidation |
|----------------------------------------|--------------------------------------------------------------------------------------|-----------------------------|------------|-------------------------------------|----------------------------|
| Environment Segment | | | | | |
| Acea Ambiente S.r.l. | Via G. Bruno 7- Terni | 2.224.992 | 100,00% | 100,00% | Line-by-line |
| Aquaser S.r.l. | P.le Ostiense, 2 - Roma | 3.900.000 | 93,06% | 100,00% | Line-by-line |
| Energy Segment | | | | | |
| Acea Energia S.p.A. | P.le Ostiense, 2 - Roma | 10.000.000 | 100,00% | 100,00% | Line-by-line |
| Acea Produzione S.p.A. | P.le Ostiense, 2 - Roma | 5.000.000 | 100,00% | 100,00% | Line-by-line |
| Acea8cento S.r.l. | P.le Ostiense, 2 - Roma | 10.000 | 100,00% | 100,00% | Line-by-line |
| Cesap Vendita Gas S.r.l. | Via del Teatro, 9 - Bastia Umbra (PG) | 10.000 | 100,00% | 100,00% | Line-by-line |
| Ecogena S.p.A. | P.le Ostiense, 2 - Roma | 6.000.000 | 100,00% | 100,00% | Line-by-line |
| Acea Liquidation and Litigation S.r.l. | P.le Ostiense, 2 - Roma | 10.000 | 100,00% | 100,00% | Line-by-line |
| Parco della Mistica S.r.l. | P.le Ostiense, 2 - Roma | 10.000 | 100,00% | 100,00% | Line-by-line |
| Umbria Energy S.p.A. | Via B. Capponi, 100 - Terni | 1.000.000 | 50,00% | 100,00% | Line-by-line |
| Acea Energy Management S.r.l. | P.le Ostiense, 2 - Roma | 50.000 | 100,00% | 100,00% | Line-by-line |
| Water Segment | | | | | |
| ACEA Ato2 S.p.A. | P.le Ostiense, 2 - Roma | 362.834.320 | 96,46% | 100,00% | Line-by-line |
| ACEA Ato5 S.p.A. | Viale Roma snc - Frosinone | 10.330.000 | 98,45% | 100,00% | Line-by-line |
| Acea Dominicana S.A. | Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - Santo Domingo | 644.937 | 100,00% | 100,00% | Line-by-line |
| Acea Gori Servizi S.c.a.r.l. | Via ex Aeroporto s.n.c. località Area "Consorzio Sole" - Pomigliano d'Arco | 1.000.000 | 69,82% | 100,00% | Line-by-line |
| Acque Blu Arno Basso S.p.A. | P.le Ostiense, 2 - Roma | 8.000.000 | 76,67% | 100,00% | Line-by-line |
| Acque Blu Fiorentina S.p.A. | P.le Ostiense, 2 - Roma | 15.153.400 | 75,01% | 100,00% | Line-by-line |
| Aguas de San Pedro S.A. | Las Palmas, 3 Avenida, 20y 27 calle - 21104 San Pedro, Honduras | 6.457.345 | 60,65% | 100,00% | Line-by-line |
| Acea International S.A. | Avenida Las Americas - Esquina Mazoneria, Ensanche Ozama - 11501 Santo Domingo | 609.929 | 99,99% | 100,00% | Line-by-line |
| Crea Gestioni S.r.l. | P.le Ostiense, 2 - Roma | 100.000 | 100,00% | 100,00% | Line-by-line |
| CREA S.p.A. (in liquidation) | P.le Ostiense, 2 - Roma | 2.678.958 | 100,00% | 100,00% | Line-by-line |
| Gesesa S.p.A. | Z.I. Pezzapiana lotto 11/12 - Benevento | 534.991 | 57,93% | 100,00% | Line-by-line |
| Lunigiana S.p.A. (in liquidation) | Via Nazionale 173/175 - Massa Carrara | 750.000 | 95,79% | 100,00% | Line-by-line |
| Omrone S.p.A. | P.le Ostiense, 2 - Roma | 6.500.000 | 99,51% | 100,00% | Line-by-line |
| Sarnese Vesuviano S.r.l. | P.le Ostiense, 2 - Roma | 100.000 | 99,16% | 100,00% | Line-by-line |
| ACEA Elabori S.p.A. | Via Vitorchiano - Roma | 2.444.000 | 100,00% | 100,00% | Line-by-line |
| Networks Segment | | | | | |
| Areti S.p.A. | P.le Ostiense, 2 - Roma | 345.000.000 | 100,00% | 100,00% | Line-by-line |
| Acea Illuminazione Pubblica S.p.A. | P.le Ostiense, 2 - Roma | 1.120.000 | 100,00% | 100,00% | Line-by-line |

Companies accounted for using the equity method as from 1 January 2014 in accordance IFRS11

| Name | Registered office | Share Capital (in Euros) | % interest | Group's consolidated interest | Method of Consolidation |
|-----------------------------|--------------------------------------------------|-----------------------------|------------|-------------------------------------|----------------------------|
| Environment Segment | | | | | |
| Ecomed S.r.l. | P.le Ostiense, 2 - Roma | 10.000 | 50,00% | 50,00% | Equity Method |
| Water Segment | | | | | |
| Acque S.p.A. | Via Garigliano, 1 - Empoli | 9.953.116 | 45,00% | 45,00% | Equity Method |
| Acque Industriali S.r.l. | Via Bellatalla, 1 - Ospedaletto (Pisa) | 100.000 | 100,00% | 45,00% | Equity Method |
| Acque Servizi S.r.l. | Via Bellatalla, 1 - Ospedaletto (Pisa) | 400.000 | 100,00% | 45,00% | Equity Method |
| Acquedotto del Fiora S.p.A. | Via Mameli, 10 Grosseto | 1.730.520 | 40,00% | 40,00% | Equity Method |
| Consorcio Agua Azul S.A. | Calle Amador Merino Reina 307 - Lima - Perù | 17.379.190 | 25,50% | 25,50% | Equity Method |
| GORI S.p.A. | Via Trentola, 211 - Ercolano (NA) | 44.999.971 | 37,05% | 37,05% | Equity Method |
| Ingegnerie Toscane S.r.l. | Via di Villamagna 90/c - Firenze | 100.000 | 42,52% | 42,52% | Equity Method |
| Intesa Aretina S.c.a.r.l. | Via B.Crespi, 57 - Milano | 18.112.000 | 35,00% | 35,00% | Equity Method |
| Nuove Acque S.p.A. | Patrignone Loc.Cuculo - Arezzo | 34.450.389 | 46,16% | 16,16% | Equity Method |
| Publiacqua S.p.A. | Via Villamagna - Firenze | 150.280.057 | 40,00% | 40,00% | Equity Method |
| Umbra Acque S.p.A. | Via G. Benucci, 162 - Ponte San Giovanni (PG) | 15.549.889 | 40,00% | 40,00% | Equity Method |

The following companies are also consolidated using the equity method:

| Name | Registered office | Share Capital (in Euros) | % interest |
|-----------------------------------------------------|------------------------------------------------------|-----------------------------|------------|
| Environment Segment | | | |
| Amea S.p.A. | Via San Francesco d'Assisi 15C - Paliano (FR) | 1.689.000 | 33,00% |
| Arkesia S.p.A. (in liquidation) | Via S. Francesco D'Assisi, 17 - Paliano (FR) | 170.827 | 33,00% |
| Coema | P.le Ostiense, 2 - Roma | 10.000 | 33,50% |
| Water Segment | | | |
| Azga Nord S.p.A. (in liquidation) | Piazza Repubblica Palazzo Comunale - Pontremoli (MS) | 217.500 | 49,00% |
| Geal S.p.A. | Viale Luporini, 1348 - Lucca | 1.450.000 | 28,80% |
| Sogea S.p.A. | Via Mercatanti, 8 - Rieti | 260.000 | 49,00% |
| Aguaazul Bogotà S.A. | Calle 82 n. 19°-34 - Bogotà - Colombia | 1.482.921 | 51,00% |
| Umbriadue Servizi Idrici S.c.a.r.l. | Strada Sabbione zona ind. A72 - Terni | 100.000 | 34,00% |
| Le Soluzioni | Via Garigliano, 1 - Empoli | 250.678 | 30,50% |
| Networks Segment | | | |
| Citelum Napoli Pubblica Illuminazione S.c.a.r.l. | Via Monteverdi Claudio, 11 - Milano | 90.000 | 32,18% |
| Sienergia S.p.A. (in liquidation) | Via Fratelli Cairoli, 24 - Perugia | 132.000 | 42,08% |
| Umbria Distribuzione Gas S.p.A. | Via Bruno Capponi 100 - Terni | 2.120.000 | 15,00% |
| Sinergetica S.r.l. | Via Fratelli Cairoli, 24 - Perugia | 10.000 | 21,46% |
| Other | | | |
| Marco Polo Srl (in liquidation) | Via delle Cave Ardeatine, 40 - Roma | 10.000 | 33,00% |

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

| € thousand | Profit for the year | | Shareholders' Equity | |
|---------------------------------------------------------------------------------------------|---------------------|----------------|----------------------|------------------|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Balances in statutory financial statements (ACEA) | 108,610 | 145,606 | 1,456,505 | 1,457,291 |
| Excess of shareholders' equity and net profit measured at fair value compared to book value | 267,644 | 140,317 | 219,215 | 127,659 |
| Higher depreciation and amortisation in consolidated financial statements | (3,089) | (3,059) | 2,913 | 6,002 |
| Elimination of effects of business combination of entities under common control | 0 | (398) | 0 | (398) |
| Elimination of tax effects, including those from previous years | (7,873) | (10,079) | 26,917 | 10,314 |
| Accounted for using the equity method | 23,915 | 22,554 | 109,683 | 85,767 |
| Elimination of dividends | (152,227) | (151,440) | 0 | 0 |
| Elimination of goodwill | 25,366 | 24,741 | (144,097) | (169,463) |
| Elimination of extraordinary items | 0 | 6,751 | 0 | 6,751 |
| Balances in consolidated financial statements | 262,347 | 174,992 | 1,671,136 | 1,523,924 |

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS, KEY MANAGERS AND INDEPENDENT AUDITORS

Board of Directors and Board of Statutory Auditors

| € migliaia | Remuneration for the office | Non-monetary benefits | Remuneration due | | Total |
|-----------------------------|-----------------------------|-----------------------|------------------------------|--------------------|-------|
| | | | Bonuses and other incentives | Other compensation | |
| Board of Directors | 232 | 48 | 210 | 400 | 890 |
| Board of Statutory Auditors | 406 | 0 | 0 | 0 | 406 |

Key Managers

Fees due to executives with strategic responsibilities for the year 2015 amounted to:

- salaries and bonuses € 1,689 thousand,
- non-monetary benefits € 169 thousand.

Remuneration paid to key managers is established by the Remuneration Committee based on average levels of pay in the labour market.

Independent Auditors

In accordance with Article 149 duodecies of Consob Issuers' Regulations, the fees accrued by the independent auditors Ernst & Young are provided in the table below.

| Company Amounts in € thousand | Audit Related Service | Audit Services | Non Audit Services | Total |
|------------------------------------|-----------------------|----------------|--------------------|--------------|
| ACEA S.p.A. | 245 | 342 | 126 | 713 |
| ACEA Group | 308 | 931 | 342 | 1,581 |
| Total ACEA S.p.A. and Group | 553 | 1,273 | 468 | 2,294 |

D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

Please note the following for a better understanding of the breakdown provided in this section:

- generation and sales refer to the Energy Segment which, from an organizational standpoint, is responsible for the companies Acea Energia, Umbria Energy, Acea Liquidation and Litigation (formerly Elga Sud), Acea Produzione, Ecogena, Parco della Mistica and Cesap Vendita Gas,
- distribution and public lighting (Rome and Naples) refer to the Networks segment which, from an organisational standpoint, is responsible for areti and Acea Illuminazione Pubblica,
- analysis and research services refer to the Engineering and Services Department, which, from an organizational standpoint, is responsible for Acea Elabori,
- Overseas Water Services refer to the Water segment which, from an organizational standpoint, is also responsible for the water companies operating abroad,
- Italian Water Services refer to the Water segment which, from an organizational standpoint, is responsible for the water companies operating in Lazio, Campania, Tuscany and Umbria, and for AceaGori Servizi,
- environment refers to the Environment segment which, from an organizational standpoint, is responsible for the Acea Ambiente and Aquaser.

2015 STATEMENT OF FINANCIAL POSITION

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|----------------------------------------------------------|------------------|---------------|---------------|---------------------------|------------|--------------|----------------|--------------------|---------------|----------------|------------------------------|-----------------------|
| Investments | 25,895 | 15,247 | 15,335 | 202,474 | 424 | 1,548 | 154,331 | 1,841 | 11,769 | 428,864 | | 428,864 |
| Tangible Assets | 245,366 | 191,184 | 6,710 | 20,737 | 1,998 | 2,994 | 1,466,147 | 926 | 157,314 | 2,093,376 | (3,355) | 2,090,021 |
| Intangible Assets | 33,887 | 6,561 | 129,876 | 1,932,604 | 560 | 159 | 56,934 | 3,618 | 13,509 | 2,177,709 | (397,328) | 1,780,381 |
| Non-current financial assets measured at equity | | | | | | | | | | | | 247,490 |
| Non-current Financial Assets | | | | | | | | | | | | 2,750 |
| Other non-current trading assets | | | | | | | | | | | | 314,341 |
| Other non- current financial assets | | | | | | | | | | | | 31,464 |
| Inventories | 3,708 | 1,632 | | 7,034 | 35 | | 7,136 | 7,078 | 0 | 26,623 | | 26,623 |
| Trade receivables from third parties | 59,755 | 28,377 | 559,808 | 410,288 | 1,621 | 33,691 | 108,137 | 9,177 | 23,111 | 1,233,966 | (228,853) | 1,005,113 |
| Trade receivables from Parent Company | 156 | 4,899 | 36,227 | 46,839 | | 114 | 4,068 | 62,689 | 624 | 155,617 | (91,939) | 63,679 |
| Trade receivables from subsidiaries and associates | 312 | | 4,476 | 9,562 | | | | | 90,102 | 104,451 | (74,569) | 29,882 |
| Other current trading assets | | | | | | | | | | | | 205,852 |
| Other current financial assets | | | | | | | | | | | | 94,228 |
| Cash and cash equivalents | | | | | | | | | | | | 814,653 |
| Non-current assets held for sale | | 497 | | | | | | | | 497 | | 497 |
| Total assets | | | | | | | | | | | | 6,706,972 |

Amounts in €/thousand

2015 STATEMENT OF FINANCIAL POSITION

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|------------------------------------------------------------|------------------|------------|---------|---------------------------|----------|-------------|--------------|--------------------|-----------|----------------|------------------------------|-----------------------|
| Segment liabilities | | | | | | | | | | | | |
| Trade payables to third parties | 51,865 | 15,932 | 453,950 | 402,551 | 476 | 3,324 | 303,640 | 12,170 | 63,753 | 1,307,662 | (215,398) | 1,092,264 |
| Trade payables to Parent Company | 2,147 | 2,029 | 20,742 | 152,000 | | 827 | 22,349 | 663 | 20,521 | 221,278 | (74,018) | 147,259 |
| Trade payables to subsidiaries and associates | 301 | | 4,540 | 619 | 224 | | | 64,995 | 25,044 | 95,723 | (89,989) | 5,734 |
| Other current trading liabilities | | | | | | | | | | | | 348,397 |
| Other current financial liabilities | | | | | | | | | | | | 259,087 |
| Staff termination benefits and other defined-benefit plans | 3,531 | 2,449 | 4,160 | 28,369 | 233 | 3,090 | 34,143 | 2,820 | 29,847 | 108,642 | (12) | 108,630 |
| Other provisions | 26,999 | 8,906 | 21,121 | 69,897 | | 590 | 6,995 | 344 | 31,592 | 166,444 | 23,412 | 189,856 |
| Provision for deferred taxes | | | | | | | | | | | | 87,059 |
| Other non-current trading liabilities | | | | | | | | | | | | 184,100 |
| Other non-current financial liabilities | | | | | | | | | | | | 2,688,435 |
| Liabilities directly associated with assets held for sale | | 99 | | | | | | | | 99 | | 99 |
| Shareholders' equity | | | | | | | | | | | | 1,596,053 |
| Total liabilities and shareholders' equity | | | | | | | | | | | | 6,706,972 |

Amounts in €/thousand

INCOME STATEMENT AS AT 31 DECEMBER 2015

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|------------------------------------------------------------------------------|------------------|---------------|-----------------|---------------------------|--------------|--------------|----------------|--------------------|-----------------|----------------|------------------------------|-----------------------|
| Revenue | 132,108 | 63,847 | 1,944,051 | 624,580 | 10,331 | 31,463 | 468,453 | 71,052 | 113,316 | 3,459,201 | (541,883) | 2,917,318 |
| Costs | 74,690 | 29,678 | 1,870,329 | 353,997 | 8,448 | 21,685 | 220,022 | 63,810 | 113,153 | 2,755,806 | (541,941) | 2,213,865 |
| Income/(Costs) from equity investments of a non-financial nature | (62) | - | - | 27,469 | 1,095 | - | - | - | - | 28,501 | - | 28,501 |
| EBITDA | 57,355 | 34,168 | 73,722 | 298,052 | 2,979 | 9,778 | 248,431 | 7,242 | 162 | 731,896 | 58 | 731,954 |
| Depreciation/ amortisation | 28,000 | 23,890 | 89,727 | 91,900 | 222 | 1,584 | 90,067 | 351 | 19,748 | 345,489 | - | 345,489 |
| Operating profit/(loss) | 29,356 | 10,278 | (16,005) | 206,152 | 2,756 | 8,194 | 158,364 | 6,891 | (19,585) | 386,407 | 58 | 386,465 |
| Financial (Costs)/income | | | | | | | | | | | | (91,083) |
| (Costs)/ Income from investments | 1,841 | (4) | | 94 | 753 | | (1,345) | | (329) | 1,010 | | 1,010 |
| Profit/(Loss) before tax | | | | | | | | | | | | 296,392 |
| Taxes | | | | | | | | | | | | 114,847 |
| Net Profit/ (Loss) | | | | | | | | | | | | 181,545 |

Amounts in €/thousand

INCOME STATEMENT AS AT 31 DECEMBER 2016

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|-------------------------------------------------------------|------------------|---------------|---------------|---------------------------|--------------|--------------|----------------|--------------------|---------------|----------------|------------------------------|-----------------------|
| Investments | 33,956 | 27,862 | 27,404 | 264,329 | 1,520 | 1,756 | 218,212 | 1,349 | 13,182 | 589,570 | (55,466) | 530,707 |
| Tangible Assets | 252,179 | 200,836 | 6,943 | 65,462 | 35,873 | 3,029 | 1,555,232 | 2,224 | 97,806 | 2,219,585 | (6,652) | 2,212,933 |
| Intangible Assets | 22,651 | 8,168 | 140,941 | 2,063,334 | 14,670 | 715 | 99,112 | 4,397 | 13,236 | 2,367,224 | (396,580) | 1,970,643 |
| Non-current financial assets measured at equity | | | | | | | | | | | | 260,877 |
| Non current financial assets | | | | | | | | | | | | 2,579 |
| Other non-cur- rent trading assets | | | | | | | | | | | | 296,458 |
| Other non-current financial assets | | | | | | | | | | | | 27,745 |
| Inventories | 4,980 | 1,790 | - | 6,122 | 1,311 | - | 9,066 | 8,456 | - | 31,726 | - | 31,726 |
| Trade receivables from third parties | 63,236 | 19,794 | 390,425 | 472,387 | 8,736 | 23,510 | 195,167 | 7,824 | 850 | 1,181,929 | (158,370) | 1,023,560 |
| Trade receivables from Parent Company | 192 | 2,758 | 24,356 | 28,209 | 105 | 604 | 6,143 | 38 | 372 | 62,778 | (17,167) | 45,611 |
| Trade receivables from subsidiaries and associates | 538 | - | 1,880 | 9,639 | 4 | - | (547) | 547 | 54,031 | 66,092 | (37,821) | 28,271 |
| Other current trading assets | | | | | | | | | | | | 207,005 |
| Other current financial assets | | | | | | | | | | | | 131,275 |
| Cash and cash equivalents | | | | | | | | | | | | 665,533 |
| Non-current assets held for sale | | 497 | | | | | | | | | | 497 |
| Total Assets | | | | | | | | | | | | 6,904,713 |

