

An aerial night photograph of a city street grid. A large, glowing white number '2' is superimposed on the left side. To its right, a large circular light display with concentric rings of warm white lights is visible. The streets are lined with buildings and small lights, creating a festive atmosphere.

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2015

ACEA S.P.A. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
ACEA GROUP



2015

ACEA S.P.A. FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
ACEA GROUP



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LETTER TO SHAREHOLDERS



DEAR SHAREHOLDERS,

The results obtained in 2015 are the just rewards of the effort we've put into renewing Acea. This confirms we're on the right track and encourages us to continue in the direction we started in 2014. It's an incentive to bring the process of evolution and transformation we know as "Acea 2.0" to a successful conclusion.

Indicators confirm the solidity of the strategies on which this new phase of evolution is based, and this is all the more reassuring, as the financial statements we submit for Your approval are the result of endogenous resources, a global stimulus towards improvement and rationalisation, involving everyone in the company, and which will continue into the future.

The importance of the results obtained, far in excess of expectations, is cause for optimism and considering the coherence of conditions, consolidates the decisions taken and the choices made in the new 2016 - 2020 Business Plan.

In particular, there was a noteworthy 7.7% increase in net profit compared to last year, reaching 175 million euros, an excellent result in today's particular macroeconomic context.

The figures on investments are also worthy of note, and with pride, increasing by 428.9 million euros, an increase of over 34% even when compared to the remarkable 2014 result of 318.6 million euros.

The figure on average per capita investments in ATO 2 – Central Lazio is significant; 49.4 euros per inhabitant was invested in 2015, 45% more than the national (Italian) average of 34 euros (source, Utilitalia).

This figure confirms our capacity and the driving force our company represents, focused on development and growth, in the social and economic context we operate in.

The Net Financial Position (NFP), while still negative was an improvement on 2008, decreasing by 79 million euros compared to 2014, and by about 121 million euros compared to 30 September 2015. At the same time, operating costs were reduced by over 125 million euros, a decrease of 5.4% on last year. These results, as mentioned above, are an emblematic representation of the positive effects of the targeted corporate rationalisation and greater efficiency in operating processes.

The market has rewarded Acea's efforts towards renewal and in 2015 the value of the company share increased by around 60%, compared to an average FTSE Mib increase of 13%.

These are the solid foundations on the basis of which we've laid the 2016 – 2020 Business Plan, the noteworthy and strategic objectives of which include both the central role played by the customer, improving the quality of the services supplied, as well as organizational and operational efficiency, the former to be achieved through technological innovation and the development of contact channels, the latter by continuing to develop IT systems and promote work force management. The further development of this technology, which was launched in Acea Ato 2 a few months ago, represents and will continue to represent a new work concept, also in the near future for the other Group Companies.

The process of profound change in "Acea 2.0" is therefore destined to pick up speed not only with an increasing number of objectives for operational and economic efficiency, but also by really turning over a new leaf. In this way the Group intends to start afresh after inheriting a monopolist legacy, which by now is something that belongs to the past, promoting an entirely new range of relations with our customers, characterised by the substantial promotion of the latest digital technologies. It's a challenging goal, but when we reach it Acea will be one of the most technologically advanced utility companies in Europe.

So Acea is counting on digitalisation to improve service quality, but also on investments. The 2016-2020 Plan sets a significant and challenging investment target of 2.4 billion euros, 80% of which will be in regulated business. More specifically, over one billion euros will be invested in the Water Segment, while 878 million euros will be invested in the Networks Segment. The 262 million euros investment in the Environment Segment will mainly be allocated to the development of existing plants, while 159 million euros will be invested in the Energy Segment, on the one hand to improve the quality of services and customer relations, and on the other to update electricity production plants.

Just as noteworthy is the reduction in operating costs in the period that comes within the scope of the Plan, amounting to 94 million euros.

This paves the way for a forecasted annual increase in EBITDA of 4% and an increase in the distribution of dividends from 3% to 6%.

The Plan does not consider the positive effects that could derive from the acquisition of stakes in Italian water companies in the territories of reference, in other words from the process of consolidation, focusing on the core Regions, promoted by the Government and the new regulation approved by the Italian Authority for Electricity, Gas and Water (AEEGSI). On this point it must be said that, by the end of the year amongst other things, two legislative decrees will come into force implementing the "Madia" Law No. 124 of 2015, with new consolidated acts on local public services of economic interest and public limited companies. These measures may help, above all and if suitably integrated with drafts that have been preliminarily approved by the Government, to create regulatory conditions that encourage similar initiatives.

Finally, it must be said that, following the decisions taken by the previous Shareholders' Meeting, the number of members in the Board of Directors increased from seven to nine, maintaining the original ratios in terms of gender representation. The appointment of these two new Directors, both of whom are independent, has meant an improvement in the distribution of tasks in the various Committees, making the relevant work more effective and faster.

Dear Shareholders, this Board of Directors, with the full collaboration of the Group and the people who continue to make the Group what it is today, has performed its duties with the greatest and most professional commitment to obtaining the results we submit to You. We've set some challenging goals for the future, but they are also realistic goals, focusing on the creation of value in a context of sustainability both in economic-financial and environmental terms, well-aware of our role in relation to the territory in which we are operating.

In consideration of the above, we trust in Your continued support.

The Chief Executive Officer
Alberto Irace



The Chairman
Catia Tomasetti



HIGHLIGHTS

CORPORATE HIGHLIGHTS



FINANCIAL HIGHLIGHTS

AMOUNTS IN MILLIONS OF EUROS

CONSOLIDATED NET REVENUE



EBIT



NET PROFIT OF THE GROUP



EBITDA



PROFIT/LOSS BEFORE TAX



GROUP INVESTMENTS



THE 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 Bogotá
100%	Acea Dominicana

ENERGY



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

ENVIRONMENT



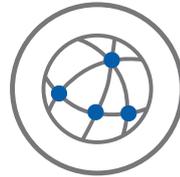
100%	Acea Risorse e Impianti per l'Ambiente
100%	Sollemme
88%	Acquaser
50%	Ecomed

NETWORKS



100%	Acea Distribuzione
100%	Acea Illuminazione Pubblica

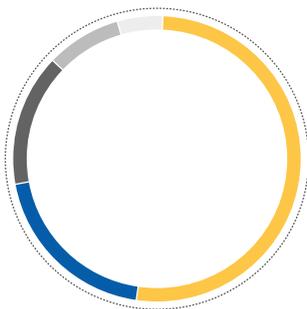
OTHER SERVICES



100%	Acea ElaboRi
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BREAKDOWN OF STOCKS AND SHARES

The share capital of Acea SpA at 31 December 2015 can be broken down as follows:



51%
Roma Capitale

12,48%
Suez

18,64%
Market

2,02%
Norges Bank

15,86%
Caltagirone

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

THE ORGANISATIONAL MODEL

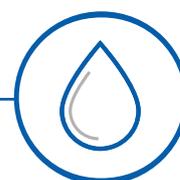
ACEA adopts an operational model based on an organisational layout in line with the Strategic Business Plan consolidating its role to govern, guide and control the Holding not only with the current business portfolio

focused on areas of greater value, but also on the strategic development of the Group in new business segments and territories. ACEA's macro structure is organised in corporate functions and four operating segments – Environment, Energy, Water and Networks.

THE BUSINESS SEGMENTS

AMOUNTS IN MILLIONS OF EUROS

WATER SEGMENT



The ACEA Group is the biggest Italian operator in the water sector. The Group manages the integrated water service in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and Campania.

The quality of the services offered by the Company is further enhanced by the sustainable management of water resources and respect of the environment.

EBITDA +6.4%

2015 **310.8**

2014 **292.2**

INVESTMENTS +37.3%

2015 **204.4**

2014 **148.9**

ENERGY SEGMENT



The ACEA Group is a major operator in Italy in the sale of electrical energy and offers innovative and flexible solutions for the supply of electricity and natural gas to consolidate its position as a dual fuel operator. Finally, the Group operates in the energy generation sector, running hydroelectric and thermoelectric plants in Lazio, Umbria and Abruzzo.

EBITDA (3.3%)

2015 **107.9**

2014 **111.6**

INVESTMENTS +55.3%

2015 **30.6**

2014 **19.7**

NETWORKS SEGMENT



The ACEA Group is a major operator in Italy with over 11 TWh of electricity distributed in Rome, where the Group manages the distribution network providing services for 1.6 million delivery points. The Group also manages the public and artistic lighting of the capital providing power for over 217,000 lighting points, applying solutions that strive to become more and more efficient with a lower environmental impact every year. By 2020 we plan to have replaced 100 thousand light bulbs with the same number of led bulbs.

EBITDA +0.9%



INVESTMENTS +27,6%



ENVIRONMENT SEGMENT



The ACEA Group is the 6th biggest Italian Waste to Energy operator, with a 2.4% share of the Italian market. Acea runs the main waste-to-energy plant and the biggest composting plant in Lazio.

In particular, the Group develops investments in the waste to energy business, considered high potential, and organic waste management, in accordance with the strategic goal of the Group aimed at producing energy from waste and protecting the environment.

EBITDA +5.3%



INVESTMENTS +94.7%





The Colosseum in Rome



REPORT ON OPERATIONS

CORPORATE BODIES

Board of Directors

Catia Tomasetti	Chairman
Alberto Irace	CEO
Francesco Caltagirone	Director
Massimiliano Capece Minutolo del Sasso ¹	Director
Diane D'Arras	Director
Giovanni Giani	Director
Elisabetta Maggini	Director
Roberta Neri ¹	Director
Paola Antonia Profeta	Director

Board Of Statutory Auditors

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

Executive Responsible for Financial Reporting

Demetrio Franco Mauro ²

Auditing Firm

Ernst & Young

¹ Appointed by the Shareholders' Meeting of 23 April 2015

² Appointed by the Board of Directors on 15 December 2015 effective as of 1 January 2016



LED spotlights lighting the Trevi Fountain. Photo by Fabio Anghelone, Acea Archive.

SUMMARY OF RESULTS

Economic Data (million euros)	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Consolidated net revenue	2,917.3	3,038.3	(120.9)	(4.0%)
Consolidated operating costs	2,213.9	2,339.3	(125.4)	(5.4%)
Income/(Costs) from equity investments of a non-financial nature	28.5	18.8	9.7	51.4%
- of which: EBITDA	143.9	125.7	18.2	14.4%
- of which: Amortisation, depreciation, impairment charges and provisions	(89.9)	(82.4)	(7.5)	9.1%
- of which: Financing activities	(7.8)	(9.7)	1.9	(19.2%)
- of which: Taxation	(17.7)	(14.8)	(2.8)	19.1%
EBITDA	732.0	717.7	14.2	2.0%
EBIT	386.5	390.4	(4.0)	(1.0%)
Net profit (loss)³	181.5	168.9	12.6	7.5%
Profit/(loss) attributable to minority interests	6.6	6.5	0.1	1.4%
Net profit/(loss) attributable to the Group	175.0	162.5	12.5	7.7%

EBITDA PER OPERATING SEGMENT (million euros)	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
ENVIRONMENT	57.4	54.5	2.9	5.3%
ENERGY	107.9	111.7	(3.8)	(3.4%)
Production	34.2	33.8	0.3	1.0%
Sales	73.7	77.8	(4.1)	(5.3%)
WATER:	310.8	292.2	18.6	6.4%
Overseas	3.0	2.6	0.4	13.7%
Lazio - Campania	275.0	261.1	13.9	5.3%
Tuscany-Umbria	23.0	17.2	5.8	33.8%
Engineering	9.8	11.3	(1.5)	(13.3%)
NETWORKS	255.7	253.3	2.4	0.9%
ACEA (Corporate)	0.2	6.1	(5.8)	(96.3%)
Total EBITDA	732.0	717.7	14.2	2.0%

Consolidated balance sheet data (million euros)	31.12.15	31.12.14	Increase/ (Decrease)
Net Invested Capital	3,606.1	3,591.5	14.6
Net Debt	(2,010.1)	(2,089.1)	79.0
Consolidated Shareholders' Equity	(1,596.1)	(1,502.4)	(93.7)

³ Both financial years compared are negatively affected by the deferred tax trend: in 2014, as a consequence of the abolition on grounds of unconstitutionality of the Corporate Income Tax (IRES) surcharge, the Group recognised a cost of 17 million euros compared to a cost of 20 million euros recognised in 2015 allowing for the reduction in the IRES rate from 2017, provided for by the 2016 Italian Stability Law. Net of said effect, net profit before allocation to third parties for 2015 amounted to 201.5 million euros, and 186 million euros for 2014, therefore equal to an increase of 8.3%.

Net Debt per Operating Segment (million euros)	31.12.15	31.12.14	Increase/ (Decrease)
ENVIRONMENT	187.7	179.6	8.1
ENERGY	287.1	356.1	(69.1)
Production	130.7	134.9	(4.2)
Sales	156.4	221.2	(64.8)
WATER	537.3	488.1	49.2
Overseas	(2.1)	(2.0)	(0.2)
Lazio - Campania	522.1	478.2	43.9
Tuscany-Umbria	0.2	(0.6)	0.8
Engineering	17.2	12.5	4.7
NETWORKS	581.7	623.1	(41.4)
ACEA (includes also public lighting)	416.3	442.1	(25.8)
Total	2,010.1	2,089.1	(79.0)

Investments per operating segment (million euros)	31.12.15	31.12.14	Increase/ (Decrease)
ENVIRONMENT	25.9	13.3	12.6
ENERGY	30.6	19.7	10.8
Production	15.2	11.6	3.7
Sales	15.3	8.1	7.2
WATER:	204.4	148.9	55.5
Overseas	0.4	0.6	(0.2)
Lazio - Campania	202.5	146.8	55.7
Tuscany-Umbria	0.0	0.0	0.0
Engineering	1.5	1.5	0.0
NETWORKS	156.2	122.4	33.8
ACEA (Corporate)	11.8	14.2	(2.4)
Total Investments	428.9	318.6	110.3

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

Definition of alternative performance indicators

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

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

ACEA GROUP RESULTS OF OPERATIONS

The following is a comment to the performance of the period; figures as at 31 December 2015 are compared with those for the same period of the previous year.

Notes Ref.		31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
1	Revenue from sales and services	2,800.6	2,931.6	(131.0)	(4.5%)
2	Other revenue and proceeds	116.7	106.7	10.1	9.5%
	Consolidated net revenue	2,917.3	3,038.3	(120.9)	(4.0%)
3	Staff costs	211.2	229.5	(18.4)	(8.0%)
4	Costs of materials and overheads	2,002.7	2,109.8	(107.1)	(5.1%)
	Consolidated Operating Costs	2,213.9	2,339.3	(125.4)	(5.4%)
5	Net income/(costs) from commodity risk management	0.0	0.0	0.0	0.0%
6	Income/(Costs) from equity investments of a non-financial nature	28.5	18.8	9.7	51.4%
	Gross Operating Profit	732.0	717.7	14.2	2.0%
7	Amortisation, depreciation, provisions and impairment charges	345.5	327.3	18.2	5.6%
	Operating profit/(loss)	386.5	390.4	(4.0)	(1.0%)
8	Financial income	20.2	28.2	(8.0)	(28.4%)
8	Financial costs	(111.2)	(129.3)	18.1	(14.0%)
9	Income/(Costs) from equity investments	1.0	0.5	0.5	91.8%
	Profit/(loss) before tax	296.4	289.8	6.6	2.3%
10	Taxation	114.8	120.9	(6.0)	(5.0%)
	Net profit/(loss)	181.5	168.9	12.6	7.5%
	Net profit/(loss) from discontinued operations				
	Net profit/(loss)	181.5	168.9	12.6	7.5%
	Profit/(loss) attributable to minority interests	6.6	6.5	0.1	1.4%
	Net profit/(loss) attributable to the Group	175.0	162.5	12.5	7.7%

Amounts in millions of euros

Consolidated net revenue

2.917,3 million euros

1. Revenue from sales and services - € 2.800,6 million euros

Amount to 2,800.6 million euros, was 2,931.5 million euros in 2014 broken down as follows:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue from electricity sales and services	1,942.6	2,101.5	(158.9)	(7.6%)
Revenue from gas sales	79.3	59.0	20.3	34.4%
Revenue from the sale of certificates and rights	20.9	21.6	(0.7)	(3.2%)
Revenue from the Integrated Water Service	582.6	580.4	2.2	0.4%
Revenue from Overseas Water Services	9.9	7.7	2.2	28.4%
Revenue from biomass transfer and landfill operations	37.5	39.4	(1.9)	(4.8%)
Revenue from services to customers	95.3	93.4	1.7	1.9%
Connection fees	32.5	28.5	4.0	14.1%
Total	2,800.6	2,931.6	(131.0)	(4.5%)

Revenue from electricity sales and services amount to 1,942.6 million euros, a decrease compared to last year of 158.9 million euros. This decrease was mainly caused by the following events:

- A 158.5 million euros reduction in revenue from the sale of electrical energy as a result of lower quantities sold on the free market and changes in prices. The drop in sales can essentially be attributed to the free market (-18.0%) as a consequence of the optimization of Acea Energia customer portfolio from 2014. There was also a slight drop in sales on the protected market (-1.6%). This item includes revenue deriving from AEEGSI Resolution 659/2015 which for 2014 and 2015 introduced a transitional mechanism that allows for the so-called size effect, to cover non-arrearage operating costs;
- a 1.4 million euros decrease in revenue from the transport and metering of energy due to the different value attributed to the tariff parameters, as well as a reduction in volumes and the amount of electricity fed into the grid;
- an 0.8 million euros decrease in revenues from electricity and heat generation due to a reduction in the amount of energy produced by hydroelectric plants (-9.3%) also as a result of the Castel Madama shutdown for *repowering* at the end of July 2015;
- a 1.3 million euros increase in revenues from cogeneration.

Revenue from gas sales recorded an increase equal to 20.3 million euros compared to the previous year, mainly due to: **i)** an increase in Acea Energia sales as a consequence of the growing number of customers in the "business" segment and the consolidation of customers on the domestic market, and **ii)** 6.3 million euros due to the effect of the change in the basis of consolidation following the takeover of Cesap Vendita Gas.

Revenues from the sale of certificates and rights decreased by 0.7 million euros as a consequence of the reduction in the quantities produced in the Salisano and Orte plants.

Revenues from the Integrated Water Services showed an increase of 2.2 million euros essentially due to the effect of the 2015 VRG (Guaranteed Revenue Restriction) for the Companies providing the service in Lazio and to a lesser extent for those operating in Campania. In particular ACEA Ato2 revenues decreased by 1.7 million euros and ACEA Ato5 revenues increased by 3.3 million euros. With reference to ACEA Ato2, note that in 2014 some revenues were classified in this item for services performed for outside bodies amounting to a total of 6.9 million euros. Therefore, net of said reclassification, company revenues increased by 5.1 million euros. With reference to ACEA Ato5, note that this item includes the effects (4.1 million euros) deriving from AEEGSI Resolution 51/2016 after conclusion of the analysis on the 2012-2015 tariffs.

Overseas revenues increased by 2.2 million euros essentially due to an increase in Agua Azul Bogotà sales.

Revenue from biomass transfer and landfill operations decrease by 1.9 million euros. This decrease was caused almost exclusively by the seizure of the Kyklos plant by order of the Public Prosecutor's Office following a fatal accident in July 2014.

Revenue from services to customers increase by 1.7 million euros mainly due to:

- an increase in revenues from ACEA Ato2 third party contracts (+ 5.7 million euros),
 - a reduction in revenues from public lighting in the Municipality of Naples (- 1.9 million euros),
 - a reduction in GIP revenues (- 0.8 million euros).
- Roma Capitale revenues from public lighting amounted to 66.7 million euros, essentially in line with last year.

Connection fees increased by 4.0 million euros compared to the previous year, mainly attributable to Area Energia (+ 2.2 million euros) and Reti (+ 2.0 million euros).

2. Other revenue and proceeds - 116.7 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Contributions from Entities for Energy Efficiency Certificates	18.5	36.7	(18.3)	(49.7%)
Non recurring gains	54.1	25.4	28.7	113.1%
other revenues	13.8	11.1	2.7	24.7%
Reimbursement for damages, penalties, compensation	9.9	7.7	2.2	28.6%
Feed-in-tariff	4.3	5.0	(0.8)	(15.1%)
Income from fraudulent withdrawals	0.0	5.4	(5.4)	(100.0%)
Government grant (Prime Ministerial Decree of 23/04/04)	4.0	4.9	(0.9)	(19.2%)
Regional grants	2.1	2.1	0.0	0.3%
Income from end users	3.3	2.4	1.0	41.0%
Seconded staff	2.2	1.5	0.7	43.5%
Property income	1.9	1.7	0.3	16.6%
IFRIC 12 margin	1.4	1.2	0.2	16.0%
Gains on asset disposals	0.1	0.3	(0.2)	(63.4%)
Recharged cost for company officers	1.0	1.1	(0.1)	(7.2%)
Service continuity bonuses	0.2	0.2	0.0	(9.3%)
Other revenue and proceeds	116.7	106.7	10.1	9.5%

The change compared to 31 December 2014 was mainly due to the following opposing effects:

- (i) a 28.7 million euros increase in non-recurring gains mainly due to the assessment of Acea Energia energy related items pertaining to previous years equal to 32.5 million euros, partially offset by the decrease in those of ACEA Ato2 (- 7.1 million euros) due to the effect of recognition as at 31 December 2014 of prior adjustments for the period 2006 – 2011. The increase in this component is substantially reduced to zero by the increase in non-recurring losses posted as Other operating costs;
- (ii) an 18.3 million reduction in tariff contributions accrued on energy efficiency bonds as a result of the reduction in the amounts purchased in the reporting period. The reversal, in 2014, of provisions allocated in 2013 (8.4 million euros) to cover the purchase of the bonds required to meet 2013 obligations, adds to the effect of the above reduction;

Consolidated operating costs - 2,213.9 million euros

The breakdown is provided in the following table.

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Staff costs	211.2	229.5	(18.4)	(8.0%)
Costs of materials and overheads	2,002.7	2,109.8	(107.1)	(5.1%)
Consolidated operating costs	2,213.9	2,339.3	(125.4)	(5.4%)

3. Staff costs - 211.2 million euros

The increase in staff costs, inclusive of capitalised costs, amounted to 2.8 million euros and was mainly influenced by the Water and Energy Segments.

There was an increase of 21.2 million euros in capitalised costs, which can substantially be broken down as follows: 14.0 million euros ACEA Distribuzione, 9.6 million euros ACEA Ato2. These costs were influenced

by an increase in the amount of time dedicated to investments with particular reference to the process and technological development project (Acea2.0) which involves all members of staff, and the revision of the methods for capitalizing internal costs progressively brought into effect from the last quarter of 2014.

The trend by Operating Segment, including capitalised costs, is shown in the following table:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment segment	11.9	11.3	0.6	5.7%
Energy Segment	28.5	26.3	2.2	8.3%
Water Segment	116.8	115.2	1.6	1.4%
Networks Segment	88.0	88.5	(0.5)	(0.6%)
Parent Company	56.3	57.3	(1.1)	(1.9%)
Total staff costs including capitalised costs	301.4	298.6	2.8	0.9%

4. Cost of materials and overheads - 2,002.7 million euros

There was an overall decrease of 107.1 million euros (-5.1%) compared to the 2,109.8 million euros as at 31 December 2014.

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Electricity, gas and fuel	1,612.4	1,746.5	(134.1)	(7.7%)
Materials	28.9	27.5	1.3	4.8%
Services	228.4	234.9	(6.5)	(2.8%)
Concession fees	43.9	43.1	0.8	1.8%
Cost of leased assets	22.9	23.9	(1.0)	(4.1%)
Other operating costs	66.3	33.9	32.4	95.7%
Costs of materials and overheads	2,002.7	2,109.8	(107.1)	(5.1%)

Purchase costs of electricity, gas and fuel amounted to 1,612.4 million euros, a decrease of 134.1 million eu-

ros compared to last year. This trend is shown in the following table:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Purchase and transport of electricity	1,570.1	1,697.9	(127.9)	(7.5%)
Gas	22.9	16.7	6.2	37.3%
White certificates	18.1	31.0	(12.9)	(41.5%)
Green certificates and CO2 rights	1.3	0.9	0.4	44.5%
Total	1,612.4	1,746.5	(134.1)	(7.7%)

The principal effect derives from: i) a decrease in the cost of electricity purchases (- 127.9 million euros) due to a lower volume in electricity sales, and ii) a decrease (- 12.9

million euros) in payables to the Equalisation Fund for EEB in the ACEA Distribuzione portfolio to cover the 2014 and 2015 obligation.

Service costs are equal to 228.4 million euros, a decrease compared to last year of 6.5 million euros. This trend is mainly caused by:

- (i) a decrease in: i) costs for contract work (- 5.3 million euros) mainly for ACEA Ato2, ii) costs for sludge disposal and transportation (- 3.4 million euros), with particular reference to those of Aquaser, iii) costs for electricity, water and gas (- 3.0 million euros).
- (ii) an increase in costs for technical and administrative services (+ 2.8 million euros), with particular reference to those for agents and brokers, and in costs for maintenance fees (+ 2.9 million euros).

Concession fees increase by 0.8 million euros mainly ascribable to ACEA Ato2 (+ 1.2 million euros), which acquired new territorial municipalities in 2015.

Cost of leased assets amount to 22.9 million euros, a decrease of 1.0 million euros compared to last year (was 23.9 million euros). This decrease can be broken down as follows: 0.7 million euros in lower costs for ACEA Distribuzione application software user licences and 0.2 million euros lower costs for other ACEA Ato2 payments and rental costs.

Other operating costs amounted to 66.3 million euros, an increase of 32.4 million euros compared to 2014.

This increase was mainly due to the increase in: **i)** non-recurring losses (+ 27.1 million euros) for the adjustment of estimates from previous years, **ii)** damages and outlays for legal disputes (+ 2.4 million euros) and **iii)** general and administrative expenses (+ 3.7 million euros). The increase in general and administrative expenses is essentially attributable to refunds paid by water companies in accordance with Constitutional Court Sentence No. 335/2008.

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

At 31 December 2015 the change in the *Fair Value* measurement of financial contracts was essentially 0 million euros. The portfolio of financial instruments under *hedge accounting* was the predominant component of the overall portfolio. For further details please refer to the section "Additional disclosures on financial instruments and risk management policies" in the 2015 Consolidated Financial Statements.

6. Income/(Costs) from equity investments of a non-financial nature - 28.5 million euros

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

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
GROSS OPERATING PROFIT	143.9	125.7	18.1	14.4%
Amortisation, depreciation, impairment charges and provisions	(89.9)	(82.4)	(7.5)	9.1%
Financing activities	(7.9)	(9.7)	1.8	(18.6%)
(Costs)/Income from Equity Investments	0.1	0.0	0.1	100.0%
Taxation	(17.7)	(14.8)	(2.8)	19.1%
Income from equity investments of a non-financial nature	28.5	18.8	9.7	51.4%

The increase compared to 31 December 2014 is mainly attributable to:

- in terms of Gross Operating Profit, the improved performance of Publiacqua (+ 8.4 million euros), of Gruppo Acque (+ 6.8 million euros) and GORI (+ 1.7 million euros);
- for the item Amortisation, depreciation, impairment charges and provisions, note there was an increase in amortization as a result of an increase in investments

by Tuscan water companies, with depreciation, provisions and impairment charges essentially in line with 2014.

The change in taxation can be broken down as follows: approximately 2.0 million euros due to the effect of the adjustment of deferred tax as a consequence of the expected reduction in IRES Corporate Income Tax (from 27.5% to 24%) starting in 2017.

7. Amortisation, depreciation, provisions and impairment charges - 345.5 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Amortisation and depreciation	234.0	203.5	30.4	15.0%
Provision for impairment of receivables	59.0	110.2	(51.1)	(46.4%)
Provisions for risks	52.5	13.6	38.9	286.7%
Amortisation, depreciation, impairment charges and provisions	345.5	327.3	18.2	5.6%

Amortisation equal to 234.0 million euros, can be broken down as follows: an increase of 30.4 million euros (+15.0%), mainly attributable to an increase in investments in all business segments as well as the regulatory situation and tariff updates related to invested capital, for the water sector. This item also includes 1.4 million euros impairment on Ecogena indefinite useful life goodwill, which is the result of the *impairment* test.