Amounts in €/thousand

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|------------------------------------------------------------|------------------|------------|---------|---------------------------|----------|-------------|--------------|--------------------|-----------|----------------|------------------------------|-----------------------|
| Segment liabilities | | | | | | | | | | | | |
| Trade payables to third parties | 72,476 | 27,903 | 424,280 | 310,853 | 806 | 5,850 | 322,565 | 21,299 | 109,530 | 1,295,562 | (146,390) | 1,149,172 |
| Trade payables to Parent Company | 1,751 | 343 | 20,586 | 136,539 | 504 | 988 | 14,494 | 379 | 60 | 175,643 | (36,398) | 139,245 |
| Trade payables due to subsidiaries and associates | - | - | 2,185 | 552 | 220 | - | 115 | 11,689 | 7,691 | 22,452 | (18,278) | 4,173 |
| Other current trading liabilities | | | | | | | | | | | | 320,142 |
| Other current financial liabilities | | | | | | | | | | | | 151,478 |
| Staff termination benefits and other defined benefit plans | 4,279 | 2,496 | 4,824 | 29,040 | 264 | 4,449 | 35,691 | 2,074 | 26,444 | 109,562 | (12) | 109,550 |
| Other provisions | 26,799 | 13,146 | 24,421 | 79,811 | - | 797 | 6,769 | 671 | 25,808 | 178,223 | 23,899 | 202,122 |
| Provision for deferred taxes | | | | | | | | | | | | 88,158 |
| Other non-current trading liabilities | | | | | | | | | | | | 185,524 |
| Other non-current financial liabilities | | | | | | | | | | | | 2,797,106 |
| Liabilities directly associated with assets held for sale | | 99 | | | | | | | | 99 | | 99 |
| Shareholders' equity | | | | | | | | | | | | 1,757,943 |
| Total liabilities and shareholders' equity | | | | | | | | | | | | 6,904,713 |

Amounts in €/thousand

INCOME STATEMENT AS AT 31 DECEMBER 2016

| | Environ- ment | Generation | Sales | Italian water services | Overseas | Engineering | Distribution | Public lighting | Corporate | Group total | Consolidation adjustments | Consolidated total |
|------------------------------------------------------------------------------|------------------|---------------|---------------|---------------------------|--------------|---------------|----------------|--------------------|-----------------|----------------|------------------------------|-----------------------|
| Revenue | 136,810 | 56,233 | 1,676,242 | 672,217 | 11,942 | 37,540 | 571,193 | 77,628 | 112,218 | 3,352,023 | (519,606) | 2,832,417 |
| Costs | 79,570 | 24,269 | 1,578,220 | 362,736 | 8,571 | 24,756 | 217,904 | 74,643 | 114,257 | 2,484,926 | (519,511) | 1,965,415 |
| Income/(Costs) from equity investments of a non-financial nature | (15) | - | - | 28,306 | 1,053 | - | - | - | - | 29,345 | - | 29,345 |
| EBITDA | 57,225 | 31,964 | 98,022 | 337,788 | 4,424 | 12,784 | 353,289 | 2,985 | (2,038) | 896,441 | (95) | 896,347 |
| Depreciation/ amortisation | 27,367 | 26,431 | 73,714 | 117,849 | 1,013 | 3,068 | 94,943 | 5,842 | 19,943 | 370,170 | 233 | 370,403 |
| Operating profit/(loss) | 29,857 | 5,533 | 24,308 | 219,939 | 3,411 | 9,715 | 258,346 | (2,857) | (21,981) | 526,271 | (328) | 525,944 |
| Financial (costs)/income | | | | | | | | | | | | (111,563) |
| (Costs)/Income from Equity Investments | (460) | - | - | 167 | 2,144 | - | (144) | - | - | 1,707 | | 1,707 |
| Profit/(loss) before tax | | | | | | | | | | | | 416,087 |
| Taxation | | | | | | | | | | | | 143,548 |
| Net profit/(loss) | | | | | | | | | | | | 272,539 |

Amounts in €/thousand



ACEA S.p.A.

Consolidated financial statements as at 31 December 2016

**Independent auditor's report in accordance with articles 14
and 16 of Legislative Decree n. 39, dated 27 January 2010**

Independent auditor's report in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

To the Shareholders of ACEA S.p.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ACEA Group, which comprise the balance sheet as at 31 December 2016 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of ACEA S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement article 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ACEA Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Emphasis of Matter

We draw your attention to the paragraph "Service Concession Arrangements", which describes:

- with reference to the associated company GORI S.p.A., the reasons for requiring the provisions recognized in a prior year to be maintained;
- the complex regulatory measures in the water sector, which have an impact on the consolidated financial statements, with particular reference to the case of the revenue recognition.

In addition, we draw your attention to the paragraph "Related Party Transactions", which describes the nature and extent of the relationships that the ACEA Group has with related parties.

Our opinion is not qualified in respect of these matters.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information on Corporate Governance and the Company's Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard (ISA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of ACEA S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion, the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of ACEA Group as at 31 December 2016.

Rome, 4 April 2017

EY S.p.A.

Signed by: Massimo delli Paoli, partner

This report has been translated into the English language solely for the convenience of international readers.



Certification of consolidated financial statements in accordance with art.154-bis of Legislative Decree 58/98

(Translation from the original Italian text)

1. The undersigned, Alberto Irace, as Chief Executive Officer, and Demetrio Mauro, as Executive Responsible for Financial Reporting of the company ACEA S.p.A., taking also account of provisions envisaged by Art.154-bis, paragraphs 3 and 4, of the Legislative Decree n°58 of 24 February 1998, hereby certify:

- the consistency to the business characteristics and
- the effective application

of the administrative and accounting procedures for preparing the consolidated financial statements at 31 December 2016.

2. To this purpose, no significant issues were recorded.

3. It is also certified that:

3.1 the consolidated financial statements:

- a) were drawn up in compliance the applicable international accounting standards recognised in European Community in accordance with EC regulation 1606/2002 of the European Parliament and the Council, of 19 July 2002,
- b) are consistent with the underlying accounting books and records,
- c) provide a true and correct view of the operating results and financial position of the issuer and the overall of companies included in the consolidation,

3.2 the report on operations includes a reliable analysis of the operational performance and result, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Rome, 4 April 2017

signed by: Alberto Irace, The CEO

signed by: Demetrio Mauro, The Executive Responsible for Financial Reporting

This report has been translated into the English language solely for the convenience of international readers





CONNECTED TO YOUR WORLD.

REPORT ON CORPORATE GOVERNANCE AND ON THE OWNERSHIP STRUCTURE

ACEA SPA 2016 FINANCIAL STATEMENTS

CONTENTS

| | |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 233 | REPORT ON CORPORATE GOVERNANCE AND ON THE OWNERSHIP STRUCTURE |
| 236 | 1. The issuer's profile |
| 237 | 2. Information on the ownership structure (art. 123-bis, par. 1, of the CFA) <ul style="list-style-type: none">a. Structure of the share capital (art. 123-bis, par. 1, letter a, of the CFA)b. Restrictions on share transfers (art. 123-bis, par. 1, letter b, of the CFA)c. Relevant stakes (art. 123-bis, par. 1, letter c, of the CFA)d. Shares bearing special rights (art. 123-bis, par. 1, letter d, of the CFA)e. Stakes held by employees: the voting rights exercise mechanism (art. 123-bis, par. 1, letter e, of the CFA)f. Voting right restrictions (art. 123-bis, par. 1, letter f, of the CFA)g. Shareholders' agreements (art. 123-bis, par. 1, letter g, of the CFA)h. Change of control clause (art. 123-bis, par. 1, letter h, of the CFA) and statutory provisions on takeovers (arts. 104, par. 1-ter, and 104-bis, par. 1)i. Delegations for capital increases pursuant to art. 2443 of the Civil Code or the directors' power to issue financial instruments and authorisation for the purchase of treasury shares (art. 123-bis, par. 1, letter m, of the CFA)l. Governance and coordination (arts. 2497 and foll. of the Civil Code) |
| 238 | 3. Compliance (art. 123-bis, par. 2, letter a), of the CFA) |
| 239 | 4. Board of directors |
| 239 | 4.1. appointment and replacement (art. 123-bis, par. 1, letter l), of the CFA) <ul style="list-style-type: none">Directorship TerminationReplacement of a DirectorMajorities requested for amendments to the Articles of Association |
| 240 | 4.2. Composition (art. 123-bis, par. 2, letter d, of the CFA) <ul style="list-style-type: none">Maximum number of offices simultaneously held in other companiesInduction ProgrammeSuccession plans |
| 242 | 4.3. The board of directors' role (art. 123-bis, par. 2, letter d, of the CFA) <ul style="list-style-type: none">FunctioningAssessment of the functioning of the Board of Directors and its Committees |
| 244 | 4.4. Delegated bodies <ul style="list-style-type: none">Managing DirectorChairpersonJoint powers of the Chairperson and the Managing DirectorInformation to the Board of Directors |
| 245 | 4.5. Other executive directors |
| 245 | 4.6. Independent directors |
| 245 | 4.7. Lead independent director |
| 246 | 5. Corporate information processing |
| 247 | 6. Board of directors' internal committees (art. 123-bis, par. 2, letter d), of the CFA) |
| 248 | 7. Appointments and remuneration committee |

| | |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 249 | 8. Directors' fees Indemnity for directors in the case of revocation, resignation, dismissal or cease of office subsequent to a takeover (art. 123-bis, par. 1, letter i, of the CFA) |
| 250 | 9. The control and risks committee |
| 251 | 10. Internal control and risk management system (Control System) Overall internal control and risk management system a) Roles and duties of the various subjects of the Control System b) Risk management system c) Qualifying elements of the Control System d) Overall assessment of the adequacy of the Control System Main features of the internal control and risk management system in relation to the financial reporting process (art. 123 -bis, paragraph 2, letter b), of the CFA Introduction Description of the main features of the internal control and risk management system in relation to the financial reporting process a) Steps b) Roles and Responsibilities |
| 255 | 10.1. The control system director |
| 255 | 10.2. Audit department manager |
| 255 | 10.3. Organisational model pursuant to Legislative Decree 231/2001 |
| 256 | 10.4. The external auditing firm |
| 257 | 10.5. The financial reporting officer |
| 257 | 10.6. Coordination between the subjects involved in the internal control and risk management system |
| 258 | 11. Directors' interests and transactions with related parties |
| 259 | 12. Appointment of the statutory auditors |
| 260 | 13. Composition and functioning of the board of statutory auditors (art. 123-bis, par. 2, letter d, of the CFA) |
| 261 | 14. Relations with the shareholders (art. 123-bis, par. 2, letter a), of the CFA) |
| 262 | 15. Shareholders' meeting (art. 123-bis, par. 2, letter c, of the CFA) |
| 264 | 16. Other corporate governance practices (art. 123-bis, par. 2, letter a), of the CFA) |
| 265 | 17. Changes since the closure of the period |
| 266 | Tables Tab. 1: Information on the ownership structure Tab. 2: Structure of the Board of Directors and of its Committees Tab. 3: Structure of the Board of Statutory Auditors Plate 1: Other administrative offices |

1. THE ISSUER'S PROFILE

ACEA, a company listed on the on-line stock market organised and managed by Borsa Italiana Spa since 1999, is a leading Italian utility company that has been operating for more than a century in the sectors of energy (from the generation, distribution and sale of electricity and gas to the management of public lighting), integrated water services (from capture and distribution to purification) and environmental services (the treatment and economic management of wastes).

The ACEA Group has launched a process of profound change leading to the completely integrated management of all work processes by innovative advanced digital technologies: from the construction of infrastructures to maintenance services, from the management of the networks to customer and society relations.

This real digital revolution is possible also thanks to the Work Force Management (WFM) system, a digital information platform which allows for coordinating and monitoring all the ACEA Group's activities in real time. The Company integrates the goal of customer satisfaction with that of creating value for the shareholders, at the same time paying attention to the needs of society and respecting the environment; it takes avail of the professional skills of its employees and enhances management responsibility in the achievement of the Company's objectives. Thanks to which objectives the Company is earning a position among the most advanced utility companies of Europe.

Today, according to the most recent data, the ACEA Group is the leading national operator in the water sector for inhabitants served, the second Italian operator for the distribution of electricity to users (the third for volumes distributed), the third operator for energy volumes sold to end users, and the sixth national operator for waste volumes treated.

This report illustrates the corporate governance system

adopted by ACEA S.p.A. which is based on a series of principles, rules and procedures, in line with the criteria indicated in the Self-Regulatory Code of listed companies promoted by Borsa Italiana, and inspired by the applicable recommendations issued by CONSOB and, more in general, according to international best practice.

The corporate governance system adopted by ACEA is essentially aimed at creating value for the shareholders over the medium-long term, in the awareness of the social relevance of the activities in which the Group is engaged and of the consequent need to adequately consider, in the exercise of the governance system, all the interests involved.

ACEA's corporate governance structure is based on the traditional organisational model, and comprises the following bodies: The Shareholders' Meeting, the Board of Directors (assisted by the Board's internal committees), the Board of Statutory Auditors and the external Auditing Firm.

The competence of the Shareholders' Meeting holding firm, the strategic management of the Company is entrusted to the Board of Directors, the hub of the organisational system, and the supervisory duties are entrusted to the Board of Statutory Auditors, a body vested with autonomous authority and powers and appointed on the basis of requisites of professional skill, integrity and independence, as defined by law.

The certified audit of the accounts is assigned, pursuant to law, to a specialist auditing firm listed on the specific register of qualified auditors, appointed by the Shareholders' Meeting on a proposal of the Board of Statutory Auditors. The information contained herein refers to the financial year 2016 and, in relation to specific subjects, it is updated at 13 March 2017, the date of the Board of Directors' meeting which approved this Report, the text of which is published at www.acea.it, in the "Corporate Governance" section.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (art. 123-bis, par. 1, of the CFA – Consolidated Finance Act)

a) Structure of the share capital

(art. 123-bis, par. 1, letter a, of the CFA)

The Company's capital, of € 1,098,898,884.00, entirely underwritten and paid up, is divided into 212,964,900 ordinary shares with a par value of € 5.16 each, listed on the on-line stock market organised and managed by Borsa Italiana (see Table 1).

There are no shares with limited voting rights or without voting rights, except 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Civil Code.

b) Restrictions on share transfers

(art. 123-bis, par. 1, letter b, of the CFA)

There are no restrictions on share transfers except for individual constraints of the single shareholders.

c) Relevant stakes (art. 123-bis, par. 1, letter c, of the CFA)

Relevant stakes, held directly or indirectly, pursuant to art. 120 of the CFA, according to the information published on 13 March 2017 on the CONSOB website and the communications made in compliance with the same article, are listed in Table 1.

d) Shares bearing special rights

(art. 123-bis, par. 1, letter d, of the CFA)

No shares bearing special controlling rights have been issued.

e) Stakes held by employees: the voting rights exercise mechanism (art. 123-bis, par. 1, letter e, of the CFA)

In compliance with the aforementioned art. 13 of the Articles of Association, to facilitate the collection of proxies from shareholding employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the relative provisions in force, specific spaces are made available for the communication and collection of the proxies.

f) Voting right restrictions

(art. 123-bis, par. 1, letter f, of the CFA)

Under art. 6 of the Articles of Association, with the sole exception of Roma Capitale, any shareholder whose stake exceeds 8% of the share capital must be communicated to the Company. This limit is considered as reached, in both direct and indirect terms, as specified in more detail in paragraphs 2 and 3 of the said article and as described in the chapter "Shareholders' Meetings" of this Report. In the case of breach of this rule, the exercise of the vote for the shares exceeding the said limit will be forbidden and, in the case of a resolution by a determining vote deriving from the shares exceeding said limit, the resolution may be challenged.

g) Shareholders' agreements

(art. 123-bis, par. 1, letter g, of the CFA)

The Company is not aware of any shareholders' agreements of any kind, as contemplated under art. 122 of the CFA, or of any special powers of veto or of any other extraordinary influence on the decisions that are not direct expressions of the shares held.

h) Change of control clause (art. 123-bis, par. 1, letter h, of the CFA) and statutory provisions on takeovers (arts. 104, par. 1-ter, and 104-bis, par. 1)

ACEA has entered into important agreements that take

effect or which are nullified in the case of a change of control of the contracting company. The following are the significant ongoing agreements in which change of control implies negotiation:

- Loan totalling € 100 million from the CDP;
- Loan totalling € 200 million from the European Investment Bank (water segment);
- Loan totalling € 100 million from the European Investment Bank in favour of ACEA S.p.A. (Network Efficiency);
- Long term loan totalling € 200 million from the European Investment Bank in favour of ACEA S.p.A.
- Loan totalling € 200 million from the European Investment Bank in favour of ACEA S.p.A. (Network Efficiency III).

With regard to takeovers, the Company's Articles of Association do not waive the provisions of art. 104, paragraphs 1 and 1-bis, of the CFA, nor are neutralisation rules, as contemplated by art. 104-bis of the CFA, provided.

i) Delegations for capital increases pursuant to art. 2443 of the Civil Code or the directors' power to issue financial instruments and authorisation for the purchase of treasury shares (art. 123-bis, par. 1, letter m, of the CFA)

At 31 December 2016 and also at the date of this Report, the Board of Directors has not been delegated to increase the share capital or to buy treasury shares.

In fact, as mentioned above, the Company currently holds 416,993 treasury shares for which the voting right is suspended in accordance with art. 2357-ter of the Civil Codes, which are the remaining treasury shares authorised by an Ordinary Shareholders' Meeting resolution of 23 October 1999, amended by an Ordinary Shareholders' Meeting resolution of 29 April 2000, renewed by an Ordinary Shareholders' Meeting resolution of 31 October 2001 and with the additions inserted by an Ordinary Shareholders' Meeting resolution of 30 April 2002.

l) Governance and coordination

(arts. 2497 and foll. of the Civil Code)

Arts. 2497 and following of the Civil Code are not applicable inasmuch as ACEA autonomously defines its strategic policies and has full organisational, managerial and negotiating independence, not being subject to the governance and coordination of another subject.

We point out that:

- the information required by art. 123-bis, paragraph 1, letter i) ("agreements between the Company and the directors ... which provide for indemnity in the case of resignation or unfair dismissal or if their professional relationship ceases subsequent to a takeover") is contained in the remuneration report published in accordance with art. 123-ter of the CFA;
- the information requested by article 123-bis, paragraph 1, letter l) ("rules applicable to the replacement of directors ... and to amendments to the articles of association, if diverse from and additional to the applicable legislative and regulatory provisions") are illustrated in the section of this Report on the Board of Directors (Par. 4.1).

3. COMPLIANCE (art. 123-bis, par. 2, letter a), of the CFA)

ACEA constantly applies the prescriptions of the Self-Regulatory Code (hereinafter the “Code”), which contains an articulated series of recommendations relating to the methods and rules for the governance and control of listed companies.

Notwithstanding the fact that the adoption of the principles contained in the Code does not imply any legal obligation, ACEA has adhered to the Code since 2001 and to all the amendments and additions successively approved, up to the most recent of July 2015, by the Corporate Governance Committee of Borsa Italiana.

The complete text of the Self-Regulatory Code is available to the public at <http://www.borsaitaliana.it/comitato-cor->

[porate-governance/codice/2015clean.pdf](http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf), the website of Borsa Italiana.

The company provides information annually on its governance system and on its adhesion to the Code by means of a Report, drawn up also pursuant to art. 123-bis of the CFA, which shows the degree of adhesion to the principles and application criteria established by the Code itself and to international best practices.

The yearly Report is made available to the Shareholders, together with the documentation required for the Shareholders’ Meeting called to approve the financial statements, and it is also immediately published on the Company’s Internet site (www.acea.it) in the “Corporate Governance” section.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123-bis, par. 1, letter I), of the CFA)

Directors are appointed and replaced in compliance with the laws in force, as adopted and expanded, within the limits allowed, by the provisions of the Articles of Association, drawn up in adherence and conformity to the provisions of the listed companies' Self-Regulatory Code.

According to the provisions of the Company's Articles of Association, the Board of Directors is composed of no less than five and no more than nine members, appointed by the Ordinary Shareholders' Meeting (which determines the number within those limits) for a term no longer than three financial periods, and they may be re-elected on expiry of their mandate.

Directorships can only be held by those with the requisites laid down by law and by the regulatory provisions.

Directors are elected as described in art. 15.1 of the Articles of Association, which rules that:

- there must be a gender balance in the composition of the Board of Directors, as disciplined by law;
- the directors are elected on the basis of lists, each of which contains as many candidates, each indicated by a progressive number, as the number of directors to be elected, and each list must have at least two candidates qualified as independent as contemplated by law, one of which must be first or second on the list and the other must be within the first four on the list;
- the election is carried out as follows:

A. *from the list that has obtained the majority of votes (hereinafter, for brevity, the "Majority List"), half plus one of the directors to be elected, rounded down to the nearest whole number in the case of a fractioned number, will be chosen in the progressive order in which they are placed on the said list;*

B. *without prejudice to the rulings of law and the provisions of the Articles of Association on the limits to the connection with the Majority List, the remaining directors will be taken from the other lists. For this purpose, the votes obtained by the said lists will be divided, within the sphere of each list, by 1, 2, 4 and 8 and so on, up to the number of directors to be elected. The quotients thus obtained will be progressively assigned to the candidates of said lists, according to progressive order by which they are indicated. The quotients thus attributed to the candidates of the various lists will be placed in a single classification in decreasing order. Those with the highest quotients will be elected.*

If several candidates have obtained the same quotient, the candidate elected will be that on the list of which no director is otherwise elected or the list with the lowest number of elected directors.

If no director is elected from such lists or if the same number of directors is elected from such lists, the candidate elected will be the one that has obtained the highest number of votes. In the case of parity between the list votes and/or parity of quotients, the entire Shareholders' Meeting will vote again and the candidate with the simple majority of votes will be elected.

In any case, if a correctly drawn up list is presented in addition to the Majority List, the candidates of such a list will be elected according to the order of presentation".

The election mechanism adopted guarantees that at least one director represents the minorities and that the legally required minimum number of independent directors is elected (one in the case of a Board of Directors with no

more than seven members, two if there are more than seven members) in compliance with art. 147-ter, paragraph 4, of the CFA.

The lists must be presented twenty-five days before the date scheduled for the first meeting, by shareholders that, alone or with other shareholders, represent the minimum participation in the share capital established by CONSOB resolution, which corresponds to that established by the Articles of Association (in the light of the market capitalisation of the ACEA shares, on the date of this Report the required minimum is 1% of the share capital).

No candidate may be on more than one list and no shareholder may vote for more than one list. The lists of candidates are filed at the Company's head office and they are also disclosed by publication, by the Company and at this latter's expense, in three national daily newspapers.

Directorship Termination:

Pursuant to art. 15.3 of the Articles of Association: *"If a director appointed on the basis of the above-mentioned list vote leaves office, the Board of Directors will provide for his replacement by the co-option, in accordance with art. 2386 of the Civil Code, with the first candidate not elected on the list on which the outgoing director was a candidate, in respect of the legal provisions on gender balance, or, if that list has no more candidates, with the first of the non-elected candidates regardless of the relative list; however, if the outgoing director is not on the Majority List, the absence of connection with the Majority List must be respected. If the outgoing director had the requisites of independence and/or belonged to the less represented gender and the number of independent directors and/or those of the less represented gender consequently fall below the minimum number required by law, the first non-elected candidate of the list of the outgoing director with the requisites of independence required by law and/or of the less represented gender will be appointed. Directors thus appointed will remain in office until the next Shareholders' Meeting."*

Replacement of a Director:

Pursuant to art. 15.4 of the Articles of Association: *"If a director leaves office during the financial period, the Shareholders' Meeting, by a relative majority vote, will elect his replacement, as far as possible in respect of the rules in force on independence and gender balance, from the non-elected candidates on the same list as that of the outgoing director. The newly appointed director must have provided, at least ten days before that scheduled for the Meeting, written confirmation of his candidature as well as the declarations that no reasons exist for his ineligibility or incompatibility and that he holds the requisites prescribed for the office by the laws in force and the Articles of Association.*

If this replacement procedure is not possible, a resolution must be passed by a relative majority vote, always in respect of the representation of the minorities and the minimum number of independent directors, however.

A director thus appointed will remain in office until the expiry of the term of office of the other directors.

If, for any reason, the number of Board Directors falls below half the established number, the entire Board of Directors will fall from office and the Shareholders' Meeting must be convoked immediately for its reconstitution. However the Board of Directors will remain in office for the execution of acts of ordinary administration until the Shareholders' Meeting has resolved on its renewal and until at least half of the new directors have accepted their appointment."

Majorities requested for amendments to the Articles of Association

With reference to amendments to the Articles of Association, the Extraordinary Shareholders' Meeting, in compliance with art. 12 of the Articles of Association, will adopt the necessary resolutions with the majorities required by law.

4.2 COMPOSITION

(art. 123-bis, par. 2, letter d, of the CFA)

Pursuant to art. 15.1 of the Articles of Association, the Company is governed by a Board of Directors composed of at least five and no more than nine members appointed by the Ordinary Shareholders' Meeting which determines the number within those limits.

The Shareholders' Meeting of 5 June 2014 determined that the Board Directors should be seven, it appointed the Board of Directors and the Chairwoman, and it determined that the term of office should be three financial periods and, in any case, until the Shareholders' Meeting held to approve the Financial Statements relating to the financial year 2016.

Later, consequent to the considerations expressed by the Board of Directors' Appointments and Remuneration Committee (pursuant to art. 5.C.1, letter a, of the Self-Regulatory Code) and the self-assessment ("Board Evaluation") that the Board carried out (pursuant to art. 1.C.1, letter g, of the said Code), with the assistance of the independent external advisor Egon Zehnder, a leading international firm with specific expertise, in pursuit of more efficient functioning of the Board of Directors and its advisory committees, the Shareholders examined the possibility of increasing the number of Board Directors from 7 to 9 with the addition of 2 independent directors holding specific skills.

On 23 April 2015, the Shareholders' Meeting resolved on the increase in the number of Board Directors from 7 to 9, in respect of art. 15.1 of the Articles of Association, and it appointed two new directors, namely Roberta Neri and Massimiliano Capece Minutolo Del Sasso.

On 31 May 2016, the Director Diane d'Arras resigned and since all the candidates on the minority lists presented at the Shareholders' Meeting of 2014 by Ondeo (now Suez) and Fincal formally declared their unwillingness to hold office as Board Directors, the shareholder Suez, from whose list the resigning d'Arras had been taken, proposed the appointment of Mr Angel Simon Grimaldos who, on 28 June 2016, was co-opted as an independent non-executive director.

Thus, as of 31 December 2016 the Board of Directors has been composed as follows: Catia Tomasetti (Chairwoman), Alberto Irace (Managing Director), Paola Antonia Profeta, Elisabetta Maggini, Francesco Caltagirone, Angel Simon Grimaldos, Giovanni Giani, Roberta Neri and Massimiliano Capece Minutolo Del Sasso.

Of the above directors in office, 2 are executive directors (the Chairwoman and the Managing Director), to whom the Board of Directors has delegated individual managerial powers, whereas the remaining 7 are non-executive directors without individual management powers.

Some information of a personal and professional nature on the directors in office is given below:

Catia Tomasetti: born in Rimini on 17 December 1964, awarded a degree in law with the maximum mark, lawyer of the Supreme Court. For more than 20 years she has been dealing with project and restructuring finance, loans and banking law in general. She was involved in the first finance

project in Italy and since then she has supervised all the so-called "market firsts" in Italy and the most important Italian project finance operations, including those in the energy, water, gas and waste treatment sectors, and their re-financing. She is known by the most prestigious international legal guides such as Chambers, Legal500 and IFLR as one of the major experts in project financing in the fields of energy, water and public company restructuring.

She is also an expert in companies with mixed capital, both public and private, public service companies and privatisation, and she is regularly involved as an advisor in the drafting of laws regarding the electricity sector, integrated water service project finance and project bonds.

At present she is: a member of the Board of Directors of the Rome Chamber of Commerce; Vice Chairwoman of Utilitalia (formerly Federutility); member of the Unindustria Steering Committee and Council; member of the Presidential Committee of Associazione Civita; and Chief of the Banking and Financial Department and of the Project Finance Department of the Law Firm Bonelli Errede Pappalardo. From February to October 2016 she was Chairwoman of the Board of Directors of the Cassa di Risparmio di Cesena.

She was appointed on the basis of list no. 1 presented by Roma Capitale (containing: no. 1 Catia Tomasetti, no. 2 Elisabetta Maggini, no. 3 Alberto Irace, no. 4 Paola Antonia Profeta, no. 5 Franco Paparella, no. 6 Salvatore Monni, no. 7 Fausto Valtriani, no. 8 Giovanni Campa and no. 9 Donatella Visconti); the relative appointment proposal obtained the favourable vote of 68.6247% of the voters.

Alberto Irace: born in Cagliari on 13 November 1967, he is a member of the Councils and of the Steering Committees of Assoelettrica and of Utilitalia.

He was Managing Director of Publicacqua Spa, which operated in Tuscany from 2009 to 2014, and of Ingegnerie Toscane from 2010 to 2014, and Chairman of Ente d'Ambito Sarnese Vesuviano, in Campania, where he directly managed the founding and development of Gori Spa.

He has conducted many in-depth corporate re-organisation projects based on technological innovation.

On 1 December 2016 Assochange, the Italian association for management change, awarded him the "2016 best change" award for having completed the ambitious transformation project entitled ACEA 2.0. At the SAP Executive Summit of 14 March 2016, he received the SAP Innovation Award for his launch of the most innovative project in partnership with SAP Italia, aimed at making ACEA become the first entirely digital multi-utility company in Italy. *Management of Utilities and of Infrastructures (MUI)* conferred on him the "2013 Utility Manager of the Year" award for the creation of the Work Force Management system for the management of water services also in Publicacqua.

Journalist and expert, he is the co-author, together with Erasmo D'Angelis, of "*Come riparare l'Italia: rilanciare l'economia e salvare il territorio con la Blue Economy*" with preface by Giorgio Napolitano, and of "*Il valore dell'acqua: chi la gestisce, quanta ne consumiamo e come possiamo salvarla*", with preface by Matteo Renzi, both published by Dalai Editori.

He was appointed on the basis of list no. 1 presented by the above-mentioned Roma Capitale.

Elisabetta Maggini: born in Rome on 24 July 1982, a law graduate specialised in Real Estate Finance with a master's degree from the Business School of the "Guido Carli" Luiss University. She is a Board Director of Sorgente Group, delegated to deal with Institutional Relations, a member of the Strategic Committee of Gruppo Italia, a member of the

Female Entrepreneurs' Committee at the Rome Chamber of Commerce, and member of the Steering Committee of ACER Giovani, the National Association of Young Real Estate Builders of Rome. From 2008 to 2013 she dealt with the young female entrepreneurs sector of the presidency of the Province of Rome and, successively, for the Chairman of the Lazio Region. She is spokeswoman for the Council of Young Entrepreneurs and Professionals of Rome and Lazio. She was appointed on the basis of list no. 1 presented by the above-mentioned Roma Capitale.

Paola Antonia Profeta: born in Milan on 02 May 1972, with a degree in economics and social studies from the Bocconi University, awarded cum laude, and she has a PhD in Economics awarded by the Pompeu Fabra University of Barcelona. She is: a permanent associate professor in financial sciences at the Bocconi University of Milan; member of the CESifo Research Network, Munich (Germany); member of the publishing committees of specialist magazines on economic sciences; author of many international publications on public economy and economy in general; collaborator of the Equal Opportunities department of the Prime Minister's Department; and scientific advisor for Unicredit and for the Universities Foundation. She also sits on the Board of Directors of Banca Profilo, a company listed on the Italian stock exchange. She was appointed on the basis of list no. 1 presented by the above-mentioned Roma Capitale.

Francesco Caltagirone: born in Rome on 29 October 1968. At present he is the Board Chairman and Managing Director of the listed company Cementir Holding, and Managing Director of the listed companies Caltagirone and Caltagirone Editore. He was appointed on the basis of list no. 2 presented by Fincal SpA (composed as follows: no. 1 Francesco Caltagirone, no. 2 Paolo Di Benedetto, no. 3 Azzurra Caltagirone, no. 4 Mario Delfini, no. 5 Tatiana Caltagirone, no. 6 Massimiliano Capece Minutolo Del Sasso, no. 7 Albino Majore and no. 8 Annalisa Mariani), obtaining the favourable vote of 13.3813% of the voters, with a quotient of 21,437,487. Since his appointment by the Shareholders' Meeting he has held 7.513% of the share capital.

Giovanni Giani: born in Lecco on 14 January 1950, engineer, manager with vast international experience in business development and the management of companies in the sector of services for society as a whole and in the industrial sector, and expert in international industrial relations. At present he holds the office of Chairman and Managing Director of Suez Italia SpA, the Italian holding company of the Suez Group. He was appointed on the basis of list no. 3 presented by Ondeo Italia SpA, with 12.483% of the share capital at the date of the Shareholders' Meeting that appointed him (composed as follows: no. 1 Giovanni Giani, no. 2 Diane D'Arras, no. 3 Olivier Jacquier, no. 4 Gael Falchier, no. 5 Francesca Menabuoni, no. 6 Mauro Alfieri, no. 7 Dominique Romani, no. 8 Marica Lazzarin and no. 9 Francesco Nocentini), obtaining the favourable vote of 17.9524% of the voters, with a quotient of 28,760,573.

Roberta Neri: born in Rome on 8 August 1964, with a degree cum laude in Economics and Business Studies from "La Sapienza" University of Rome, he has been the Managing Director of ENAV since July 2015. He began his career in Italsiel, to then pursue his professional path in ACEA SpA, where he covered roles with increasing responsibility from 1991 to 2004, and where he has been Chief Financial Officer and the manager respon-

sible for accounting reporting (Reporting Officer) since January 2004.

He has also been a director of Sorgenia SpA since March 2015. He has been Chairman and Managing Director of the company Manesa, which provides advisory services for financial and industrial investors in the technical-financial field and on structured joint investment operations. He was appointed with the favourable vote of 73.436570% of the voters.

Massimiliano Capece Minutolo Del Sasso: born in Naples on 07 April 1968, a graduate in engineering, at present he is on the boards of directors of several companies, some of which are listed on the Milan stock exchange, including Caltagirone SpA and Vianini Lavori SpA. He was appointed with the favourable vote of 73.436570% of the voters.

Angel Simon Grimaldos: Awarded a degree in Civil Engineering with specialisation in Hydraulics from Barcelona Polytechnic university. Since March 2013 he has been the Senior Executive Vice President Water Europe for Suez Environnement. As of June 2010 he has been the Executive Chairman of "Agua de Barcelona - AGBAR", a holding of more than 150 companies that has operated for over 140 years in all spheres connected with the integrated water cycle. He is currently Chairman of the AGBAR Foundation, of the Aquae Foundation and of the Acuorum Foundation. Co-opted on 28 June 2016.

Maximum number of offices simultaneously held in other companies

The Board of Directors, at its meeting of 23 March 2011, with the favourable opinion of the Internal Control Committee, resolved that Board Directors could not hold more than 10 offices in listed companies, including that held in ACEA, to assure maximum possibility of fulfilling their mandates.

The nature of the office held by the Directors is such as to require them to be able to dedicate all the time necessary, and the type and number of the other offices held by the Directors at present in office makes it possible for them to perform their duties in the best possible manner.

All the Directors in office, already when the lists were filed and, later, on their acceptance of their mandate, specified the offices that they held in other companies listed on regulated markets (also abroad), in financial, banking and insurance companies and in companies of relevant dimensions.

On the basis of the updated communications received by the Company in implementation of the resolutions passed, all the Directors, at 13 March 2017, cover a number of roles compatible with the guidelines laid down by the Board itself. Plate 1, at the foot of this Report, lists the offices held by the Directors and Statutory Auditors in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies and companies of relevant dimensions.

Induction Programme

As in the past, after special induction sessions carried out in 2014 and 2015 to give the newly appointed directors adequate knowledge of the main sectors of activity (networks, energy and the environment), several follow-up sessions were held in 2016 during Board of Directors' meetings, on business and investments, company dynamics and their development, the legal framework of reference and on the subsidiary companies.

In addition, in 2016 the Board of Directors' Chairwoman organised Board meetings with the participation of the

Statutory Auditors, to illustrate Work Force Management (WFM), a digital platform which allows for coordinating and monitoring all the activities of the ACEA Group in real time. In fact, by means of WFM, the Company integrates the aim of customer satisfaction with that of creating value for the shareholders, at the same time paying attention to the needs of society and respecting the environment; it takes avail of the professional skills of its employees and enhances management responsibility in the achievement of the Company's objectives.

Succession plans

The Board of Directors, in consideration of the procedures for the appointment of the executive directors, who represent the major shareholder, and the assessments expressed by the latter, has deemed it unnecessary to develop a succession plan for the said directors. If an executive director leaves office, the Board of Directors may co-opt a new director in his place and determine the powers to be vested on the same. The first appropriate Shareholders' Meeting will then provide for his successive inclusion on the Board of Directors.