Impairment charges amount to 59.0 million euros, a decrease of 51.1 million euros. There was a reduction in provisions for the companies in the Energy Segment (-18.6 million euros) and the Water Segment (-28.5 million euros) as a consequence of the reduction in receivables and, for ACEA Ato5, the conclusion of the analysis on 2012-2015 tariffs, which defined the amount of Company tariff adjustments.

Provisions for liabilities increased significantly due to the effect of the payment of redundancy funds recorded in 2014 (22.1 million euros). Gross of said effect, there was a 24.0 million increase which is essentially due to the allocation of a provision to partially cover energy accruals from previous years (13.3 million euros) and an increase in allocation to the provision for restoration costs as a consequence of the increase in water company investments (4.0 million euros).

8. Finance (costs) and income - 91.1 million euros

Net finance costs totalled 91.1 million euros, with a decrease of 10.1 million euros. In particular, this trend derives from an 18.1 million euros reduction in finance costs and an 8.0 million euros reduction in finance income. The trend in Financing Activities derives mainly from

a reduction in interest on short and medium-long-term borrowings (-9.7 million euros), a reduction in the cost of non-recourse trade receivable transfers (-3.4 million euros) and a reduction in default interest (-1.7 million euros). In terms of income, there was a 7.1 million euros decrease in interest on trade receivables.

9. Income and costs from Equity Investments - 1.0 million euros

These refer to the result of the consolidation under the equity method of certain Group companies, with specific reference to Agua de San Pedro, Geal, Sienergia and Umbria2.

10. Taxation for the period - 114.8 million euros

Overall tax expenses for the period were estimated at 114.8 million euros compared to 120.9 million euros as at 31 December 2014.

Both financial years compared are negatively affected by the deferred tax trend: in 2014, as a consequence of the abolition on grounds of unconstitutionality of the Corporate Income Tax (IRES) surcharge, the Group recognised a cost of 17.1 million euros compared to a cost of 19.9 million euros (of which 2.2 million euros for lower provisions) recognised in 2015 allowing for the reduction in the IRES rate from 2017, provided for by the 2016 Italian Stability Law.

Net of said effect taxation amounted to 95 million euros, with a reduction of approximately 9 million euros compared to 2014. This reduction is essentially due to the elimination of the above-mentioned Corporate Income Tax (IRES) surcharge and changes, from 1 January 2015, to the IRAP (Regional Income Tax) regulation concerning the deductibility of the cost of staff hired on open-ended contracts.

ACEA GROUP FINANCIAL POSITION AND CASH FLOWS

Notes Ref.	ACEA GROUP STATEMENT OF FINANCIAL POSITION (in millions of euros)	31.12.15 (a)	31.12.14 (b)	Variazione (a)-(b)	Variazione %
	NON-CURRENT ASSETS AND LIABILITIES	3,868.6	3,681.6	187.0	5.1%
11	Property, plant and equipment and intangible assets	3,870.9	3,669.4	201.5	5.5%
12	Equity investments	250.2	227.2	23.0	10.1%
13	Other non-current assets	314.3	340.2	(25.9)	(7.6%)
14	Staff termination benefits and other defined benefit plans	(108.6)	(118.0)	9.4	(7.9%)
15	Provisions for liabilities and charges	(187.1)	(165.9)	(21.2)	12.7%
16	Other non-current liabilities	(271.2)	(271.3)	0.1	(0.0%)
	NET WORKING CAPITAL	(262.5)	(90.1)	(172.4)	191.3%
17	Current receivables	1,098.7	1,259.9	(161.2)	(12.8%)
18	Inventories	26.6	29.2	(2.6)	(8.9%)
19	Other current assets	205.9	241.3	(35.5)	(14.7%)
20	Current payables	(1,245.3)	(1,249.4)	4.1	(0.3%)
21	Other current liabilities	(348.4)	(371.2)	22.8	(6.1%)
	INVESTED CAPITAL	3,606.1	3,591.5	14.6	0.4%
22	NET DEBT	(2,010.1)	(2,089.1)	79.0	(3.8%)
	Medium/long-term loans and receivables	31.5	34.3	(2.8)	(8.2%)
	Medium/long-term borrowings	(2,688.4)	(3,040.7)	352.3	(11.6%)
	Short-term loans and receivables	91.5	89.4	2.0	2.3%
	Cash and cash equivalents	814.7	1,018.0	(203.3)	(20.0%)
	Short-term borrowings	(259.2)	(190.1)	(69.1)	36.4%
23	TOTAL SHAREHOLDERS' EQUITY	(1,596.1)	(1,502.4)	(93.7)	6.2%
	FUNDING	(3,606.1)	(3,591.5)	(14.6)	0.4%

The above statement of financial position has been reclassified to show the components of invested capital and the corresponding funding.

In particular, the net carrying amounts of non-current assets and net working capital, consisting of current receivables, other receivables, inventories, current payables and the short-term portion of long-term borrowings have been added together.

The figure obtained for invested capital is then compared with the corresponding amounts for shareholders' equity and net financial position, thereby showing the weight of funding.

At the end of 2015 the ACEA Group's statement of financial position records an increase in invested capital compared to 2014 equal to 14.6 million euros (+0.4%). This is the net result of the increase in net fixed assets (+ 187.0 million euros) offset by a decrease in net working capital (+ 172.4 million euros).

Non-current assets and liabilities - 3,868.6 million euros

Compared to 31 December 2014, this item showed an overall increase of 187.0 million euros (+ 5.1%); a breakdown of the item is shown below.

11. Property, plant and equipment/intangible assets - 3,870.9 million euros

This item increased by 201,5 million euros (+5.5%) compared to the end of the previous year.

Investments amounting to 428.9 million euros and 234.0 million euros in depreciation and amortization contributed to the change. The balance also includes the accrual of green certificates for the year equal to 4.5 million euros.

The item also includes 1.8 million euros for the acquisition of the Integrated Water services in the Municipalities of Colleferro and Valmontone with ACEA Ato2 taking over 2i Rete Gas on the basis of two contracts signed respectively on 25 May 2015 and 30 November 2015, as well as the acquisition of Integrated Water services assets for the Municipality of Ciampino equal to 3.9 million euros.

The change in the basis of consolidation as a result of the line-by-line consolidation of the company Cesap Vendita Gas following the acquisition of a further share in Company capital, is equal to 0.4 million euros.

The table below shows the level of investments made in 2015 per Operating Segment, compared to those of the previous year.

Investments per operating segment (million euros)	31.12.15	31.12.14	Increase/ (Decrease)
ENVIRONMENT	25.9	13.3	12.6
ENERGY	30.6	19.7	10.8
Production	15.2	11.6	3.7
Sales	15.3	8.1	7.2
WATER:	204.4	148.9	55.5
Overseas	0.4	0.6	(0.2)
Lazio – Campania	202.5	146.8	55.6
Engineering	1.5	1.5	0.0
NETWORKS	156.2	122.4	33.8
ACEA (Corporate)	11.8	14.2	(2.4)
Total	428.9	318.6	110.3

There was a 12.6 million euros increase in investments in the **Environment Segment** with particular reference to ARIA for upgrading the RDF treatment plant in Paliano and *revamping* line 1 of the San Vittore plants, and to SAO for the soil consolidation work required and for *revamping* the waste treatment plant.

There was a 10.8 million euros increase in the **Energy Segment** for investments made by ACEA Energia for the implementation and programming of software used for the free and protected categories markets, and by ACEA Produzione mainly for *revamping* the Castel Madama hydroelectric power station.

Compared to last year there was a total 55.5 million euros increase in investments in the **Water Segment**,

mainly attributable to ACEA Ato2 principally for reclamation work and the development of water pipelines, water transportation and waste treatment systems, and extraordinary maintenance on water facilities.

There was an increase of 33.8 million euros in the **Networks Segment** mainly for ACEA Distribuzione investments in HV, MV and LV networks, primary and secondary substations.

The **Parent Company** decreased the level of Capex by 2.4 million euros compared to 2014

Investments recorded in 2015 include those for the process and technological development project (Acea 2.0), which amount to a total of 66 million euros.

12. Equity investments - 250.2 million euros

Compared to 31 December 2014, equity investments increased by a total of 23.0 million euros primarily

reflecting the valuation of companies consolidated using the equity method in accordance with IFRS 11.

13. Other non-current assets - 314.3 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Deferred tax assets	274.6	296.2	(21.6)	(7.3%)
Receivables from others	39.3	43.0	(3.7)	(8.6%)
Accrued income and prepayments	0.5	1.0	(0.5)	(53.3%)
Other non-current assets	314.3	340.2	(25.9)	(7.6%)

Compared to 31 December 2014 there was a reduction of 25,9 million euros (-7.6%) mainly attributable to less allocations for **deferred tax assets** compared to the end of the previous year (21.6 million euros) due to the effect of the adjustment as a consequence of the expected reduction in the IRES rate.

Receivables from others, amounted to 39,3 million euros (-3,7 million euros) and represent the total capital spending incurred up to 31 December 2010 as part of the Public Lighting service agreement: these receivables were recognised using the financial asset model in application of IFRIC 12.

14. Staff termination benefits and other defined-benefit plans - 108.6 million euros

At year end, there was a 9.4 million euros reduction, mainly due to:

- 5.1 million euros relating to staff termination benefits,

- 4.3 million euros relating to tariff subsidies, monthly bonuses and long-term incentive plans.

In addition to the provision which, pursuant to the revised legislation on Termination Benefits, consists of the employee termination benefits accrued until 31 December 2006, the change reflects the revised discount rate used for the valuation according to IAS 19 (from 1.49% in 2014 to 2.03% in 2015).

15. Provisions for liabilities and charges - 187.1 million euros

Provisions for liabilities and charges recorded a aumento of 21.2 million euros compared to the previous year, mainly due to provisions (59.6 million euros) allocated net of payment of redundancy funds for the period (7.1 million euros) net of uses and other changes (totalling 31.2 million euros). The following table provides a breakdown by type of the provision for liabilities and charges.

€ millions	31.12.14	Utilisations	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31.12.15
Legal	20.1	(3.7)	7.6	(4.2)	0.4	20.2
Tax	4.6	(2.8)	1.4	0.0	(0.5)	2.7
Regulatory risks	46.6	(1.0)	8.7	0.0	0.0	54.2
Investees	9.7	(6.2)	2.6	(2.9)	(0.2)	2.8
Contributory risks	6.6	(0.1)	0.1	0.0	0.0	6.5
Early retirements and redundancies	2.7	(14.0)	14.8	0.0	0.0	3.5
Post mortem	23.1	0.0	0.0	0.0	(0.1)	23.0
Insurance excess	0.3	(1.0)	1.9	0.0	0.0	1.2
Other liabilities and charges	9.2	(1.2)	14.4	0.0	(0.8)	21.7
Subtotal Provisions for Liabilities and Charges	122.8	(30.1)	51.4	(7.1)	(1.2)	135.8
Provisions for restoration charges	43.1	0.0	8.2	0.0	0.0	51.3
Total Provisions for Liabilities and Charges	165.9	(30.1)	59.6	(7.1)	(1.2)	187.1

The main changes refer to:

- the provision for restoration risks increasing by 8.2 million euros as a result of allocations made in 2015 related to the costs required to keep the water service infrastructure in a good condition,
- the provision for regulatory risks increasing by 7.6

million euros, essentially due to the provisions recognised by Acea Energia and Acea Produzione,

- the provision for other risks and costs, essentially due to the effect of allocations recognised by ACEA Energia (13.3 million euros) for valuations related to energy related items pertaining to previous years.

16. Other non-current liabilities - 271.2 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Advances from end users and customers	110.7	102.5	8.2	8.0%
Provision for deferred taxes	87.1	93.3	(6.2)	(6.7%)
Accrued liabilities and deferred income	28.7	32.6	(3.9)	(11.9%)
Capital grants and those for water connections	44.7	42.9	1.8	4.1%
Other non-current liabilities	271.2	271.3	(0.1)	0.0%

Advances includes: **i)** the amount of security deposits subject to adjustment by water companies with a 2.8 million euros increase mainly attributable to ACEA Ato2; **ii)** the amount of advances relating to liabilities for advances on energy consumption, mainly 5.7 million euros attributable to Acea Energia, paid by customers in the Protected Categories market, that bear interest at the conditions set by the AEEGSI regulation (Resolution No. 204/99).

The **Provision for deferred taxes** recorded a total decremento of 6.2 million euros compared to 31 Dicembre 2014 due to the adjustment as a consequence of the expected reduction in the IRES rate. These provisions above all regard the difference between economic and technical rates of depreciation and tax-related rates.

Capital grants and those for **water connections** showed a net overall aumento of 1.8 million euros, due to an increase in capital grants. The grants are accounted for in liabilities and progressively recognised in the income statement each year over the duration of the investment to which the grant is connected. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

Accrued liabilities and deferred income, equal to 28,7 million euros, mainly refer to grants received, recognised in the income statement by an amount equal to the depreciation generated by the associated capital expenditure. In particular, this item includes the contribution received by ACEA Distribuzione for the replacement of electromechanical meters with electronic meters (AEEGSI Resolution No. 292/06).

Net working capital - (262.5 million euros)

Negative, with a 172.4 million euros decrease compared to 31 December 2014, broken down as follows.

€ millions	31.12.15	31.12.14	Increase/ (Decrease)
Current receivables	1,098.7	1,259.9	(161.2)
- due from end users/customers	1,005.1	1,163.0	(157.9)
- due to Roma Capitale	63.7	67.2	(3.6)
Inventories	26.6	29.2	(2.6)
Other current assets	205.9	241.3	(35.5)
Current payables	(1,245.3)	(1,249.4)	4.1
- due to Suppliers	(1,092.3)	(1,130.2)	37.9
- due to Roma Capitale	(147.3)	(116.7)	(30.6)
Other current liabilities	(348.4)	(371.2)	22.8
Net working capital	(262.5)	(90.1)	(172.4)

17. Current receivables - 1,098.7 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	Increase/ (Decrease)
Trade receivables	1,005.1	1,163.0	(157.9)	(13.6%)
Amounts due from Roma Capitale	63.7	67.2	(3.6)	(5.3%)
Amounts due from subsidiaries and associates	29.9	29.7	0.2	0.6%
Current receivables	1,098.7	1,259.9	(161.2)	(12.8%)

Receivables from end users and customers

This item si riducono by 157,9 million euros compared to

the previous year. The breakdown by Operating Segment compared to 31 Dicembre 2014 is provided below.

€ millions	31.12.15			31.12.14			Increase / (Decrease)		
	End users (a)	Customers (b)	Total	End users (c)	Customers (d)	Total	End users (a)-(c)	Customers (b)-(d)	Total
Environment	0.0	29.7	29.7	0.0	29.7	29.7	0.0	0.0	0.0
Energy	426.8	78.5	505.3	584.8	59.2	644.0	(158.0)	19.3	(138.7)
Water	381.3	30.4	411.7	375.0	31.3	406.3	6.3	(0.9)	5.4
Networks	22.4	7.3	29.7	6.2	37.5	43.6	16.3	(30.2)	(13.9)
Corporate	0.0	28.6	28.7	0.0	39.3	39.3	0.0	(10.7)	(10.7)
Total	830.6	174.5	1,005.1	966.0	197.0	1,163.0	(135.4)	(22.5)	(157.9)

The change in stock can be attributed to the reduction recorded by Acea Energia (- 155.8 million euros) as a consequence of both the positive result of actions undertaken to recover amounts due, and a reduction in sales.

The transfer of Acea Produzione's PV business unit, after the demerger of ARSE resulted in a reduction in Networks Segment receivables and an increase in Energy Segment receivables amounting to approximately 14 million euros.

The line-by-line consolidation of Cesap Vendita Gas also resulted in a 4.5 million euros increase in Segment receivables.

The substantial stability of the Water Segment derives from the billing of ACEA Ato2 tariff adjustments and ACEA Ato5 prior-year items.

The Parent Company recorded a reduction of 10.7 million euros, mainly attributable to its relations with the Municipality of Naples, as a result of an operation for the assignation of Municipal Authority debts.

Note that during the year, receivables were sold without recourse for a total amount of 1,515.9 million euros. The breakdown by Operating Segment is provided below:

€ millions	31.12.15	Public Administration
Environment segment	6.2	6.2
Energy Segment	544.6	23.5
Water Segment	356.6	40.1
Networks Segment	600.8	104.9
Corporate	7.7	7.7
Total	1,515.9	182.4

Receivables are shown net of the **Provision for impairment of receivables** which at 31 December 2015 amount-

ted to 320.2 million euros compared to 278.2 million euros at the end of last year.

Receivables from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled 72.2 million euros at 31 December 2015 (72.9 million euros at 31 December 2014).

The total amount of receivables (including short-term and medium/long term financial receivables resulting from the public lighting contract) was 142.8 million euros compared to 135.3 million euros at the end of the previous year.

The significant reduction in the net balance (- 61.6 million euros) is essentially due to payments received (101.3 million euros) and offsetting (19.3 million euros) and the application from 1 January 2015 of the *Split Pay-*

ment mechanism and the termination of the contract for the supply of electricity from March 2015.

Payments received refer mainly to those from public lighting (57.2 million euros) and water and electricity utilities (totalling 42.6 million euros).

Administrative offsetting concerned 14.7 million euros in utility receivables and 4.3 million euros in public lighting receivables, offset by payables for dividends.

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

Receivables from Roma Capitale (€ millions)	31.12.15	31.12.14	Increase / (Decrease)
Utility receivables	46.8	51.3	(4.6)
Contract work and services	17.7	16.5	1.2
Other receivables: seconded staff	0.2	0.2	0.0
Total services billed	64.7	68.0	(3.3)
Grants receivable	2.4	2.4	0.0
Total services requested	67.1	70.4	(3.3)
Receivables for bills to be issued: Public Lighting	2.6	1.0	1.6
Receivables for bills to be issued: other	2.5	1.5	1.0
Total services to be billed	5.1	2.5	2.6
Total trade receivables	72.2	72.9	(0.7)
Financial receivables for Public lighting services	70.6	62.4	8.2
Financial receivables for billed Public lighting services	61.0	49.7	11.3
Financial receivables for Public lighting services to be billed	9.6	12.7	(3.1)
Total receivables due within one year (A)	142.8	135.3	7.5
Payables to Roma Capitale (€ millions)	31.12.15	31.12.14	Increase / (Decrease)
Electricity surtax payable	(15.2)	(15.2)	(0.1)
Concession fees payable	(99.3)	(74.0)	(25.3)
Total trade payables	(114.6)	(89.2)	(25.3)
Total payables due within one year (B)	(114.6)	(89.2)	(25.3)
Total (A) - (B)	28.2	46.1	(17.9)
Other financial receivables/(payables)	(6.2)	29.4	(35.6)
Parent Company City of Rome for dividends	(35.3)	(3.1)	(32.2)
Medium/long term financial receivables for Public lighting services	29.1	32.6	(3.5)
Other trade receivables/(payables)	(20.7)	(12.6)	(8.1)
Net balance	1.3	62.9	(61.6)

Amounts due from subsidiaries

These amounted to 24.7 million euros (22.4 million euros in 2014), up 2.3 million euros. They relate to receivables from companies consolidated using the equity method as a result of the application of IFRS 11.

18. Inventories - 26,6 million euros

A decrease of 2.6 million euros compared to 31 December 2014. The increase/decrease per Operating Segment is shown in the following table:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	3.7	3.4	0.3	8.7%
Energy	1.6	1.5	0.1	7.7%
Water	7.1	8.4	(1.4)	(16.0%)
Networks	13.9	15.6	(1.7)	(10.7%)
Parent Company	0.3	0.3	0.0	0.0%
Inventories	26.6	29.2	(2.6)	(8.9%)

19. Other current assets - 205.9 million euros

There was an overall decrease of 35.5 million euros, or 14.7%, compared to the previous year, as follows:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Receivables from others	117.9	126.8	(8.9)	(7.0%)
Accrued income and prepayments	12.8	14.7	(1.9)	(12.8%)
Tax receivables	75.2	99.8	(24.7)	(24.7%)
Other current assets	205.9	241.3	(35.5)	(14.7%)

Receivables from others totalled 117.9 million euros, down 8.9 million euros, as shown in the following table

with the breakdown and changes occurred compared to the previous year:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Receivables due from Equalisation Fund	63.7	83.5	(19.8)	(23.7%)
Receivables due from Trifoglio property company	10.3	10.3	0.0	0.0%
Regional grants due	7.4	6.5	0.8	12.8%
Receivables due from INPS for welfare contributions in accordance with article 41, paragraph 2, letter A of Act 488/1999	5.4	6.2	(0.8)	(13.3%)
Receivables from Equitalia	4.2	4.2	0.0	0.3%
Security deposits	3.4	3.6	(0.2)	(5.6%)
Receivables due from social security institutions	3.5	3.3	0.2	5.3%
Receivable due from single transfers	4.4	2.5	1.9	77.4%
Suppliers' advances	2.1	1.7	0.4	20.4%
Other receivables for Naples public lighting services	0.9	0.5	0.3	64.4%
Other receivables	12.7	4.5	8.2	185.6%
Total	117.9	126.8	(8.9)	(7.0%)

The reduction in receivables from the Equalisation Fund was affected by non-recourse factoring during the year.

Accrued income and prepayments amounted to 12.8 million euros compared to 14.7 million euros in 2014 and mainly refer to rent on public land, lease payments and insurance.

Tax receivables, amounted to 75.2 million euros (- 24.7 million euros) and mainly include IRAP tax receivables

for 27.7 million euros and VAT receivables for 16.3 million euros.

20. Current payables – 1,245.3 million euros

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Amounts due to third-party suppliers	1,092.3	1,130.2	(37.9)	(3.4%)
Due to the Parent Company Roma Capitale	147.3	116.7	30.6	26.2%
Amounts due to associates	2.2	2.4	(0.2)	(7.7%)
Trade payables due to Subsidiaries	3.5	0.1	3.4	3641.8%
Current payables	1,245.3	1,249.4	(4.1)	(0.3%)

Amounts due to third-party suppliers

Trade payables amounted to 1,092.3 million euros (1,130.2

million euros at 31 December 2014). The following table provides the breakdown by operating segment:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	46.8	38.5	8.3	21.6%
Energy	398.4	471.6	(73.2)	(15.5%)
Water	272.1	247.5	24.6	9.9%
Networks	310.9	318.5	(7.6)	(2.4%)
Parent Company	64.1	54.0	10.0	18.6%
Trade payables	1,092.3	1,130.2	(37.9)	(3.4%)

The reduction recorded by the Energy Segment companies essentially derives from the diversification of Acea Energia's customer portfolio and the application of the *reverse charge* from January 2015 on trade transaction between wholesalers.

Amounts due to Parent Company Roma Capitale

These amounted to 147.3 million euros and the 30.6 million euros increase was essentially due to the concession fee for the integrated water services accrued in 2015.

Amounts due to subsidiaries and associates

The balance of 5.7 million euros was 3.2 million euros less than that at 31 December 2014 and mainly refers to payables arising from the public lighting service provided by the associate *Citelum Napoli Pubblica Illuminazione*, in the Municipality of Naples.

21. Other current liabilities – 348.4 million euros

A decrease of 22.8 million euros (6.1%). The following table shows the main items making up the balance and the change compared to 31 December 2014.

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Other current liabilities	287.8	268.7	19.1	7.1%
Tax Payables	42.3	83.9	(41.6)	(49.6%)
Amounts due to social security institutions	18.1	17.5	0.6	3.7%
Amounts due to end users for tariff restrictions	0.2	0.0	0.1	309.2%
Payables arising from commodity derivatives	(0.4)	0.3	(0.8)	(218.1%)
Accrued liabilities and deferred income	0.3	0.7	(0.4)	(53.2%)
Other current liabilities	348.4	371.2	(22.8)	(6.1%)

Other current liabilities amounted to 287.8 million euros, with an overall increase of 19.1 euros compared to 31 December 2014.

The item is mainly made up of payables to the Equalisation Fund (89.7 million euros), concession fees payable (53.7 million euros), amounts due to staff (32.8 million euros) and collections subject to verification (58.2 million euros).

Tax payables amount to 42.3 million euros (83.9 million at 31 December 2014) and mainly included 23.8 million euros in VAT tax payable for the period and 20.3 million in IRES and IRAP tax payable.

22. Net financial position – (2,010.1) million euros

Group debt at 31 December 2015 recorded an overall decrease of 79.0 million euros, from 2,089.1 million euros at the end of 2014 to 2,010.1 million euros.

This decrease derives essentially from the reduction in net working capital, mainly due to more effective collection strategies, which absorbed the increase in investments for the year.

The Net debt/EBITDA ratio dropped from 2.9x for 2014 to 2.7x at the end of 2015.

The following table provides the breakdown of the items concerned:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Non-current financial assets/(liabilities)	2.4	1.7	0.6	37.7%
Parent company non-current financial assets/(liabilities)	29.1	32.6	(3.5)	(10.7%)
Non-current borrowings and financial liabilities	(2,688.4)	(3,040.7)	352.3	(11.6%)
Net medium/long-term debt	(2,657.0)	(3,006.4)	349.5	(11.6%)
Cash and cash equivalents and securities	814.6	1,018.0	(203.4)	(20.0%)
Short-term bank borrowings	(58.7)	(58.2)	(0.6)	1.0%
Current financial assets/(liabilities)	(147.7)	(103.9)	(43.8)	42.1%
Parent company and associates non-current financial assets/(liabilities)	38.7	61.5	(22.7)	(37.0%)
Net short-term debt	646.9	917.3	(270.4)	(29.5%)
Total net financial position	(2,010.1)	(2,089.1)	79.0	(3.8%)

Net medium - long term debt - (2,657.0) million euros

With regard to this component, it should be noted that:

- non-current financial assets/(liabilities) recorded a balance of 2.4 million euros, up 0.6 million euros compared to 31 December 2014 (was 1.7 million euros),
- Parent company financial assets/(liabilities) stood at 29.1 million euros and include financial receivables from Roma Capitale for works completed to adapt

systems to safety and regulatory standards and new constructions as envisaged in the addendum to the Public Lighting contract,

- non-current payables and financial liabilities totalled 2,688.4 million euros, recording a decrease of 352.3 million euros compared to the 3,040.7 million euros of the previous year, and can be broken down as follows:

€ millions	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Bonds	1,904.0	1,909.1	(5.1)	(0.3%)
Medium/long-term borrowings	784.4	1,131.6	(347.2)	(30.7%)
Total	2,688.4	3,040.7	(352.3)	(11.6%)

Bonds - 1,904.0 million euros

This item includes:

- 599.9 million euros (inclusive of accrued interest and contract related costs) relating to the 10-year fixed rate bond issued by ACEA in July 2014,
- 602.9 million euros (including accrued interest) referring to a 5-year bond issued by ACEA at the beginning of September and maturing 12 September 2018.

- 516.1 million euros (including accrued interest) refer to a 10-year bond issued by ACEA in March 2010 and maturing 16 March 2020.
- 153.1 million euros relating to the *Private Placement* which, net of the *Fair Value* of the hedge, a negative 33.0 million euros, amounted to 186.0 million euros.

Medium/long term borrowings - 784.4 million euros (including short-term portions - 830.4 million euros) They recorded an overall decrease of 347.2 million euros, compared to 1,131.6 million euros in 2014 which

can be attributed to the net effect of paying off two loans for a total of 300 million euros. The following table shows medium/long-term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans:	Total Residual Debt	Due by 31.12.2016	falling due between 31.12.2016 and 31.12.2021	Due after 31.12.2021
fixed rate	309.4	21.8	88.9	198.8
floating rate	464.0	15.9	252.3	195.8
floating rate to fixed rate	57.0	8.3	40.3	8.3
Total	830.4	46.0	381.5	402.9

The *fair value* of ACEA hedging derivatives was a negative 7.0 million euros.

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

Net short-term debt - 646.9 million euros

The short-term component was positive and compared to the end of 2014 there was a reduction of 270.4 million euros mainly due to the reduction in Parent company cash and cash equivalents.