4.3 THE BOARD OF DIRECTORS' ROLE (art. 123-bis, par. 2, letter d, of the CFA)

The Company's Board of Directors holds a central role in the sphere of the Company's governance, and all the departments and the managers of the Company and of the Group with strategic and organisational responsibilities (Key Managers) report to the Board of Directors. Taking into account its role, the Board of Directors meets regularly, to guarantee the effective performance of its duties. More specifically, the Board of Directors, pursuant to law, the Articles of Association and the guidelines of the Internal Control and Risk Management System (hereinafter "Guidelines") approved on 20 December 2012, has the duties listed below:

- to define the strategic and general management line and to develop the Company's evolution; to provide for the economic-financial coordination of the Group's activities by approving medium-term strategic plans which incorporate the Group's development guidelines, the investment plan, the financial plan and the annual budgets; the acquisition and disposal of stakes, excluding infra-group operations;
- to define the nature and level of risk compatible with the Company's strategic targets, so that the main risks to which the Company and its subsidiaries are exposed, including the various risks that can become relevant in the light of sustainability over the medium-long term period, are correctly identified and adequately measured, managed and monitored, also determining the degree of compatibility of such risks with a business management consistent with the strategic targets identified;
- to approve and amend the internal regulations as far as concerning the general organisational structure of the Company and of the Group, and any amendments to the same that have a significant influence on the Group's organisation;
- to appoint the General Manager;
- to define the corporate governance system and to provide for the constitution, within the Board of Directors itself, of specific Committees, appointing the relative members and attributing powers to the same on the occasion of the approval of their respective functioning regulations;
- to adopt an Organisational and Management Model in compliance with Legislative Decree 231/2001 and to appoint the Supervisory Board;
- to designate the directors and statutory auditors for ACEA representation on the relative boards of its major subsidiaries, understood as those listed on regulated mar-

- kets and those that require the commitment of capital, shareholders' loans or guarantees above Euro 10 million;
- with reference to directors with delegated powers, to attribute and revoke such powers, and to define the limits and procedures of their exercise;
- to reserve and exercise for ACEA and its subsidiaries the power for expenditures above Euro 7.5 million, if in line with the budget, and above Euro 1 million for off-budget expenditure;
- to determine, on a proposal of the specific Committee and after consulting the Board of Statutory Auditors, the fees due to the Chairperson, the Managing Director, the other directors vested with special roles, the members of the Board of Directors' Committees and the salaries for key managers, i.e. those with strategic responsibilities;
- to define the Guidelines, after consultation with the Control and Risks Committee (hereinafter also CRC), whose duties are illustrated in Chapter 10, so that the main risks to which ACEA and the major companies of the Group are correctly identified and adequately measures, managed and monitored;
- to assess the adequacy of the organisational, administrative and accounting framework of ACEA and of its subsidiaries with strategic relevance, especially as regards the Internal Control and Risk Management System (hereinafter also the "Control System");
- to assess the general business trend (art. 2381 of the Civil Code) taking into consideration, in particular, the information received from the delegated bodies, periodically comparing the results achieved with those programmed;
- to appoint and revoke:
 - the Audit Department Manager, on the favourable opinion of the CRC and on a proposal of the Director responsible for the Internal Control and Risk Management System, and after consultation with the Board of Statutory Auditors, making sure that said Department is provided with adequate resources for the performance of its duties and defining the remuneration consistent with Company policies;
 - a Financial Reporting Officer, unless already provided for by the Shareholders' Meeting, on the favourable opinion of the Board of Statutory Auditors (pursuant to art. 22-ter of the Articles of Association), ensuring the adequacy of his powers and means for the performance of his duties;
- to approve annually the Audit Department Manager's work plan, after consulting the Board of Statutory Auditors and the Control System Director;
- after consulting the Board of Statutory Auditors, to assess the results illustrated by the independent auditor in the case of suggestions, that said Board may express in a letter or in its report, on fundamental issues that have come to light during the audit of the accounts;
- to assess, at least once every six months, the adequacy of the Control System in consideration of the Company's features and its risk level, and to illustrate the main features of the same in the Report on Corporate Governance, expressing its own assessment of the adequacy of the same, after hearing the opinion of the Control and Risks Committee;
- to establish Company measures of protection for the processing of personal or sensitive data by third parties (pursuant to Legislative Decree 196/2003);
- to adopt the procedures necessary to protect workers' health and appoint the subjects responsible for ensuring safety in the workplace (pursuant to Legislative Decree 81/2008);
- to make all efforts to establish continuous dialogue with the shareholders based on the comprehension of the reciprocal roles;

- to promote initiatives aimed at fostering shareholders' maximum participation at the Shareholders' Meetings and to facilitate the shareholders in the exercise of their rights;
- to adopt, on a proposal of the Managing Director, the procedures for the internal management and the external disclosure of documents and information regarding the company, especially "price sensitive" information and those relating to transactions in financial instruments carried out by persons who, due to their office, have access to relevant information;
- to carry out self-assessment at least once a year on the functioning of the Board itself and of its Committees, and on their size and composition;
- to assess, at least once a year, the independence of its non-executive members.

The Board of Directors has provided for the fulfilment of the above duties, and among other things:

- over the financial year 2016, it has assessed the general business trend on the occasion of the financial reporting (the draft financial statements of the period at 31 December 2015; the six-monthly interim financial report; the interim management reports on the 1st and 3rd quarters of the period), taking into consideration, in particular, the information received from the delegated bodies, and periodically comparing the results achieved with those programmed;
- in November 2016 it approved the 2016–2020 Sustainability Plan which contemplates, also in implementation of the provisions of the listed companies' Self-Regulatory Code and of EU Directive 2014/95, the Board of Director's greater involvement in issues regarding Sustainability. The formal drafting of the Sustainability Plan contributes to the concrete application of the sustainability principles in the execution of the Group's operations and to the progressive integration of sustainability from the strategic viewpoint, and it answers the growing expectations of the parties concerned (customers, regulatory authorities, law makers, financiers, intermediate groups of civil society, business counterparties), that are increasingly attentive to the Company's sustainability. In addition, the targets indicated in the 2016–2020 Sustainability Plan will be monitored by an especially established *Interdepartmental sustainability advisory panel*, whereas the Plan itself will be periodically subjected to review and updating, in order to maintain its consistency with the Company's evolution.

On 13 March 2017, the Board of Directors:

- assessed the adequacy of the Internal Control and Risks Management System and the adequacy of the Company's organisational, administrative and accounting framework and that of its strategically relevant subsidiaries, deeming the ACEA Control System, as a whole, to be suitable for the pursuit of the Company's objectives;
- as an integral part of the aforesaid assessment process, carried out self-evaluation of the composition and functioning of the Board of Directors itself and of its internal Committees. Said evaluation regarded the Board of Directors' independence, structure and composition, the functioning of the Board and of its Committees, and the information flows received by the Board and its Committees in the performance of their duties. For the execution of the assessment tasks, the Board of Directors took avail of a company specialised in the sector, as illustrated below;
- in compliance with the recommendations of the Self-Regulatory Code, and in view of the renewal of the Company's bodies, the Board of Directors, on the opinion of the Appointments and Remuneration Committee and taking into account the self-assessment results, has developed its own guidelines on the future dimension and

composition of the governing body, also with particular reference to the Chairperson and the Managing Director, to be submitted to the Shareholders' Meeting scheduled for 27 April 2017 next.

Functioning

The Board of Directors meets regularly, in compliance with the terms of law and a works calendar, organising itself and operating in order to guarantee the effective and efficient execution of its functions.

In 2016 the Board of Directors held 10 meetings, lasting on average approximately 1 hour 50 minutes each, regularly attended by the Board Directors and the Statutory Auditors. The Directors' attendances at the Board of Directors' meetings are detailed in Table no. 2.

For the year 2017, 4 Board of Directors' meetings have been scheduled, and communicated to the market, for the approval of the financial reports of the period. So far, 2 meetings have been held, including today's meeting.

The Board of Directors operates according to Works Regulations in force since 22 April 2003, which discipline the works of the Board in order to guarantee the immediacy and completeness of the information transmitted prior to the meetings. In compliance with the said Regulations, the resolution proposals, together with all the useful documentation approved by the Director responsible for the specific item, must be delivered at least 10 calendar days before the date of the meeting, to the Company's administrative office which will submit them, without delay, to the Managing Director for his approval, for the purpose of defining the draft Agenda. The administrative office, at least 6 days before that of the Board of Directors' meeting, submits to the Chairperson of the Board the resolution proposals and the relative information, together with the draft agenda approved by the Managing Director.

The Chairperson finalises the Agenda, also inserting proposals and items of his competence, which is then transmitted, at least 3 days before that of the meeting, to the single Directors and Statutory Auditors, together with all the documentation prepared by the Company's departments. The meetings have been regularly attended by the Directors and by the Statutory Auditors.

In 2016 the managers of the Company and of its subsidiaries with responsibility for the various items on the agendas were invited to the Board of Directors' meetings and, on the Managing Director's invitation, they gave the necessary information on the subjects under discussion, leaving the meeting when the Board of Directors was about to vote on the relative resolutions.

Assessment of the functioning of the Board of Directors and its Committees

The Board of Directors, according to the application criterion of 1.C.1 letter g) of the Self-Regulatory Code, must assess its own dimension, composition and functioning and those of its Committees ("*evaluation board*") at least once a year, autonomously or with the assistance of an independent external advisor.

ACEA has entrusted the execution of the Evaluation Board, for a three-year term, to the advisor Egon Zehnder, a leading consultancy company with years of expertise in the field, which holds the necessary requisites of independence and which has no other ACEA mandates.

The activity carried out by the advisor comprises assessing the Board of Directors according to international best practices; in particular, all the areas of the Board of Directors' competence have been assessed.

The evaluation of the Board of Directors regarded, in addition to the level of its adhesion to the principles and con-

duct defined by the Board of Directors' Regulations and by the Self-Regulatory Code, benchmarking in respect of the best practices found on the Italian and foreign markets.

The process followed for the assessment is fundamentally based on hearing the various individual opinions, through interviews carried out both with the aid of a questionnaire and with open discussions with the single Directors and with the Chairperson of the Board of Statutory Auditors, subsequently processed by the advisor.

The questions of the questionnaire and the interviews with the Directors focused on the various aspects of the functioning of the Board of Directors and of the Committees, such as:

- the dimension and composition - and possible indications in view of renewal;
- the independence and the formation;
- the Board of Directors' meetings and the decision-making processes;
- the role of the Chairperson of the Board of Directors and relations between the Board Directors and the Management;
- the information and the presentations;
- risk strategy and control;
- the structure and the persons;
- the Board of Directors' Committees;
- the dynamics of the Board of Directors.

In these activities, the opinions of all the members of the Board of Statutory Auditors were also acquired.

Egon Zehnder, at the Board of Directors' meeting of 13 March, presented the results of the assessment for the third year of the mandate of the Board of Directors in office; in particular the advisor, on the basis of the comments acquired and the comparative analysis carried out, reached the following conclusions:

"On the basis of the comments acquired and the comparative analysis, we express a positive opinion of compliance on the part of ACEA with the indications of the Self-Regulatory Code during the third year of the mandate of the said Board and for all three years of its mandate.

In these years, the Board has shown a solid governance base and has benefited from the high level collaboration of the supporting structures.

In addition, in this third year of the mandate, ACEA's Board of Statutory Auditors has re-confirmed its contribution by giving its opinion in support of the Board's advice to the Shareholders, in view of the formation of a new Board of Directors.

In their advice to the Shareholders, we underline that the Board Directors and the Statutory Auditors have the same opinion on:

- *the ideal features of the Chairperson, the Managing Director and the Directors;*
- *the functioning of the Board of Directors and of its Committees, that has improved and been consolidated over time;*
- *the dynamics of the Board of Directors, which are clearly positive today, exemplified by:*
 - *excellent collaboration between the Chairperson and the Managing Director;*
 - *the constructive contribution of the Minorities."*

4.4 DELEGATED BODIES

Managing Director

In June 2014, the Board of Directors appointed Alberto Irace as Managing Director, conferring on him all powers for the governance of the Company except those otherwise attributed pursuant to law and regulations, the Articles of Association or the power structure approved in June 2014 (with reference to the issues that, according to the said structure, are reserved to the Board of Directors, see paragraph 4.3), and in particular the Managing Director:

- operates on the basis of medium-long term plans and the annual budgets approved by the Board, and guarantees respect for the managerial guidelines deriving from the same. In this context, the Managing Director's powers are exercised, for ACEA and its subsidiaries, for transactions up to Euro 7.5 million (works contracts, purchases, rentals, disposals, participation in calls for tender, etc.) if in line with the budget, and for transactions up to Euro 1 million for off-budget transactions; for the Group's subsidiaries operating on the energy - electricity and gas - market, the powers vested on the Managing Director include: i) the issue of sureties and other guarantees up to Euro 12 million if in line with the budget and up to Euro 2 million for off-budget operations; ii) the issue of all the sureties and other obligatory guarantees in favour of AEEGSI [the Italian electricity, gas and water authority], GSE [the energy services provider], GME [manager of the energy markets], Terna SpA, the Single Buyer and other public subjects;
- signs the works agreements of any amount awarded on the basis of Legislative Decree 163/2006;
- implements the organisational and procedural changes in the Parent Company's activities according to the guidelines approved by Board of Directors' resolution;
- chairs and coordinates the Management Committee, which is an advisory committee composed of Company managers, with the task of verifying the Group's operational economic situation and that of the single business units and any gaps compared to the planned targets;
- ensures correct management of corporate information. To this regard, we refer you to Chapter 5 "Corporate Information Processing".

The Managing Director informs the Board of Directors and the Board of Statutory Auditors at least every quarter and, in any case, on the occasion of the Board of Directors' meetings, on the activity performed and the Company's business trend, on the business outlook and on transactions of major relevance for their dimensions or features, carried out by the Company or its subsidiaries, in compliance with art. 20.1 of the Articles of Association. At present, the Managing Director also covers the role of General Manager.

In compliance with art. 20 of the Articles of Association, the ordinary management of the Company, the Company's signature and legal representation before third parties and in court are delegated to the Managing Director, as well as all powers within the scope of the delegations conferred and within set commitment limits.

The Managing Director is also the Director responsible for the Internal Control and Risks Management System, according to the indications of the Self-Regulatory Code (for a detailed description of the duties attributed to the same in that capacity, please refer to paragraph 10.1 of this Report).

Chairperson

In June 2014, the Shareholders' Meeting appointed Catia Tomasetti as Chairwoman of the ACEA Board of Directors. The Chairperson, according to art. 20 of the Articles of Association, is the Company's legal representative with power of signature, and also has the power to summon and chair Board of Directors' meetings and Shareholders' Meetings.

The Board of Directors, with a resolution of 9 June 2014, has also assigned to the Chairwoman the institutional duties of steering and control, conferring on her corresponding managerial delegations, in particular: the duty of supervising the Group's activities and of verifying the implementation of the Board of Directors' resolutions and the corporate governance rules, also in implementation of the

powers reserved to the Board of Directors; verification of the Company's activities and processes relating to the aspects of the quality provided and perceived, environmental impact and the Company's sustainability; supervision of the Board of Directors secretariat and all the connected activities; the power to carry out all the activities contemplated by the laws in force relating to disclosures and the media, also through the publication of newspapers and websites, including the appointment of the Financial Reporting Officer from among the employees of the Group holding the legal requirements.

The Board of Directors' activities are coordinated by the Chairwoman, who calls the Board meetings, establishes the agenda and directs the works, ensuring that the Directors are promptly given - except in the case of need or urgency - the documentation and information necessary to allow the Board to give an aware opinion on the matters submitted to its examination.

Joint powers of the Chairperson and the Managing Director

With Board of Directors' resolution of 9 June 2014, joint powers were also delegated to the Chairperson and the Managing Director who, in the case of proven urgency and need, are thus authorised to exercise the powers normally reserved to the Board in relation to contracts, purchases, company transformation, participation in tender procedures, the issue of sureties and, when the urgency does not allow for calling a meeting of the Board of Directors (which must be informed at the next meeting to check on the existence of the need and urgency), the designation of members of the Boards of Statutory Auditors and the Boards of Directors of the more important subsidiaries and partly held companies, these being understood as:

- a) those listed on regulated markets or with securities on issue as contemplated by art. 116 of Legislative Decree 58/98, i.e. the Consolidated Finance Act;
- b) those which require commitments of capital, shareholders' loans or guarantees above Euro 10 million.

In addition, the Chairperson and the Managing Director designate the members of the Boards of Statutory Auditors and the Boards of Directors of the companies of the ACEA S.p.A. Group other than those considered of "more importance".

Information to the Board of Directors

The Board of Directors, as also the Board of Statutory Auditors, in compliance with art. 20 of the Articles of Association and the provisions of law, receives from the Chairperson and the Managing Director constant and full information on the activities performed, summed up at least quarterly in a report on the general business trend and the relative outlook. More specifically, with reference to transactions of major relevance carried out within the sphere of their powers, including any non-typical transactions and those with related parties, providing the approval of which is not reserved to the Board of Directors, the Managing Director and the Chairperson report to the Board on the features of said transactions, the subjects involved and their connection, if any, with the Group, the determination methods and the relative economic and financial effects.

4.5 OTHER EXECUTIVE DIRECTORS

The Board has no other Executive Directors.

4.6 INDEPENDENT DIRECTORS

At 31 December 2016, and still today, the Board had 5 independent non-executive directors, namely: Elisabetta Maggini, Paola Antonia Profeta, Simon Angel Grimaldos, Roberta Neri and Massimiliano Minutolo Capece Del Sasso (see table 2).

The procedure followed by the Board to verify their independence involves the declaration of the existence of the requisite on the part of the director on presentation of the list and at the moment of acceptance of the appointment, and verification by the Board of Directors at the first meeting after the appointment. The independent directors also promise to immediately inform the Board of Directors of any situation which entails their loss of this requisite.

The Independent Directors are considered such in accordance with the provisions of law and art. 3 of the Self-Regulatory Code.

We point out that in the assessment of the requisites of independence, no parameters other than those set out in the Self-Regulatory Code have been used.

Therefore, on the basis of the information provided by the persons concerned or, at any rate, available to the Company, immediately after the appointment, and most recently in March 2017, the Board of Directors ascertained the existence of the requisites of independence prescribed by the Self-Regulatory Code.

The Board of Statutory Auditors, in compliance with the provisions of art. 3 of the said Code, checked on the correct application of the verification criteria and procedures adopted by the Board of Directors to assess the independence of its members.

4.7 LEAD INDEPENDENT DIRECTOR

On 13 March 2017, the Board of Directors confirmed that, as in the preceding year, the conditions for the institution of a lead independent director so not exist, considering that the current Chairwoman of the Board of Directors does not hold the role of the main subject responsible for the company (chief executive officer), and does not hold a controlling stake in the Company.

5. CORPORATE INFORMATION PROCESSING

The ACEA Board of Directors, as long ago as September 2006, on a proposal of the Managing Director, adopted Regulations for internal governance and for the external disclosure of the Company's documents and information. Said Regulations are available for consultation at www.acea.it (in the Corporate Governance section). The Regulations:

- establish the methods for the processing and disclosure of Company information within the Group;
- rule that Company representatives who gain knowledge of information of which the early disclosure could be prejudicial to the Company's equity and/or that of the Shareholders must treat the same with maximum reserve, and that the Company, in the case of specific circumstances, must give immediate and full information to the market;
- prescribes that a procedure must be established for the drafting of press releases relating to price sensitive information, to prevent possible distortions or irregularities in the communication of such information.

In the same year, in accordance with art. 115-bis of the CFA, a Register was instituted, now disciplined by art. 18, paragraph 1, letter a) of EU Regulation no. 596/2014 (the Market Abuse Regulation, or MAR), containing the list of all persons with access to inside information who have a professional collaboration relationship with the Company, whether they are employees or not, and who, in the performance of certain duties, have access to inside information such as, for example, advisors, accountants or credit rating agencies (Register of Persons with Inside Information Access).

Art. 7 of the MAR provides that inside information is “*information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made pub-*

lic, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments”; and that “*information shall be deemed to be of a precise nature if it indicates a set of circumstances which exists or which may reasonably be expected to come into existence, or an event which has occurred or which may reasonably be expected to occur, where it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments or the related derivative financial instrument [...]. In this respect in the case of a protracted process that is intended to bring about, or that results in, particular circumstances or a particular event, those future circumstances or that future event, and also the intermediate steps of that process which are connected with bringing about or resulting in those future circumstances or that future event, may be deemed to be precise information.*”

Rules have also been adopted on *Internal Dealing* in compliance with the provisions of art. 114, paragraph 7 of the CFA, and today also the provisions of art. 19 of the MAR which rules that transactions in financial instruments carried out by Relevant Subjects and by persons closely linked to the same must be communicated to ACEA and to CONSOB immediately and, in any case, within three working days from the transaction, at the request of the Relevant Subjects.

Relevant Subjects and persons closely linked to Relevant Subjects must notify the Company, in compliance with the aforementioned provision, of all transactions carried out on their behalf once the aggregate amount of such transactions reaches the threshold of Euro 5,000 (or the greater amount contemplated by the provision applicable in the future) within the calendar year.