Short-term bank borrowings totalled 58.7 million euros, essentially in line with 2014.

Current financial assets and (liabilities) reported a balance at 31 December 2015 with a 43.8 million euros increase in debt equal to 147.7 million euros mainly due to the effect of an increase in debt payable to the counterparties of transfer contracts for trade receivables without recourse.

Parent company and associates non-current financial assets/(liabilities) record a reduction in borrowings of 38.7 million euros and mainly include the net (financial) exposure to Roma Capitale (35.3 million euros).

At 31 December 2015 the Parent Company held unused *uncommitted* credit lines totalling 809 million euros. No guarantees were issued to obtain these credit lines. *Committed* credit lines at 31 December 2014 (was 300 million euros) were paid off in the first quarter of 2015. As part of the *EMTN* programme of 1.5 billion euros, approved in 2014, ACEA can issue bonds for a total 900 million euros until 2019.

23. Shareholders' equity – 1,596.1 million euros

The changes occurred during the period, amounting to 93.7 million euros, and are shown in detail in the following table.

The change derives **(i)** from 175.0 million euros profit for the period, **(ii)** from 95.6 million euros dividend distribution, **(iii)** from changes in the *cash flow hedge* reserve related to financial instruments of 17.0 million euros (net of taxation) and **(iv)** a decrease in the reserve for exchange rate difference resulting from foreign currency valuations of the *private placement* in YEN entered into in 2010 and equal to 10.3 million euros (net of taxation). Finally, the change is also influenced by the *fair value* measurement of Acea Energia financial contracts equal to + 0.6 million euros and the measurement of actuarial gains and losses equal to + 1.1 million euros.

REFERENCE CONTEXT

Performance of the equity markets and the ACEA share

In 2015, the performance of the international stock markets was diverging. The Italian Stock Exchange “out-performed” the major stock markets, with an *uptrend* for the fourth year running.

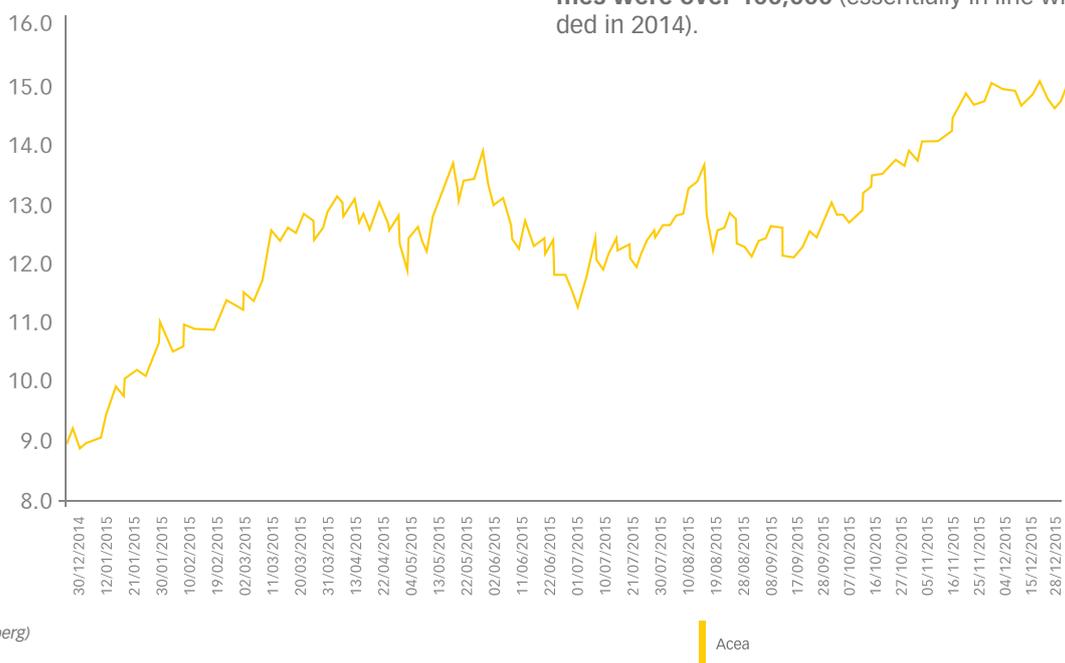
The changes recorded by the principal Italian Stock Market indexes are shown below: **FTSE Italia All Share +15.4%, FTSE MIB +12.7% and FTSE Italia Mid Cap +38.2%.**

ACEA SHARE PERFORMANCE

In 2015, the value of the **ACEA share increased by 58.8%**, a result which is noticeably higher than that of the market in general (FTSE Mib +12.7%).

In detail, Acea’s share price stood at 14.2 euros as at 30 December 2015 (last trading session of 2015) (capitalisation: 3,024.1 million euros). In the reporting period, a high of 14.22 euros was recorded on 17 December with a low of 8.9 euros recorded on 6 January.

During the reporting period, **average daily traded volumes were over 100,000** (essentially in line with those traded in 2014).



PERFORMANCE OF THE EQUITY MARKETS AND THE ACEA SHARE

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



	% increase/decrease 31/12/2015 (compared to 31/12/2014)
Acea	+58.8%
FTSE Italia All Share	+15.4%
FTSE Mib	+12.7%
FTSE Italia Mid Cap	+38.2%

Over 140 reports/notes were published on Acea's share in 2015.

ENERGY MARKET

Electricity demand in Italy in 2015 (315,234 GWh)⁴ increased by 1.5% compared to 2014. In Italy, electricity demand increased by 4,699 GWh, which in non-calendar terms corresponds to a 1.3% increase. 85.3% of electricity requirements were covered by national (Italian) production and the remaining share was covered by imports from abroad (balance of imports +6.1% compared to September 2014).

In this context, net national production (270,703 GWh) increased by 0.6% compared to 2014, while the overseas balance showed an increase of 3.7%. Except for hydroelectric power (-24.9%) and wind power (-3.3%), there was an increase in all Italian production on the previous year, in particular: PV (+13%), thermoelectric (+8.3%) and geothermal production (+4.5%).

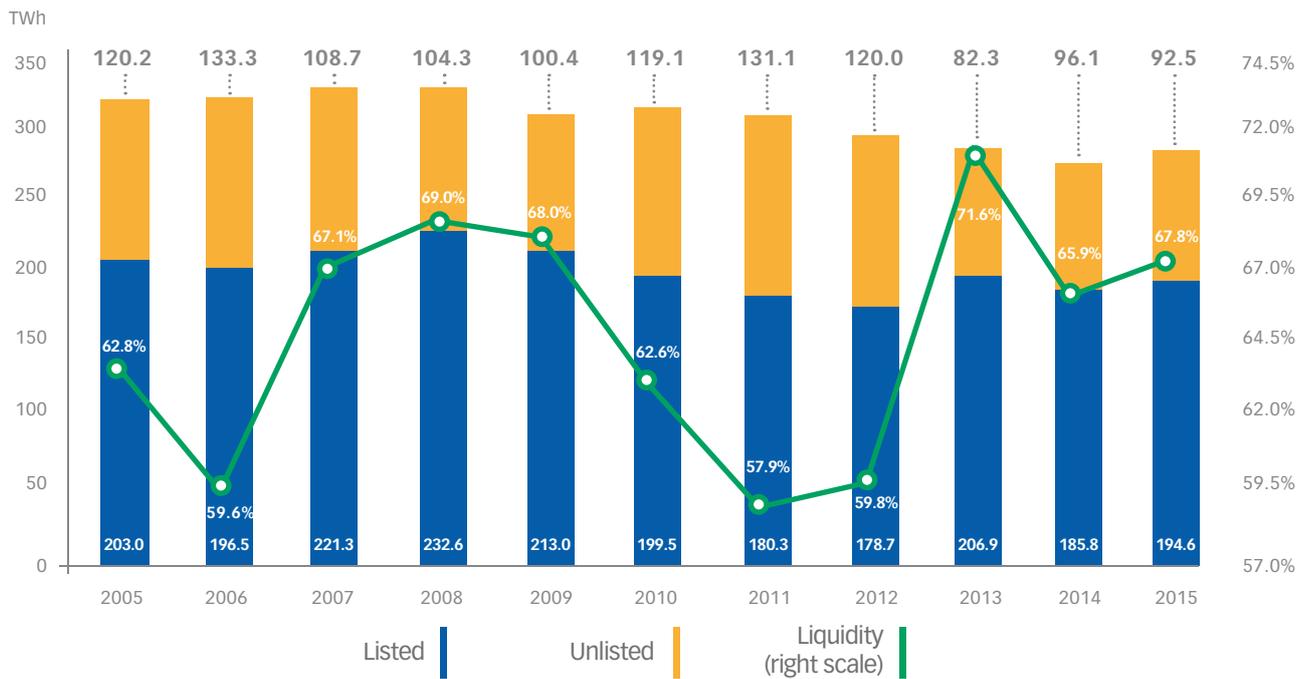
GWh	2015	2014	increase/ decrease % 2015/2014
Net Production			
- Hydroelectric	44,751	59,575	(24.9%)
- Thermoelectric	180,871	167,080	8.3%
- Geothermal	5,816	5,566	4.5%
- Wind power	14,589	15,089	(3.3%)
- PV Power	24,676	21,838	13.0%
Total Net Production	270,703	269,148	0.6%
Imports	50,846	46,747	8.8%
Exports	4,465	3,031	47.3%
Balance of Imports	46,381	43,716	6.1%
Pumping systems consumption	1,850	2,329	(20.6%)
Electricity Demand	315,234	310,535	1.5%

Electrical energy traded on the day-ahead market increased once again (+1.8% compared to 2014) to 287.1 million MWh. Electricity traded on the Power Exchange increased by +4.7% compared to last year, while OTC tra-

de on the PCE and nominated on the DAM dropped by 3.7% compared to last year. Market liquidity increased by 1.9% compared to 2014, reaching a record value of 67.8%.

⁴ Source: Terna – December 2015, monthly report on the electricity system.

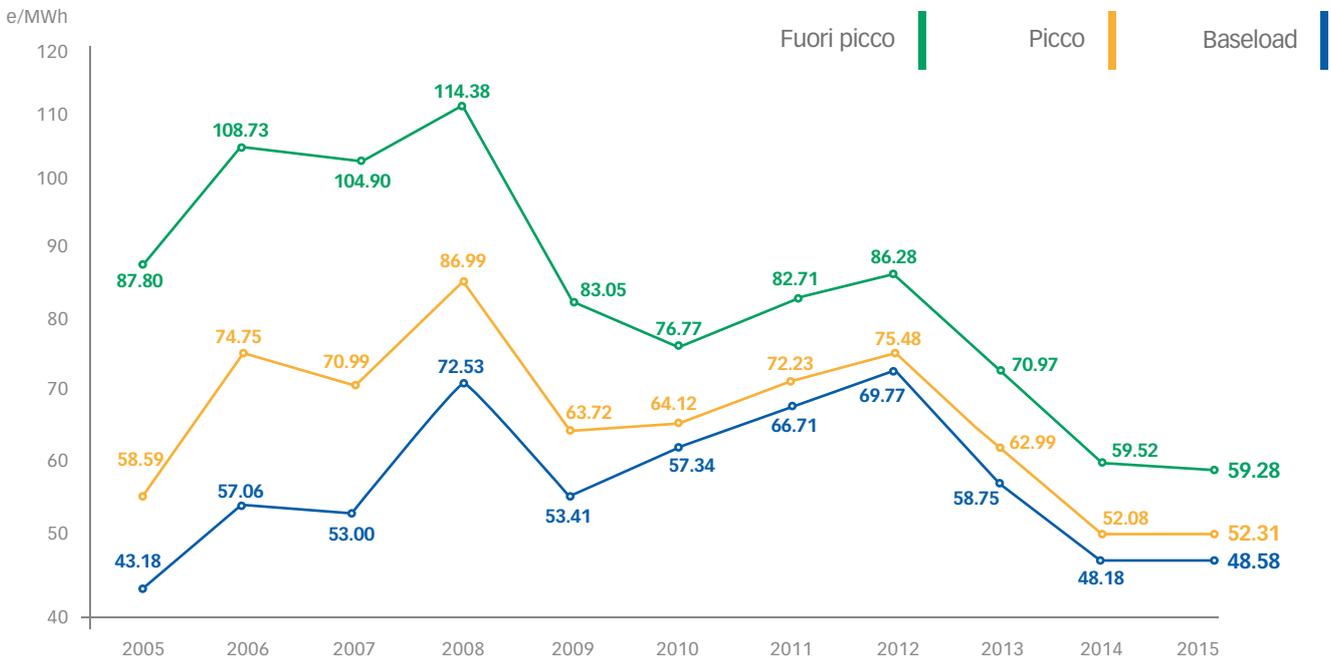
Liquidity on the DAM ⁵



The average purchase price for electricity on the power exchange (PUN) reached 52.31 €/MWh, a slight increase of 0.23 €/MWh on the trend (+0.4%). An analysis by time bands shows a price of 59.28 €/MWh at peak times, an annual decrease of 0.24 €/MWh (-0.4%), while

the *off-peak* price of 48.58 €/MWh, increased by 0.40 €/MWh (+0.8%). The *peak/baseload* ratio equal to 1.13 remained almost in line with the all-time lows of the previous four years.

National Single Price (PUN) ⁵



Average sale prices in Italy increased by 4% in continental zones, but dropped in the islands. In Sardinia the sale price dropped to an all-time low of 51.06 €/MWh. In Sicily there

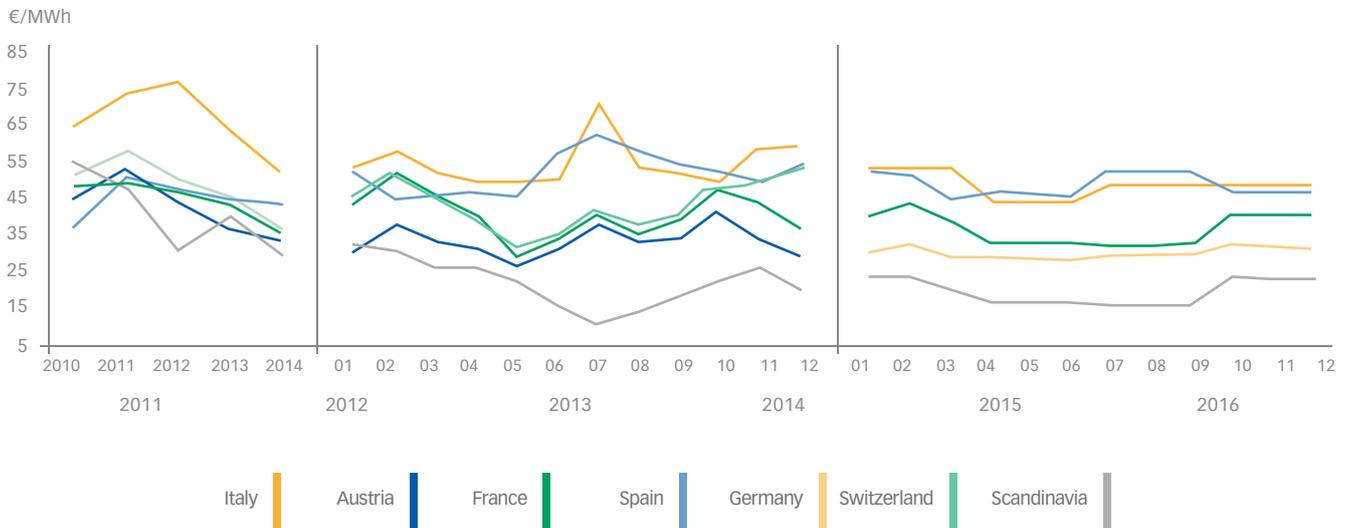
was a significant drop in the price, which reached 57.53 €/MWh: the spread with other Southern areas reached just over 8 €/MWh.

⁵ Source: Energy Market Operator (GME) - December 2015, GME Newsletter

As for volumes traded, all the power exchanges analysed showed an uptrend compared to last year. The French Epex is particularly worthy of note with a consistent increase on the short-term.

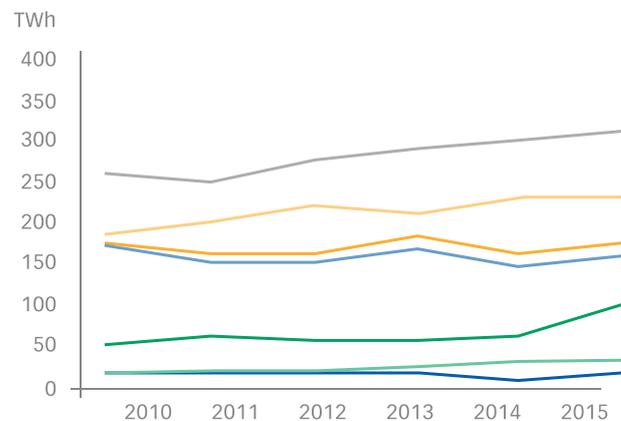
The Scandinavian area gained roughly 4% on last year. Italy's share of the market amounts to around 195 TWh, equal to about 17% of the trade on European Power Exchanges.

Price on the European Power Exchanges (arithmetic mean €/MWh) ⁵



Annual and Monthly Volumes on European Power Exchange spot markets ⁵

Area	Volume (TWh)		
	2015	Var Y-1 (%)	December 2015
ITALY	194.6	+ 5 %	16.3
FRANCE	106.4	+ 57 %	11.0
GERMANY	264.1	+ 0 %	24.0
SPAIN	171.6	+ 0 %	14.4
SCANDINAVA	355.9	+ 4 %	33.8
AUSTRIA	8.2	+ 5 %	0.7
SWITZERLAND	22.9	+ 8 %	1.8



In Italy, after a consistent 5-year downtrend, natural gas consumption equal to 66,947 million m3 (+9.1% compared to 2014) is increasing once more.

Consumption in the thermoelectric sector increased by 16.6% (20,728 million m3), with an increase in consumption also for the civil sector reaching 31,426 million m3 (+9.5%). Consumption in the industrial sector continues to drop to

12,767 million m3 (-3%), the lowest figure in the last five years. In storage systems, injections reached a record 10,875 million m3.

On the supply side, domestic production dropped by 6.3% to 6,451 million m3, while natural gas imports increased to 60,806 million m3 (+9.8%), going against the trend of the last four years.

⁵ Source: Energy Market Operator (GME) - December 2015, GME Newsletter

REGULATIONS AND TARIFFS

THE EVOLUTION OF ENVIRONMENTAL LEGISLATION

Law No. 208 of 28 December 2015, the so-called Stability Law

Law No. 208 of 28 December 2015 introduces the right to have recourse to an incentive until 31 December 2020 for electricity produced in sustainable biomass, biogas and bioliquid plants, which ceased to benefit from incentives for energy produced on 1 January 2016 or will cease to do so from 31 December 2016, as an alternative to the revenue supplement in art. 24, paragraph 8, of Italian Legislative Decree No. 28/2011.

This incentive is equal to 80% of the incentive granted to new plants of the same output by Italian Ministerial Decree 6 July 2012 and is applied by the national grid operator, in accordance with the procedure specified in the same Ministerial Decree, subject to the approval of the European Commission following notification of the aid scheme.

Subjects wishing to have recourse to said incentive must submit the following to the Ministry of Economic Development:

- authorisation for plant operation;
- certified technician's opinion on proper use and energy producing capability of the plant;
- raw materials provisioning plan (biomass);
- other elements for EU Commission notification.

Said documentation is essential for the EU Commission to verify the compatibility of the aid scheme with 2014-2020 State law on environmental and energy aid schemes.

Law No. 221 of 28 December 2015 "Ex Green Economy annex to the 2014 Stability Law"

Law No. 221 of 28 December 2015 "Environmental regulations to promote green economy measures and reduce the disproportionate use of natural resources – Ex Green Economy annex to the 2014 Stability Law", introduced a series of environmental regulations. The regulatory framework is substantial and the most significant regulations affecting Group company activities are described below.

Article 24 introduced an amendment to the procedure for implementing incentive mechanisms for the production of electricity from renewable sources other than photovoltaic plants (Italian Minister of Economic Development Decree of 6 July 2012). With reference to access to the incentive mechanisms for biomass and biogas plants, it has been clarified that only untreated wood by-products can be used. Therefore, when calculating the flat-rate for energy attributed to biomass, wood from demolition work and wood from mechanical waste processing cannot be considered.

Article 58 sets up a fund to guarantee actions throughout the Italian territory to develop the water infrastructure, including sewerage and waste water treatment systems

to which a specific component of the Integrated Water Service tariff is allocated, also with reference to action taken to protect water resources from a hydrogeological point of view. The actions will be defined by a specific Decree of the President of the Council of Ministers that should give priority to planned actions that can be put into effect immediately.

The AEEGSI, by its own ruling, will regulate the management of the above-mentioned Fund.

Article 60, paragraph 3 introduces paragraph 3-bis to article 190 of Italian Legislative Decree 152/2006, requiring the Integrated Water Service operators, subject to notification sent to the Supervisory and Control Authorities, to keep records of the waste loaded and unloaded produced during maintenance work on networks and plants related to the same at the Operator's coordination and organizational offices, or in another equivalent facility.

The same article 60, again on the subject of the Integrated Water Service, specifies that the AEEGSI, having consulted the Companies operating in the Sector, must guarantee domestic users living in economic-social conditions of a low income or hardship have subsidized access to a water supply necessary to meet their basic needs. This, on the basis of criteria and principles to be determined by decree of the President of the Council of Ministers.

The following article 61, on the theme of integrated water service arrearage, specifies that the same AEEGSI, on the basis of criteria defined by decree of the President of the Council of Ministers, must adopt directives to reduce the arrearage of integrated water service users. The same Authority must then define the procedures for managing arrearage and suspending supply.

AEEGSI WATER SERVICES ACTIVITIES

Resolution 8/2015/R/idr – Opening of procedure to define the criteria for the tariff structure applied to the users of water services

The AEEGSI believes it to be expedient to implement a procedure aimed at standardizing and rationalizing the tariff structure systems applied, as well as existing subsidy and social tariff systems. Therefore, with this measure the AEEGSI intends to define the criteria and procedure for applying the tariff structure to water service users, completing the ongoing process of simplification and rationalization of the price structure to send some signals of efficiency in terms of the conservation of resources and the environment, as well as uniform directions on social and economic sustainability.

Resolution 122/2015/R/idr – Implementation of the procedure for the introduction of economic and financial equalisation systems in the integrated water service

The AEEGSI believes it is necessary to implement a procedure which aims to introduce solidarity equalisation measures between the ATO Area Authorities of the various Regions, defining the conditions for application of the same. Specific and compulsory obligations must be determined to adopt measures to deal with critical elements underlying the requests for access to equalisation instruments, in the specified times on pain of suspension, exclusion and recovery of the provision granted. The purpose is to protect users (in particular the segments most at risk) and bring various areas of the country with extremely different operating conditions and service levels progressively into line.

On the short-term, the purpose of introducing general criteria and conditions for implementing the above-mentioned equalisation system at a national level, is to make investments considered priority investments by the competent subjects, deal with urgent critical financial elements, and guarantee an economic-financial balance for operating situations in considerable difficulty, especially if exposed to the risk of default. The procedures will have been concluded by 31 December 2015.

Decision 4/2015 – DSID – Definition of procedures for collecting data to monitor the allocation of the Integrated Water Service and the adhesion of Local Authorities to the Regulatory Agency, as well as to revise tariff figures and parameters for 2015 and clarify the components covering environmental and resource costs

With this measure, the Director of Water systems operations (DSID) of the AEEGSI made it obligatory for Regulatory Agencies to send the required data and information by 30 April 2015, for the following purpose:

- 1. to acquire information** on the allocation of the Integrated Water Service and participation of Local Authorities in the Regulatory Agencies (obligation provided for by art. 7 of Law Decree 133/14, the so-called "Unlock Italy Decree);
- 2. revise figures** already provided by the competent subjects for 2014 and 2015 tariff calculations on the basis of 2013 financial statements, in particular, to verify the congruity of tariff parameters related to the average cost of electricity and the average cost of Area Authority operating expenses. The AEEGSI specifies that the authorised changes to Guaranteed Revenue Restriction (VRG) as a result of revising the item average cost of electricity will be included in adjustments. Regulatory Agencies now have the right to submit a specific and grounded request for 2015 tariff revision within 20 days after the figures were submitted, in the case of significant departure - limited to the figures on the cost of electricity, Area Authority operating expenses and other operating expenses (COaltri) - in accordance with articles 26 and 28 of Annex A of Resolution 643/2013;
- 3. start collecting data** to acquire the calculations used to quantify ERC2015 already considered in the limitations on operator revenues while the same remain unchanged and the consequent tariff multiplier. For this purpose, Regulatory Agencies must provide a note with the grounds on the basis of which some cost items were considered environmental costs;

- 4. collect further information** on operator cost structure and dynamics also to take suitable measures to promote efficiency in the provision of services.

Resolution 338/2015/R/idr – Official tariff determination of the water service for the Campania Regional Authority wholesaler with reference to the first regulatory period 2012-2015

This resolution officially determines the *theta* tariff multiplier (equal to 0.9) for the first regulatory period 2012-2015, for the Campania Regional Authority wholesaler which submitted incomplete figures and deeds that could not be used for tariff calculation purposes. Note that the Campania Regional Authority supplies water wholesale to GORI and therefore this measure will have an effect on water resource purchase costs and as a consequence also on the Company's tariff calculations in particular for calculating adjustments for the first regulatory period.

Resolution 362/2015/R/idr – Official tariff determination of the water service for the wholesaler Acqua Campania with reference to the first regulatory period 2012-2015

For the first regulatory period 2012-2015, this resolution officially determines the *theta* tariff multiplier (equal to 0.9) for the wholesaler Acqua Campania, who is alleged to have sent incomplete data, acts and information required to evaluate the appropriateness of the costs submitted for recognition in the tariff, as well as the coherence of the same with adequate certification of cost and investment elements.

Resolution 515/2015/R/Idr – Unbundling of the Integrated Water Service or each of the single services in the same – Final guidelines

The AEEGSI illustrates the final guidelines for *unbundling* the Integrated Water Service and completes the regulatory framework developing guidelines on the transitional unification of Segments providing "Waste Treatment" services, the structure of remaining Activities and Segments, Common Services and Shared Operational Functions, introducing a new Shared Operational Function for the TIUC (Consolidated Accounting *Unbundling* Regulation for the Electricity Sector) for the commercial management of sales and management of customers common to both the *electricity* and water sectors, revising some chargeback drivers in consideration of the commercial organization of *multiutility* enterprises and the specific nature of the water sector, identifying methods and procedures for the unbundling of costs and revenues for various ATOs. Concerning the accounting procedure for assets under concession, in order to draw up Unbundled Annual Accounts, the AEEGSI proposes a uniform accounting procedure for assets under concession recognised in the financial statements in expectation of the reclassification of the same in Property, plant and equipment in a specific item that includes all assets under concession, free-of-charge or otherwise, as well as the capitalised costs that refer to the same, regardless of the accounting criteria used to classify the same in the financial statements. A similar reclassification must be applied to fixed assets in progress and prepayments. The accounting items strictly related to assets under concession (license/concession fees, loans granted for the same assets and the related charges) must be classified in the same way in Activities and Segments of the following asset. For the first

year in which unbundling regulations apply, Activities, Segments and also Common Services and Shared Operational Functions of the initial property, plant and equipment balance in previous financial statements must be classified on the basis of information from obligatory accounting sources (record of assets and analytical accounts). If the asset cannot be classified on the basis of these criteria, the AEEGSI holds it is admissible to allocate the same using drivers as long as this is based on criteria of fairness or prevalence described in the notes of the Unbundled Annual Accounts. The consultation paper proposes the simplification and rationalization of reporting obligations, drawing up and sending Unbundled Annual Accounts on the basis of the ordinary scheme for operators supplying over 50,000 inhabitants and major operators who, although not directly supplying the service to the end users, do provide collection or abstraction, drinking water and/or waste treatment services. The simplified scheme applies to operators supplying less than 50,000 inhabitants. Finally, the annex of the measure proposes the first guidelines for drawing up Unbundled Annual Accounts schemes.