6. BOARD OF DIRECTORS' INTERNAL COMMITTEES (art. 123-bis, par. 2, letter d), of the CFA)

The Board of Directors has formed two committees from among its members, to make proposals and to give advice: the Control and Risks Committee and the Appointments and Remuneration Committee. Thus, the powers and duties relating to appointments and remuneration are aggregated and vested on a single committee. This aggregation, in line with the recommendations of the Self-Regulatory Code, respects the composition requirements contemplated by said Code for both the Committees and ensures correct execution of the relative powers and duties.

Said Committees are composed of at least three non-executive directors appointed by the Board of Directors itself, the majority of whom must be independent directors and one of which independent directors will be the Chairperson of the Committee.

The composition, duties and functioning of the Committees are disciplined by the Board of Directors, in specific regulations, consistent with the criteria laid down by the Self-Regulatory Code.

In particular, pursuant to the Control and Risks Committee Regulations, said Committee must be composed of at least three non-executive directors, the majority of whom must also be independent directors. The Committee Chairperson is chosen from the independent directors. At least one member of the Committee must hold adequate experience in accounting, finance and risk management, which experience the Board of Directors assesses at the moment of the appointment.

Pursuant to the Appointments and Remuneration Committee Regulations, said Committee must be composed of at least three non-executive directors, the majority of whom must also be independent directors. The Committee Chairperson is chosen from the independent directors. At least one member of the Committee must hold adequate experience in finance and remuneration policies, which experience the Board of Directors assesses at the moment of the appointment.

In the performance of their duties, said Committees have access to Company information and activities, necessary for performing their respective duties, and the assistance of the Company's departments according to their sphere of competence; they may also take avail of external consultants at the Company's expense, within the limits of the annual budget approved for each Committee by the Board of Directors.

The consultants, for both Committees, must be chosen avoiding possible conflicts of interests and the conferment of mandates on subjects that provide services to companies of significance such as to compromise in practice the independent judgement of said consultants.

The Committee meetings are attended by the Board of Statutory Auditors, or by another auditor designated by the Committee (the other Auditors, in any case, being entitled to intervene), and the Board of Directors' members or representatives of Company departments may also take part, as well as third parties, on specific invitation of the Committee's Chairperson, whose assistance may contribute to the efficient performance of the Committee's duties.

As a general rule, the Audit Department Manager attends the meetings of the Control and Risks Committee. The meetings may also be attended by the Director delegated with responsibility for the Internal Control and Risk Management System, the Board of Directors' Chairperson and the other Statutory Auditors and, on invitation of the

Committee Chairperson, other members of the Board of Directors' or of the Company's structure may attend to express assessments of their competence.

The meetings of the Appointments and Remuneration Committee may be attended by the Managing Director and, on invitation of the Committee itself, also other subjects in reference to the single items on the agenda, to give information or to express assessments of their competence. The Personnel and Organisation Manager is usually invited to attend, whereas the director or manager whose position the Committee is examining may not attend.

The Board of Directors has also formed a Transactions with Related Parties Committee (TRPC), to perform the role requested by CONSOB Resolution no. 17221 of 12 March 2010 as successively amended, and as contemplated by the "Transactions with Related Parties Procedure" adopted by the Company and briefly illustrated in paragraph 11 of this Report.

The TRPC Committee, composed of at least three Independent Directors, is vested with duties and powers to make inquiries, to submit proposals and to provide advice for assessing and deciding on transactions with Related Parties, of both minor and major relevance.

7. APPOINTMENTS AND REMUNERATION COMMITTEE

On 31 December 2016, the Appointments and Remuneration Committee was created, composed of four non-executive directors, three of whom are independent, namely: Elisabetta Maggini (Independent Chairwoman), Giovanni Giani (not independent), Roberta Neri and Massimiliano Capece Minutolo del Sasso (both independent).

The Board of Directors recognised that Roberta Neri holds the requisite of adequate knowledge and experience in accounting and financial matters.

The Committee's secretariat duties are performed by the Board of Director's secretary or by another subject chosen by the Committee itself.

The Committee held 4 meetings in 2016, duly recorded in minutes and regularly attended by all the members (as well as the members of the Board of Statutory Auditors), with an average duration of approximately 1 hour 15 minutes each.

The Appointments and Remuneration Committee, within the scope of its duties, must make proposals and give advice to the Board of Directors and monitor the application of the criteria and decisions adopted by the latter.

Its duties also include submitting proposals and offering advice on the fees for directors holding special roles, for the General Manager and for those holding positions of strategic relevance for the organisation. The Committee also expresses an opinion on the Group's personnel remuneration and retention policies that it submits to the Managing Director.

In particular:

1. it proposes to the Board of Directors the remuneration policy for Directors and Key Managers, promoting medium-long term sustainability and taking into account, for executive directors and directors vested with special duties and, as far as compatible, also for key managers, that the fixed part and the variable part must be adequately balanced according to the strategic targets and the risk management policy;
2. it periodically assesses the adequacy, the overall congruence and the concrete application of the remuneration policy relating to directors and key managers, on the basis of information provided by the Managing Director, and it presents proposals regarding said remuneration to the Board of Directors;
3. it proposes to the Board of Directors candidates for directorships, taking into account any reports received from the shareholders in the case of co-optation if an independent director must be replaced;
4. it presents proposals to the Board of Directors on the fees of the executive directors and the other directors that hold special offices, and on the performance targets linked to the variable part of said fees;
5. it submits to the Board of Directors an opinion on the remuneration policies for key managers;
6. it monitors the application of the decisions adopted by the Board, checking, in particular, on the effective achievement of the performance targets;
7. it submits to the Board a Remuneration Report that the directors must present to the annual Shareholders' Meeting;
8. it draws up opinions for the Board of Directors on the size and composition of the same and it expresses recommendations regarding the professional figures that it deems should sit on the Board, the maximum number of offices that directors or statutory auditors can hold without prejudice to the directors' effective participation in the Board's committees, and the existence and

importance of any activities performed by each director in competition with the Company.

Once a year the Committee assesses its own size, composition, functioning and independence in relation to its duties as indicated by these Regulations.

The Directors must refrain from participating in Committee meetings when the Committee discusses proposals to be submitted to the Board of Directors relating to their own fees.

The Committee may have access to the information necessary for the performance of its duties, also from the Company's departments, and it may also take avail of external advisors, in the terms defined by the Board of Directors.

In 2016 the Committee:

1. examined and approved the Annual Report on the activity performed by the Remuneration Committee;
2. examined and approved the Remuneration Report pursuant to art. 123-ter of Legislative Decree no. 58 of 24 February 1998;
3. proposed to the Board of Directors the addition of an item on the Agenda of the Shareholders' Meeting of 28 April 2016, namely to re-attribute to the Board of Directors the power to determine the fees for directors vested with special roles, pursuant to art. 2389, paragraph 3, of the Civil Code and in accordance with art. 21 of the Articles of Association;
4. acknowledged that the economic-financial targets had been reached and authorised the payment of the variable incentive programme, known as the MBO (management by objectives), for 2015;
5. approved the summary statement of the 2013-2015 LTIP (Long Term Incentive Plan) and authorised the payment of the relative amounts to those entitled;
6. examined and then proposed to the Board of Directors the 2016-2018 LTIP (regarding the medium-long term system of variable incentives);
7. examined and then proposed to the Board of Directors the assignment of the 2016 targets on the basis of the Variable Incentives System;
8. proposed to the Board of Directors the appointment of Mr Angel Simon Grimaldos, the candidate proposed by the shareholder Suez Italia, subsequent to the resignation of the independent director Diane d'Arras and having received the favourable opinion of the Board of Statutory Auditors, and also in the light of the verifications carried out on the existence of the requisites of integrity, professional skill and independence required by the provisions in force and the Self-Regulatory Code.

In 2017, at the date of this Report, the Committee has held 4 meetings, with an average duration of approximately 1 hour 10 minutes each.

The Board of Directors has confirmed the allocation of an annual budget for 2017 of Euro 25,000.00 (twenty-five thousand point zero zero) for the Committee to allow the same, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

8. DIRECTORS' FEES

The general remuneration policy

The Remuneration Policy for Directors and Key Managers, defined by the Board of Directors, is detailed in the document "Remuneration Report", approved by the Board of Directors in the meeting of 13 March 2017, pursuant to art. 123-ter, paragraph 2, of the CFA, to which we invite you to refer for in-depth information. Said document will also be available at the Internet site www.acea.it and it will be subjected to the approval of the meeting of the Board of Directors, acting in an advisory role, which will be held in April 2017 for the approval of the financial statements relating to the financial year 2016.

The fees for the Board of Directors' members and the additional fees recognised to the members of the Board's internal Committees, which act in an advisory and proposing capacity, are those established by the Shareholders' Meeting of 5 June 2014.

On 28 April 2016, the Shareholders' Meeting resolved on the re-attribution to the Board of Directors of the fees contemplated by art. 2389, paragraph 3, of the Civil Code, regarding the recognition of fees to directors vested with special offices with reference, relating to the economic conditions, to the fees recognised in listed companies of similar sector and dimensions, without prejudice to the limits imposed by art 84-ter of Decree Law 69/2013, converted by Law 98/2013 (see *Remuneration Report 2017 - Financial Period 2016, Section I*).

Said Remuneration Policy – the present remuneration system of which is detailed in the "Remuneration Report" – lays down guidelines which contain the following indications:

- an important part of the remuneration of the Company's Executive Directors and Key Managers, as expressly required by the Self-Regulatory Code, is linked to the economic results achieved by the Company and, possibly, to the achievement of specific performance targets – pre-set and measurable – indicated in advance by the Board of Directors itself, as detailed in Section I of the "Remuneration Report";
- a system of medium-long term variable incentives (Long Term Incentive Plan) is contemplated, to be renewed every three years. The aim of the Plan lies in encouraging the management to pursue the Group's economic-financial results in the interests of the shareholders. The current plan refers to the three-year term 2016-2018. The structure of the plan follows that of the preceding three-year term, the Board of Directors, on a proposal of the Appointments and Remuneration Committee of 30 May 2016, fully corresponding to the goals defined for institutes of this nature and purpose;
- as of 2015, in line with a growing need for transparency expressed by the Self-Regulatory Code and in view of an increasingly responsible remuneration policy, the clawback clause, already adopted for Executives and Key Managers, has been extended also to the managerial roles which have greater impact on the Group's business. According to this clause, the Company is entitled to request the return of the variable remuneration (relating to both the short and the medium-long term periods) if it is found to have been paid in the case of results obtained consequent to intentional misconduct and/or gross negligence, such as the intentional alteration of the data used to indicate the achievement of the targets or obtaining the same results by behaviour contrary to corporate or legal provisions.

Remuneration of Executive Directors and Key Managers

For detail of the fixed fees of the Chairman and of the fixed and short term (annual) variable remuneration of the Managing Director and of the General Manager, and of the Key Managers, please refer to Section II of the 2016 Remuneration Report, pursuant to art. 123-ter of the CFA.

Incentive mechanisms for the Internal Audit Department Manager and the Financial Reporting Officer

The incentive mechanisms for the Internal Audit Department Manager and the Financial Reporting Officer are subject to annual assessment on the basis of qualitative and efficiency criteria; on the basis of these criteria, in fact, individual targets are assigned to the persons in question and, therefore, they are not linked to targets of an economic-financial nature except for the part represented by the so-called gates.

Non-executive directors' remuneration

The remuneration of non-executive directors is not linked to the economic results achieved by the Company, but to the commitment requested of them and their possible membership of one or more Committees. No share incentive plans involve non-executive directors.

Indemnity for directors in the case of revocation, resignation, dismissal or cease of office subsequent to a takeover (art. 123-bis, par. 1, letter i, of the CFA)

No agreements have been stipulated between ACEA and the directors in office which contemplate indemnity in the case of their dismissal or resignation/revocation without just cause.

9. THE CONTROL AND RISKS COMMITTEE

The Control and Risks Committee has been instituted to assist the Board of Directors, ensuring this latter adequate inquiries and support in the assessments and the decisions relating to the Internal Control and Risks Management System, and for approving the periodic financial reports. The Committee members and the Chairperson are appointed by the Board of Directors.

The term of office of the Committee members coincides with that of the Board of Directors that has appointed them. Committee members can be revoked by the Board of Directors if they no longer hold the requisites of independence and integrity and if they are no longer non-executive directors.

The Committee may request the Audit Department to carry out verifications on specific operational areas, simultaneously informing the Chairperson of the Board of Auditors, the Chairperson of the Board of Directors and the Internal Control and Risks Management Director, unless the verifications specifically concern the activity of said subjects.

The Committee carries out its inquiries and issues opinions to the Board of Directors regarding:

- the definition of the Guidelines, so that the main risks to which ACES S.p.A. and its subsidiaries are exposed are correctly identified, and adequately measured, managed and monitored;
- the determination of the criteria for the compatibility of such risks with a management consistent with the strategic objectives identified;
- the assessment, at least every six months, of the adequacy of the control system in respect of the Company's characteristics and the risk profile assumed, as well as the effectiveness of the said system;
- the approval, at least once a year, of the work plan drawn up by the Audit Department Manager, after consulting the Board of Statutory Auditors and the Internal Control and Risk System Director;
- the description, within the annual report on corporate governance, of the main features of the Control System, expressing its opinion on the overall adequacy of the same;
- the assessment, after consulting the Board of Statutory Auditors, of the results illustrated by the independent Auditing Firm in the case of the possible letter of suggestions and in the report on fundamental issues that have come to light during the audit of the accounts;
- proposals of the Internal Control and Risks System Director, formulated in accordance with the Board of Directors' Chairperson, and after hearing the Board of Statutory Auditors' opinion, regarding the appointment and revocation of the Audit Department Manager and the definition of this latter's salary consistent with the Company's policies, as well as the adequacy of the resources allocated to the Department for the performance of its duties. The said opinion will be binding.

The Committee also assists the Board of Directors by:

- assessing, together with the Financial Reporting Officer and after consultation with the external auditor and the Board of Statutory Auditors, the correct use of the accounting principles and their uniformity for the purposes of drafting the consolidated financial statements;
- providing the Board of Directors with opinions on specific aspects involved in the identification of the Company's main risks or risks deriving from possible prejudicial facts of which the Board of Directors has gained knowledge;

- examining the periodic reports on the assessment of the Internal Control and Risk Management System, and those of particular importance drawn up by the Audit Department;
- monitoring the autonomy, adequacy, effectiveness and efficiency of the Audit Department.

On 31 December 2016, the Committee was created, composed of three non-executive directors, two of whom are independent, namely: Roberta Neri (Chairwoman, independent), Elisabetta Maggini (independent) and Giovanni Giani (not independent).

The Director Roberta Neri has experience in accounting and financial matters and was deemed suitable by the Board of Directors at the moment of her appointment.

In 2016, the Committee held 6 meetings of an average duration of approximately one hour thirty minutes each, attended by all the members and by the Chairperson of the Board of Statutory Auditors or another statutory auditor. Of these meetings, 2 were held jointly with the Board of Statutory Auditors.

The meetings, which were regularly recorded in minutes, were also attended by other subjects, invited by the Committee, for the illustration of single points on the agenda.

The Chairwoman provides the Board of Directors with punctual information on the Committee's works.

In 2016 the Committee performed the tasks reserved to the same by the Self-Regulatory Code, and in particular:

- it assisted, carrying out the necessary enquiries, the Board of Directors in its decisions and assessments relating to the control system, and those related to the approval of the periodic financial reports;
- together with the Financial Reporting Officer and after consultation with the external auditor and the Board of Statutory Auditors, it assessed the correct use of the accounting principles and their uniformity for the purposes of drafting the consolidated financial statements;
- it expressed a favourable opinion on the Audit Departments' Activities Plan prior to its presentation to the Board of Directors for the relative approval;
- it examined the Audit Department's periodic reports;
- it expressed favourable opinions on specific aspects regarding the identification of the Company's main risks and, at the periodic meetings, it invited the managers of the Company's departments concerned to report on the methods for managing such risks;
- it monitored the autonomy, adequacy, effectiveness and efficiency of the Audit Department;
- it reported to the Board of Directors, at least once every six months, on the occasion of the approval of the annual financial statements and of the interim financial report, on the activity carried out and on the adequacy of the Internal Control and Risk Management System.

The Committee had access to the information and to the Company departments necessary for the performance of its duties.

In 2017, at the date of this Report, the Committee has held 4 meetings, of an average duration of approximately 2 hours each.

The Board of Directors has confirmed the allocation of an annual budget for 2017 of Euro 25,000.00 (twenty-five thousand point zero zero) for the Committee to allow the same, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

ACEA's Internal Control and Risk Management System, an essential element of the Group's Corporate Governance system, is a process based on the best practices of reference and on the principles of the Self-Regulatory Code, and it comprises an organic series of rules, policies, procedures and organisational structures aimed at allowing for identifying, measuring, managing and monitoring the main risks, in order to identify any potential events that could influence the achievement of the Company's objectives, and at limiting such risks within acceptable levels. The system is integrated within the more general organisational framework and corporate governance system adopted by ACEA SpA.

The Board of Directors has defined the "Internal Control and Risk Management System Guidelines", in order to:

- provide guidance for the diverse actors of the Control System so that the main risks to which ACEA SpA and its subsidiaries are exposed are correctly identified and adequately measured, managed and monitored, determining the compatibility of such risks with corporate management that is consistent with the strategic objectives identified and so that, in the Company and its subsidiaries, the behaviour adopted is coherent with the risk profile identified by the Board of Directors and the events that could hinder the achievement of the corporate objectives are suitably contrasted;
- provide guidance to ensure coordination between the departments involved in the Control System;
- identify the principles and responsibilities of the governance, management and monitoring of the risks connected to the Company's activities.

The Board of Directors, in the definition of the strategic plans, defines the nature and the level of the risks that are compatible with the objectives identified, including in its assessments all the risks that can assume relevance in view of the medium-long term sustainability of the Company's activities.

The Company, in accordance with the principles outlined and the Internal Control System Guidelines, pursuing the aim of continuous improvement in the risk control and monitoring activities, has introduced and integrated into the organisation second level protective procedures for specific risks and it has defined the standard content of the periodic information flows produced by such structures addressed to the Internal Control System Director and, through the Audit Department Manager, to the Control Bodies.

OVERALL INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Introduction

The planning, implementation and periodic assessment of ACEA's Internal Control and Risk Management System is based on the best practices of reference (integrated "Internal Control" model issued by CoSO) and on the principles of the Self-Regulatory Code.

a) Roles and duties of the various subjects of the Control System

The governance and implementation of the complete Control System involves subjects with diverse roles within the Company (governance and control bodies, Company departments, the management and employees).

For a description of the roles and duties of the Control

Bodies, we invite you to refer to the specific sections of this Report (Board of Directors, Internal Committees, the Managing Director, the Audit Department Manager, the Financial Reporting Officer and the Supervisory Board).

The role of the Ethics Committee is described in paragraph 16 "Additional Corporate Governance Practices".

The Group's management is responsible for defining, implementing and maintaining an effective risk management process with the capacity to put into practice the plans and to achieve the strategic objectives. In particular, the Industrial Areas and the Company Departments of ACEA SpA, each for its sphere of competence, are responsible in their everyday operations for implementing the actions that allow for achieving the expected business results and the management of the connected risks.

The employees are responsible for working with respect for the external and internal regulations and the management's procedures and directives, also with the support of appropriate training courses aimed at increasing the skills and at fostering the professional attitude necessary to effectively perform the controls, as defined in the Internal Control and Risk Management System.

b) Risk management system

The risk management system adopted by ACEA contemplates widespread responsibility and involves subjects at all levels of the organisation. In particular, the risk management system adopted in ACEA includes activities for risk identification, assessment, management and monitoring. The Company uses a structured Control Risk Self-Assessment (CRSA) model, to assist the management in identifying the main risks, the action priorities and the adoption of policies to mitigate the residual risks in order to bring them to a level deemed acceptable by the Company top managers. For certain types of risks, second level control and monitoring models are used, which can infer specific indicators and risk limits (e.g. PAR and VAR).

Responsibility for the controls is divided into three complementary levels:

- 1st level controls, aimed at ensuring correct execution of Company processes, in order to foresee and manage the risks by means of suitable mitigation actions, the responsibility for which is entrusted to the line structures;
- 2nd level controls, aimed at verifying that the controls defined for Company operations are effective and implemented, through continuous monitoring aimed at guaranteeing that the risk mitigation actions are adequately identified and put into practice in the organisation by the subjects responsible for said implementation;
- 3rd level controls, entrusted to the Audit Department, comprising independent verification of the design and functioning of the overall Control System, and of the monitoring of the implementation of the improvement plans defined by the management.

The Audit Department Manager is responsible for verifying that the Internal Control System is always adequate, fully operational and functioning. He hierarchically reports to the Board of Directors, he is not responsible for any operational activities and he can have direct access to all information useful for the performance of his duties. He reports on his work to the Chairperson, the Managing Director, the Control and Risks Committee and to the Board of Statutory Auditors on the functioning, the adequacy and the effectiveness of the Control System. The Audit Department

operates on the basis of a work plan, defined on the basis of the results of the Control Risk Self-Assessment which gives a summarised and comparative assessment of the main risk areas and of the relative control system and allows for identifying, according to the diverse risk levels of the Company's processes, the intervention priorities. The Audit Department Work Plan is approved annually by the Board of Directors, after consulting the Board of Statutory Auditors and the Internal Control and Risk System Director.

c) Qualifying elements of the Control System

Pervasive elements of the Control System

The pervasive elements are of fundamental importance in the ACEA control system, inasmuch as they represent the infrastructural fundamentals of the said system, including, in particular, the following aspects:

- the definition of the ethical values and of the behavioural criteria, by which the behaviour of the employees and of all those who operate in pursuit of the Company's objectives must be inspired, is ensured by the rules of the Code of Ethics, approved by the Board of Directors of ACEA SpA and its subsidiaries and disclosed inside and outside the Company;
- the roles and responsibilities, and the relations between Company departments, are clearly defined within the organisational structure adopted, and the powers of signature and the internal delegations are consistent with the hierarchical level, the organisational unit concerned and the assigned targets.

For this purpose, the organisational charts, the other organisational provisions, the organisational and management model pursuant to Legislative Decree 231/2001, the Company procedures and the system of delegations and powers are formalised, circulated and disclosed.

Centralised monitoring controls for particular risk categories

The centralised monitoring controls for particular risk categories are the manner by which a transversal view of the risks and of the connected systems of control between the diverse processes within the Group is possible. The main centralised monitoring controls are described below.

Interest rate risk. The ACEA Group's approach to the interest rate risk is based on the type of the structure of the assets and on the stability of the Group's cash flows; the activity is entrusted to the Administration, Finance and Control department., The primary aim, taking into account the needs expressed in the strategic plan, is the optimisation of the costs of the Group's liabilities and the simultaneous limitation of the effects caused by exposure to the interest rate risk, therefore the identification of the optimal combination between fixed and variable rates. The aptitude for risk and the relative limits are defined by the Board of Directors, by the approval of the single loan transactions with impact on the interest rate risk and the possible hedging transactions.

Commodity risks. With regard to the market risk deriving from trading in electricity and gas, one of the organisational units is the Risk Management Unit, which reports directly to the Finance and Control Administration Manager, which has adopted a control model for continuously controlling and monitoring the exposure to the commodity risk and which checks daily on respect for the predefined economic and volumetric exposure limits.

Commercial credit risks (customers). Within the sphere of the Administration, Finance and Control Department, specific methods have been developed to prevent and monitor the risk of customers' insolvency. The protective action is mainly aimed at ensuring preliminary risk analy-

ses of ACEA Energia's commercial proposals on the free electricity and gas market, and, therefore, of optimising the commercial action with acceptable refusal levels compared with local and national averages.

Risks relating to health and safety in the workplace. The Personnel and Organisation Department has introduced into its organisation the control and monitoring of risks relating to health and safety in the workplace. In fact, the Department is responsible, consistently with the Group's strategic guidelines, for guaranteeing the definition and controlling the implementation of the policies on health and safety in the workplace, and for guaranteeing accident prevention monitoring, also thanks to the adoption of a management system conforming to the standard BS OHSAS 18001:2007. The Personnel and Organisation Department Manager is also attributed the role of Employer pursuant to Legislative Decree 81/2008.

Compliance risks (Legislative Decree 231/2001). The Company has adopted an Organisational and Management Model, the description of which is given in paragraph 10.3.

Regulatory risks. The core businesses of the ACEA Group regard regulated sectors, inasmuch as based on the use of networks and aimed at providing essential services. Adequate protection against regulatory risks is, therefore, a fundamental factor for the pursuit of the Group's objectives. The organisational structure of ACEA SpA includes the Regulatory Department, whose purpose is to contribute to managing the regulatory risk, by monitoring the evolution of the regulatory framework and the identification of the relative consequences on the planned objectives and on company processes.

Financial reporting risks (Law 262/2005). Protection against the risks relating to the adequate and effective application of the administrative and accounting procedures connected to the financial reporting process is one of the responsibilities of the Financial Reporting Officer (paragraph 10.5). The Internal Control and Risk Management System in respect of Financial Reporting is illustrated in paragraph xx below.

Compliance risks regarding personal data protection (Legislative Decree 196/2003). The Legal and Corporate Affairs Department has created a specific organisational unit to protect against the potential risks of administrative and criminal offences, financial loss and prejudice to the Company's reputation, consequent to breach of the legislative and regulatory provisions on Privacy.

The same Department is also responsible for protecting against **antitrust compliance risks**, or non-conformity with the legislation which protects competition (i.e. the ban for companies to establish agreements that limit competition and to abusively exploit their dominating position on the market) and non-conformity with the provisions for the protection of consumers pursuant to Legislative Decree 206/2005 (i.e. unlawful acts relating to consumers and/or incorrect trade practices and/or misleading advertising).

Information security risks. The Information and Communication Technology (ICT) Department is responsible for:

- defining and updating the Group's Information Security Guidelines, which must ensure the confidentiality, the intact nature and the availability of data;
- guaranteeing the application of the policies and standards for information protection consistent with the organisational model, the requisites of law and the Group's objectives;
- defining and updating the plans for operating continuity and the management of information disasters.

d) Overall assessment of the adequacy of the Control System

See the contents of paragraph 4.3 on the Board of Directors.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123-bis, paragraph 2, letter b), of the CFA)

Introduction

In the Internal Control system, with reference to financial reporting, particular relevance is held by the “Group’s Management and Control Model pursuant to Law 262” (the Model), adopted on the occasion of the updating of the Group’s Internal Control System to the requirements of Law 262/2005. In particular, in 2007 ACEA began a process of adaptation to the needs expressed by Law 262/2005 aimed at planning an effective system of Internal Control over Financial Reporting (ICFR), subject to constant improvement and adaptation to the Company’s evolution, which can allow the ACEA Financial Reporting Officer (FRO) and Managing Director to issue the certifications required by art. 154-bis of the CFA.

The system is defined as all the activities for identifying the risks/controls and for defining specific procedures and tools adopted by ACEA to ensure, with reasonable certainty, the achievement of the aims of the credibility, accuracy, reliability and immediacy of the financial information.

The Model defines the guidelines, the methodological references and the responsibilities for the institution, assessment and maintenance of the ICFR.

The Model is developed on the basis of the fact that the ICFR must be a part of the broader Internal Control and Risk Management System and an essential element of ACEA’s Corporate Governance, and that the credibility of the information disclosed to the market on the Company’s situation and results is a fundamental element for all the stakeholders.

The Model, approved by ACEA’s Board of Directors on 20 February 2008, is composed of a series of documents, circulated among the companies of the Group, which define all the basic aspects of the system:

- Financial Reporting Regulations;
- Guidelines for the implementation of the Model;
- Periodic reports of the Group for the implementation of the information flow.

The Model is completed by the Group’s Accounting Principles Manual, the Guide to closing the consolidated financial statements, the administrative and accounting procedures and the specific operating documents.

The implementation of the Internal Control and Risk Management System in relation to the Group’s financial reporting has been carried out, also through successive adjustments, also considering the guidelines provided by certain category bodies regarding the Financial Reporting Officer’s activities, in particular:

- Position Paper of the Andaf [National Association of Administrative and Financial Directors] “*Il Dirigente Preposto alla redazione dei documenti contabili societari*” [The Financial Reporting Officer];
- Position Paper of the AIIA [Italian Internal Auditors’ Association] “*Il contributo dell’Internal Auditing nella realizzazione di un buon processo di Corporate Governance e nell’organizzazione di un flusso informativo con il Dirigente Preposto alla redazione dei documenti contabili e societari*” [The contribution of Internal Auditing in the creation of a good Corporate Governance process and in the organisation of an information flow with the Financial Reporting Officer];
- Guidelines issued by Confindustria “*Linee guida per lo svolgimento delle attività del dirigente preposto alla redazione dei documenti contabili societari ai sensi dell’art. 154-bis TUF*” [Guidelines for the performance of the Financial

Reporting Officer’s activities pursuant to art. 154-bis of the CFA].

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Model defines the guidelines of reference for creating and managing the system of administrative and accounting procedures (so-called activity/risk/control matrices) for ACEA and its major consolidated companies for the purposes of corporate Financial Reporting, disciplining the main steps and responsibilities.

a) Steps

Defining the scope of analysis. Every year ACEA updates the scope of analysis of the system of administrative-accounting controls and of the monitoring of the underlying processes, to guarantee that the risks relating to the financial reporting of the more significant accounting items within the consolidation perimeter are covered.

The scope of the analysis is initially determined by the weight of each company of the Group on the consolidated financial statements, taking into account the relevance for the same of the associated significant accounts and administrative-accounting processes; successively, the results of the analysis are integrated by considerations of a qualitative nature to take into account both the Group’s structure and the features of specific financial statement items.

Analysis of process risks and controls. The approach adopted by ACEA allows for identifying the “key” risk and control points deemed significant for the consolidated financial statements. For this purpose, the control objectives and the relative risks are defined for every process and activity; i.e.

- financial statement assertion: this element must be respected in the reporting of company events in order to represent them truly and correctly on the financial statements;
- theoretic risk: risk identified at the “inherent level”, not taking into account the existence and the effective execution of specific control techniques aimed at eliminating the risk in question or at reducing it to an acceptable level;
- specific control objective: objective that must be guaranteed by the execution of the control activity.

In particular, the financial statement assertions considered in the Model are:

- *Existence and occurrence* (the company’s assets and liabilities must exist at a definite date and the transactions recorded must represent events that have actually taken place during a specific period);
- *Completeness* (all the transactions, assets and liabilities to be represented must be effectively included on the financial statements);
- *Rights and obligations* (the company’s assets and liabilities must represent, respectively, its rights and obligations on a specific date);
- *Assessment and reporting* (the assets and liabilities, the shareholders’ equity, the revenues and the costs must be posted on the financial statements at their correct amount, according to the generally accepted accounting standards);
- *Presentation and informing* (the financial statement items must be correctly named, classified and illustrated).

For each specific risk/objective subject to control, the so-called “key” controls are identified, which allow for identifying the existing system of controls (manual/automatic controls; prior/successive controls) in relation to each rel-

evant process, in order to achieve the objective of control and to effectively mitigate the risk.

Assessment of the controls in view of the risks identified. The assessment of the design of the controls described in the administrative and accounting procedures, aims to analyse how the single control activities are structured and defined in respect of the objective of preventing the risk of error on the financial statements. The assessment is carried out taking into account the goal that the control aims to achieve, namely to mitigate the risk (“adequate/inadequate” control). The assessment of the design of the controls is the responsibility of the Business Lines, starting from the hierarchical level above the manager of the department/activity subject to the control, up to the level of the Board of Directors in the case of the companies of the Group.

The assessment of the execution of the controls identified in the administrative and accounting procedures is also subject to specific analysis by the Business Lines. In fact, for controls whose design is deemed adequate, their execution must then be assessed (“implemented/not implemented” control).

The execution of the controls, ascertained by the Business Lines, is corroborated by independent monitoring carried out through a periodic testing plan of the FRO. The test plan is defined according to criteria of priority and rotation on the basis of which, in each period of reference, a certain sub-series of controls to be tested is selected, until achieving coverage of the main controls identified in the procedure.

The FRO implements a process for sharing and circulating the results of the test activities, so that the managements of reference can put into practice the necessary corrective action in their own structures.

Corrective Action Plan. If, on the basis of the analyses carried out by the Business Lines, the “key” controls are found to be absent, not documented or not carried out correctly according to the company’s procedures, the manager of the organisational unit concerned, up to the level of the Board of Directors for the companies of the Group, defines and implements a remedial plan with indication of the timing and responsibilities for the execution of the corrective action. The remedial plan is submitted to the FRO for the overall assessment of the system and for the coordination of the action to be taken, and it is updated six-monthly by the subjects responsible.

Overall assessment. To allow the ACEA FRO and Managing Director to issue the certifications required by art. 154-bis of the CFA, a “chain” system of internal certifications has been introduced, described in more detail in the following paragraph, with the aim of ensuring the adequate internal formalisation of responsibilities for the adequacy and the effective application of the administrative and accounting procedures, and for preparing and communicating the corrective action plan, when necessary, and for updating the procedures (see point b) Roles and Responsibilities).

The overall assessment is therefore based on a complex evaluation procedure which takes into account:

- the assessment of the design of the existing controls and the assessment of their execution, carried out by the ACEA management and by the Boards of Directors of the subsidiaries, together with the implementation of the remedial plans;
- the analysis of the test results;
- the final analysis of the areas for improvement that have come to light, with reference to their relevance on the financial statement information.

If deemed necessary, within the scope of the assessment process, the methodology adopted may include the design

and execution of compensatory controls and verifications. Any important shortcomings that are found are communicated to the Control Bodies according to the procedures laid down in the Financial Reporting Regulations.

b) Roles and Responsibilities

The Model is based on the clear internal attribution of responsibilities in the planning, assessment and maintenance over time of the ICFR, without prejudice to the responsibilities attributed by law to the FRO and to the Board of Directors. For this purpose, the financial reporting introduced within the ACEA Group is based on a “chain” system of certifications which has the aim of the adequate internal formalisation of the responsibilities for the adequacy and effective application of the administrative and accounting procedures, of monitoring the corrective action plan, when necessary, and of immediately detecting possible modifications to the controls that are the competence of the Business Lines and factors of change/risk that arise in the course of normal process operations, that can influence the adequacy of the ICFR.

The assessment process of the FRO and of the Managing Director, on the basis of which the certification of the financial statements is issued according to the CONSOB model, therefore entails internal certifications (reporting forms) issued by the managers of the processes that are relevant for ACEA and by the Managing Directors of the subsidiaries. In particular, ACEA, by means of reporting, has disciplined roles and responsibilities, the activities to be performed by each subject involved, the calendar, instructions for filling in the reporting forms, and the methods for updating the administrative and accounting procedures.

The Model identifies the main actors of the financial reporting process, in addition to the FRO and the Boards of Directors, with the relative responsibilities.

- The Control Manager is responsible towards the Sub-Process Manager for the execution, and for testifying to the execution, of the controls of his competence according to the procedures and timing laid down by the administrative and accounting procedures, and for providing the basic information input for the reporting flow;
- The Sub-Process Manager is responsible for a connected series of activities necessary for achieving a specific control objective; he must carry out an overall assessment of the design and implementation of the control, in relation to the sub-process in question; he must also update and ensure the implementation of the corrective action plan.
- The 262 Administrative Contact for the companies is the subject within the Group companies responsible for all the activities necessary to allow the ACEA FRO to issue the certification; he is responsible for consolidating all the information received from the Sub-Process Managers and for assembling the overall assessment of the design and implementation of the controls for the company in question, which he then submits to the company’s Board of Directors: he is also responsible for guaranteeing the information flows to and from the FRO.
- The companies’ Boards of Directors are responsible for assessing the design and implementation of the controls of their companies and of sending the internal certification to the FRO, in the defined format, together with the corrective action plan suitably endorsed, also communicating any change/risk factors that have arisen in the period of reference that could influence the adequacy of the ICFR.

Lastly, with reference to the other governing and control bodies within and outside the Group, ACEA has introduced a virtuous information exchange process, to and from the FRO, structured and modulated to foster as broad an overall view as possible of the Internal Control System on the part of said bodies.

10.1 THE CONTROL SYSTEM DIRECTOR

The ACEA Board of Directors has chosen the Managing Director as the director appointed for the institution and maintenance of an effective Internal Control and Risk System, and has conferred mandate on the same to implement the Guidelines of the Internal Control and Risk Management System.

In 2016, the Managing Director, also taking avail of the assistance of the Audit Department, has provided for identifying the Company's main risks, taking into account the features of the activities performed by ACEA and its subsidiaries, and has periodically submitted them to the Board of Directors' examination. He has put into practice the guidelines drawn up by the Board of Directors, ensuring the planning, execution and management of the System and the constant monitoring of the overall adequacy, effectiveness and efficiency. He has also provided for the adaptation of the system to the dynamics of the operating conditions and the legislative and regulatory context.

The said Director may request the Audit Department, informing the Chairpersons of the Board of Directors, of the Control and Risks Committee and of the CS, of the execution of verifications on specific operating areas and on respect for the internal rules and procedures in the execution of Company operations.

The appointed Director also immediately informs the Control and Risks Committee and the Board of Directors of problems and critical situations that arise in the performance of his activities or of which he gains knowledge.

10.2 AUDIT DEPARTMENT MANAGER

On 18 December 2013, the Board of Directors, on a Managing Director's proposal, with the favourable opinion of the Control and Risks Committee and after consulting the Board of Statutory Auditors, resolved on the appointment of Ms Liberata Giovannelli as Manager of the Audit Department and defined her salary, in accordance with the Company's policies. The Guidelines of the Internal Control and Risk Management System approved by the Board of Directors define the Audit Department's mission and activities, according to which this Department has a central role in the coordination of the Internal Control and Risks Management System. The Audit Manager is mandated to check on the functioning and adequacy of the System, by means of verifications, both continuously and in relation to specific needs, and to check on the operations and suitability of the System, with the support of the Managing Director in the activities of identifying and establishing the priorities of the major risks to which ACEA SpA and its subsidiaries are exposed. The Audit Department is also mandated to provide for the general review of the risk analysis process carried out by the second level control structures which protect against certain types of risks, and for the coordination of the information flows from said structures (see Chapter 10 "Internal Control and Risk Management System").

At its meeting of 11 March 2016, the Board of Directors approved the Audit Department's Work Plan and at the same time it verified the adequacy of the resources allocated to the Department for the performance of its duties. The Audit Department Manager, who has direct access to all useful information for the performance of her mandate, has no responsibility for operational areas, nor is she hierarchically subordinate to the managers of the operational areas, but reports directly to the Board of Directors.