Resolution 595/2015/R/ldr – Implementation of studies on the methods for determining planning strategies adopted for planning Integrated Water Service actions

The AEEGSI ascertained that the Plan of Action drawn up by the Regulatory Agencies for 2014-2015 tariff approval, despite the methodological specifications established, does not provide exhaustive information on the reasons for selecting a certain strategy to take action from amongst the various possible alternatives in order to reach the goals, and therefore it is impossible to comprehend the criteria for the allocation of economic resources. Vice versa, the AEEGSI intends to make sure that, for future tariff proposals, the scope of the Plan of Action guarantees that the investments, the cost of which is known when the tariffs are approved, are planned on the basis of criteria of fitness and the efficient allocation of economic resources. In consideration of the above, the AEEGSI believes a first survey is necessary, to be done on the action strategy selection methods of a limited sample of Area plans. This will make it possible to evaluate, at a later date, the possibility of applying economic resources in efficient terms (found in economic-scientific literature) to the Integrated Water Service allocation methods, and identify any departures from optimal allocation levels by comparing possible strategies. The evaluation of planning strategy conformity may be considered a binding element for future tariff approval.

Resolution 655/2015/R/ldr – Contractual quality Regulation for the Integrated Water Service or each of the single services in the same

After long consultation that ended with the publication of three documents submitted to water sector operators (Resolution 665/2014, Resolution 273/2015 and Resolution 560/2015) in an integrated text (RQSII) the AEEGSI defined the specific and general contractual quality levels for the water service, specifying homogeneous maximum response times and minimum quality standards for the national (Italian) territory, for services that must be guaranteed for users. There are automatic indemnities for services subject to specific quality standards (starting at 30 euros and increasing progressively

on the basis of the delay in providing the service) to be paid to the user if the standards are not met; if general standards are not met for two consecutive years, penalty proceedings may be filed. The measure also defines the methods for recording, notifying and verifying the data on the services supplied by the operators at the users' request. The quality regulation provides for implementation starting 1/06/2016 and postpones the application of the rules on call centre standards, the increase of automatic indemnities and notification of the data for AEEGSI inspections and controls, to 1/01/2017. The Service charter and User regulations remain in force for anything that doesn't come under these rules. Operators supplying less than 50,000 inhabitants are exempt from the obligations to notify the AEEGSI and publish the information and recorded data, while the Regulatory Agencies may submit a grounded application for departure to the AEEGSI (for up to 12 months) in all cases in which the operator to which activity aggregation processes apply, proves that they cannot meet the requirements in the set times. The AEEGSI identifies quality standards for entering into and terminating contractual relations (estimates, reactivation, transfers and takeovers), for the operations phase of the same (estimates and connection work), concerning billing and payment methods, the response to written requests from users (complaints, requests for information and corrections to bills), for appointments, inspections on meters and the pressure level as well as the management of the consumer protection office, the online consumer service and the call centre. Specific and general standards for the communications flows between operators in the case of a non-integrated service are also provided for. The resolution requires at least one consumer protection office per Province (an application for exemption from said obligation can be submitted for Provinces with less than 5% of the users supplied), confirming the sector regulation (Prime Ministerial Decree of 29 April 1999), which must be open to the public for at least 8 hours on working days and 4 hours on Saturdays.

Billing frequency is revised on the basis of average consumption over the last three years. Four consumption bands have been established for said frequency (2 bills/year for consumption $\leq 100\text{m}^3$, 3 bills up to $1,000\text{m}^3$, 4 up to $3,000\text{m}^3$ and 6 bills over $3,000\text{m}^3$), with the billing frequency revised every two years. As for the division into instalments, the user has the right to request this option for up to 10 days after the payment due date of the bill, when exceeding a threshold equal to 100% of average payments over the last twelve months. Extension interest and default interest may be applied to bills paid in instalments. Quality indicators are also required for the transfer, which can only be applied for by the transferee as long as the application is made submitting the required documentation proving ownership, and the transferee is in regular possession of the relevant building or holding the same. A free transfer is also provided for (free only of administrative charges) if the application is submitted, following the death of the contract holder, by the heir at law or a subject resident in the building subject to supply. If specific authorization is required for so-called "complex" work, the service execution time is calculated net of the time required to obtain said authorization on the condition however that at least the first deed of authorization was applied for within 30 working days of the date on which the estimate was approved. On the basis of a grounded application also sent on an

operator's proposal, the Regulatory Agencies can define additional or differentiated standards, which may also concern services not provided for by RQSII. Automatic indemnity values also higher than the basic indemnity provided for by RQSII may be associated with these new indicators. Furthermore, contractual quality data sent by operators is subject to simplified checks on samples by the AEEGSI with the possible application of penalties in the case of data that is "invalid" or "non-compliant" with the requirements.

Resolution 656/2015/R/Idr – Uniform agreement for the regulation of relations between awarding parties and operators for the Integrated Water Service - measures on essential minimum content

The measure defines a uniform framework of reference on the national (Italian) territory to regulate relation between awarding parties and operators, requiring existing Agreements are brought into line with the "Uniform agreement" (sent to AEEGSI for approval) as part of the first useful tariff proposals (by 30 April 2016) and in any case no later than 180 days from publication of the resolution (29/12/2015). The measure will come into effect after establishing the "general requirements" (for the subject of the agreement relations, the legal position chosen, the scope and duration of the awarding) dictates the minimum obligatory requirements for the Area Plan, the instrument for maintaining economic-financial balance, termination and takeover, other party obligations, penalties and sanctions. In particular, concerning the measures for maintaining the economic-financial balance, the measure gives the operator, in the case of significant extraordinary prejudicial circumstances, the option of submitting an application for rebalancing to the Regulatory Agencies specifying the prerequisites that determine the imbalance and quantifying the same as well as the measures to take (identified in order of priority by the same resolution). The agreement also regulates the takeover procedure for consolidated Area management or protected areas and the value of the reimbursement to be paid to the outgoing operator, calculated by the Regulatory Agency on the basis of criteria established by the AEEGSI as part of tariff regulation. Furthermore, the obligations concerning relations between the Regulatory Agency, integrated water service operator and any wholesale operator are defined, also indicating the requirements on reporting and defining wholesale supply prices as well as the applicable regulation if a wholesaler provided services to different operators in many ATOs. The document also gives the Regulatory Agency powers to apply penalties to the operator if additional quality standards are not met when supplementary to those required by the regulation on contractual quality. The maximum and minimum values of these penalties must be linked to those provided for by the current regulation on violation of the corresponding minimum standards.

Finally, the final measures concern the aspects of providing guarantees, taking out insurance policies required for providing services and the procedure for revising the agreement, in line with the times specified by the AEEGSI for submitting the tariff proposal.

Resolution 664/2015/R/Idr – Approval of the water tariff method for the second regulatory period MTI – 2

With this measure the AEEGSI approved the water tariff method for the second regulatory period 2016-2019

(MTI-2), in force from 1 January 2016. The tariff method contains many elements of continuity with the previous water tariff method: in fact, the following remain the basis of the tariff regulation: the asymmetric approach adopted for the 2-year period 2014-2015 is based on a matrix of regulatory schemes (which increase from 4 to 6) that reflect the various conditions of each single financial year in relation to investment requirements, the presence of changes in the objectives or activities of the operator related to the processes of qualitative aggregation or improvement for the services provided, the amount of operating costs compared to the average per capita cost in the sector, estimated with reference to 2014 as equal to €109/inhabitant. There is also a virtual regulatory scheme for financial years in the aggregation phase for which the Regulatory Agency does not have enough suitable information and specific regulation conditions apply (with limited and predefined duration) if equalisation measures are approved. A tariff multiplier with an annual growth ceiling that also considers a certain *sharing* between the operator and the consumer to be applied on the basis of the cross-compliance of operating cost components, is confirmed. Concerning the revision of values, the following is expected: on the contrary to what was specified in the water tariff method, the 2-year update of the RAB value, operating cost components that can be revised to cover adjustments, adjustments related to volumes and any changes concerning the valorisation of finance and tax cost components (the calculation of which has partially changed). Furthermore, the tariff proposal can be revised mid-term on the basis of a grounded application, in the case of extraordinary and exceptional circumstances that could have an adverse effect on economic-financial balance. The criteria for calculating the residual value of investments made by the operator are also specified and incentive mechanisms are applied to improve the contractual and technical quality of the service, introducing a system of bonuses/penalties based on a specific tariff component (UI2), obligatory for all operators, to be allocated to a quality fund paid into the Fund for energy and environmental services (ex Electricity Sector Equalisation Fund).

With the resolution in question the AEEGSI made changes, amongst other things, to the valorisation of finance and tax cost components, specifying that the measures defined for the Electricity and Gas sector to calculate new Tariffs for the 5th regulatory period had been taken as reference. The references used by the Regulating Authority in the water sector, to calculate the above components, are similar only in part to the procedure used for the electricity and gas sector; this is the case, for example, for the Risk Free Rate (RFR) reference set homogeneously for the electricity sector at 0.5%.

As for recognition of the finance cost related to invested equity capital (Equity Risk Premium, ERP), the Regulating Authority instead of referring to a new procedure defined for the electricity sector, essentially chooses the same system used in previous regulatory periods, defining the market parameter as 4%, with a negative differential of 150 bpi compared to the same reference for the electricity sector (electricity ERP 5.5%).

Some water companies in the ACEA Group filed for an act of impugnation before the Administrative Judge against said regulatory decision, which is believed to be incoherent and the harbinger of a worsening situation

for the acknowledgment of the value of investments made in the water sector, compared to the valorisation of investments in other *utilities* segments.

In particular the objections concerned skewness introduced by AEEGSI on the basis of the special proprietary setup of the mainly public Integrated Water Service operators, which would in the claimant's opinion introduce an improper "proprietary" type variable for the first time in economic regulation, which goes against the independent nature of the regulation.

With reference to the process of approval, by 30 April 2016 the Regulatory Agency:

- a) defines the goals and, acquires the operator's proposal concerning the necessary action to take to reach said goals, updating the Plan of Action ("Pdl");
- b) prepares the tariff for the second regulatory period 2016-2019;
- c) draws up the Economic-Financial Plan ("PEF");
- d) sends the above document to the AEEGSI.

Within 90 days, the AEEGSI, without prejudice to the need to request further clarification, approves the tariff proposals.

The mechanism introduced by AEEGSI Resolution No. 643/2013/R/IDR was confirmed also for the second regulatory period. This makes it possible to avoid any inertia of local subjects in tariff proposals.

Lombardy Regional Administrative Court judgments on actions brought by certain Operators

As described in greater detail in the 2014 Consolidated Financial Statements, the above sentences were passed by the Panel of Judges of the Regional Administrative Court from 4 to 22 October 2014 and partly uphold the appeals lodged by the Operators against Resolution No. 585/2012 (and 88/2013 - Operators' transitional method "ex Cipe"), Resolutions Nos. 73/2013 and 459/2013 amending Resolution No. 585/2012 and the AEEGSI Transitional Tariff Method calculation tool.

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

Concomitantly with the measure in which the AEEGSI appealed against the sentences of the Regional Administrative Court of Lombardy (Resolution 203/2014/C/idr), in Resolution No. 204/2014/R/idr the same Authority stated that the above-mentioned sentences do not have any transitory effect on the Water Tariff Method (MTI) for 2014 and 2015, the provisions of which are compulsory, with particular reference to the times and implementation of the procedures in the same, while there may be some changes to adjustments for 2012 and 2013. Therefore, in order to approve the tariff proposals for 2014 and 2015, the adjustments in the Restriction on guaranteed revenues (art. 29 of Annex A of Resolution No. 643/2013) are calculated, provisionally and while waiting for the definition of pending disputes, on the basis of the tariff multipliers approved for 2012 and 2013, in other words, in the cases of the tariff that have not been approved, within the price limits of paragraph 7.1 of Resolution No. 585/2012 and paragraph 5.1 of Resolution No. 88/2013.

The Council of State, in its judicial capacity, discussed the above appeals in a public hearing on 29 September 2015. From 14 to 22 October 2015, the Council of State published an order to stay the appeals to amend the sentences of the Regional Administrative Court of

Lombardy on AEEGSI resolution No. 585/2012/R/idr, nominating a Panel of experts made up of three university lecturers on industrial economy as the court-appointed experts, holding the evaluation of the same "an essential logical-judicial prerequisite for making a decision". The Panel of experts applied for an extension for submitting their final report and the Council of State approved said application in the hearing of 4 March 2016. The public hearing for the continuation of the case should be held in the second half of the year.

AEEGSI ELECTRICITY ACTIVITIES

Resolution No. 146/2015/R/eel – Calculation of the tariffs of reference for 2015 electricity distribution.

The measure published the tariffs of reference for the 2015 electricity distribution service. Both the parameters used to quantify the revenue allocated to each distributor for the electricity distribution service alone (specific corporate tariffs) and the parameters for covering marketing costs (national single tariff) were revised. For ACEA Distribuzione the tariff of reference for 2015 is essentially in line with that of 2014, while the Italian tariff of reference for marketing the electricity distribution service increased compared to the previous year.

Resolution 258/2015/R/com – First actions taken against arrearage in electricity and natural gas retail markets.

The measure approves the Consolidated Code on electricity arrearage, integrating the regulation of dispatching and transport services in the case of arrearage of the end user.

With particular reference to the activities of the distributor:

- a series of indemnities are introduced in cases in which there is no physical outage at the withdrawal point (due to work on the network done on request of the selling company) and delays in reporting the result of suspension, reduction and interruption of supply;
- the obligation to suspend billing or cancel bills already issued is introduced for withdrawal points where there was no suspension or outage, until the date of execution of the same. After the above suspension or outage, the distributor can only receive 50% of sums accrued in the period between the expected end of the regulation and the same suspension or outage, from the seller.

Resolution 268/2015/R/eel – Network type code for the electricity transport service: measures concerning contractual guarantees and billing the service.

Within the scope of the measure to prepare the network type code for electricity transport, in Resolution 268/2015/R/eel the Authority, after consultation (Resolution 263/2014/R/eel and Resolution 618/2014/R/eel) and the meetings held in a specific Work Group, approved:

- the glossary of terms used in the network type code;
- the rules and regulations on contractual guarantees the seller must observe when signing the transport contract;
- the rules and regulations on billing the transportation service and payments.

In Resolution No. 609/2015/R/eel, allowing for a series of critical situations reported mainly by sales operators,

the AEEGSI once again took steps on the theme of contractual guarantees:

- removal of the requirement for possessing a *rating* for banks and insurance companies issuing guarantees;
- the revision of some regulations for access to the *rating* and the *parent company guarantee*, with particular reference to delayed payments, in the attempt to, as far as possible, align procedures for users with a bank guarantee or guarantee deposit, without prejudice to the differentiated procedures in consideration of different risk profiles;
- the introduction of a transitory period with the obligation for transportation users to adjust the guarantees to a sum equal to an estimate three times the amount billed by 12 February 2016, with an extension to the times initially estimated. In this transitory period, the user with a *rating* opinion or the parent company that has the same *rating* opinion will have access to the *rating* or *parent company guarantee* without payment regularity having to be checked beforehand, although a fee must be paid for increased access.

The resolution also concerns billing, changing the regulations on the due dates for paying bills.

The following is specified:

- for cyclical bills that were not issued within the required times, the due date for payment comes into effect starting from the first useful date of the following month;
- the starting date for payment due dates for all types of bills (cyclical, adjustments and bills for other services and other fees) will be unified.

Resolution 296/2015/R/com – Regulations on unbundling for the electricity and gas sectors.

The resolution approves the Consolidated Code on Functional *Unbundling* for operators in the electricity and gas sector, after the consultation implemented by documents 346/2014/R/com and 77/2015/R/com.

The following aspects are particularly relevant:

- distribution system operators, as well as being obliged to appoint an Independent Operator, are also obliged to appoint a Compliance Officer, and prepare the Compliance Programme to be sent to the Authority every year;
- the obligation to separate company names and communications policies has been introduced between companies distributing and companies selling in the same vertically integrated undertaking and, in the electricity sector, also between companies selling on the free market and those operating on the protected categories market;
- all distributors, regardless of their size, must process sensitive trade information as confidential using the Integrated IT System (hereinafter IIS). The measure defines the perimeter of sensitive trade information and provides for an exemption to the obligation for the physical separation of databases, appointment of the Antitrust Authority for sensitive trade information and keeping records on access to the same, to simplify obligations for distribution companies.

Consultation paper 416/2015/R/eel – Second generation smart metering systems for measuring low voltage electricity.

The paper describes the Authority guidelines for defining the functional specifications of second generation LV meters (*smart meter 2G*), implementing the provisions of paragraph 9.3 of Legislative Decree 102/2014.

In particular, ten general criteria are identified to prevent design decisions precluding subsequent market evolutions, along with ten functions, in turn broken down further into detailed functional requirements, which can be combined with each other to support the innovation of various processes that use meter data (billing, customer management, dispatching, *settlement*, network management).

In consideration of a subsequent consultation paper on the analysis of costs/benefits which will analyse the optimal scope of the functions as well as alternatives when replacing first generation meters, the paper also considers some aspects to be studied in greater depth, including:

- the introduction of standard criteria for recognizing not only the cost of meters but also remote control systems and concentrator cabinets, favouring the adoption of uniform technologies at a national (Italian) level by various distribution service providers, to guarantee the greatest interchangeability, also in consideration of the dates on which the distribution concession come up for renewal;
- the evaluation of in-depth studies in relation to regulation and structure profiles related to the prospects for the development of multi-sector synergies;
- the guarantee of coherence with IIS developments;
- the application of *debranding* obligations in the case of replacement in advance of first generation meters before the date on which said obligations come into effect (30 June 2016).

Consultation paper 421/2015/R/eel – Protected price reform in the electricity and natural gas retail market. First phase of the roadmap – Non-domestic electricity end users.

The paper, containing the guidelines of the Authority in relation to the price protection reform procedure for end users, identifies the supply of energy to small enterprise as the first area of implementation, in other words other use LV customers, with the possible exclusion of very small customers, with a contractual demand of up to 1.5 kW.

In detail, the text describes various possible courses of action:

- option 0 - confirmation of the *status quo*;
- option 1 - amendment of the economic conditions of the protected categories market, changing, as far as the energy supply cost coverage components are concerned, from a method used to determine prices ex-ante (based on estimates), to a method for determining economic conditions based, as far as possible, on the effective cost of the service (*ex-post* method), which can only be known the month after that of reference. This option requires that the contract with the protected categories market operator is automatically terminated when the *switching* procedure is drawn up by the new seller, without the customer being obliged to specifically withdraw from the previous contract;

- option 2A - provides for the separation of the two functions which today are integrated in the protected categories market: on the one hand, the guarantee of supply to customers who temporarily have no seller on the free market, and on the other hand, the supply of electricity under monitored conditions (so-called SIMILAR protected regime). Current protected categories market operators must guarantee the backstop service, while the SIMILAR protected service would be supplied by free market operators (meeting specific requirements) who decide to adhere, with price structure and contractual conditions monitored by the Authority. Adherence to the SIMILAR protected regime is voluntary and the duration of the annual contract cannot be extended: therefore on termination of the contract the customer is in the same conditions as any other free market customer whose contract of a limited duration with no option for renewal, expires;
- option 2B, as well as the same characteristics as option 2A, also provides for the implementation of an automatic mechanism to terminate all the protected categories market contracts of SIMILAR protected regime operators selected in a procedure used to bid for customer lots pre-defined by the AEEGSI.

The new regulatory framework will be drawn up in 2016 and will probably come into effect starting 1 January 2017.

Resolution 582/2015/R/eel – Reform of network tariffs and tariff components covering general system charges for domestic electricity users. Concomitant update of cost compensation for domestic customers in conditions of economic hardship.

The resolution concludes the tariff reform process for network services and general system charges for domestic LV users, as provided for by Legislative Decree 102/14 which provides for the gradual replacement of the current progressive price structure, characterized by a unit rate that increases as electricity withdrawals increase.

In coherence with the provisions of the same decree, the AEEGSI requires that:

- the current bracketed structure will remain in force for all of 2016 but, for the tariffs of transmission, distribution and metering services only, the rates will be recalculated to reduce the amount of the cross-subsidy in force today between low consumption resident customers and non-resident customers who consume more energy, by at least 25%;
- from 1 January 2017, however:
 - the network tariff will become non-progressive and it will be the same for all domestic customers, structured as a flat rate (€/POD/year) for metering and marketing, in a power rate (€/kW/year) for distribution and an energy rate (€/kWh) for transmission;
 - the fees covering general system charges will be redefined to limit the number of annual consumption brackets to two;
- finally, from 1 January 2018 the progressive structure of the components covering general system charges will also be replaced.

Concerning the actions planned in previous consultations, aimed at promoting a more attentive use of the contractual demand by customers, the AEEGSI requires that, starting 1 January 2017:

- a) contractual demand levels that are higher than those current used will be introduced;
- b) when the regulations of the above letter come into force, for a period of at least 24 months, the amount of connection contributions and flat rates the customer pays the distributor for remote changes to power demand, without the need for action to be taken *on-site* will be reduced.

Concerning the experimental tariff for domestic customers using electric heat pumps as their main source of heating their homes, the AEEGSI passed a resolution to extend the deadline for the customers to submit the applications to 31 December 2016, as a consequence requiring that also the monitoring of consumption and the relevant transmission of data by distributors must be done by 28 February 2017 (with reference to the information gathered as at 31 December 2016). There will be further consultation to consider the possibility of including other domestic customers in the experiment.

As for the social bonus, by 31 December 2015, cost compensation to apply in 2016 will be calculated, to prevent the introduction of the tariff reform making the situation worse for customers suffering from economic hardship.

Resolution 583/2015/R/com – Rate of return on net invested capital for infrastructure services in the electricity and gas sectors: criteria for calculating and updating.

The resolution defines the procedure for calculating and updating the rate of return on net invested capital (hereinafter: WACC) for regulated infrastructure services, unifying all the calculation parameters except for those specifically for single services, including parameter β which expresses the specific non-diversifiable risk level and the weight of the equity capital and interest-bearing debt used for weighting (D/E ratio).

The revision of the procedure aims to define a more transparent and predictable regulatory framework and prevent differences in the rates of return of single services being affected by the specific condition of financial markets.

The duration of the WACC regulatory period is six years (2016-2022), introducing an intra-period updating mechanism.

The measure therefore indicates the formula to be used in the calculation and the specific values of the basic parameters in force as at 1 January 2016, except for parameter β for the electricity sector, established by a subsequent regulation (Resolution 654/2015/R/eel – Annex D).

Resolution 646/2015/R/eel – Consolidated Code on the output-based regulation of electricity distribution and metering services, for the regulation period 2016-2023.

The resolution approves the "Consolidated Code on the output-based regulation of electricity distribution and metering services, for the regulation period 2016-2023" (TIQE), in force from 1 January 2016.

The text, the result of a complex consultation process, contains four separate documents (5/2015/R/eel; 48/2015/R/eel; 415/2015/R/eel and 544/2015/R/eel), in III parts:

- I. *Regulation of the continuity of the distribution service and voltage quality.* These are the main elements that have been introduced:

- for the duration of the outages:
 - the mechanism of bonuses/penalties on the duration of the outages has been kept, introducing an allowance of $\pm 10\%$ on the objective value;
 - experimental incentive regulation for the 3-year period 2017-2019 on the duration of the outage with prior warning, of a medium and low voltage origin (measure to be adopted by 30 June 2016);
 - progressive alignment of the standards on prolonged outages to that in force today for city centres: from 2020 eight hours for all low voltage users and 4 hours for all medium voltage users;
 - for the number of outages without long or short-term warning: confirmation of the bonuses/penalties regulation with long-term objectives transferred to the end of the new regulatory period for long-term objectives;
 - on the subject of voltage quality, the foundations were laid for introducing a specific standard on transient outages and loss of voltage for medium voltage customers and for new initiatives concerning the conformity of the effective supply voltage value for low voltage users.
- II. Regulation of specific and general commercial quality levels.** These are the main elements that have been introduced:
- reduction of maximum response times for services requested by end users concerning the estimation and performance of work;
 - development of fast estimate services (via telephone, managed by seller);
 - introduction of some basic criteria for drawing up agreements between distributors and applicants for mass connection and activations.
- III. Selective promotion of investments for distribution networks.** This part aims to create incentives for the appropriate development of investments in distribution networks, providing guidelines for the choices made by enterprises for investments that maximize net system benefits, through *output-based* incentives mechanisms, developed on the basis of criteria of selectivity. In particular, aspects are considered that represent the main innovative elements of the new rules and regulations, concerning both the innovative functions of the medium voltage distribution networks in areas with a high penetration of energy generated from renewable sources, as well as the evolution of distribution networks in urban areas, with particular reference to the development of the capacities of backbones in buildings.

Resolution 654/2015/R/eel – Tariff regulation on electricity transmission, distribution and metering services, for the regulation period 2016-2023.

The resolution approves the "Consolidated Code on rules and regulations for electricity distribution and transmission services" (TIT), the "Consolidated Code on rules and regulations for electricity metering services" (TIME) and the "Consolidated Code on economic terms for the provision of connection services" (TIC), coming into effect from 1 January 2016.

In particular, the new rules and regulations for calculating tariffs in the new regulatory period, the result of a complex consultation process with the publication of numerous documents (including 5/2015/R/eel; 335/2015/R/eel; 446/2015/R/eel and 544/2015/R/eel):

- extended the duration of the period to 8 years (2016-2023), divided into two half-periods of 4 years each: NPR1 (2016-2019) and NPR2 (2020-2023);
- define the criteria for calculating the recognised cost (operating, capital and depreciation);
- provided for the new fee structure. In particular, with reference to the transmission tariff, the AEEGSI:
 - introduced the binomial cost tariff structure for the transmission service (CTR) applied by Terna to distributors at the interconnection points with an energy component and a power component calculated using the average maximum monthly power withdrawn from interconnection points as a *driver*, considering only the net energy withdrawn from the national grid (RTN);
 - confirmed the same structure, in force also in the last regulatory period, for the TRAS tariff applied by distributors to end users;
 - the equalisation mechanism of transmission costs based on the recognition of higher costs for the distributor, deriving from the difference between the above-mentioned fees, has been reintroduced.

Concerning the tariff of reference TV1(dis), allocated to cover distribution and marketing costs, the AEEGSI confirms the application of a monomial fee, on the basis of the number of withdrawal points, and therefore independent of the service volumes supplied, differentiated by voltage levels, except for types of contracts for public lighting users and public LV electric vehicle recharging, the fee of which is based on a tariff expressed in euro cents/kWh.

There is no structural change to the obligatory distribution tariff applied to non-domestic end users, nor to the equalisation mechanism of distribution revenues (inclusive of bi-monthly advance payments).

With reference to the regulation of the metering service, as well as defining the criteria for calculating the recognised cost and the remuneration tariffs of distributors providing the service, the measure also requires that:

- the obligation of data gathering is introduced for the subject responsible for measuring the actual peak demand in the month divided into bands, when possible for that meter;
- further in-depth considerations are made concerning the hypothesis of evolution of the metering service regulation, with the aim of defining the general reform by July 2016.

Finally, there are no significant changes in terms of procedure to the rules and regulations on connections.

Resolution 659/2015/R/eel – Updating of prices and electricity marketing components (PCV, RCV and DISPbt) and changes to TIV.

After the consultation process promoted by Resolution No. 514/2015/R/eel, on 28 December 2015 the AEEGSI published the resolution updating the values of electricity marketing components in force from 1 January 2016, in other words the PCV, RCV and DISPbt components. In consideration of the proposals in the Consultation Pa-

per, the Authority:

- when defining PCV levels, aligned cost values related to acquiring customers and marketing with those identified within the scope of the definition of the QVD component and reduced the number of days of average exposure, resulting in a slight increase in the values of the PCV fee compared to what was expected in the consultation paper;
- in relation to the RCV component, it introduced further differentiation of the components in order to consider the effect of size, estimating a value (RCV) for separate companies supplying over 10 million *withdrawal* points for end users, and a value (RCV-sm) for other separate companies. The *unpaid ratio* levels recognised for the protected categories market are lower than those in the consultation paper. This reduction was requested by the Regulating Authority to further promote operator efficiency in terms of managing all phases of customer relations; required, not only for 2015 but also for 2014, the introduction of a transitional mechanism to cover operating costs other than arrearage, which considers the so-called size effect; protected categories market operators who supply over 10 million withdrawal points and meet certain requirements will have access to said mechanism; in order to have recourse to this mechanism, an application to participate in the Electricity Sector Equalisation Fund must be submitted by 15 October 2016;
- for 2015, confirmed the mechanism to compensate for arrearage, already provided for transitionally by article 16ter of the Retail Service Code for 2014, for protected categories market operators who supply over 10 million withdrawal points and meet certain requirements. In order to apply for the mechanism, a specific application must be submitted to the Fund by 30 April 2016. Furthermore, the Authority also published the compensation values for application of the mechanism with reference to 2016, lower than those estimated for 2015, to promote greater efficiency in credit management;
- revised the level of the DISPbt component in order to consider customers leaving the protected categories market and, for domestic customers, in coherence with the differentiation of fees for the distribution service for the consumption brackets referred to in resolution No. 654/2015/R/eel;
- required the annual revision of PCV and RCV values, coming into effect from 1 January of the year of reference. In particular, with reference to the protected categories market, any costs as a consequence of the introduction of *debranding* measures will be considered, to calculate the recognised cost, on the condition that said higher costs must be reported in the books;
- referred the regulation of a specific equalisation mechanism to guarantee the potential risk involved in failure to cover fixed costs when an end user leaves the protected categories market, to be applied from 2016, to a subsequent measure.

On 26 February 2016 Acea Energia filed an appeal with the Administrative Court of Lombardy against said resolution requesting the cancellation of the part of the resolution that refers to setting up a specific equalisation mechanism to guarantee the potential risk involved in failure to cover fixed costs when an end user leaves the

protected categories market, to be applied from 2016, to a subsequent measure.

Acea Energia, in fact, observed that said equalisation mechanism should not be applied only to 2016, but should also be applied to previous years, as the phenomenon of customers leaving the protected categories market ("volume effect") is a structural part of the implementation of said service. The protected categories market in fact, is configured as an essential "residual" service from which customers gradually, from the implementation of the same, leave and continue to do so, because they are naturally attracted by commercial offers from the free market.

According to Acea Energia therefore, the volume effect does not only affect 2016, as once ascertained the same can be recognised also for previous years.

What's more, Acea Energia observed that the AEEGSI, in the same resolution No. 659/2015/R/eel, recognised the existence of a "size effect", in other words the presence of economies of scale, typical of the dominant operator (Enel) thanks to its greater size compared to municipal protected categories market operators, which is also structural in terms of the implementation of the protected categories market service: said effect was recognised for 2016 and retrospectively, for 2014 and 2015. Also by analogy with said provision therefore, in its appeal Acea Energia requested that the equalisation mechanism for failure to cover fixed costs when an end user leaves the protected categories market be applied from 2014, to protect the economic-financial balance of the Company, which had already been negatively affected in the past as the RCV component did not include the volume effect.

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 *per-*

formance 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.

2015										
Million euros	Energy					Water				
	Environment	Generation	Sales	Intra segment eliminations	Segment Total	Italian Water Services	Overseas	Engineering	Intra segment eliminations	Segment Total
Revenue	132.0	63.8	1,944.1	(33.1)	1,974.8	652.0	11.4	31.5	(26.0)	669.0
Costs	74.7	29.7	1,870.3	(33.1)	1,866.9	354.0	8.4	21.7	(26.0)	358.1
Gross operating profit	57.4	34.2	73.7	0.0	107.9	298.1	3.0	9.8	0.0	310.8
Depreciation and accumulated impairment charges	28.0	23.9	89.7	0.0	113.6	91.9	0.2	1.6	0.0	93.7
Operating profit/(loss)	29.4	10.3	(16.0)	0.0	(5.7)	206.2	2.8	11.1	0.0	217.1
Investments	25.9	15.2	15.3	0.0	30.6	197.3	0.4	1.5	0.0	204.4

2015								Consolidated Total
Million euros	Networks				Other			
	Distribution	Public Lighting	Intra segment eliminations	Segment Total	Corporate	Consolidation adjustments		
Revenue	468.5	105.5	(38.2)	535.7	113.3	(479.1)	2,945.8	
Costs	220.0	98.2	(38.2)	280.0	113.2	(479.1)	2,213.9	
Gross operating profit	248.4	7.2	0.0	255.7	0.2	0.0	732.0	
Depreciation and accumulated impairment charges	90.1	0.0	0.0	90.4	19.7	0.0	345.5	
Operating profit/(loss)	158.4	10.5	0.0	165.3	(19.6)	0.0	386.5	
Investments	154.0	1.8	0.0	156.2	11.8	0.0	428.9	

2014										
Million euros	Energy					Water				
	Environment	Generation	Sales	Intra segment eliminations	Segment Total	Italian Water Services	Overseas	Engineering	Intra segment eliminations	Segment Total
Revenue	128.9	59.4	2,047.3	(33.0)	2,073.7	640.9	9.4	31.3	(27.9)	653.8
Costs	74.1	25.5	1,969.5	(33.0)	1,962.0	362.6	6.8	20.0	(27.9)	361.6
Gross operating profit	54.5	33.8	77.9	0.0	111.7	278.3	2.6	11.3	0.0	292.2
Depreciation and accumulated impairment charges	26.3	19.1	88.2	0.0	107.3	71.0	0.3	0.0	0.0	71.2
Operating profit/(loss)	28.2	14.7	(10.3)	0.0	4.4	207.3	2.3	11.3	0.0	221.0
Investments	13.3	11.6	8.1	0.0	19.7	146.8	0.6	1.5	0.0	148.9

2014 Million euros	Networks				Segment Total	Other		Consolidated Total
	Distribution	Public Lighting	PV power	Intra segment eliminations		Corporate	Consolidation adjustments	
Revenue	486.1	67.3	6.5	(8.5)	551.4	122.8	(473.2)	3,057.1
Costs	243.8	60.7	2.1	(8.5)	298.1	116.7	(473.1)	2,339.4
Gross operating profit	242.3	6.6	4.4	0.0	253.3	6.1	(0.1)	717.7
Depreciation and accumulated impairment charges	94.3	0.6	0.0	0.0	94.9	27.6	(0.1)	327.3
Operating profit/(loss)	148.0	6.0	4.4	0.0	158.4	(21.5)	0.0	390.4
Investments	121.4	0.7	0.3	0.0	122.4	14.2	0.0	318.6

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

ENVIRONMENT OPERATING SEGMENT

Operating figures, equity and financial results for the period

Operating figures	U.M.	2015	2014	Increase/ (Decrease)	increase/ decrease %
WTE conferment	kTon	354	342	13	3.7%
RDF production plant conferment	kTon	0	0	0	0.0%
Electrical Energy transferred	GWh	265	249	16	6.6%
Waste coming into Orvieto plants	kTon	94	95	(1)	(1.0%)
Waste Recovered/Disposed of	kTon	317	337	(20)	(6.1%)

Equity and financial results (millions euros)	31.12.15	31.12.14	2015-2014	increase/ decrease %
Revenue	132.0	128.6	3.4	2.6
Costs	74.7	74.1	0.6	0.7%
Gross operating profit	57.4	54.5	2.9	5.3%
Operating profit/(loss)	29.4	28.2	1.2	4.3%
Average number of staff	216	216	0	0.0%
Capex	25.9	13.3	12.6	94.1%

Balance sheet data (million euros)	31.12.15	31.12.14	Increase/ (Decrease)	increase/ decrease %
Net debt	187.7	179.6	8.1	4.3%

The Segment closed 2015 with an EBITDA of 57.4 million euros, a 2.9 million euros increase on 2014. This result, while considering the unavailability of the Kyklos plant seized at the end of July 2014, which caused a 2.2 million euros decrease in EBITDA, was offset by the increase in the economic performance of ARIA and Aquaser respectively 3.8 million euros (mainly due to the effect of

higher quantities of electricity transferred by the San Vitore del Lazio plant) and 1.7 million euros (for an increase in services performed for ACEA Group companies).

The Group's average number of staff on 31 December 2015 was 216, in line with last year.

Segment investments reached 25.9 million euros, an increase of 12.6 million euros as a result of upgrading the RDF treatment plant in Paliano as well as for the soil consolidation work and for revamping the SAO waste treatment plant.

Net debt in the Segment amounted to 187.7 million euros, increasing by 8.1 million compared to the end of 2014 (was 179.6 million euros). The increase can essentially be attributed to Aquaser (- 13.8 million euros), due to the effect of the increase in amounts due from Group water companies.

Operating review

ARIA

Terni waste-to-energy plant (UL1)

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

2015 was characterised by the high performance of the plants, reaching over 8,000 operating hours/year. This proves that plant management has reached a level of excellence, representing a point of reference in Italy.

On 1 September 2015 the second Services Conference was held on the coordinated EIA/IEA (Environmental Impact Assessment/Integrated Environmental Authorisation) procedure, with the aim of obtaining an extension for non-hazardous waste categories (EWC codes) that can be treated for energy recovery. At the same Conference, the Authorities involved requested some clarifications and technical amendments which were prepared and sent by the company in the times required.

With reference to the Terni continuous atmospheric emission monitoring system, the Terni Provincial Authority approved the revision of the CEMS manual (Manual on continuous emission monitoring systems) and the relevant software for managing said processes, in accordance with ISPRA Guidelines No. 87/2013.

In the same period, the experimentation (which lasted 6 months) approved by the Terni Provincial Authority can to an end. In this experiment the company attempted to optimize the system for reducing atmospheric emissions. Consequently the Company applied for authorisation to permanently introduce said plant optimization.

As for the management of incoming waste fuel supplies, conferment is in line with year estimates and energy production was characterised by a high number of operating hours.

As part of a survey on waste to energy plants in the Province of Terni, in November 2015, GSE S.p.A. began an audit in accordance with art. 7 of Law 241/1990, concerning the WTE qualification of ARIA's "Maratta Bassa" plant in Terni. In a certified email of 12 February 2016, ref. GSE/P20160014401 the GSE S.p.A. Directorate of Surveys and Inspections sent notification that it had concluded the audit which started in 2015.

As far as is known, the survey was performed following the exchange between GSE S.p.A. and the Terni Provincial Authority, starting in the month of February 2015.

For the Terni plant, this is the same survey as the one performed by GSE S.p.A. in 2013, which produced positive results.

The Company, also in this case submitted written me-

morandums and documents within the required times, requesting the survey be concluded as soon as possible, considering the operations of the plant in question to be fully legitimate.

During the above analysis, after an application was submitted by entrepreneurs with an interest in the survey, the Terni Provincial Authority confirmed that also the ARIA plant's operations and waste recovery activities were fully compliant with the provisions of the Law in force.

Paliano RDF production plant (UL2)

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

In June 2013, part of the plant was destroyed by a major fire, and the facility was subsequently seized by the judicial authorities for evidentiary purposes until November 2014.

After completion of the technical assessment as required by the Judicial Authorities, the Company began analytical and structural studies to implement an action plan to completely clean the areas, replace and rebuild the RDF production plant.

In 2015, following a complex analysis with the competent Territorial bodies, the plants and buildings affected by the accident were cleaned and demolished, and we can consider the first part of the requalification of the industrial site to have been concluded.

The Company began taking steps to obtain building permits to rebuild the buildings.

The work done up to now and the additional procedural authorisations obtained by the Company will make it possible to reopen the analysis procedure to obtain Integrated Environmental Authorisation for plant operation.

Again in order to return to RDF/SSF production as soon as possible, the Company already began the procedure for selecting the contractor who will rebuild the plant.

Again with reference to this plant and the surveys performed following the above-mentioned accident, the environmental surveys are being concluded in accordance with planning time estimates approved by the competent Area authorities. These last surveys performed on site in December 2015, also confirmed there was no contamination. The schedule of controls was completed; the groundwater analysis is still underway.

Note that in December, ARIA defined their compensation for damages suffered in the fire as amounting to 5.2 million euros; 3.2 million euros, after deducting the relevant advance payments, was recognised in the 2015 Financial Statements and collected in January 2016.

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

The San Vittore waste-to-energy plant in Lazio produces electricity from renewable sources, particularly RDF. In the reporting period, lines 2 and 3 of the plant guaranteed high performance, both in terms of the electricity produced and in terms of RDF used for energy recovery. In detail, 2015 was characterised by the high performance of the plants, with over 8,000 operating hours/year for both lines, reaching a level of excellence and representing a point of reference in Italy.

Measure No. G00063 of 13 January 2016, notified on 26 January 2016, granted the new Integrated Environmental Authorization valid for 8 years from 24 July 2013 to 24 July 2021. This authorisation completes the procedure for re-

newing the Authorisation for construction and operating the plant, meaning significant rationalisation in terms of authorisation requirements for the San Vittore del Lazio plant.

Note that the procedure in question will also make it possible to begin some additional work on the industrial site to improve the quality of communal and staff areas.

Concerning the *revamping* of Line 1, reconstruction proceeded in a regular way and it is therefore plausible to confirm the planned conclusion of work in 2016.

SAO

SAO owns the plant located in the municipality of Orvieto for treating and reclaiming municipal and special waste; in particular, on the same site there is a non-hazardous waste dump, currently being cultivated, and a non-separated biological mechanical waste treatment plant for the valorisation of organic waste from separate collection. In July 2015, the third and final Services Conference was held after the company filed an Integrated Environmental Authorization application to make substantial modifications to the Orvieto plants with a project for the "Morphological adaptation of the site and optimization of volumes and summit *capping*" of the open landfill (2nd gully), which was submitted by the company in 2014. The Integrated Environmental Authorisation Services Conference concluded by unanimously approving what had been examined. Therefore, also in July 2015 the competent Regional Authority re-commenced the Environmental Impact Assessment (EIA) procedure and in September 2015 the first EIA Services Conference was held in which the Company described the above project to the participant Bodies. On 11 November the second and final conference of the procedure was held. On 13 January 2016, as a final opinion was not expressed by the subjects called to attend the EIA Conference and in consideration of the objections made by a non-State Administrative Body, in compliance with the requirements of regional Law 12/2010, the President of the Committee for Regional Coordination on Environmental Assessment called a meeting of the same committee for the relevant assessment.

Again in the month of July 2015 the latest service contracts were entered into by the Company and the municipal authorities governing the ATO of reference, drawing up the contractual system for the management of Company waste disposal and recovery activities as part of the AT14 integrated urban waste management service.

The principal *revamping* work was done on the Orvieto waste treatment plant. This made the first parallel with the grid operator possible with the progressive start-up of all sections of the plant in the last quarter of the year. On 30 October 2015 the company bought out the biogas to energy plant business owned by another company. The biogas is produced in the Company's dump.

Finally, as part of an survey on waste to energy plants in the Province of Terni, in November 2015, the GSE began an audit in accordance with art. 7 of Law 241/1990, concerning the renewable energy sources (RES) qualification of SAO's Biogas plant.

The survey seems to have been performed following the exchange between GSE and the Terni Provincial Authority, starting in the month of February 2015.

For the Orvieto plant, this is the same survey as the one performed by the GSE in 2012, which produced positive results.

The Company, also in this case submitted written memorandums and documents within the required times, requesting the survey be concluded as soon as possible, considering the operations of the plant in question to be fully legitimate.

During the above analysis, after an application was submitted by entrepreneurs with an interest in the survey, the Terni Provincial Authority confirmed that also the SAO plant's operations and waste recovery activities were fully compliant with the provisions of the Law in force. At this time no notification has been received from GSE on conclusion of the analysis.

AQUASER GROUP

Aquaser

Aquaser operates in the sector of ancillary services associated with the integrated water cycle, loading, transporting, recovering and disposing of sludge from biological treatment and waste produced from water treatment, treating effluent and liquid waste and providing the services connected thereto.

It currently transports and recovers sludge for most of the water companies in the ACEA Group. The location of the plants is also extremely important from a strategic viewpoint, with two in Lazio, which process the sludge transferred under the contract with ACEA Ato2 and ACEA Ato5, and one in Tuscany near Grosseto, which processes the sludge transferred under the contracts with companies operating in Tuscany and Umbria. This has resulted in a reduction of transportation costs. Finally, during the year the Company started providing a sludge dewatering, loading, transportation and recycling/disposal service also for GE.SE.SA.

Recycling activities involved spreading the sludge on farmland (on the basis of authorisation held mainly by AQUASER) or conferred to the composting plants of controlled/associate companies or those of third parties, while the remaining waste was disposed of almost entirely in third party treatment plants/dumps.

In previous years, the Company obtained four authorisations for recycling sludge in the agricultural sector in compliance with the requirements of Legislative Decree 99/92, consolidating the company's independence from third party suppliers. Activities are currently underway to obtain additional authorisations for recycling sludge in the agricultural sector in the regions of Lazio, Tuscany and Abruzzo.

In the reporting period the company continued to consolidate its position on the market.

Finally, starting 1 July 2015 the company SAMACE was merged with the Company SOLEMME. The aim of this operation is to establish one single company to manage organic waste, separating the process in a functional way so AQUASER can once more act as a sludge intermediary, leaving the organic waste treatment to another group company (SOLEMME) running the plant.

KYKLOS

Kyklos operates in the waste treatment sector. It produces and markets mixed compost conditioners; in particular it operates in the areas of Campoverde in Aprilia on the basis of a Single Authorisation for special non-hazardous waste treatment and recycling plants obtained from the Province of Latina with a maximum capacity of 66,000 tonnes/year.

As a consequence of the 28 July 2014 accident, in which two people working for one of the external contractors collecting and transporting the leachate produced in the plant died, the plant was seized by the Judicial Authorities. Leachate is liquid, non-hazardous waste, obtained from the treatment of non-hazardous waste in the plant, it is collected on a daily basis as in the case in point, in operations performed in the open air, pumped into tankers, to be disposed of in suitable, authorized plants. As part of the criminal proceedings opened after the above accident, in July notification was received that the preliminary investigation had been concluded with notification of charges against the ex CEO, the Plant Manager and the Health and Safety Manager, as well as in accordance with Legislative Decree 231/2001, the Company.

On 31 August 2015 the Public Prosecutor of the Latina Law Courts, after a specific application was submitted, authorised the temporary release from seizure of the plant to perform extraordinary repairs on the structure, equipment and machinery and plant engineering for the possible recommencement of operations following the release from seizure.

After completion of the operations performed to dispose of the leachate stored in the tank and the subsequent final cleaning of the tank, and after testing the variants on the separate waste water system processing waste water from the *scrubbers* compared to the previously authorised system, as required by the Latina Public Prosecutor's Office and the Latina Provincial Authority, on 18 September 2015 Kyklos submitted an application for release from seizure of the plant.

At the end of October 2015 the Public Prosecutor's Office, without prejudice to the plant seizure, authorised the measures in the new proposal for the operational management of waste water from the *scrubbers* under the supervision of the competent Local Health Authority, to prevent any possible mixing with the leachate and to prepare for the installation of a hydrogen sulphide detector near the point of access to the leachate tank.

The Deputy Public Prosecutor of the Latina Law Courts also authorised the disposal of plant produced waste, both stored and waste to be produced as a consequence of the work authorised to be performed on the plant to guarantee compliance with the provisions of Legislative Decree 152/06. On 18 December 2015, in a notification dated 21 December 2015, the Company obtained the complete release from seizure of the plant which could therefore be returned to a fully serviceable condition. It must be said however that the long period in which the plant was shut down does mean some plant engineering requires extraordinary repairs to guarantee it can be fully operational again in the first months of 2016.

As the plant was under seizure, it was impossible for Kyklos to produce revenue, while the Company is obliged to pay the costs of its commitments. The continuing seizure resulted in a greater liquidity need the Company has asked the shareholders to meet. ACEA provided Kyklos with the necessary financial resources to pay wages (as well as the contributions required by law) and cover the debts for disposal of the leachate, as well as providing the necessary support for recovering outstanding debts.

The losses accrued were covered by Shareholders in the extraordinary meetings held in June 2015 and January 2016.

On 22 December 2015 Aquaser, which previously held 51% of the Company, bought out the remaining 49% of the share capital from the minority shareholder Sebastiano Reveglia, to become the sole shareholder in Kyklos.

Finally, in compliance with the provisions of Legislative Decree 46/2014, on 7 July 2015, the Lazio Regional Authority issued the Integrated Environmental Authorisation (IEA) with Decision G08408. This authorisation will be updated as soon as the final technical requirements have been defined by ARPA (Lazio Regional Environmental Agency), as they still have not been defined. The authorisation is valid for 10 years starting from the date on which the deed is adopted (therefore it is valid until 7 July 2025) and replaces all previous authorisations.

Finally, note that on 23 June 2011 on the Company's request the Latina Provincial Authority in accordance with art. 208 issued the authorisation for some substantial variations which have now been included in the Integrated Environmental Authorisation, to optimise the management process. The relevant activities were completed and the waste treatment plants should go into service in the first half of 2016.

ISA

Isa operates in the logistics and transportation sector and was held to be of strategic importance to reach market consolidation objectives. In fact, the Company was bought up to strengthen group organisation and provide group services in a more independent way, not only transportation but also services relating to other activities associated with and complementary to the farmland spreading of sludge, the maintenance of the drying beds and automatic discharge services, which have led in fact to a significant increase in business activities. In particular the sludge dewatering and liquid waste transportation sector has been developed with the aim of improving the service offered and reducing the costs of recycling and/or disposing and transporting the sludge, essentially due to the distance of the waste treatment plant from the sites where the sludge is produced. The Company is dedicated almost exclusively to providing services for associate companies in accordance with the provisions of art. 218 of Legislative Decree 163/06. In this context note that from October 2014 another order for transporting waste produced in the SAF waste treatment plant in Colfelice (FR) was received. This waste is taken to the ARIA waste-to-energy plant in San Vittore del Lazio (FR). In 2015 there were also new jobs, vegetation maintenance and the ex "Rhodia Performance S.r.l. plant was put into a safe state, this plant is owned by the SNIA Group from Paliano (FR). In detail, a light covering was laid over the tanks and all site safety measures were taken.

Finally, note that the Company currently has its own fleet for haulage activities.

SOLEMME AND SAMACE

Solemme operates in the waste recycling sector, composting organic waste, in particular sludge from civil waste treatment and producing mixed compost conditioners. As is known, as part of a more extensive ACEA Group corporate reorganisation project, with the aim among other things of simplifying and optimizing the organizational and operational structure and collecting the relevant receivables from 1 July 2015, the merger of

Samace into Solemme came into effect. Therefore, on the basis of the above, SOLEMME has two Local Units, where its two plants are located: (i) the Monterotondo Marittimo composting plant which is included in the Grosseto Provincial Authorities' Waste management plan; and (ii) the Sabaudia plant which recycles and disposes of waste on the basis of the Integrated Environmental Authorisation issued by the Lazio Regional Authority.

The market of reference of the Monterotondo Marittimo plant is represented by residential sludge produced in Tuscany, and in particular within the scope of ATO6 Ombrone, for the Province of Grosseto and Siena and from the treatment of waste from separate collection. In terms of authorization, in compliance with the provisions of Italian Legislative Decree No. 46/2014 which requires that *"The operators of existing installations that do not perform activities provided for by Annex VIII of Part II of Italian Legislative Decree No. 152 of 3 April 2006, as introduced by Legislative Decree No. 128 of 29 June 2010, submit an authorisation for the first issue of the integrated environmental authorisation, in other words an application for adjustment to the requirements of Chapter III-bis of Part II, if operation must be authorised by another measure, by 7 September 2014"*, on 4 September 2014 Solemme submitted an application for Integrated Environmental Authorisation in accordance with the above-mentioned Legislative Decree No. 46/2014. The first Services Conference was held on 4 June 2015, while the second Services Conference, which was originally planned for 2 July 2015, was postponed to 6 October 2015. At the 6 October 2015 Services Conference, the competent Authority explained that, pending the issue of the Integrated Environmental Authorisation, the Company is authorised to continue operating, notwithstanding the required updates to the

authorisation required by art. 208 of Legislative Decree No. 152 of 2006, in accordance with art. 29, paragraph 3 of Legislative Decree No. 46 of 2014, as replaced by art. 11 paragraph 16 ter of Decree-Law No. 78 of 2015 as amended. Therefore, in Note No. 0100123 of 13 October 2015, the authorisation issued by the Provincial Authority of Grosseto, by Resolution No. 84 of 14 January 2005 was extended until 14 April 2016, at this date.

With the sentence of the Administrative Judges, the Monterotondo Marittimo Municipal Authority approved the Implementation Plan, in Resolution No. 36 of 25 November 2014, after publication (concluded on 28 February 2015) and the submission of comments, the Plan was approved in January 2016, and after the building permit has been issued, work on the new plant can start.

In light of the above, with specific reference to the Monterotondo Marittimo plant, the following has emerged:

- (i) the Municipal Authority has finally approved the above Implementation Plan;
- (ii) at the Integrated Environmental Authorisation (IEA) Services Conference it was clarified that the plant can continue operating temporarily, on the basis of the current authorisation, pending the conclusion of the procedure for obtaining IEA, which will replace the previous authorisation, without solution of continuity, in accordance with the law;
- (ii) the procedure for obtaining the IEA continues, verifying and sending the required documents (as was seen at the last conference meeting).

Therefore, also on the basis of the above considerations, the Solemme financial statements at 31 December 2015 were drawn up on the basis of the principle of a going concern.

ENERGY OPERATING SEGMENT

Operating figures and financial results for the period

Operating figures	U.M.	2015	2014	Increase/ (Decrease)	increase/ decrease %
Energy Produced (hydro + thermal)	GWh	456	498	(42)	(8.5%)
Energy Produced (photovoltaic)	GWh	14	15	(1)	(9.6%)
Electrical Energy sold - Free	GWh	6,468	7,887	(1,420)	(18.0%)
Electrical Energy sold - Protected	GWh	2,951	3,000	(49)	(1.6%)
Electrical Energy - No. Free Market Customers (P.O.D.)	N/000	314	347	(33)	(9.4%)
Electrical Energy - No. Protected Market Customers (P.O.D.)	N/000	981	1,023	(42)	(4.1%)
Gas Sold	Msm ³	126	103	23	22.0%
Gas - No. Free Market Customers	N/000	144	155	(10)	(6.7%)
Equity and financial results (millions euros)		31.12.15	31.12.14	2015-2014	increase/ decrease %
Revenue		1,974.8	2,073.7	(98.9)	(4.7%)
Costs		1,866.9	1,962.0	(95.1)	(4.8%)
Gross operating profit		107.9	111.7	(3.8)	(3.4%)
Operating profit/(loss)		(5.7)	4.4	(10.1)	(229.5%)
Average number of staff		543	532	11	2.1%
Capex		30.6	19.7	10.8	55.0%
Balance sheet data (million euros)		31.12.15	31.12.14	Increase/ (Decrease)	increase/ decrease %
Net debt		287.1	356.1	(69.0)	(19.4%)

The Segment closes 2015 with a EBITDA of 107.9 million euros, decreasing by 3.8 million euros compared to last year, essentially as a result of sales.

The energy margin for the protected categories market increased by 15.4 million euros compared to 2014 as a consequence of the revision of the retail tariff, which in AEEGSI Resolution No. 670/2014 confirmed the mechanism to compensate for arrearage again for 2015 and Resolution No. 659/2015 introduced a transitional mechanism to cover operating costs other than arrearage, which considers the so-called size effect, for 2014 and 2015.

There was also an increase of approximately 46% in the gas margin, as a result of higher volumes sold and an increase in margins.

The energy margin of the free market went against the above trend with a 3.9 million decrease compared to last year, essentially as a consequence of lower volumes sold in the B2B segment, partially offset by improved margins in the mass market segment.

The trend of the sales segment is also affected by valuations on energy related items pertaining to previous years, which have a net negative effect of approximately 12.0 million euros.

EBITDA for the production sector is substantially unchanged and closes 2015 at 34.1 million euros thanks to the contribution of the PV business unit transfer by merger from ARSE. On a like-for-like basis however ACEA Produzione's EBITDA decreased by 2.1 million due to a reduction in the energy margin as a result of the price trend and a slight reduction in the quantities produced by the hydroelectric segment and the district heating segment, which produced lower revenues than in 2014 also due to the mild winter.