During the financial period 2016, the Audit Department, performing its duties as described, carried out the following activities:

- it verified, both continuously and in relation to specific needs and consistently with the international standards for professional internal auditing, the operations and the suit-

ability of the System, by means of an Audit Department action plan approved by the Board of Directors and based on a structured process of the analysis and prioritisation of the main risk areas of ACEA SpA and of its subsidiaries;

- it produced periodic reports and specific reports on events of particular importance, containing adequate information on its activity, on the suitability of the System and on the methods adopted for risk management, as well as on respect for the relative plans drawn up and an assessment of the suitability of the Internal Control and Risk Management System, which it transmitted to the Chairpersons of the Board of Statutory Auditors and of the Control and Risks Committee, and to the Board of Directors and the Managing Director;
- it drafted a final report on the single audit actions and requested the competent departments, when necessary, to draw up action plans for the improvement of the controls, the implementation of which it monitored;
- within the sphere of the audit plan processes, it checked on the reliability of the information systems, including the accounting statements;
- it assisted the Supervisory Boards of ACEA SpA and of its subsidiaries in the updating of the Organisational and Management Model pursuant to Legislative Decree 231/01 as successively amended and in the execution of checks on its concrete implementation;
- it assisted the Ethics Committee in monitoring the implementation of the principles of the Code of Ethics which the Board of Directors approved on 22 February 2012;
- on behalf of the Ethics Committee, it monitored the activities for the circulation of the Code of Ethics and the internal training on the contents;
- on behalf of the Supervisory Board, it monitored the training activities on Legislative Decree 231/2001 as successively amended;
- applying the specific "whistle blowing" procedures, it ascertained the reliability of the reports of breach of the Code of Ethics and it carried out in-depth inquiries to detect any behaviour not conforming to the principles of said Code, reporting periodically to the Ethics Committee;
- it assisted the management in identifying and assessing the main risks to which ACEA SpA and its subsidiaries are exposed, by means of a structured process performed in Control Risk Self-Assessment mode;
- by acquiring the information flows representing the output of the second level controls, it monitored the manner in which certain categories of risk were managed;
- it exchanged information with the Boards of Statutory Auditors of ACEA SpA and its subsidiaries and it performed, on request, verifications and in-depth examination of internal control matters;
- it exchanged information with the Auditing Firm and with the Financial Reporting Offices on matters inherent to internal control and financial disclosures.

The Board of Directors allocated a budget of Euro 46,500.00 for the financial period 2017 for the supply of goods and services for the Audit Department to allow it to perform its assigned duties.

10.3 ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001

With the adoption of the Organisational, Management and Control model (the "MOG" - *Modello di Organizzazione e Gestione*), in accordance with Legislative Decree 231/2001, ACEA has adopted its Organisational, Management and Control model as contemplated by Legislative Decree 231/2001, in order to comply with the provisions of the said Decree and in respect of its principles and those of the Self-Regulatory Code

and the recommendations of the Supervisory and Control Authorities, in pursuit of reinforcing its control and Corporate Governance systems, and in particular to prevent the predicate offences referred to in the Decree.

With the adoption of the MOG, ACEA has set itself the following goals of a general nature:

- to achieve awareness of the activities that present a risk of offences with relevance for the Company (risk activities) and awareness on the part of the addressees of the rules (methods and procedures) that discipline the risk activities;
- the circulation, personal acquisition and concrete affirmation of a corporate mentality based on legality, in the awareness of the Company's express disapproval of any behaviour contrary to law, the self-regulating provisions, the indications of the supervisory and control authorities and internal provisions;
- the circulation, personal acquisition and concrete affirmation of a mentality of control, which must govern the pursuit of objectives.

The ACEA MOG, adopted in 2004, is systematically updated with dedicated project initiatives, by the management with the support of the Audit Department. The present MOG, approved by a Board of Directors' resolution of 19 February 2016, was developed downstream of an accurate analysis of Company activities aimed at ascertaining the potential risks of the offences contemplated by Legislative Decree 231/2001 being committed, for which offences it has drawn up a series of general principles, rules of conduct and specific control precepts, aimed at ensuring, as far as possible, that such predicate offences are prevented.

As contemplated by the ACEA MOG, the subsidiaries, for the purposes indicated in the Decree and after having identified their own activities that involve a risk of such offences and the most suitable measures to prevent the same, have adopted their own MOGs, consistent with the principles and the contents of that of the Parent Company, and they have appointed their own Supervisory Boards.

In relation to the diverse types of offence contemplated by Legislative Decree 231/01 and the relative sensitive activities, the MOG in fact identifies the Company's processes that are functional and instrumental for protecting against the risk activities and it recalls the relevant organisational and control principles that must be inherent to the organisational systems and to which the addressees must consequently adhere in the performance of their duties.

The Supervisory Board ("SB"), set up pursuant to Legislative Decree 231/2001, has full and autonomous powers of initiative, action and control regarding the functioning, effectiveness and observation of the MOG, in order to prevent the risk of offences for which the Company could bear administrative liability.

The SB supervises the effectiveness and adequacy of the MOG, monitoring its state of implementation and proposing any necessary updates to the Board of Directors. It must also report to ACEA's competent bodies any breaches of the MOG, ascertained or subject to pending investigations, that could lead to liability bearing on the Company. The Board of Directors has allocated to the SB a specific annual budget of Euro 25,000.00 (twenty-five thousand point zero zero), to guarantee and render concrete the autonomous "powers of initiative and control" that must be recognised to the same pursuant to Legislative Decree 231/2001. Art. 14, paragraph 2, of Law no. 183 of 12 November 2011, known as the "Stability Law", has amended art. 6 of Legislative Decree 231/2001, providing for the possibility of the Board of Statutory Auditors, for the purposes of the said Legislative Decree, to also adopt the role of the Supervisory Board. The ACEA Board of Directors, at the meeting of 12 May 2016, pursuant to the aforesaid provision and in continuity with the choice adopted by the preceding Board of Directors, decided

to take avail of the faculty of attributing the role of Supervisory Board, pursuant to Legislative Decree 231/2001, to the Board of Statutory Auditors for a period equal to the Statutory Auditors' term of office established by the Shareholders' Meeting resolution which appointed the same.

To guarantee full implementation of the MOGs of ACEA and of its subsidiaries, in conformity with the Decree and/or settled case law:

- the information flows, as far as contemplated by the obligations of reporting to the SB, which allow for monitoring significant transactions within the defined risk areas where the offences contemplated by Legislative Decree 231/2001 could be committed, have been defined and rendered systematic. Said information, acquired and managed for the main companies of the Group by means of a specific IT support, is accompanied by risk indicators which draw attention to specific transactions or activities;
- instruction and training activities have been developed regarding Legislative Decree 231/2001, the Company's MOG, the Code of Ethics and the Quality, Environment, Safety and Energy Systems;
- a special channel for reporting to the Supervisory Board any cases of non-observance of the Model has been created.

In compliance with the Code of Ethics and as explained in the Quality, Environment, Safety and Energy Policy, to prevent the risk of offences committed with breach of the accident prevention and environmental provisions of art. 25-septies (manslaughter or grievous or extremely grievous bodily harm committed with breach of the provisions on health and safety in the workplace) and of art. 25-undecies (Environmental offences) of Legislative Decree 231/2001, ACEA maintains that the Group's strategic choice to promote the circulation and implementation of the Management System, certified according to the standards ISO 9001, ISO 14001, OHSAS 18001 and ISO 50001, already adopted by the main companies of the Group, is fundamental.

10.4 THE EXTERNAL AUDITING FIRM

Pursuant to art. 22-bis of the Articles of Association in force, the certified audit of the accounts is carried out by an auditing firm appointed and operating pursuant to law and pursuant to the regulations dictated for issuing companies listed on regulated markets. In particular, it verifies that the accounts have been regularly kept and that the management events have been correctly recorded in the accounts during the period, and it also verifies the Company's financial statements and the consolidated financial statements of the period. The Shareholders' Meeting called to approve the financial statements at 31 December 2007, held on 29 April 2008 in conformity with the provisions of law then in force, on a justified recommendation of the Board of Statutory Auditors, conferred on Reconta Ernst & Young S.p.A. (now EY SpA) the mandate to audit the Company's financial statements and the consolidated financial statements for a term of nine financial periods – precisely 2008-2016, and specifically until the approval of the financial statements of the last year of the said mandate – and established the relative fees.

In the performance of its activity, the Auditing Firm had access to the Company's information and data, in both hard copy and electronic format, archives and assets and to those of its subsidiaries.

The Shareholders' Meeting, scheduled for 27 April 2017, will be required to resolve, among other things, on the conferral of the audit mandate, on the basis of a recommendation issued, pursuant to law, by the Board of Statutory Auditors, for a term of nine financial periods and, therefore, for the period 2017-2025.

10.5 THE FINANCIAL REPORTING OFFICER

The Financial Reporting Officer, introduced by Law 262/05, has been adopted by ACEA with an amendment to the Articles of Association of 13 November 2006, which requires this figure to be appointed by the Board of Directors.

At its meeting of 15 December 2015, the Board of Directors appointed Demetrio Mauro as the Financial Reporting Officer pursuant to Law 262/2005 as of 1 January 2016.

The Financial Reporting Officer must introduce and maintain the Control System for financial information and, together with the Managing Director, issue a specific certification according to the model circulated by CONSOB.

In particular, in accordance with the Regulations approved by the Board of Directors of 20 February 2008, he must perform the following duties:

- to provide adequate administrative and accounting procedures for the preparation of the Company's financial statements, the consolidated financial statements and the six-monthly interim report;
- to ensure that the financial statements are drafted in conformity to the applicable international accounting standards;
- to ensure that the Company's deeds and communications disclosed to the market and the relative accounting statements, including the interim reports, correspond to the documentary evidence, the Company's books and the accounting entries.
- to assess, together with the Internal Control Committee, (a) the adequacy of the accounting principles adopted, and (b) their standardisation for the purposes of the drafting of the consolidated financial statements.

The Financial Reporting Officer has issued the certification, together with the Managing Director, in compliance with art. 154-bis of the CFA, without remarking any aspects worthy of note.

10.6 COORDINATION BETWEEN THE SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Guidelines of ACEA's Internal Control and Risk Management System contemplate a series of activities for the coordination between the various subjects involved in the System, in order to ensure continuous monitoring of the adequacy and functioning of the said System, and to facilitate the efficient exchange of information. Put briefly, the relative procedures include:

- periodic coordination meetings regarding, in particular, the processing of the financial information and the assessment, monitoring and mitigation of the risks (economic-financial, operational and compliance risks);
- information flows between the subjects involved in the Control and Risk Management System;
- coordination meetings and joint meetings with the Board of Statutory Auditors, the Control and Risks Committee, the external Auditing Firm, the Financial Reporting Officer and the Audit Department Manager;
- structured information flows on the part of the subjects responsible for the second level controls to the top management, the Audit Department and the Supervisory Board;
- structured information flows between the Supervisory Boards of ACEA's subsidiaries and the issuer's Supervisory Board;
- periodic reports to the Board of Directors;
- assistance to the Audit Department in its activities in the role of ACEA's Supervisory Board and to those of the subsidiaries;
- attribution to the Board of Statutory Auditors of the role of the Supervisory Board pursuant to Legislative Decree 231/2001.

11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

At the Board of Directors' meetings, before dealing with each item on the agenda, every director must report any interests that it holds, directly or on behalf of third parties, connected with the topics or questions to be dealt with, specifying the nature, the terms, the source and the extent. With regard to transactions with related parties, the procedure for such transactions, issued pursuant to art. 2391-bis of the Civil Code and adopted in accordance with the principles dictated by the "Regulations on Transactions with Related Parties" of CONSOB resolution no. 17221 of 12 March 2010 and successive amendments, effective as of 1 January 2011, was amended by the Board of Directors on 18 December 2013, entering into force on 1 January 2014, and it applies to transactions carried out directly between ACEA, or companies directly or indirectly controlled individually by this latter, and related parties.

Depending on the amount, the transactions are divided as follows:

- transactions of *Major Relevance*, in which at least one of the indices of relevance, indicated in Annex 3 of the aforesaid Regulations of CONSOB resolution no. 17221 of 12 March 2010 as successively amended, is above the threshold of 5%, which must be approved by

the ACEA SpA Board of Directors;

- transactions of *minor value* with a counter-value of not more than Euro 200,000.00 (two hundred thousand);
- transactions of *Minor Relevance*, which includes all the transactions with related parties that cannot be classified as of major relevance or of minor value.

According to the procedure, before the approval of a transaction with a related party, whether of Major or Minor Relevance, the Transactions with Related Parties Committee expresses an opinion on the Company's interest in the execution of the transaction and on the convenience and on the substantial correctness of the relative conditions.

At present, the TRPC is composed of three independent directors, namely: Angel Simon Grimaldos, as coordinator, and Roberta Neri and Massimiliano Capece Minutolo Del Sasso. The Board of Directors has confirmed the allocation of an annual budget for 2017 of Euro 50,000.00 (fifty thousand point zero zero) for the Committee to allow the same, should it be deemed necessary, to confer external mandates instrumental to the performance of its duties.

For further details, we invite you to refer to the website www.acea.it in the "Corporate Governance" section.

12. APPOINTMENT OF THE STATUTORY AUDITORS

In compliance with the provisions of law and of the Articles of Association, the Board of Statutory Auditors is composed of three standing auditors and two alternative auditors, appointed by the Ordinary Shareholders' Meeting for a term of three financial periods, and they can be re-elected on expiry of their mandate.

There must be a gender balance in the composition of the Board of Statutory Auditors, as disciplined by law.

The Board of Statutory Auditors is appointed, in compliance with art. 22 of the Articles of Association, by the same methods as those for the appointment of the Board Directors, illustrated above. From the list that has obtained the majority of votes, in the progressive order in which they are placed on the list, will be taken half plus one of the standing auditors to be elected, rounded down to the nearest whole number in the case of a fractioned number, and one alternative auditor.

For the other members of the Board of Statutory Auditors, those elected who have obtained the first and second highest quotient on the minority lists will be designated as

standing auditor and alternative auditor respectively; pursuant to the combined provision of arts. 15 and 22 of the Articles of Association, at par quotient, the standing auditor will be the one on the minority list that has obtained most votes. In any case, at least one standing auditor must be elected by the minority shareholders. If an auditor leaves office during a financial period, the alternative auditor on the same list as the outgoing auditor will take his/her place. The appointment of auditors who, for any reason, are not elected according to the above-illustrated procedure, must be approved by a Shareholders' Resolution passed with the majority required by law.

The Chairperson of the Board of Statutory Auditors will be chosen from those effectively elected from the minority list. Therefore, under the present election system, the lists can be presented by shareholders which, alone or together with other shareholders, represent at least 1% of the share capital. The lists must be presented to the Company's head office and they will be published by ACEA in at least three national daily newspapers.

13. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (art. 123-bis, par. 2, letter d, of the CFA)

The present Board of Statutory Auditors was appointed by the Ordinary Shareholders' Meeting of 28 April 2016 and its mandate will expire on the approval of the financial statements relative to the year 2018.

For the appointment by the Shareholders, two lists were presented: List no. 1 presented by Roma Capitale with three candidates, Corrado Gatti, Rosina Cichello and Lucia Di Giuseppe, and List no. 2 presented by the shareholder FINCAL SpA with two candidates, Enrico Laghi and Carlo Schiavone; List no. 1 was voted by 68.94% and List no. 2 by 30.89% of the voters.

According to the appointments at that Meeting, the Board of Statutory Directors is formed, as described in *Table no. 3*, by the components below, a brief professional description of whom is given, in compliance with art. 144-*decies* of the Issuers' Regulations:

- **Enrico Laghi, Chairman.** Full professor of business economics at "La Sapienza" University of Rome; he is a member of the Institute of Chartered Accountants of Rome and listed on the Register of Certified Auditors;
- **Corrado Gatti, standing auditor.** Full professor of economics and business management at "La Sapienza" University of Rome. He holds the office of director, statutory auditor, chairman of the board of statutory auditors and member of the supervisory board of various companies and bodies. He is advisor on strategic, organisational and financial aspects for several private and public companies. He is a member of the Institute of Chartered Accountants of Rome, and listed on the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Rome.
- **Rosina Cichello, standing auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Vibo Valentia and is listed on the Register of Certified Auditors. She is a tax consultant and an auditor for various private companies.
- **Lucia Di Giuseppe, alternative auditor.** A graduate in economics and business studies from "La Sapienza" University of Rome. She is a member of the Institute of Chartered Accountants of Avezzano and Marsica (AQ) and is listed on the Register of Certified Auditors and on the Register of Expert Witnesses of the Court of Avezzano. She provides administrative, commercial, tax and labour

law advisory services for joint stock companies, partnerships, professionals and individual entrepreneurs.

- **Carlo Schiavone, alternative auditor.** A graduate in economics and business studies from Rome University. He is a member of the Institute of Chartered Accountants of Rome and is listed on the Register of Certified Auditors. He has held office as statutory auditor for listed companies and important national banking groups.

The auditors have been chosen from people who can be qualified as independent and they must act with autonomy and independence, also as regards the shareholders that have elected them.

The Independent of the auditors is assessed by ACEA in accordance with the law and art. 3 of the Self-Regulatory Code. On the appointment of an auditor who qualifies him/herself as independent, and successively at least once a year, the Board of Statutory Auditors, on the basis of the information provided by the person concerned or, at any rate, available to ACEA, assesses the relations that could, or which could apparently, compromise the independent judgement of said auditor.

The Board of Statutory Auditors receives from the Board of Directors, at the Board of Directors' meetings, information on the activity performed by the Board of Directors, by directly participating in the Board of Directors' meetings and by examination of the material which illustrates the items on the relative agenda, which it receives in advance in the same format and within the same terms as the documentation received by the Board Directors.

The Board of Statutory Auditors exercises the powers and performs the duties contemplated by the provisions in force. The Board of Statutory Auditors, in the performance of its activity, cooperates with the Audit Department prevalently by periodic meetings for the illustration of the work plan of the independent monitoring activities and of the results of the main actions carried out during the period.

The Board of Statutory Auditors also cooperates with the Control and Risks Committee, by the participation of the Chairperson and/or the Auditors at the meetings.

During the financial period 2016, the Board of Statutory Auditors held 13 meetings, with an average duration of 1 hour 35 minutes, regularly attended by the standing auditors.

In 2017, at the date of this Report, the Board of Statutory Auditors has held 9 meetings, with an average duration of approximately 2 hours.

14. RELATIONS WITH THE SHAREHOLDERS (art. 123-bis, par. 2, letter a), of the CFA)

Price-sensitive information regarding the Company is precisely and immediately disclosed to the market and to the relative Supervisory Authorities. The information in question is constantly updated and made available on the Company's Internet site at www.acea.it.

ACEA's organisational structure includes an Investor Relations Department, which hierarchically reports to the Managing Director, the Manager of which is Ms Elvira Angrisani.

On the approval of the annual, six-monthly and quarterly results of the Business Plan and of the execution of possible extraordinary price sensitive transactions, the Company organises special conference calls with institutional investors and financial analysts.

In 2016:

- conference calls were held with the financial commu-

nity on the occasion of the approval of the annual and six-monthly results of the 2016-2020 Business Plan;

- road-shows were held in the main national and international cities (Milan, London, Paris, Boston and New York), during which one-to-one meetings took place as well as presentations to large audiences represented by over 210 equity investors, buy side analysts and investors/credit analysts;
- the Company participated in Utility Conferences organised by the main merchant banks.

In addition, to ensure immediate information to shareholders and investors, corporate documents, press releases, notices and other information concerning the Group is published on the Company's Internet site (www.acea.it) within the terms laid down by the laws in force.

15. SHAREHOLDERS' MEETING (art. 123-bis, par. 2, letter c, of the CFA)

The regulations for the functioning of the Shareholders' meeting are contained in the ACEA S.p.A. Articles of Association which, in addition to referring to the provisions of law, dedicates Articles 10, 11, 12, 13 and 14 to the Shareholders' Meeting.

At 31 December 2016, art. 10, still in force, sets out the methods for calling the Shareholders' Meeting, establishing, under art. 10.3, that "without prejudice to the powers of convocation contemplated by specific provisions of law, the Shareholders' Meeting, whether ordinary or extraordinary, is convoked by the Board of Directors by a notice containing indication of the day and place of the meeting and the list of matters on the agenda." Under paragraph 4 of the same article, it is also stated that the Meeting can be held elsewhere than at the registered office, providing it is held in Italy.

"The notice is published on the Company's Internet site, in the Official Journal of the Italian Republic and in the daily newspaper "Il Sole - 24 Ore" within the terms laid down by the laws in force. The meeting can be convoked also more than twice. The convocation notice can establish that the meeting will be held, on a different day, on second, third or ulterior convocation, if the quorum required by law for its constitution is not reached on the preceding convocation" (art. 10.4 of the Articles of Association).

Art. 11.1 rules that "The Ordinary Shareholders' Meeting must be held at least once a year for the approval of the financial statements within 120 days from the closure of the financial period, or within 180 days of the said closure in the case of the conditions contemplated by art. 2364 of the Civil Code"

Art. 11.2 rules that "The Extraordinary Shareholders' Meeting is held whenever it is necessary to pass a resolution reserved to the same by law".

Art. 11.3 rules that "The Shareholders' Meeting, whether ordinary or extraordinary, is also held when requested by as many Shareholders as represent the percentages contemplated by the laws in force, and the request must specify the items to be discussed, or when requested by the Board of Statutory Auditors or members of the same in the cases contemplated by law. In addition, as many Shareholders as represent the percentages contemplated by the laws in force may request, in respect of the terms laid down by the laws in force, additions to the be made to the agenda, indicating in the request the additional items that they propose. The convocation and the addition of items to the agenda at the request of Shareholders are not admitted on matters on which the Shareholders' Meeting is obliged by law to pass resolutions on Directors' proposals or on the basis of a project or a report prepared by the Directors".

Art. 12 of the Articles of Association expressly states that the majorities necessary for the Meeting, whether ordinary or extraordinary, and its resolutions to be quorate are those contemplated by law.

Art. 13.1 of the Articles of Association rules that "entitlement to participate in the Shareholders' Meeting and to exercise the right to vote is testified by a communication to the issuer made by the intermediary, in conformity with the accounting evidence, in favour of the subject holding the right to vote, according to the procedures and terms laid down by the laws in force" (the so-called "record date").

Art. 13.2 provides for the Shareholders entitled to participate in the Meeting to be represented pursuant and according to the procedures of law.

In addition, the same art. 13 provides that "with the exception of Roma Capitale or its subsidiaries that have become

shareholders, the voting right cannot be exercised, directly or by proxy, for more than 8% of the share capital".

To this regard, it is necessary to call attention to art. 6 of the Articles of Association, which, however, provides that: "with the exception of Roma Capitale and its subsidiaries that have become shareholders, no shareholder may hold a stake of more than 8% of the share capital. In the case of non-observance, the shareholder may not exercise the voting right on the shares in excess of that limit and resolutions adopted with the determining vote of such shares, that should not bear voting rights according to this art. 6, can be challenged pursuant to and according to the procedures of art. 2377 of the Civil Code. Shares for which the voting right cannot be exercised are calculated in any case for the purpose of ascertaining that the Meeting is quorate" (art. 6.1 of the Articles of Association). "The aforesaid limit also applies to stakes held by the group to which each shareholder belongs, i.e.:

- a group formed of natural or legal persons which, directly or indirectly, control, are controlled by or are affiliates of the shareholder;
- a group formed of subjects connected to the shareholder, even if they do not have a corporate form;
- a group formed of natural or legal persons which, directly or indirectly, explicitly or by determining behaviour, have entered into or, in any case, adhere to agreements of the type contemplated by art. 122 of Legislative Decree 58/98, if such agreements regard at least 8% of the capital with voting rights.

Control and affiliation, for the purposes of this art. 6, are considered as recurrent in the cases contemplated by art. 2359 of the Civil Code." (art. 6.2 of the Articles of Association)

According to point no. 3 of art. 6, the limit referred to in art. 6, point 1, also applies in the case of:

- "shares held by members of the shareholder's family, understood as composed of the shareholder, his/her spouse, unless they are divorced, and their cohabiting children and/or children still economically dependent on the shareholder;
- shares held by a natural or legal person through a subsidiary or a trust or by proxy;
- shares held directly or indirectly that are restricted by lien or usufruct, if the relative voting rights are held by the lien creditor or the usufructuary;
- shares subject to contango, which will be taken into account with regard to the giver-over and the hedger."

Point 4 of art. 6 also establishes that "anyone that holds Company shares in excess of 8% of the share capital must inform the Company in writing within the twenty days following the transaction which resulted in this limit being exceeded".

Another restriction laid down under point 5 of art. 6 is that "shareholders that have not contributed to the approval of the resolutions regarding the introduction or the removal of restrictions on the circulation of the shares do not have the withdrawal right".

Art. 13.3 provides that: "To facilitate the collection of proxies from shareholding employees of the Company, its subsidiaries and affiliates and shareholders' associations, with the requisites contemplated by the relative provisions in force, specific spaces are made available for the communication and the collection of the proxies.

If a proxy is conferred electronically, according to the procedures contemplated by the regulations in force at any moment, said proxy may be communicated via the Company's Internet site according to the procedures specified in the notice of convocation."

On 3 November 2000, the Ordinary Shareholders' Meeting approved the adoption of Regulations (available on the Internet site at www.acea.it) that discipline the ordered functioning of the Shareholders' Meeting. The approved Regulations are the result of in-depth study carried out on the texts prepared by the various Study Commissions set up by the various category associations, and in particular they are based on the results of the studies carried out by Assonime. Art. 7. 3 of the said Regulations disciplines the procedures which guarantee the shareholder's right to take the floor on the topics under discussion, and in particular: *"The request to take the floor on the single items on the agenda may be presented to the Chairman (of the Shareholders' Meeting) from the moment the Meeting is constituted until the Chairman of the Meeting declares the discussion on the item closed. In giving the floor, the Chairman of the Shareholders' Meeting normally follows the order of the presenta-*

tion of the requests for the floor. Each shareholder may take the floor only once on each item on the agenda, and for no more than 10 minutes."

The Board of Directors has reported to the Shareholders' Meeting the activity performed and programmed, thus ensuring that the shareholders are correctly informed on the elements necessary to allow them to take informed decisions on the matters of their competence.

The Board of Directors considers the Shareholders' Meeting to be a particularly significant moment for its relations with the shareholders; therefore it makes all efforts, as far as falling within its competence, to encourage and facilitate the broadest participation possible of the shareholders at the Meetings. In the financial year 2016 and until today, no significant changes have taken place in the capitalisation of the ACEA shares or in the composition of its corporate bodies, that could harm the prerogatives of the minority shareholders.

16. OTHER CORPORATE GOVERNANCE PRACTICES (art. 123-bis, par. 2, letter a), of the CFA)

The Ethics Committee

On 26 July 2001, the Board of Directors resolved to set up an Ethics Committee, with full and autonomous powers of action and control, delegated to supervise the implementation and observation of the principles and rules of conduct expressed in the Code of Ethics adopted by ACEA.

The composition and functioning of the Committee are disciplined by specific Regulations approved by the Board of Directors.

The members of the Ethics Committee are the Board Directors Paola Antonia Profeta (Chairwoman), Elisabetta Maggini and Giovanni Giani (in their capacity of non-executive directors), and two external members, Maurizio Zollo and Luigi Giuliano.

The Committee, pursuant to the responsibilities attributed by the Code of Ethics and the aforementioned Regulations, fosters awareness of the Code of Ethics within the Group; it promotes activities for the sensitisation of ACEA SpA managers and employees on ethical matters; it assists ACEA in the correct application of the principles and criteria relating to the conduct prescribed by the Code; it develops and circulates procedures aimed at guaranteeing the concrete achievement of the purposes and observance of the principles of the Code; it ascertains cases of breach of the principles and criteria relating to the conduct prescribed by the Code and it proposes sanctions, if necessary, in respect of the labour agreement. Lastly, the Committee proposes opportune reviews to improve the principles of the Code.

On 22 February 2012, the ACEA SpA Board of Auditors, on a proposal of the Ethics Committee, resolved on the adoption of the current edition of the Code of Ethics,

which enlarged and updated the preceding ethical provisions adopted by ACEA in 2001.

The subsidiaries, by resolution of their own Boards of Directors, also adopt the Code of Ethics, which is an integral part of the Organisation and Management Model.

The Code of Ethics is a fundamental element in the control environment of ACEA, which fosters knowledge of the same among the personnel, both when they are hired and in cyclical training activities. Adherence to the Code is explicitly requested of employees, suppliers and all those that contribute to the Company's activity (consultants, collaborators, etc.).

To ensure the monitoring of the correct observance of the Code of Ethics, an articulated procedure for the management of the reports of behaviour in breach of the principles of the said Code (whistle blowing) has been defined, which provides for reserved contact channels in order to protect those who submit reports. The Audit Department examines the reports and ascertains the cases of effective breach. The reports received and the consequent improvement actions are monitored by the Ethics Committee.

The Ethics Committee, in addition to monitoring the effective implementation of the Code of Ethics, in order to foster the concrete application of the principles of sustainable development affirmed in the Code of Ethics, carried out a survey in 2016 on the awareness on the part of the managers of the issues connected to sustainability and their reflection in decision-making and strategic processes.

The Board of Directors confirmed the allocation of an annual budget for 2017 of Euro 25,000.00 (twenty-five thousand point zero zero) for the Committee.

The Committee, in the performance of its duties, coordinates its activity with that of the Supervisory Board.

17. CHANGES SINCE THE CLOSURE OF THE PERIOD

The changes that have taken place from the closure of the period until today have been described in the specific sections.

For the Board of Directors
The Chairwoman
Catia Tomasetti

TABLE

**TABLE 1:
INFORMATION ON THE OWNERSHIP STRUCTURE**

SHARE CAPITAL STRUCTURE

| | N° of shares | % of shares capital | Listed on Borsa Italiana's on-line stock exchange | Rights and obligations |
|-----------------------------------------|-----------------|------------------------|------------------------------------------------------|------------------------|
| Ordinary shares | 212,964,000 | 100% | 100% | |
| Shares with restricted voting rights | ----- | | | |
| Shares without voting rights | ----- | | | |

OTHER FINANCIAL INSTRUMENTS (which entitle the underwriting of newly issued shares)

| | Listed (indicate the markets) / not listed | N° of instruments in issue | Category of shares to serve conversion/exercise | N° of shares to serve conversion/exercise |
|----------------------|-----------------------------------------------|-------------------------------|-------------------------------------------------------|----------------------------------------------|
| Convertible bonds | ----- | ----- | ----- | ----- |
| Warrants | ----- | ----- | | |

PRELEVANT STAKES From CONSOB site at 13 March 2017

| Declarant | | % of ordinary capital | % of voting capital |
|-------------------------------|-------------------|-----------------------|---------------------|
| ROMA CAPITALE | Roma Capitale | 51% | 51% |
| SUEZ ENVIRONNEMENT COMPANY SA | Suez Italia SpA | 23.333% | 23.333% |
| | Viapar S.r.l. | 0.939% | |
| | Fincal SpA | 2.677% | |
| CALTAGIRONE FRANCESCO GAETANO | So.fi.cos. S.r.l. | 0.780% | 5.006% |
| | Viafin S.r.l. | 0.610% | |
| | | | |

**TABLE 2:
STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES AT 31 DECEMBER 2016**

BOARD OF DIRECTORS

| Office | Members | Year of birth | Date of first appointment (*) | In office since | In office until | List (M/m) (**) | Exec. | Non-exec. | Indep. as per Code | Indep. as per CFA | No of other offices (***) | Control and Risks Committee | | Appointments and Remuneration Committee | | |
|-------------|----------------------------------------|---------------|-----------------------------------------|-----------------|-----------------|-----------------|-------|-----------|--------------------|-------------------|---------------------------|-----------------------------|-----|-----------------------------------------|-----|-----|
| | | | | | | | | | | | | (1) | (2) | (1) | (2) | |
| Chairperson | Catia Tomasetti | 1964 | 05/06/2014 | 05/06/2014 | 31/12/2016 | M | x | | | | ----- | 10/10 | | | | |
| MD/GM• | Alberto Irace | 1967 | 05/06/2014 | 05/06/2014 | 31/12/2016 | M | x | | | | ----- | 10/10 | | | | |
| Director | Elisabetta Maggini | 1982 | 05/06/2014 | 05/06/2014 | 31/12/2016 | M | | x | x | x | ----- | 10/10 | M | 6/6 | P | 4/4 |
| Director | Paola Antonia Profeta | 1972 | 05/06/2014 | 05/06/2014 | 31/12/2016 | M | | x | x | x | 1 | 10/10 | | | | |
| Director | Francesco Caltagirone | 1968 | 29/04/2010 | 05/06/2014 | 31/12/2016 | m | | x | | | 6 | 9/10 | | | | |
| Director | Giovanni Giani | 1950 | BoD co-opted 29/11/2011 Ass. 04/05/2012 | 05/06/2014 | 31/12/2016 | m | | x | | | ----- | 10/10 | M | 5/6 | M | 4/4 |
| Director | Roberta Neri | 1964 | 23/04/2015 | 23/04/2015 | 31/12/2016 | M | | x | x | x | 1 | 9/10 | P | 6/6 | M | 4/4 |
| Director | Massimiliano Capece Minutolo Del Sasso | 1968 | 23/04/2015 | 23/04/2015 | 31/12/2016 | m | | x | x | x | 6 | 10/10 | | | M | 4/4 |
| Director | Angel Simon Grimaldos | 1961 | BoD co-opted 28/06/2016 | 28/06/2016 | 31/12/2016 | m | | | | | ----- | 2/5 | | | | |

DIRECTORS WHO HAVE LEFT OFFICE DURING THE FINANCIAL PERIOD 2016

| | | | | | | | | | | | | | | | | |
|----------|---------------|------|------------|------------|------------|---|--|---|---|---|-------|-----|--|--|--|--|
| Director | Diane D'Arras | 1955 | 15.04.2013 | 05.06.2014 | 31.05.2016 | m | | x | x | x | ----- | 4/4 | | | | |
|----------|---------------|------|------------|------------|------------|---|--|---|---|---|-------|-----|--|--|--|--|

**Control and Risks
Committee: 6**

**Appointments and
Remuneration
Committee: 4**

No. of meeting held during the financial period 2016: 10

Quorum requested for the presentation of the lists for the election of the Board of Directors (pursuant to art. 147-ter of the CFA): 1% of the voting shares

NOTES

• This symbol indicates the director appointed for the Internal Control and Risks Management system.

* Date of the first appointment of each director refers to the date on which the director was appointed for the first time (in absolute) as an ACEA SpA Board Director.

** This column indicates the list from which each director was taken ("M": majority list; "m": minority list).

*** This column indicates the number of offices that directors or statutory auditors hold in other financial, banking or insurance companies or companies of relevant dimensions listed on regulated markets, also abroad.

On the last page of the Corporate Governance Report, the offices are indicated in full.

(1) This column indicates the directors' participation in the meetings of, respectively, the Board of Directors and the Committees.

(2) This column indicates the qualification of the directors within the Committee: "C": chairperson; "M": member.

**TABLE 3:
STRUCTURE OF THE BOARD OF STATUTORY AUDITORS AT 31 DECEMBER 2016**

BOARD OF STATUTORY AUDITORS
Quorum requested for the presentation of the lists on the occasion of the last appointment: 1% of voting shares

| Office | Member | Year of birth | Date of first appointment (*) | In office since | In office until | List (M/m) (**) | Independence as per Code | (***) (%) | Number of other offices (****) |
|---------------------|-------------------|---------------|-------------------------------|-----------------|-----------------|-----------------|--------------------------|-----------|--------------------------------|
| Chairperson | Enrico Laghi | 1969 | 2010 | 28.04.2016 | 31.12.2018 | m | x | 9/13 | 8 |
| Standing auditor | Rosina Cichello | 1967 | 2016 | 28.04.2016 | 31.12.2018 | M | x | 9/9 | |
| Standing auditor | Corrado Gatti | 1974 | 2010 | 28.04.2016 | 31.12.2018 | M | x | 12/13 | 13 |
| Alternative auditor | Lucia Di Giuseppe | 1966 | 2016 | 28.04.2016 | 31.12.2018 | M | x | | ----- |
| Alternative auditor | Carlo Schiavone | 1960 | 2016 | 28.04.2016 | 31.12.2018 | m | x | | ----- 22 |

STATUTORY AUDITORS WHO HAVE LEFT OFFICE IN THE FINANCIAL PERIOD 2016

| | | | | | | | | | |
|---------------------|-----------------|------|------|------------|------------|---|---|-----|--|
| Standing auditor | Laura Raselli | 1971 | 2013 | 15.04.2013 | 28.04.2016 | M | x | 4/4 | |
| Standing auditor | Antonia Coppola | 1970 | 2013 | 15.04.2013 | 28.04.2016 | M | x | | |
| Alternative auditor | Franco Biancani | 1942 | 2013 | 15.04.2013 | 28.04.2016 | m | x | | |

Number of meetings held during the financial year 2016: 11

Quorum required for the presentation of the lists for the election of the Board of Directors (pursuant to art. 147-ter of the CFA): 1% of the voting shares

NOTES

(*) The date of first appointment refers to the date on which the auditor was appointed for the first time (in absolute) as a member of the issuer's Board of Statutory Auditors.

(**) This column indicates the list from which each auditor was taken ("M": majority list; "m": minority list).

(***) This column indicates the participation of the auditors in the meetings of the Board of Statutory Auditors.

(****) This column indicates the number of offices held as directors or auditors by the subjects concern, pursuant to art. 148-bis of the CFA and of the relative implementation provisions contained in the CONSOB Issuers Regulations. The full list of offices is published by CONSOB on its Internet site in compliance with art. 144-*quinquiesdecies* of the CONSOB Issuers' Regulations.

**PLATE 1:
COMPOSITION OF THE ACEA BOARD OF DIRECTORS AND OFFICES HELD
BY THE DIRECTORS IN OTHER COMPANIES AT 31.12.2016**

| Role | Name | Office | Other offices (*) |
|-------------------|-------------------------------------------|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chairperson | Catia Tomasetti | Executive director | Utilitalia (**) (formerly Federutility) (C) Rome Chamber of Commerce (***) (C) |
| Managing Director | Alberto Irace | Executive director | ----- |
| Director | Elisabetta Maggini | Independent director | ----- |
| Director | Paola Antonia Profeta | Independent director | Banca Profilo (C) |
| Director | Angel Simon Grimaldos | Independent director | ----- |
| Director | Giovanni Giani | Non-independent director | ----- |
| Director | Francesco Caltagirone | Non-independent director | Cementir Holding SpA (P e AD) Cimentas A.S. (C) Cimbeton A.S. (C) Aalborg Portland Holding (AD) Caltagirone SpA (C) Caltagirone Editore SpA (C) |
| Director | Roberta Neri | Independent director | Enav (AD) |
| Director | Massimiliano Capece Minutolo Del Sasso | Independent director | ICAL 2 SpA (P) Porto Torre SpA (AU) Cementir Italia SpA (C) Cimentas A.S. (C) Fincal SpA (C) Domus Italia SpA (C) |

(*) List of offices held as director or auditor by each Board Director in other companies listed on regulated markets, also abroad, in financial, banking and insurance companies or companies of relevant dimensions.

(**) Association of companies

(***) Public entity

2016

ACEA S.P.A. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

ACEA GROUP

ACEA SPA

Registered office
Piazzale Ostiense 2 – 00154 Rome

Share Capital

1,098,898,884 euros fully paid-up

Taxpayers' code, VAT and Register of Enterprises of Rome No.

05394801004

Rome Economic and Administrative Business Register No. 882486

Drawn up by:

Administration, Finance and Control

Acea SpA

Artwork, graphics and page layout

SERVIFLAB

Coordination **Tiziana Flaviani**

Web version

SERVIFLAB

Coordination **Laura Colella**

Photographs

Acea Archive, Fabio Anghelone



ACEA SPA

Piazzale Ostiense, 2
00154 Rome

ACEA.IT