In terms of staff, as at 31 December 2015 the average number of employees was 543, 11 more than the same period last year mainly attributable to Cesap Vendita Gas.

Investments in the Segment amounted to 30.6 million euros with a significant increase due to the effect of the *repowering* work in Castel Madama and investments in the technological development of Acea2.0.

Net debt for the period amounts to 287.1 million euros, decreasing by 69.1 million euros compared to the end of 2014, mainly due to the effect of improvements in Acea Energia with an overall reduction of the company's financial position equal to 68.7 million euros.

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 Operator and with TERNA. In relation to the institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the ACEA Group. It performed the following main activities in the period:

- the 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 sale of environmental certificates (green certificates, issue rights and renewable source production certificates) for Acea Energia and Acea Produzione,
- the optimisation of the supply portfolio for the procurement of electricity and management of the Energy segment companies' risk profile.

In 2015, Acea Energia purchased a total 8,703 Gwh of electricity from the market, of which 7,465 Gwh through bilateral agreements and 1,238 Gwh through the Power Exchange, essentially for resale to free market end users and partly residual for the optimization of 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 344.8 MW, including five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzi), two so-called "mini hydro" plants in Cecchina and Madonna del Rosario, two thermoelectric plants - Montemartini and Tor di Valle (the latter fitted with a combined cycle module for steam turbine extraction and an open-cycle turbogas module providing cogeneration for the district heating in the Torrino Sud, Mostacciano and Torrino-Mezzocammino districts of Rome). The photovoltaic plants purchased from the Company following the total demerger of Acea Reti and Servizi Energetici must be added to this, with a total installed power of 8.5 MWp. Through its directly owned plants, in 2015 the Company achieved a production volume of 466.0 GWh of which (i)

440.4 GWh from hydroelectric plants, (ii) 2.3 GWh from mini hydro plants, (iii) 13.0 GWh from thermoelectric production and (iv) 10.3 GWh from PV production.

In the district heating segment, through the Tor di Valle plant's cogeneration unit, Acea Produzione supplied 2,760 end users located in the Torrino Sud, and Mostacciano districts (located in the southern part of Rome) with 72.4 GWh.

Production in the **hydroelectric segment** was equal to 442.7 GWh, benefiting mainly from the contribution, above the historical average in the last decade (+14.4%), of the Castel Madama, Mandela and Orte run-of-river plants which was significantly higher (+17.1%) mainly due to the effect of the delay in the shutdown of the Castel Madama power station for plant engineering *revamping* and the static functional requalification of power tunnels from the reservoir of the San Cosimato dam, which started on 30 July 2015.

An increase in production was recorded compared to the ten-year average by the S. Angelo plant (+27.1%) reaching 175.3 GWh. The average annual water inputs of the Aventino river (7.2 m³/s) and Sangro river (12.9 m³/s), were respectively +41% and +18% compared to the average in the three previous years 2012-2014. The winter and beginning of spring were characterised by a particularly rainy and snowy season, while the second part of spring and summer were quite hot and dry, as was also the autumn, especially in the month of December.

The Company's **thermoelectric production** stood at 13.0 GWh at 31 December 2015.

2015 was confirmed a difficult period throughout the thermoelectric production sector, as previously mentioned. For the Company, this mainly had an impact on production in the combined cycle section of the Tor di Valle plant, no longer able to withstand the impact of the market, which is also made worse by a continuing drop in market prices. Concerning the applications for authorisation submitted in 2014 for the modernization of the above plant, in March 2015 the Metropolitan City of Rome Capital issued the Integrated Environmental Authorisation (IEA) and the Single Authorisation for the construction and operation of the new thermoelectric power station.

2015 was the eighth year of operation of the Montemartini plant as a Generating Unit Essential to the Security of the National Electricity System, pursuant to AEEGSI Resolution No. 111/06, as part of the National Electricity System Security Plan – Emergency Plan for the City of Rome.

On the theme of **photovoltaic production**, as well as its own plants, the Company managed third party plants (O&M plants) with a total power capacity of 15.4 MWp. Furthermore, in 2015, a PV array was installed at the "La Fornace" Conference Centre. An application was therefore sent to the GSE requesting incentives deriving from the on-site exchange method.

In December, 0.4 million euros was settled as compensation for damages suffered in the fire that destroyed the ARIA PV array in the Paliano area. Compensation was paid in January 2016.

ELECTRICITY AND GAS SALES

As for the sales market, the refocusing of **Acea Energia's** sales strategy continued in the period with a more capillary and attentive selection of customers which tends to favour contracting small (residential and *microbusiness*) customers.

With reference to the joint ventures in the reporting period, management of the share in **Umbria Energy** and **Cesap Vendita Gas**, operating in Umbria continued, and **Voghera Energia Vendite** the ASM Voghera and Acea Energia *joint venture* went into liquidation. With reference to the latter, on 10 December 2015 the joint venture was wound-up with the concomitant acquisition of the shares previously held by ASM Voghera; as a consequence all shares are now held by Acea Energia.

As for **Elga Sud**, at the end of April Acea Energia bought out Puglienergy's share (51%) and as a consequence, the *Joint Venture Agreement* signed on 1 November 2006 and the rights and obligations pursuant to the same were rescinded by mutual consent.

As part of the restructuring of the investment in the Sin(e)rgia Group, in February 2015 Umbria Energy took over Cesap Vendita Gas (CVG) through a capital increase by contribution in kind of Umbria Energy's credit with the Company.

In 2015 the sale of electricity on the Protected Categories market was equal to 2,951 GWh, a reduction of 1.6% compared to 2014. The number of withdrawal points totalled 980,946 (1,023,316 at 31 December 2014).

Sale of electricity on the Free Market amounted to 6,092 GWh for Acea Energia and 375 GWh for the retail *Joint Venture*, for a total 6,468 GWh, a decrease of 18.0% on 31 December 2014. The reduction mainly concerned the B2B segment and derives from a strategy of consolidation and growth in the small business and mass market segments. Furthermore, Acea Energia sold 126 million standard cubic metres (sm³) of gas to end users and wholesalers corresponding to 144,185 redelivery points (there were 154,601 on 31 December 2014) including those of the *Joint Ventures* equal to 22,728.

The tariffs applied to the protected categories market in the reporting period increased compared to the first nine months of 2014 essentially as a consequence of the revision of the portion of the fee covering marketing costs (RCV) as required by AEEGSI Resolutions Nos. 637/2013, 136/2014 and 670/2014. Note that the Company, as a protected categories market operator, submitted an application in the times required to participate in the mechanism to compensate for the arrearage of end users provided for by Resolution No. 670/2014/R/eel and as a result on 29 July 2015 was paid 13.6 million euros by the CCSE.

Significant events in the first nine months of 2015 are described below.

- On 25 February 2015, Acea Energia was notified that a preparatory inquiry (ref. PS/9815) was being carried out by the Antitrust Authority in accordance with art. 27, paragraph 3, of Legislative Decree 206 of 2005 (Consumer Code) and art. 6 of the Regulation on preparatory inquiries concerning misleading and comparative advertising, unfair trade practice, breach of consumers' contractual rights, as adopted by the Authority by resolution on 5 June 2014.

Acea Energia's disputed behaviour concerns the activation of supplies of electricity and/or gas which were not requested, agents and/or call centre operators providing misleading information or omitting information and undue influence used to make people sign contracts, using obstacles to exercising the right to reconsideration. On 16 April 2015 Acea Energia sent a letter to the Antitrust Authority, c/o the appointed Law Firm, in which it made some comments on the subject of the Proceedings and the reports that led to the same, providing all required information in a timely manner. The Antitrust Authority rejected the proposed commitments and requested more information; at the same time the Authority extended the deadline for completing the proceedings to 23 September 2015. On 3 July 2015 Acea Energia replied to the communication of 19 June 2015 and submitted a supplement to the proposed commitments to the Antitrust Authority. On 31 July 2015 the Antitrust Authority declared the supplement to the proposed commitments to be inadmissible, as it was received after the expiration of a period, and set the deadline for submitting briefs and documents as 10 September 2015, subsequently extended to 15 September 2015. In a note dated 31 July 2015, the Antitrust Authority notified an extension of the date for ending the proceedings as 7 November 2015. On 15 September 2015 the final pleading was filed, in which Acea Energia dismissed the charges made against it in full and proposed measures to improve its processes. On 2 December 2015 the Antitrust Authority pronounced a penalty against Acea Energia.

- On 27 February 2015, Acea Energia filed an appeal with the Administrative Court of Lombardy against the AEEGSI requesting the annulment of art. 2 of Resolution No. 670/2014/R/eel and the corresponding conditions of the same, as well as any other precondition, consequent or in any case related to the same, including Resolution No. 349 of 29 December 2007 with the relevant technical report, in the parts defining the remuneration of marketing costs for protected categories market operators without providing compensation mechanisms linked to the number of users supplied by the same. The reasons for which Acea Energia submitted the above-mentioned appeal lie in the fact that, as various protected categories market operators (including Acea Energia) and Federutility had informed AEEGSI in 2014 that the tariff component intended to cover service marketing costs was absolutely unsuitable for guaranteeing effective coverage of the same. Despite this, the Authority, in the above-mentioned Resolution against which Acea Energia appealed, referred further revision of tariff regulation to a subsequent resolution, exposing protected categories market operators to immediate economic losses in this business segment.
- In Resolution No. 111/2015/S/eel of 19 March 2015 the AEEGSI, also on the basis of the answers provided by Acea Energia in 2014 following the specific request for information on automatic indemnities for low voltage end users on the protected categories market, filed proceedings against the Company to verify if there had been a violation of the

provisions in art. 14, 18, 19 and 20 of the TIQV Code on the regulation of the quality of service selling electricity and natural gas (Resolution No. 164/08 ARG/com) to apply penalties and prescriptive procedures in accordance with art. 2, paragraph 20 letters c) and d) of Law 481/95.

The preparatory inquiry will last 180 days from the date of notification of the measure; after this phase the AEEGSI has 90 days to adopt the final measure. On 22 April the Company submitted a letter of commitment to pursue the interests which are assumed to have been violated in the most effective way in accordance with art. 45 of legislative Decree No. 93/2011 and AEEGSI Resolution No. 243/2012/E/com. On 23 July 2015 the Authority sent a communication requesting clarification concerning the commitments submitted, and on 7 August 2015 Acea Energia submitted a supplement to the commitments. On the date on which the supplement to the commitments was submitted, the Company has completed the activities to pay the indemnities due to customers within the scope of the dispute. On 15 September 2015 the final pleading was filed, in which Acea Energia dismissed the charges made against it in full and proposed measures to improve its processes. In Resolution No. 622/2015/S/eel of 17 December 2015, the AEEGSI declared the proposed commitments submitted on 7 August 2015 to be admissible, making one change to commitment 2 however (the payment of an indemnity of 15 euros more than that provided for in the TIQV, to protected categories market customers who from 2014 have or will have the right to indemnity for a written complaint or written request for billing adjustment, in the hypothesis in which the indemnity is paid after the deadline of 8 months). The Authority held it to be expedient to limit commitment 2 to the payment of a further indemnity of 15 euros to those who already had the right to the indemnity in compliance with the TIQV (from 2014) up to the date of presentation of commitments (7 August 2015) who had not received the same by the 8 month deadline. In concomitance with the declaration of admissibility, the Regulating Authority will implement the *market test* phase in which third parties can make comments on the commitments proposed by Acea Energia in the following 30 days. The *market test* phase was concluded on 21 January 2016.

- On 13 July 2015, Acea Energia was notified that a preparatory inquiry (ref.PS/9354) was being carried out by the Antitrust Authority in accordance with art. 3 of Legislative Decree 68/2001 and art. 27, paragraph 3, of Legislative Decree 206/2005 (Consumer Code) and also performed an inspection at the Company's offices to investigate possible violations of art. 20, 24 and 25 of the Consumer Code. Acea Energia submitted the required documentation to the Antitrust Authority on:
 - procedures, reports, data on the management of complaints concerning bills, automatic reading and estimated consumption,
 - procedures, reports and figures on the billing of gas and electricity consumption,
 - procedures, reports and data on credit management.On 2 October 2015 Acea Energia provided the Antitrust Authority with the required information in compliance with the act for initiating proceedings

PS9354 and also, with the assistance of the appointed law firm, made some preliminary comments in its defence as per company practice (ex. complaint management, debt collection, information on billing procedures used, granting instalment plans, automatic reading methods, etc.), concerning the disputed practices, for compliance with sector regulations and the rules of professional diligence. The deadline for completing the proceedings was extended to 27 January 2016.

- On 2 February 2016, Acea Energia filed an appeal before the Lazio Regional Administrative Court against the measure notified on 2 December 2015, with an application for precautionary suspension, to be heard in closed session on 9 March 2016. As filing the appeal does not suspend the enforceability of the measure, on 29 January 2016 Acea Energia paid the 600 thousand euros sanction and on 15 February 2016, following acceptance of the requested extension, filed a report with the Antitrust Authority describing the actions taken to comply with the injunctions of the same Authority, specifying that said actions cannot be considered to be in acquiescence of the measure.
- On 22 January 2016, Acea Energia sent information on the second and third quarter of 2015, therefore fully complying with the Antitrust Authority's requests at the hearing of 11 November 2015. On 22 January 2016 the Antitrust Authority notified Acea Energia of the end of the preparatory inquiry, to be concluded by 11 February 2016. In order to examine the charges made in detail and exercise its rights to defence in full, Acea Energia requested a 3-month extension for the preparatory inquiry. The Antitrust Authority rejected the request for extension, but set the date for the end of the preparatory inquiry as 2 March 2016; by this date Acea Energia will in any case submit a defence brief, in which it will state that, due to the lack of available time, it was impossible to exercise its rights to defence in full. Closure of proceedings was set as 27 April 2016.

COGENERATION

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

Ecogena proceeded with the construction of a new tri-generation plant for the EUR "Europarco" complex in Rome; the plant was accepted with consignment of the final documents at the end of December 2015. In the months of November and December 2015 utilities were supplied for the Province of Rome and the Eurosky Complex. In July of last year energy services were supplied to the new "Cinecittà World" theme park at Castel Romano. The energy supply service has been contracted for a period of 15 years. At the same time, in order to create intra-group synergies, the contract with Acea Produzione for running and servicing the Cinecittà World plants came into effect. Finally, building work continued in the areas dedicated to the construction of the new "Laurentino" shopping centre, in the Laurentina/Tor Pagnotta district of Rome. Considering the delays in the building work, it is assumed energy services will not be supplied until September 2017.

Lastly, a marketing campaign targeted at some of Acea Energia's major customers, mainly in the business seg-

ment continues, to promote the Company's energy efficiency services.

Energy diagnosis activities started with the aim of performing ESCo efficiency interventions. Finally, the

LED pilot project was initiated at the Eur offices in Via dell'Arte with the Company taking over the ex Sienergy Project district heating network with a rental contract for the business unit.

WATER OPERATING SEGMENT

Operating figures and financial results for the period

Operating figures (*)	U.M.	2015	2014	Increase/ (Decrease)	increase/ decrease %
Water Volumes	Mm ³	527	540	(13)	(2.4%)
Electrical Energy Consumed	GWh	532	557	(25)	(4.5%)
Sludge Disposed of	kTon	197	214	(17)	(7.9%)

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

Equity and financial results (millions euros)	31.12.15	31.12.14	2015-2014	increase/ decrease %
Revenue	640.3	634.8	5.5	0.9%
Costs	358.1	361.6	(3.5)	(1.0%)
Income/(Costs) from equity investments of a non-financial nature	28.6	19.0	9.5	50.1%
Gross operating profit	310.8	292.2	18.6	6.4%
Operating profit/(loss)	217.1	221.0	(3.9)	(1.8%)
Average number of staff	2,301	2,413	(112)	(4.6%)
Capex	204.4	148.9	55.5	37.3%

Balance sheet data (million euros)	31.12.15	31.12.14	Increase/ (Decrease)	increase/ decrease %
Net debt	537.3	488.1	49.2	9.2%

The Segment closes 2015 with an EBITDA of 310.8 million euros, an increase of 18.6 million euros compared to 2014 deriving from a slight increase in revenues and actions taken to increase efficiency in operating costs.

This increase can be broken down as follows: an increase of 9.5 million euros in the result of companies consolidated using the equity method, the positive contribution to EBITDA of foreign companies (0.4 million euros) and the increase recorded by the other companies in the segment (a total of 9.1 million euros).

The increase in Segment revenues is due to the recognition as at 31 December 2014 of some ACEA Ato2 extraordinary components: (i) some adjustment items equal to 23.9 million euros for 2012 and 2013, recognised by the Area Authority on approval of the 2014 and 2015 tariff proposals and (ii) the restatement of prior adjustments for the period 2006 – 2011 (8.8 million euros). Net of these components ACEA Ato2 revenues increase by 16.7 million euros due to tariff increases and 11.9 million euros due to the recognition of pass-through item adjustments for 2015.

The average number of staff on 31 December 2015 decreased compared to the same period in 2014 (2,301 members of staff compared to 2,413 on 31 December 2014) as a consequence of the policy of incentives for redundancy and retirements mainly put into practice by ACEA Ato2.

Net debt in the Segment amounted to 537.3 million euros, up 49.2 million euros on the end of the previous year (when it amounted to 488.1 million euros). This increase was essentially generated by ACEA Ato2 (+ 50.2 million euros) and is mainly affected by the consistent increase in investments in the financial year and dividend distribution.

Segment investments stand at 204.4 million euros, an increase of 55.5 million euros. The biggest investments are mainly in ACEA Ato2 (177.9 million euros in 2015 compared to 136.7 million euros in 2014). These investments mainly refer to IT infrastructures (approximately 20.5 million euros) as a consequence of the initiation of the Acea 2.0 project. Significant investments were also made in the water network and waste treatment plants totalling 135.1 million euros.

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 78 of the total 112 services in the ATO are currently still run entirely by the Municipalities.

Note that, at the end of 2014 the water abstraction and/or distribution services for the Municipalities of Capra-

nica Prenestina, Olevano Romano, Canterano, Rocca Canterano, Gerano and Rocca di Papa were acquired (services previously supplied by Società Acque Potabili under a protected regime) and in 2015 also the drinking water service in the Municipalities of Colferro, Valmontone and Manziana as well as the sewerage and waste water treatment service for the Municipalities of Rocca di Papa and Rocca Priora were acquired, completing the integrated water service management for these Municipalities.

At 31 December 2015 the overall situation in the territory managed is as follows:

Acquisitions	n° comuni
Municipalities fully acquired into the Integrated Water Service:	78
Municipalities partially acquired, for which ACEA ATO 2 provides one or more services:	17
- Municipalities in which only the acquired consortium service is provided	4
- Municipalities partially acquired but with Protected Subject	2
- Municipalities partially acquired	11
Municipalities in which ACEA ATO 2 provides no services	9
Municipalities that declared they do not wish to be part of the Integrated Water Service(*)	8

(*) Municipalities with less than 1,000 inhabitants who had the right to express their will in accordance with paragraph 5 of Legislative Decree 152/06.

The larger Municipalities that have not yet been acquired include Civitavecchia which is characterised by pending critical financial, operative and authorisation elements so at this time it is impossible to formulate a hypothesis for development and a solution.

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 Municipalities 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 6,200 km (including approximately 4,088 km of network serving the municipality of Rome) and more than 300 km of trunk lines, without counting the connections to the sewage system.

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

In 2015 the main **waste treatment plants** treated approximately 520 million m³ of waste water. Sludge, sand and grating production for all managed plants in the reporting period was over 154.0 thousand tonnes, a decrease of around 4% compared to last year.

At 31 December 2015, 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 the competent Judicial Authorities, on the specific request of the Company, in March 2015, ordered the release from seizure and restitution of the Roma Est waste treatment plant for which, on 5 February 2014, the District Court of Rome issued a precautionary seizure order for alleged violation of articles 81 paragraph 110 of the Italian Penal Code, art. 256 paragraphs 1 and 2 of Legislative Decree 152/2006.

The Roma Nord plant however is still under seizure and, with reference to criminal law, notification was received by the Company that the preliminary investigation had been concluded. ACEA Ato2 was also charged during the preliminary investigation in accordance with Legislative Decree 231/2001.

ACEA Ato2, in consultation with the court-appointed superintendents appointed by the same decree, continued to develop its own plant maintenance project in an efficient and continuative manner; the monitoring performed by the professionals nominated by the Court-appointed superintendents confirmed the standards of the laws in force are observed, both with reference to discharges and the sludge produced. An action plan to return the plant to its original functional condition is still being implemented. After a complex preparatory inquiry, the authorization for atmospheric emissions was issued and discharge authorisation was renewed for this plant. In July 2015, during the inquiry which is still underway, after the fatal accident involving an employee, the water sump and the chamber below in Via delle Acacie/Via della Saggina were seized for evidentiary purposes. In August 2015 a restraint order was issued for the di-

schARGE of the Colubro treatment plant: the Company sent a request to determine the requirements for re-activation of the discharge and, pending the same, is transporting the waste to another location in tankers.

As for the **tariff**, for 2015 the Company has applied the tariff calculations approved by the AEEGSI in Resolution No. 463/2014/R/ldr of 25 September 2014 which specifies a tariff multiplier of 1.251.

Following the acquisition of the water abstraction and/or distribution services for six Municipalities in the ATO of reference (Canterano, Capranica Prenestina, Gerano, Olevano Romano, Rocca Canterano and Rocca di Papa) as a result of the Deed of acquisition of 29 December 2014 from the previous protected operator Acque Potabili and the acquisition at the end of May of the drinking water service and the sewerage and waste treatment contract for the Municipality of Collevero (Deed for transfer of business unit of 25 May 2015), the Area Authority, through the Technical Secretariat, notified ACEA Ato2 and the Authority to have quantified the impact in terms of endogenous operating costs affected by the variation in the perimeter managed and the consequent increase in the recognised restriction on revenues for 2015 (VRG²⁰¹⁵). The notification confirmed the changes to Guaranteed Revenue Restriction (VRG) in the Company's financial statements, calculated in application of the provisions of art. 25 of Annex A to Resolution No. 643/2013 and amounting to 1,703,279 euros, which has no effect on the tariff multiplier (which remains unchanged) or on the tariff applied to users in 2015, but will have an impact on determining adjustments recognised for the operator in the next tariff revisions with reference to this period.

In the second half of 2015, after the acquisition also of the sewerage and waste water treatment services for the Municipality of Rocca Priora (starting 1 August 2015), of the Integrated Water Service of the Municipality of Manziana (starting 1 December 2015) and the Water Service of the Municipality of Valmontone (starting 3 December 2015), the STO recalculated the total impact for 2015 in terms of operating costs as a result of the expansion in the area of operations equal to an increase in the recognised restriction on revenues for that year amounting to 1,945,666 euros, leaving the tariff multiplier unchanged.

2015 revenues amount to a total 503.9 million euros inclusive of estimated pass-through item adjustments and the increase calculated by the Area Authority as a consequence of the change in the area of operations.

On 27 April 2015 ACEA Ato2 was notified that a preparatory inquiry (ref.PS/9916) was being carried out by the Antitrust Authority in accordance with art. 27, paragraph 3, of Legislative Decree 206 of 2005 (Consumer Code) and art. 6 of the Regulation on preparatory inquiries concerning misleading and comparative advertising, unfair trade practice, breach of consumers' contractual rights, unconscionable clauses adopted by the Authority by resolution on 5 June 2014 with a concomitant request for information in accordance with art. 12, paragraph 1, of the Regulation. An inspection was carried out at the Company offices at the same time. The charges against ACEA Ato2 concern alleged unfair trade practice in the period from November 2012 to April 2013 concerning the following phases of customer relations: **(i)** transfer

and takeover of an active end users, **(ii)** measuring consumption, procedures, schedules and billing criteria for services supplied, **(iii)** recognition of hidden losses and tariff depenalisation, **(iv)** methods and times for managing complaints and refunds as well as methods and procedures for disconnection of supply.

In the month of June 2015 the Company, through its lawyers, submitted a formal application for the assumption of four specific commitments to eliminate the disputed profiles of illegitimacy: these commitments have not yet been accepted by the Antitrust Authority even during the review requested by the Company.

The inquiry was concluded on 9 November 2015 and in January ACEA Ato2 was notified of the final measure with a sanction of 1.5 million euros. The Company decided to appeal before the competent Regional Administrative Court.

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 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 470,000 inhabitants, about 460,000 inhabitants supplied and a number of end users equal to around 185,700.

As for the Municipality of Paliano, due to the continuing inactivity of the Municipal Authority, and the attempt to draw up a memorandum of understanding to solve various problems, which to this date have prevented the changeover of the integrated water service, on 14 September 2015 the Company sent the Municipal Authority and AMEA, as well as the other Bodies involved, further notice to immediately transfer the plant within and no later than 30 days after receiving the above note.

As for the Municipality of Atina, the preparatory activities for the acquisition of instrumental integrated water service works and plants continues on the basis of an agreement between the ACEA Ato5 S.p.A. office and the Atina Municipal Authority.

As for the Municipality of Cassino, despite the fact that Sentence No. 2614/2015 passed by the Council of State on 26 May 2015 substantially confirmed the Company's right to acquire the service, the Municipal Authority did not reply to the Company's formal request sent on 28 May 2015, to allow the consignment of the plants, which started during the year on the basis of the measures in force, to be completed by the deadline of 90 days from receipt of the notification. For this reason, the Company filed a petition for compliance with Sentence No. 2614/2015 with the Council of State.

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 connected to waste treatment terminals. The company manages 203 sewage pumping

plants and 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 reference to the **tariff**, for 2015 the Company applied the decisions taken by the Mayor's Conference of 14 July 2014, within the limits of a 9% increase on 2014. As is known, the tariff proposals for 2012 – 2013 and 2014 – 2015 were characterised by tariff increases that were higher than the admissible limits. The AEEGSI inquiry which started in February 2015, was concluded with Resolution No. 51/2016/R/ldr of 11 February 2016, which in brief provides for the following:

- conclusion of the inquiry into the tariff proposals requested by the Area Authority, as restructured by the Operator and, as a consequence requiring the same Area Authority to adjust the economic-financial plans to the decided values;
- acknowledgement, also provisionally and while waiting for the definition of the inquiry with specific request, of an *unpaid ratio* rate at least equal to that for Southern Italy (6.5%);
- calculation of a tariff increase for the first regulatory period within the limits permitted by the regulation and after 2015 providing for methods for the financial recovery of some cost components totalling 54.7 million euros adjusted for inflation;
- requiring the Area Authority to send, within 30 days of publication of Resolution No. 51/2016, the conclusion of the inspection concerning the Operator's request for the acknowledgment of arrearage costs higher than the maximum permitted threshold in accordance with paragraph 30.2 of Annex A of Resolution No. 643/2013/R/ldr, and to send details to the Authority of the structure operating costs borne in 2014 and 2015.

Furthermore, in the above resolution, the Authority provisionally recognised the adjustments for 2012 and 2013, in accordance with Resolution No. 204/2015/R/ldr, pending settlement of the disputes open with the Council of State in relation to Resolution No. 585/2012, assuming that any final adjustment will be decided on after the above cases have been settled.

2015 revenues amounted to a total of 67.1 million euros inclusive of the estimated adjustments of pass-through items and higher arrearage costs (2.6 million euros) recognised provisionally for 2014 and 2015 pending the settlement of the proceedings opened by request of the Operator. As for 2012, 2013 and 2014, these are calculated on the basis of a tariff multiplier which is higher than the maximum permitted tariff multiplier: in particular the € used for 2015 is equal to 1.660.

As described above, the financial recovery of the differences accrued in the first regulatory period will be done in compliance with Resolution No. 51/2016, from 2019.

As for prior adjustments for the period 2006 – 2011, quantified by the appointed Commissioner as equal to 75.2 million euros, note that the 26 June 2015 sentence of the Lazio Regional Administrative Court – Latina District, rejected the appeal filed by the ATO 5 for the

annulment of the Commissioner's Decree, judging it to be "*devoid of legal basis*".

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 4,030 Km of distribution network, and a 2,300 Km drainage system.

GORI currently manages 9 water sources, 71 wells, 158 tanks, 98 water pumping stations, 156 waste water pumping station 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.

In Resolution No. 27 of 31 March 2014 the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority approved the regulatory scheme in accordance with AEEGSI Resolution No. 643/2013 and the **tariff calculations for 2014 and 2015**. Subsequently, in Resolutions Nos. 43 and 46 respectively of 30 June 2014 and 3 July 2014, in line with the results of the inquiry and the decisions taken by the Area Authority's General Meeting in Resolution No. 5 of 27 October 2012, and to implement art. 31 and 32 of Annex A to Resolution No. 643/2013/, it determined the **prior-year items for the period 2003-2011** amounting to a total 122.5 million euros and as a consequence approved division into instalments of the above sum in four years, starting 2014 (the year in which 50% of the amount was due) plus three equal instalments to be paid in 2015-2017.

GORI, in accordance with the above resolutions, billed the tariff component for 2014 as "Recovery of prior-2012 items". Various subjects, including Municipal Authorities, associations and users, challenged the resolutions through the administrative courts and in civil courts requested the annulment of bills containing the adjustments.

On the basis of the AEEGSI inquiry opened with Resolution No. 122/2015/R/ldr, to establish financial equalisation measures also for the water sector, in a joint note of 17 April 2015 the Commissioner and the Campania Regional Authority, a request was made for access in advance to the Electricity Sector Equalisation Fund to obtain funds to cover the division into instalments of the above-mentioned prior-year items for users, with an extension to the time originally set in Commissioner's Resolutions Nos. 43 and 46 of 2014. Pending conclusion of the AEEGSI inquiry into the above request for access in advance, the Extraordinary Commissioner of the Area Authority in Resolution No. 14 of 29 June 2015, approved the amendment of the instalments to collect prior-year items to make collection of the relevant amounts more sustainable in social-economic terms. The above-mentioned resolution passed at the end of June in fact provides for division into instalments for the period 2015-2018 (with postponement of one year compared to the previous resolution) of 122.5 million euros, 10% of which in 2015 with the remaining divided into equal amounts over the next three years. Furthermore, there is also the possibility of proceeding with another amendment to the instalments which is more favourable to users

if the AEEGSI gives GORI access to the economic and financial equalisation measures referred to in Resolution No. 122/2015. Therefore the Company, implementing the above-mentioned resolution of the Extraordinary Commissioner of the Area Authority, issued all the credit notes to users to settle the amounts of prior-year items, billed in relation to the first plan of instalments. However, in October 2015, the Campania Regional Administrative Court passed four sentences (on cases filed by the municipalities of Angri, Casalnuovo and Nocera Inferiore and the Federconsumatori Consumers' Association) annulling some resolutions passed by the Sarnese Vesuviano Area Authority including Resolutions Nos. 43 and 46 respectively of June and July 2014. In particular, the administrative judge ruled that the above-mentioned resolutions were adopted without the pertinent powers as the mandate of the Extraordinary Commissioner had expired on 21 July 2013 (six months after the nomination of the Commissioner on 21 January 2013), and therefore from the same date no longer held the required powers.

GORI requested these sentences be suspended, which was discussed in a closed session on 28 January 2016. In consideration of the publication of Campania Regional Law No. 1 of 18 January 2016⁶, of the times and content of the intervention, a timely definition of the merits of the appeal was held to be necessary; therefore, in a closed session on 28 January 2016 a request was made for joint judgement of the discussion on the injunction with the hearing to discuss the merits of the appeal.

In Resolution No. 15 of 30 June 2015 the Extraordinary Commissioner once again approved the VRG recognised restriction on revenues for 2014 and 2015 with the relevant tariff multipliers equal to 1.445010 and 1.493518; the tariff multiplier for 2014 was determined only for the purpose of calculating the tariff adjustments for 2016. In the resolution the Commissioner also:

- confirmed the allocation of the FoNi portion for 2014 and 2015 to fund social subsidies;
- amended the fee structure approved by Commissioner's Resolution No. 27/2014, from 1 July 2015;
- approved the criteria for calculating sewerage and waste water treatment tariffs for industrial users, pending the adoption by the AEEGSI of sewerage and waste water treatment tariff measures.

The grounds for revising the Economic-Financial Plan are essentially the implementation of the effects of Regional Law No. 16/2014⁷ approved following decisions taken on tariffs in March 2014. In particular the Economic-Financial Plan considers the costs deriving from the transfer of regional works starting in June 2018 and from the same date provides for the reduction of wholesale water costs and the collection and treatment of sewage by the Campania Regional Authority. The Economic-Financial Plan also provides for the division into instalments over

a ten-year period, in compliance with the provisions of Regional Law No. 1/2012, of GORI debts with the Campania Regional Authority for the period 1 January 2013 – 31 March 2015 and conversely, adopts a different instalment division procedure for prior-year items.

On 9 July 2015, the AEEGSI amended Resolution No. 338/2015/R/idr in which it had officially approved, for the first regulatory period 2012-2015, the tariff multiplier (equal to 0.9) for the Campania Regional Authority wholesaler (supplying wholesale drinking water to the region and waste treatment and collection services for municipal sewage in regional plants); likewise Resolution No. 362/2015/R/idr, for the same regulatory period, officially set the tariff multiplier (equal to 0.9) for the wholesaler Acqua Campania, supplying the wholesale service for the abstraction and sale of water in the Campania Regional territory.

The procedure for the Authority to approve the 2012-2015 tariffs is pending and on 16 October 2015 GORI submitted a report of acknowledgment on the effect that AEEGSI Resolution No. 338/2015 had on Extraordinary Commissioner's Resolution No. 15/2015 requesting the inquiry be concluded as soon as possible.

In January 2016 the Company sent AEEGSI some supplements to be added to the data sent by the Operator in October 2015 with the above-mentioned report of acknowledgment as well as the Economic-Financial Plan development in coherence with the above proposals. The AEEGSI then asked the Extraordinary Commissioner's opinion on the following aspects:

- method for adapting the tariff proposals to the official tariff calculations adopted for the Campania Regional Authority by Authority Resolution No. 338/2015/R/IDR;
- maintaining the financial balance of operations in consideration of the new Economic-Financial Plan, which - in order to make the Integrated Water Service user cost more sustainable - was drawn up by the Operator on the assumption of a reallocation of adjustments (corresponding to the value of the tariff multipliers previously approved by the Area Authority, as amended by effect of the above Resolution No. 338/2015) which in particular requires specific recovery methods to be used from 2016;
- procedure for approval by the Campania Regional Authority of the request for the debt accrued by the Operator to be divided into instalments, as well as any relevant impact on the financial balance of operations;
- considerations on the possible application for recognition of a higher arrearage cost than that set by the Authority.

The Extraordinary Commissioner replied by essentially referring the question to the Campania Regional Authority, asking the AEEGSI to call a meeting with the same.

⁶ On 18 January 2016 Campania Regional Law No. 1/2016 was published, art. 7, paragraph 3) of which provides for some amendments to Regional Law 15/2015 of 2 December 2015 - Reorganisation of the Integrated Water Service and setting up the Campano Water Authority - and in particular letter d) requires that "after paragraph 9 of article 21 the following be added: "9bis. In initial implementation of this law, the deeds adopted by the Commissioners nominated to wind up the eliminated Area Authorities concerning tariffs and tariff adjustments in compliance with AEEGSI resolution No. 643/2013 pending settlement of disputes in the administrative court, are null until the final decisions are adopted by the Campano Water Authority to be constituted, after consultation with the competent Area Council".

⁷ The above-mentioned regional regulation requires that the Regional Works are transferred after the provisional management of said works for a period of thirty-six months, with costs borne by the Regional Authority, and with the implementation of an efficiency plan for the above-mentioned provisional management. On the expected 36-month deadline, the final management will be definitively entrusted to the Integrated Water Service operators of territorial competence. Note that Constitutional Court Sentence No. 117 of 25 June 2015, ruled Campania Law No. 16 of 7 August 2014 on the water service to be anti-constitutional, with reference to "art. 1, paragraphs 49, letters a), e), f), g), i), 88, 89, 93, letter b), 104, letter a), 105 and 108, letter a), of Campania Regional Law No. 16 of 7 August 2014 (Interventions to relaunch and develop the regional economy and of a legislative and organisational nature – linked to the 2014 regional stability law)".

Concerning the division into instalments of the **regional debt**, in December 2015 the Campania Regional Authority informed GORI that it would not authorise the division into requested instalments of the waste treatment and collection service fees for 2013-2015 and gave notice to the Company to pay 21.84 million euros (adjustments excluded) for 2013 and 2014 plus interest. GORI challenged said notice, while willing to find a method of payment that would meet the requirements of the Regional Authority to collect the fees maintaining GORI's economic and financial balance; the company also reasserted the need to jointly establish the methods for calculating pricing for the waste treatment and collection service and adjustment methods in relation to the implementation of AEEGSI Resolution No. 338/2015 through a specific technical committee.

2015 revenues were calculated on the basis of Extraordinary Commissioner's Resolution No. 15/2015 and consider the effects deriving from AEEGSI Resolution No. 338/2015: these amount to 161.2 million euros (Group share 59.7 million euros) and include the estimated adjustments of pass-through items. These revenues, as for those in previous years starting in 2012, include the difference between the revenue derived from the application of the rules in Resolutions Nos. 585/2012 and 643/2013 and the maximum allowed in the first phase. The AEEGSI inquiry to approve the 2012-2015 tariff multipliers is still underway: tariff adjustments accrued in the period 2012-2014 amount to a total of 59.3 million euros (Group share 22 million euros) and allow for the effects of AEEGSI Resolution No. 338/2015 which, through the application of the 0.9 multiplier to the tariffs of the Campania regional Authority wholesaler, effectively resulted in the adjustment of costs for water abstraction services and collection and treatment of waste water services, with the consequent reduction of the same by 27.8 million euros. 2015 tariff adjustments are equal to 1.3 million euros.

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.

Finally, the Antitrust Authority, in a communication reg. 30332 of 22 April 2015 – Ref. PS/9919, opened proceeding against GORI in accordance with art. 27, paragraph 3, of Legislative Decree No. 206 of 6 September 2005 as amended, and in accordance with art. 6 of the *“Regulation on preparatory inquiries concerning misleading and comparative advertising, unfair trade practice, breach of consumers' contractual rights, unconscionable clauses”*, adopted by the Authority by resolution on 5 June 2014, with a concomitant request for information in accordance with art. 12, paragraph 1, of the Regulation. In particular, the disputed profiles concern: (i) methods used to measure consumption as well as billing methods and times for the services supplied, (ii) bill collecting methods, in particular for the procedures used in abnormal phases of consumer relations such as complaints, settlement and disconnection of the supply and (iii) transfer and takeover of a utility in the case of past arrearage. On 29 April 2015 the officers of the Antitrust Authority performed an inspection at the Company's registered office and acquired all the information

and documentation necessary for the assessment of the disputed case.

In June the Company submitted its defence briefs with proposed commitments which were rejected by the Antitrust Authority also during the review requested by GORI.

The inquiry was concluded on 18 December 2015 and GORI was notified of the final measure with a sanction of 0.5 million euros. The Company decided to appeal before the competent Regional Administrative Court.

GESESA

The Company operates in ATO 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. Currently, the Authority, controlled by the Extraordinary Commissioner in accordance with Decree of the Regional Government No. 813/2012, has not yet appointed a Sole operator to manage the Integrated Water Service.

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. This, also in consideration of the amendments introduced by Law 164/2014 Art. 7; to Decree 152/2006, with particular reference to art. 147 and 172 and the 2015 Stability Law. This activity is urgent due to the deadlines set by art. 172 in the above-mentioned Decree 152/2006, which requires that the Regulatory Agencies must adopt final measures to appoint a sole operator to manage the service (paragraphs 1-3), regulating also the implementation of the 'first application' phase of the regulation by 30 September 2015. In November 2015 the Campania Regional Authority approved Law No. 15 for the Reorganisation of the Integrated Water Service and setting up the Campano Water Authority.

On 15 October 2015 the Consortium CABIB conferred the business unit set up to manage the Integrated Water Service of the Municipalities in the consortium to GESESA starting 1 November. As a result of this operation, the management of the Integrated Water Services of the Municipalities of Vitulano, Foglianise, Paupisi, Castelpoto and Torrecuso and the wholesale supply to the Municipalities of Tocco Caudio and Campoli Monte Taburno were acquired. The conferment added GESESA's share capital (2.68%) to the Consortium with changes to the shares held by the other partners: Crea Gestioni's share decreases from 59.52% to 57.93%.

The Company manages the Integrated Water Service of 20 Municipalities in the Province of Benevento with a population of approximately 125,000 inhabitants and 55,000 users. Sewerage and waste water treatment services are supplied to around 80% of the users.

Following the approval of Regional Law 15/2015 on the reorganisation of the Campania Integrated Water Service and the letters sent by the ATO1 Commissioner urging the aggregation of the two biggest operators in the territory, the Company sent its *due diligence* to Alto Calore Servizi, the current operator for the Province of Avellino and some Municipalities in the Province of Benevento.

Tuscany - Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 28 December 2001. In accordance with said agreement, the Operator took over the exclusive integrated water service of ATO 2, comprising all public water collection, abstraction and distribution services for civil use, sewerage systems and waste water treatment plants. The Area includes 55 municipalities. Acque pays a fee to all the municipalities for the concession, including accumulated liabilities incurred under previous concessions awarded.

With reference to the **extension of the concession to 2026**, the Tuscany Water Authority approved the Company's proposal on 13 February 2015 and Acque submitted a request for a *waiver* to the *Lenders* to obtain approval for the extension and make it fully effective. The *Lenders* requested the documentation, tariff model and the financial model be checked by three independent *advisors* (a lawyer, technician and *Model Auditor*) who were appointed for the task in June 2015. Following the long negotiations with the *Lenders* it was agreed that the *waiver* could be conditioned by three new obligations which are currently not provided for by contract concerning the provision for a debt *cash sweep*, a limit on the distribution of dividends from 3 - 5 million euros and an obligation to certify annual financial indexes. In January 2016 the *Model Auditor* sent a *Comfort Letter* with the final version of the financial model to meet *Lenders'* requirements. Negotiations are still underway.

On the question of **tariffs**, as described for the Management of Water Resources, for 2015 the Company has applied the tariff calculations approved by the AEEGSI in Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.208.

Furthermore, note that Tuscany Water Authority Resolution No. 16 of 11 May 2015 amended the Acque's tariff structure. The new tariffs, which came into effect on 1 July 2015, as well as encouraging a process of standardization at a regional level, should contribute to reaching the VRG recognised restriction on revenues (Integrated Water Service) limiting the amount of future adjustments. The most relevant changes concern the "domestic resident" and "production" categories. Another new element is the introduction of one single bracket for sewerage and waste water treatment replacing the previous variable tariffs.

The loan taken on in 2006 amounts to a total of 255 million euros with a drawdown of 218 million euros; last year a period of loan repayment started with six-monthly instalments increasing on the basis of the profile of the same loan. Total repayments in 2014 and 2015 amounted respectively to 2.1 million and 8.4 million euros.

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 ci-

vil use, sewerage systems and waste water treatment plants. 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 Fiorentine S.p.A. - completed its acquisition - of an interest in the company.

On the question of **tariffs**, for 2015 Publiacqua also applied the tariff calculations approved by the AEEGSI in Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.171.

Revenues for 2015 were calculated on the basis of approved tariff calculations, and amount to a total, including adjustments of so-called pass-through items of 213.7 million euros (Group share 85.5 million euros).

In terms of **funding sources**, on 30 April 2015 the Company took on a 50 million euros loan with the European Investment Bank (EIB) which matures at the end of 2020. 42.5 million euros in bilateral loans were paid off, while another two bilateral loans of 30 million euros each were extended to 30 June 2016.

We are currently selecting banks to cover Publiacqua's liquidity need until the end of the concession.

Finally, note that on 28 July 2015 the BoD passed a resolution to buy a 1% share in Aquaser's share capital.

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.

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

On the question of **tariffs**, as described for the Management of Water Resources, for 2015 the Company has applied the tariff calculations approved by the AEEGSI in Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.208.

Revenues in 2015 amounted to a total of 92.6 million euros, including adjustments of pass-through items (Group share 37.0 million euros).

Note that, with regard to the impact of Constitutional Court Sentence No. 335/2008, all rebates were paid to eligible users by 30 September 2015.

After further in-depth study and related requests from *Lenders* concerning the calibration of cash flows to favour the bankability of the Fiora project, the Tuscany Water Authority in Resolution No. 9 of 13 February 2015 restructured the Investment Plan with the same balances for the period 2015-2023.

The above facts, also in consideration of renewed general stability in regulatory terms and thanks to the timely collaboration of the Tuscany Water Authority, allowed the Company to successfully proceed with the structuring of the Medium/long-term loan, which was taken out on 30 June 2015.

After completion of the competitive procedure in fact,

the Company and the Banks providing the loans entered into the Loan Agreement taking on a loan of 143.0 million euros which will completely cover the Company's existing debt (consisting of current mortgage loans, Bridge loans and short-term borrowings with various banks) as well as funding part of the planned investments; final maturity is expected to be 31 December 2025. The loan is a variable rate loan with guarantee on the Company's current accounts and receivables and upon pledge of Ombrone's shares in Acquedotto del Fiora.

In order to protect the Company from excessive market volatility, in line with the *term sheet*, in consideration of the principles of economical convenience and financial risk, the Company contracted a *plain vanilla* type rate equal to 70% of the "Loan" with some Lenders until final maturity, through *Interest Rate Swap* operations to transform the current variable rate into a fixed rate.

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.

With Resolution 252/R/idr passed on 29 May 2014 the AEEGSI approved the tariff proposals for 2014 and 2015 with tariff multipliers respectively equal to 1.126 and 1.195.

In its report, the Area Authority specified that it opted for the non-application of financial amortization and, exercising its right, reset the FNI^{new} tariff component for 2014. An adjustment of 6.3 million euros was also approved for 2012, equal to a maximum of 2.1 million euros per year to be added to the 2014, 2015 and 2016 tariffs.

2015 revenues, including adjustments of pass-through items, amounted to a total 61.9 million euros (Group share 24.8 million euros) including the FoNI component equal to 0.4 million euros (Group share 0.16 million euros) used entirely to provide tariff subsidies to low income families.

On 20 April 2015 the General Meeting of Representatives approved 5.3 million euros in prior-year items for 2003 – 2011.

Finally, note that on 28 July 2015 the BoD passed a resolution to buy a 1% share in Aquaser's share capital.

NETWORKS OPERATING SEGMENT

Operating figures and financial results for the period

Operating figures	U.M.	2015	2014	Increase/ (Decrease)	% Increase/ Decrease
Electrical Energy distributed	GWh	10,557	10,294	263	2.6%
Energy produced by photovoltaic plants	GWh	0	15	(15)	(100.0%)
Energy Efficiency Bonds sold/cancelled	No.	222,556	92,698	129,858	140.1%
No. Customers	N/000	1,622	1,623	(1)	0.0%
Km of Network	Km	29,897	29,752	145	0.5%

Equity and financial results (millions euros)	31.12.15	31.12.14	2015-2014	% Increase/ Decrease
Revenue	535.7	551.4	(15.7)	(2.9%)
Costs	280.0	298.1	(18.1)	(6.1%)
Gross operating profit	255.7	253.3 (*)	2.4	0.9%
Operating profit/(loss)	165.3	158.4	6.9	4.4%
Average number of staff	1,304	1,377	(73)	(5.3%)
Capex	156.2	122.4	33.8	27.6%

(*) Net of 248.9 million euros PV gross operating profit

Balance sheet data (million euros)	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ Decrease
Net debt	581.7	623.1 (*)	(41.4)	(6.6%)

(*) Net of 595.6 million euros ARSE net debt

The Segment closes 2015 with an EBITDA of 255.7 million euros, an increase of 2.4 million euros compared to last year. Note that, following the demerger of ARSE, (valid for bookkeeping and tax purposes backdated to 1 January 2015), the Networks segment no longer consolidates the PV margins, which amounted to a EBITDA of 4.4 million euros in 2014. Net of this effect, EBITDA for the Segment amounts to 6.8 million euros of which 6.1 million euros can be attributed to the distribution of electricity and 0.7 million euros to public lighting.

The increase in the latter is mainly due to the combined effect of: **(i)** a decrease in electricity margins also as a consequence of less significant equalisation effects in 2015 than those recorded in 2014 (- 8.9 million euros); **(ii)** the recognition in 2014 of the energy efficiency bonds portfolio amounting to 5.0 million euros. In particular, this income

derives from the reversal of the provision allocated in 2013 to cover the purchase of bonds to meet 2013 obligations; **(iii)** operating efficiency.

In terms of staff, as at 31 December 2015 the average number of employees was 1,304, 73 less than last year, mainly attributable to ACEA Distribuzione as a consequence of the policy of incentives for redundancy and retirements put into practice by the Company and the effects of the Arse demerger.

Net debt stood at 581.7 million euros, a decrease of 13.9 million euros compared to 2014, no longer burdened by ARSE's net debt. 20.4 million euros of this reduction can be attributed to ACEA Distribuzione despite a 33.4 million euros increase in investments.

Operating review

ELECTRICITY DISTRIBUTION ENERGY REPORT

As shown in the following table, at 31 December 2015 ACEA Distribuzione injected 11,200.1 GWh into the network with a 2.25% increase compared to 2014.

GWh	2015	2014	% Increase/ (Decrease)
Source A.U.	2,839.4	2,852.1	(0.45%)
Imports	389.1	432.1	(9.94%)
Market subject to additional safeguards	3,228.5	3,284.1	(1.69%)
Free market	7,968.8	7,666.5	3.94%
Underlying distributors	2.8	2.9	(2.95%)
General total	11,200.1	10,953.6	2.25%

Transport service tariffs

2015 represents the fourth and last year of application of the new tariff structure defined by the AEEGSI for the 2012-2015 regulatory period.

The regulatory measures are divided into Three Consolidated Regulations, and for the distribution service the AEEGSI confirmed unbundling of the tariff applied to end users (the compulsory tariff) from the reference tariff to determine the permitted restriction on revenue for each company (the reference tariff).

The current regulatory period is based on the reference tariff of the distribution service for business, which replaces the previous mechanism for calculating permitted revenue, based on the national average tariff integrated with general equalisations on HV, HV/MV and LV distribution and specific corporate equalisation.

This tariff recognises the following for each company:

- net invested capital of the MV and LV sector reapplied to 2007 using a parameterised criterion and actual invested capital from 2008;
- actual net invested capital at 2013 for the HV sector and for HV-MV transformation.

The rate of return on net invested capital (*wacc*) equal to 6.4% for the distribution service on investments made up to 31 December 2011 and equal to 7.4% on investments made thereafter. The 1% increase is associated with the AEEGSI objective of offsetting the time lag between implementing the investment and tariff coverage of the cost (*regulatory lag*).

In terms of operating costs, the company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the AEEGSI on the basis of actual company costs, recorded in unbundled annual accounts and recognised in the specific corporate equalisation for 2010, and on the basis of scale variables referred to 2010.

These costs, when calculating the company-based tariff for 2015, according to the definitions of Resolution No. 607/2013, are supplemented by *flat rate* connection contributions applied throughout Italy, and will be considered as other grants and no longer deducted from operating costs.

Furthermore, the *flat rate* connection contributions of each company are deducted directly from the invested capital considering them as equal to MV/LV assets with an acknowledged regulatory useful life of 30 years.

The tariff is broken down by withdrawal points (except

for the public lighting-related tariff), unlike the previous cycle when the reference distribution tariff was broken down not only by withdrawal points, but also by consumption and capacity. This decision is justified by the need to stabilise distribution revenue through a variable less subject to fluctuations in energy demand.

AEEGSI Resolution No. 127/2015/R/eel of 26 March 2015, recalculated the tariff of reference for the 2012-2014 electricity distribution service and Resolution No. 146/2015/R/eel of 2 April 2015 published the tariff of reference for 2015. In Resolution No. 610/2014 of 11 December 2014 and Resolution No. 655/2014 of 23 December 2014, the AEEGSI updated the obligatory tariffs for electricity distribution and metering services and the economic conditions for supplying connection services for the year 2015, updating the transmission tariff in Resolution No. 653/2014 on 3 December 2014.

Updating of the distribution reference tariff for the years after the first year (2012) will be individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

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

Introduction of the company tariff simplifies the equalisation system as the tariff encompasses part of general and specific corporate equalisations.

In the fourth regulatory period, the AEEGSI confirms the mechanism - already introduced in the previous cycle - of a higher return on certain investment categories, expanding the cases concerned and, in addition to *smart grid* projects, envisages a higher return on renewal and upgrading of the MV networks in historical centres.

The tariff covering sales costs is based on standard national costs, differentiated according to provision of the sales service subject to additional safeguards in integrated format or as a separate distribution service. The coverage of investments made is indirectly guaranteed by a two-year time lag for investments made from 2012 onwards.

The transmission tariff applied is binomial (capacity and consumption) for HV customers, and likewise a binomial fee is applied to the transmission service to Terna (CTR). The general equalisation mechanisms for distribution costs and revenue for the fourth regulatory cycle are:

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

As is known, in the new Transport Code, the AEEGSI envisaged a mechanism for recognising in advance, every two months, the equalisation balances relating to the equalisation of revenue from distribution services and transmission costs. In a letter dated 10 March 2015 the Electricity Sector Equalisation Fund informed ACEA Distribuzione of the bi-monthly advance payments recognised for 2015 and the due dates for the related payment, while a letter dated 3 June 2015 informed the company of the supplements for the equalisation of distribution revenues for 2012-2013-2014 after a material error was found in the calculation procedure used to calculate the tariffs of reference. This also led to the adjustment of the 2-monthly advance payments for the equalisation of distribution revenues for 2015, as notified in a letter dated 10 March 2015.

On 30 April 2015, AEEGSI Resolution 202/2015/R/eel proposed the introduction of a new algorithm for calculating the above equalisation with a territorial difference only in terms of trade losses, it being understood that the AEEGSI wishes to start considering also new levels of MV technical losses.

Pending a new review of the method for covering costs related to in-house use of electrical energy, the regulation on the equalisation of electrical energy purchased to be used in-house for transmission and distribution purposes continues to apply. The regulation governing load profiling requires electricity for customers in the protected categories market to be quantified on a residual basis, and includes electricity consumed in-house for distribution and transmission purposes. The AEEGSI also confirmed, without changes, the calculation method for equalisation of the purchase cost of electrical energy for distribution companies absorbed in-house for transmission and distribution purposes in accordance with the Retail Service Code.

The Consolidated Metering Code (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, and confirming and recording readings. The Consolidated Code envisages transfer to Terna of the meter reading, confirmation and recording service for interconnection points between distribution company networks and the national grid. This change will become operative through later regulatory measures, and therefore at present the distribution company is still responsible for the entire metering service. The price structure remains unchanged from the previous cycle except for the introduction of a tariff compo-

nent to cover the residual non-depreciated value of the electromechanical meters replaced prior to the end of their useful lives with electronic meters, so-called MIS (RES), to be billed to LV end users.

Metering service tariffs are calculated on the basis of national (Italian) costs with the equalisation of the measurement to guarantee that returns on investments in electronic meters and meter reading systems are attributed to the distribution companies that have actually made such investments, in accordance with deadlines given for the replacement of meter stock.

With Resolution No. 610/2014, the portion of equalisation parameters for revenue from the metering service for 2015 was updated.

ACEA Distribuzione is still waiting for the amount of equalisation on metering revenues for 2011 to be recognised and for the figures of the subsequent years (2012, 2013, 2014) to be collected.

The tariffs covering the metering service are updated, as for the distribution service, by *price cap* mechanisms for the part covering operating costs (with a productivity recovery target of 7.1%) and by the deflator, change in invested capital and rate of change in volumes for the part covering invested capital and depreciation. The rate of return on metering capital is equivalent to that of the distribution service.

Energy efficiency objectives

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

Decision DMEG/EFR/13/2015 of 29 June 2015 defines the unit value of the tariff contribution for obligatory year 2014 (105.83 €/EEB) and the estimated tariff contribution for the obligatory year 2015 (108.13 €/EEB).

In May 2015, ACEA Distribuzione fulfilled its residual 2013 obligation (48,240 EEB) and those of 2014 (174,316 EEB) cancelling 222,556 bonds.

ACEA Distribuzione's objective for 2015 is 201,469 Energy Efficiency Bonds and the estimate for 2016, defined on the basis of a criterion of the 2-year average energy distributed in the two previous years, is equal to 244,502 Energy Efficiency Bonds.

AEEGSI Supervision

In consideration of the urgent measures set forth in Resolution No. 300/2013/R/eel, on 08 July 2013 the AEEGSI opened penalty proceedings against ACEA Distribuzione to verify metering aggregation violations essential for determining the physical and economic items of the dispatching service.

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

ACEA Distribuzione, in accordance with Resolution No. 243/2012/E/com, on 17 August 2013 presented commitments for the pursuit of the interests protected by the provisions which are assumed to have been violated.

In particular, these commitments on the one hand consist in reimbursing the financial costs identified by the system in favour of the above dispatching users with wi-

thdrawal points in the ACEA Distribuzione area, for which settlement of 2011 economic items was delayed, and on the other hand, in refunding dispatching users for each monthly time-band aggregate-based communication referring to 2011 which is incoherent with the relevant billed figures assessed for notification of the annual adjustment sent to Terna.

In Resolution No. 548/2015/S/eel, published on 30 November 2015, the AEEGSI declared the above proposed commitments to be admissible and the *market test* phase ended on 30 December.

We are therefore waiting for formal acceptance of the commitments by the AEEGSI.

Furthermore, on 20 February 2014, in **Resolution No. 62/2014/S/eel** the AEEGSI opened penalty proceedings against the Company for alleged LV electricity electronic meter commissioning violations: the violations derive from evidence that emerged from 2012 figures, with which the distributors inform the Authority of the state of progress for the meter installation and commissioning plan, with reference to the set threshold of 95%. On 30 June 2013 the Company declared the percentage of meters was equal to 89.9%.

On 6 May 2014 ACEA Distribuzione sent a written defence brief to the AEEGSI in accordance with article 14 of Resolution No. 243/2012/E/com - 'Regulation governing penalty proceedings and procedural methods for assessing commitments'.

In January 2016, in a declaration in lieu of affidavit signed by the Company's legal representative, the Authority was informed that the percentage of electronic meters put into service as at 31 December 2014, compared to the total number of LV Points Of Delivery with an available capacity of under 55 kW, was over 95%, in observance of the declarations in the above-mentioned brief.

At this time we are therefore waiting for the results of the inquiry.

AEEGSI **Resolution No. 512/2013/S/eel**, which refers to VIS 60/11, applies a penalty of 517,000 euros against the Company for violation in the recording of outages. The violation concerns the obligation, required by the TIQE, to keep a specific list of all calls received reporting faults, even if there is no outage (article 13, paragraph 2, letter c).

The Company appealed before the Administrative Court of Lombardy, which partially upheld the request for annulment of the measure, reducing the sanction against ACEA Distribuzione to 50,000 euros. In Resolution No. 14/2016/C/eel the Authority appealed to the Council of State.

PUBLIC LIGHTING

On 15 March 2011 ACEA and Roma Capitale agreed on an adjustment to the Public Lighting Service Contract.

The key points of the renegotiation are:

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

In 2015 Acea Illuminazione Pubblica installed a total of 2,324 lighting points for Roma Capitale and third party customers. These included those installed in the Tiburtina IP (Line 2) High Speed Tunnel, the B1 Jonio and C Lodi Underground Stations, the completion of works for the opening of the Prenestina Bis (447 light fittings) and lighting installed in the Fori Imperiali (530 lighting points) opened on 21 April for Rome's Birthday celebrations.

In 2015 Acea Illuminazione Pubblica awarded the contract for the supply and installation of light fittings for the transformation of functional plants to LED technology. Pending the signing of the general contract by Roma Capitale, a part of the General Plan was drawn up for Roma Capitale, concerning 4,434 lighting points in the Tor Bella Monaca municipal area. This installation validated estimated energy saving figures equal to around 55%, in line with what had been agreed on with Roma Capitale.

Note that, after numerous cables were stolen, over 71 km of new copper-clad aluminium cables were laid. This new technology which uses less copper with the aluminium means the two metals can only be separated in an industrial process.

Activities continued in the reclamation of plants with inspections, extraordinary repairs and if necessary the class II refurbishing of the lighting points managed by Roma Capitale. Scheduled maintenance also continued on plants and artistic maintenance work was also done involving the modernisation of various plants lighting and archaeological sites.

CORPORATE

Equity and financial results for the period

Financial results (millions of euros)	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue	113.3	122.8	(9.5)	(7.7%)
Costs	113.2	116.7	(3.5)	(3.0%)
Gross Operating Profit	0.2	6.1	(5.9)	(97.3%)
Operating profit/(loss)	(19.6)	(21.5)	38.0	(176.8%)
Average number of staff	634	670	(36)	(5.4%)
Capex	11.8	14.2	(2.4)	(16.9%)
Net debt	(416.3)	(442.1)	25.8	(5.8%)

ACEA closed the 2015 financial year with an EBITDA that decreased by 0.2 million euros compared to 31 December 2014, equal to 5.9 million euros essentially due to the combined effect **(i)** of the reduction in revenues from service contracts partially offset by an increase in revenue from intragroup services and an increase in compensation for seconded staff, **(ii)** an increase in the cost of materials and overheads mainly for technical, IT and administrative consulting and the cost of seconded staff, mitigated to a significant extent by the continuing cost reduction policy **(iii)** a reduction in the recognition of extraordinary items.

The average number of staff at 31 December 2015 was 634, less than last year (was 670).

Investments amounted to 11.8 million euros and compared to 31 December 2014 there was a decrease of 2.4 million euros that can be attributed to the combined effect of an increase in investments in property, plant and equipment and a reduction in investments in intangible assets.

Net debt at 31 December 2015 increased by 25.8 million euros to 416.3 million euros, compared to the end of 2014. This increase can be broken down as follows: **(i)** dividends approved by subsidiaries net of dividends paid to Shareholders (+ 7.3 million euros), **(ii)** an improvement in foreign currency valuations and the *fair value* of financial instruments (+ 9.1 million euros) and **(iii)** a reduction in liquidity needs generated by changes in working capital, including the payment of trade payables and tax liabilities.

ACEA S.p.A. business activities

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

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

Inter-company transactions, the existing treasury agreement of which was reviewed from 1 July 2015, consist of:

- a *revolving* type credit line (Inter-company Credit

Line), to cover working capital and investment liquidity needs. This credit line **(i)** came into effect from 1 July 2015 and is valid until 31 December 2017 and **(ii)** generates fixed rate interest calculated on the basis of rates applied to the capital market for so-called hybrid bonds in the *utilities* sector, which can be updated annually. A possible supplementary margin linked to ACEA's level of exposure and rating costs is provided for. For specific projects and plans ACEA can grant a dedicated credit line;

- make its own credit lines available for bank guarantees or by directly issuing corporate guarantees (Guarantee Line). This line **(i)** comes into effect from 1 July 2015 and is valid until 31 December 2017, **(ii)** sets a *credit limit* for the type of guarantee and **(iii)** generates a different fee for bank guarantees and corporate guarantees.

ACEA 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*).

Furthermore, as part of the Acea 2.0 project, specific *addendums* were drawn up for the service agreements regulating services provided by ACEA to its main Subsidiaries.

The fee is equal to the cost borne.

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 operation. The above contract contains economic – financial rules and regulations on participation.

SIGNIFICANT EVENTS DURING THE PERIOD

Acea 2.0: 500 million euros investment in the digital management of infrastructures and networks

The first two lots of new tenders that ACEA called to digitalize methods of intervention and the management of its water and electricity distribution networks were published in the Official Journal of the European Union in February. In this way the ACEA Group initiated a process which, by 2016, will let the company manage all its work processes using innovative *mobile* technologies in a perfectly integrated way: from the construction of infrastructures to maintenance services, from network management to *customer care*, etc. This revolution was made possible by the *Work Force Management* (WFM) system, a digital IT platform created by the multinational SAP, so ACEA can coordinate and monitor all its activities and suppliers in real time.

The operations of the water networks in Rome and Frosinone and the distribution of electricity in Rome will be the first two operating segments to be digitalized, starting with the selection of suppliers, who must obligatorily adopt this new digital work method.

ACEA has in fact prepared a new method for calling tenders to invest approximately 500 million euros, implementing a significant number of lots: 100 annual contracts will be replaced by 5 macro-contracts, awarding strategic long-term contracts (from 3 to 5 years).

Once the new contracts are operational, every phase of the work in the 43,000 interventions that ACEA performs every year in Rome and Lazio can be managed digitally, reducing the time required for the work and services provided by approximately one third. Technicians and workers equipped with *tablets* and *palmtops* can document the results by sending geo-referenced photographs after having completed each phase of their job. This will let the company control the progress of work and maintenance interventions in real time, automatically applying penalties in the case of delays or bonuses (up to 10% of the value of the contract) for optimal results. The system can also be used to monitor work performance in real time, so the work can be assessed every four months on the basis of service quality parameters created and certified after an ad hoc study.

Acea S.p.A.: The Shareholders' Meeting approves the 2014 financial statements, approves the distribution of a dividend equal to 0.45 euro per share, approves the enlargement of the Board of Directors from 7 to 9 members and appoints 2 members of the board

On 23 April 2015 the ACEA Shareholders' Meeting approved the Financial statements and presented the Consolidated financial statements as at 31 December 2014. The Shareholders' Meeting also passed a resolution on the use of ACEA S.p.A.'s statutory profit from 2014 with the distribution of a total dividend of 95,834,205.00 euros, equal to 0.4500 euros per share, to be paid from 24 June 2015 with a detachment date of 22 June and a record date of 23 June.

The same Shareholders' Meeting approved the enlargement of the Board of Directors from 7 to 9 members and appointed 2 members of the board, Roberta Neri and Massimiliano Capece Minutolo del Sasso, who shall remain in office until the end of the Board of Directors' term in office, in other words until approval of the 2016 financial statements.

The board members Roberta Neri and Massimiliano Capece Minutolo del Sasso declared they meet the independence requirements pursuant to the law, the Articles of Association and the Corporate Governance Code of listed companies.

Acea S.p.A.: Approval of the 2015 - 2019 Business Plan

On 9 June 2015 the ACEA Board of Directors approved the Group Business Plan for the period 2015-2019. This plan confirms the current development strategies, with significant focus on increasing the number of staff, especially those concerned with regulatory business which continues to generate around 75% of the consolidated EBITDA. ACEA believes a strong *commitment* to operating and organisational efficiency, innovations and improved service quality to be all important.

Acea S.p.A.: Moody's confirms the "Baa2" rating and a "Stabile" outlook

On 24 June 2015, *Moody's* reported that it had confirmed ACEA's "Baa2" rating and the "Stabile" outlook.

Moody's decision came just a few days after ACEA's approval of the 2015-2019 Business Plan, which confirms the Company's strategy focused on regulated business, maintaining the Company's financial flexibility.

Acea S.p.A.: Fitch Ratings confirms the "BBB+" rating and a "Stabile" outlook

On 26 June 2015, *Fitch Ratings* reported that it had confirmed ACEA's "BBB+" rating and the "Stabile" outlook.

The Agency confirmed the rating and outlook after the Company's recent approval of the 2015-2019 Business Plan, which confirms the Company's strategy focused on regulated business, and its commitment to maintaining a solid financial structure.

Acea S.p.A.: Resignation of Franco Balsamo, ACEA S.p.A. Chief Financial Officer and Executive responsible for financial reporting

On 17 September 2015, Franco Balsamo, Chief Financial Officer and Executive responsible for financial reporting, resigned from ACEA S.p.A. with the resignation coming into effect from 1 October 2015.

Acea 2.0: Go Live ACEA Ato2

In full observance of the project *roadmap*, on 26 September the ACEA Ato2 Operations Room planned its first work order with SAP and on 28 September customers were welcomed at the offices and provided services using the new systems.

Acea S.p.A.: new ACEA S.p.A. Chief Financial Officer

Demetrio Mauro is ACEA S.p.A.'s new *Chief Financial Officer* (CFO) and Executive responsible for financial reporting from 1 January 2016.

Acea S.p.A.: Standard & Poor's confirms the "BBB-/A-3" rating and "Stabile" outlook, with an improvement in liquidity from "adequate" to "strong"

On 4 December, Standard & Poor's reported that it had confirmed ACEA S.p.A.'s "BBB-" rating for long-term debt and an "A-3" rating for short-term debt, with a "Stabile" outlook.

The Agency reported an improvement in liquidity from "adequate" to "strong", as it believes ACEA will hold satisfactory liquidity reserves over the next 24 months.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Acea S.p.A.: Approval of the 2016 - 2020 Business Plan

On 14 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.

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.

As mentioned above, Integrated Water Service territorial and *governance* regulations were affected by specific amendments both in 2014 (Unlock Italy Decree and Stability Law) and 2015 mainly with reference to the reorganisation of local public service regulations of economic relevance (Madia Reform) and the environment with the so-called Green Economy Annex.

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 Operating Agreements signed officially ratified the obligation to transfer the integrated water services of Municipalities to ATO2 (except for protected services) in accordance with the law. In reality the times and procedures for the implementation of said transfer were not ob-

served 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 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, 159 discharges have been collected for water treatment. There are still 88 active discharges of which 56 included in the ACEA Ato2 action plan and 32 that the Municipal or Regional Authorities should eliminate using public funds.

Recently, also in consideration of new Integrated Water Service regulations, a Plan of Action for the period 2014-2017 was proposed with further guidelines up to the end of the concession (2032). This Plan, as well as the interventions required to eliminate the above-mentioned 56 discharges that are still active, also includes interventions for the complete hygienic-sanitary reclamation of the ATO2 territory such as the upgrading or development of obsolete water treatment plants, discharging onto "soil" or into "non-perennial" tanks, according to the interpretation of the authority responsible for granting authorization or changing the hydraulic regime.

The above Plan of Action, which is being revised in relation to requirements of AEEGSI Resolution No. 664/2015, still has some significant critical elements in terms of long times that can be expected for the work to be done, incompatible the obligation of immediate observance of the laws in force. These times are due both to the time required to obtain authorisation and actual construction times.

Sector investments are also characterised by significant inertia in consideration of the long implementation procedure of the Galli Law with the consequent need to bridge considerable infrastructural gaps in too little time when compared to the time required to go through the various phases to obtain the authorisation required by the laws in force. This leads to delays in the implementa-

tion of interventions in relation to the observance of the EEC Directive limitations on the environment and drinking water, with the consequent application of procedures for violations by the European community.

The Company has reported this critical situation to the competent authorities (Lazio Regional Authority, Rome Provincial Authority, ATO2 Area Authority, Prefecture, Municipal Authorities) so all competent subjects fully comprehend the need to accelerate the administrative processes required to do the necessary work.

ACEA Ato2 – critical elements of the sewerage and waste water treatment system

In terms of authorisation, there are still critical elements related to the classification of the hydraulic regime of watercourses and receiver bodies of water in general on the basis of which, above all when renewing authorisation, more restrictive or in any case different limits are substantially applied than those for which the plant engineering was designed, built and managed.

On this theme in some cases the Company has considered having recourse to the administrative courts to request authorisation requirements be annulled as they are not believed to be in line with the provisions of the law. In terms of sanctions, during 2015 fewer administrative sanctions were applied for violations of provisions concerning discharges, and to a significant extent this reflects the uncertainty in the regulatory framework concerning the classification of the above receiver water bodies.

With reference to the situation concerning seizures, the competent Judicial Authorities, on the specific request of the Company, in March 2015, ordered the release from seizure and restitution of the "Roma Est" waste treatment plant for which, on 5 February 2014, the District Court of Rome issued a precautionary seizure order for alleged violation of articles 81 paragraph 110 of the Italian Penal Code, art. 256 paragraphs 1 and 2 of Legislative Decree 152/2006. ACEA Ato2, in consultation with the court-appointed superintendents appointed by the same decree, continued to develop its own plant maintenance project in an efficient and continuative manner; the monitoring performed by the professionals nominated by the court-appointed superintendents confirmed the standards of the laws in force are observed, both with reference to discharges and the sludge produced.

This matter is still being implemented, also as a result of the authorization for atmospheric emissions being issued and discharge authorisation renewed, with an action plan intended to put the plant back into its ordinary operating conditions.

The Roma Nord waste treatment plant is still under seizure.

In the first half of 2015, a preliminary hearing was held to hear the above case concerning the Roma Nord plant in which also the Company was indicted, in accordance with Legislative Decree No. 231/2001.

Notwithstanding, ACEA Ato2, adhering to the requests made at the time by the Public Prosecutor's Court-Appointed Superintendent and Technical Expert, planned and initiated a series of works, progress of which is currently at an advanced stage, to complete the extraordinary repairs and return the sludge line of the above-mentioned plant to its original operating conditions. Authorization for atmospheric emissions was also issued for this plant.

The activities required to complete the interventions are therefore underway.

With reference to the two Roma Nord and Est treatment

plants, the charges brought by the Judicial Authorities can, at present, be classified on the basis of two different profiles concerning:

- the methods used to manage and recycle the sludge;
- the malfunction of some parts of the plant and the related alleged violation of authorisation requirements.

With reference to the first profile, the operating standards were submitted to the competent Judicial Authorities, and these standards comply with the best practices adopted in the sector, along with the technical and juridical evaluations on which said standards are based, also submitting technical-juridical opinions drawn up by international specialists in the sector and Technical Structures acknowledged at an institutional level.

With reference to the second profile, the same Judicial Authority noted that ACEA Ato2 operated on the basis of objective plant conditions and concrete service requirements, adapting its actions to the criteria of operational optimization and the minimization of impact, as well as the observance of regulations in force at various levels.

Waste treatment was investigated by the Judicial Authority, and as part of the investigation in August 2015 a restraint order was issued for a discharge of the "Colubro" waste treatment plant. In August 2015, ACEA Ato2 sent a request to determine the requirements for reactivation of the discharge, and another specific request was sent in October 2015 with detailed technical documentation and designs.

The company is currently transporting the waste to another location in tankers.

Furthermore, in July 2015, the District Court of Rome issued a seizure order for «the water sump and the chamber below in Via della Acacie/Via della Saggina». The seizure, for evidentiary purposes, was issued as part of the investigation still underway into the death of an ACEA Ato2 employee, who died in the above-mentioned chamber on 28 July 2015.

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 quali-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 filtration technology.

The above activities were concluded in 2014 with the "Le

Corti" water purifier going into service in the Municipality of Velletri.

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 (drought, systems out of service) and increase the reliability of drinking water plants. 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'Oreste, 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

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

- risks relating to the effectiveness of the investments for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to 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 AEEG-SI service continuity regulations. To deal with this risk,

ACEA Distribuzione S.p.A. has strengthened the tools for analysing network performance in order to make increasingly better use of capital expenditure (e.g. ORBT project) and applied new technologies (automation of the medium voltage network, smart grids, etc.).

As far as the risk linked to work quality is concerned, ACEA Distribuzione implemented operational, technical and quality control systems, including the creation of the Works Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are processed electronically, give rise to rankings (reputational indicators), that will be used to award contracts under a "vendor rating" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for contract work.

The system can also be used to identify and apply penalties. In cases of serious default, the principal may also suspend the contractor's activities. In 2014, 43 work sites were suspended due to safety non-compliance out of a total 1,240 inspections conducted. In 2015, 77 work sites were suspended, out of a total 1,369 inspections conducted.

During the year, the good level in the reputation indicator was confirmed for companies that worked for ACEA Distribuzione.

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*. The need to maintain the plants' technical performance levels and prevent personnel with specific expertise (who are difficult to recruit) from leaving the companies, represent tangible risks.

These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.

Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to 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.

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.

Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes the structure of *assets* and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging *funding costs* and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

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

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure in the medium/long term. ACEA has, up to now, opted to minimise interest rate risk by choosing a mix *range* of fixed and floating rate funding instruments.

As previously noted, fixed rate funding protects a borrower from *cash flow* risk in that it stabilises financial outflows, whilst heightening exposure to *fair value risk* in terms of changes in the market value of the debt.

LIQUIDITY RISK

The Group *policy* for managing liquidity risk, for both ACEA and its subsidiaries, involves the adoption of a financial structure which, coherent with *business* objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level that can meet

financial requirements, while maintaining an appropriate balance between maturity and composition of debt. The liquidity risk management process, using financial instruments for planning suitable expenditure and income for optimal treasury management and to monitor the group debt trend, adopts a centralised treasury management system, which provides financial assistance to the subsidiaries and associates not covered by a centralised finance contract.

CREDIT RISK

ACEA drew up the guidelines of the *credit policy* which established different credit management strategies. 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*). Debt collection strategies are managed dynamically through a credit management system, implemented in recent years for the main companies in the Group. The Acea2.0 project includes also the full review of the credit management process both in terms of the application map and

the standardisation of activities for all Group companies. From an organisation point of view, centralised management was further consolidated by setting up *ad hoc* Parent Company organizational units. The structures of each single company responsible for managing credit refer to ACEA's CFO in an *end to end* process.

In 2015 the Group assigned revolving and spot credit without recourse, to private customers and Public Administrations. These operations led to the elimination from the financial statements of all the corresponding activities subject to disposal as all the deriving risks and benefits had been transferred.

RISKS RELATING TO RATING

Access to the capital market and other forms of funding and the related costs, depends amongst other things 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
Moody's	Baa2	Na	Stable	24/06/2015
Standard & Poor's	"BBB-";	A-3	Stable	09/12/2015
Fitch	BBB+	Na	Stable	24/06/2015

OPERATING (AND FINANCIAL) OUTLOOK

The ACEA Group's results at 31 December 2015 are in line with forecasts.

In the following months the ACEA Group will continue the efforts, which started in 2014, to rationalise and increase the efficiency of both corporate processes and operational processes in all business segments. These goals will be pursued also through the extensive development of IT systems so that by 2016 the Company can manage networks and provide services in a truly 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 from 28 September 2015 as part of the ACEA Ato2 project, 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.

Acea 2.0 represents a revolution in the way we work, turning the Company into a *mobile office* with *customer-oriented* processes.

The introduction of *Workforce Management* will increase productivity, reduce losses, with even more attention paid to environmental sustainability and safety at work, as well as improving the quality of *operations* and the service we offer our customers, thanks to more streamlined, faster processes, cross-referenced between the various structures involved.

To meet the challenges of the modern world we will be making major investments in digital technologies to re-

design our approach to customer relations, with the ultimate goal of providing services of a high added value through channels where interaction and self service is simpler.

This project is proof of the Company's will to make major investments which, without affecting the solidity of the Group's financial structure, have an immediate positive impact on performance, on EBITDA and on both billing and collecting.

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 30 December 2015, the entire debt is characterised by long-term maturities with an average lifespan of about 6.9 years. 71.6% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility.

For 2016, Acea expects the following like-for-like performance:

- an increase in EBITDA within the range of 2% to 4%. This guidance will be updated in June, given that the new tariff components relating to "quality" in the water sector will be effectively applied between March and April,
- capital expenditure of approximately € 500m,
- net debt at year end of between € 2.1bn and 2.2bn.

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 145,605,512 euros for the year ended 31 December 2015 be allocated as follows:

- 7,280,276 euros to the legal reserve, equal to 5%,
- 106,482,450 euros to Shareholders, corresponding to a unit dividend of 0.50 euros,
- 31,842,786 euros in retained earnings.

The dividend, coupon No. 17, will be paid from 22 June 2016 with a detachment date of 20 June and a *record date* of 21 June.

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

ACEA S.p.A.
The Board of Directors



PalaTiziano Sports' Hall in Rome



**FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2015**

FORM AND STRUCTURE

GENERAL INFORMATION

The ACEA S.p.A. financial statements for the financial year as at 31 December 2015 were approved by Board of Directors' resolution on 11 March 2016. 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 2015 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.

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 2015 have been prepared in euros and all amounts have been rounded off to the nearest thousand euros, unless otherwise indicated.

ALTERNATIVE PERFORMANCE INDICATORS

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

1. for ACEA, *gross operating profit* is an operating performance indicator, the sum of Operating profit and "Amortisation, depreciation, provisions and impairment charges";
2. the *net financial position* is an indicator of ACEA'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*.

USE OF ESTIMATES

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. 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, employee benefits, *fair value* of derivatives, taxes and other provisions. The original estimates and assumptions are periodically reviewed and the impact of any change is recognised in the income statement.

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 rules for estimating the values 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 the official national currency. At the balance sheet date, the assets and liabilities of these companies are translated into ACEA S.p.A.'s presentation currency at closing rates, whilst income and expenses are translated at average rates for the period or at the rates valid at the date of the related transactions. Exchange differences, resulting from the use of different rates to translate income and expenses as opposed to assets and liabilities, are taken directly to shareholders' equity and recognised as a separate component of equity. 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 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

Construction contracts 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 in assets or liabilities.

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 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 borrowing costs are recognised as an expense in the period 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 ar-

rangement) 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 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, including any directly attributable costs of making the asset ready for its intended use, 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 depreciated separately.

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

Depreciation 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 tested for impairment annually: the tests are conducted in respect of each tangible asset or, if necessary, in respect of each cash-generating unit.

An asset held under a financial lease is depreciated over its expected useful life, in line with assets that are owned, or, if lower, over the lease term.

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 cost, including any negotiating costs less accumulated depreciation and any impairment charges.

Depreciation 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 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 substance of the transaction. 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 tested for impairment annually: the tests are conducted in respect of each intangible asset or, if necessary, in respect of each cash-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 rates of depreciation, 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 is amortised over an estimated useful life of three years.

IMPAIRMENT OF ASSETS

At each balance sheet date, 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-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-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. 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 arrangements

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 for the impairment of receivables.

The estimate of uncollectible amounts is made when collection of the full amount is no longer probable.

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 amortised cost using the effective interest 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 at bank and in hand, demand deposits and highly liquid short-term investments, which are readily convertible into cash and are subject to an insignificant risk of change in value.

Financial liabilities

They are stated at amortised cost. Borrowing costs (transaction costs) and any issue premiums or discounts are recognised as direct adjustments to the nominal value of the borrowing. Net financial costs are consequently re-determined using the effective 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.

DERECOGNITION OF FINANCIAL INSTRUMENTS

Financial assets are derecognised 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 derecognised 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 2015

The following documents have already been issued by the IASB and endorsed by the European Union as amendments to international accounting standards in force from 1 January 2015:

IFRIC 21 - Taxation

Regulation (EU) No. 634/2014 of the Commission of 13 June 2014 was published in the Official Journal L 175 on 14 June 2014, and adopts the IFRS 21 Interpretation - Taxation. It deals with the recognition of a liability relating to the payment of a levy in the event that such liability does not fall within the scope of other standards and is not a fine or penalty due as a result of law infringement, imposed by the Government, or, in general, by local, national or international government agencies. The aforementioned liabilities must be recognized in the financial statements upon occurrence of the obligating event that triggers the payment of the levy, the timing and amount of which are uncertain.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2011-2013 CYCLE)

The document "Improvements to International Financial Reporting Standards (2011-2013 cycle) has introduced changes to the following accounting standards with respect to some aspects that were not clear:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** with the amendment to IFRS 1, the IASB clarified that a "first-time adopter" may, but is not obliged to, use the documents issued by the IASB but not yet in force, in the first financial statements prepared in accordance with IFRS, if their early application is permitted. The amendments to IFRS 13, as they only relate to the *Basis for Conclusions*, were not subject to endorsement by the European Union;
- **IFRS 3 Business Combinations:** with the amendment to IFRS 3, the IASB clarified that the provisions of this standard do not apply to the formation of all joint control arrangements, thus also to joint operations. This exclusion refers to the financial statements prepared by the joint arrangement;
- **IFRS 8 Operating segments:** with the amendment to IFRS 8, the IASB amended the disclosure requirements in the event that different operating segments, with common economic characteristics, are aggregated;
- **IFRS 13 Fair value measurement:** with the amendment to IFRS 13, the IASB clarified that the exception to fair value measurement on a net basis of a portfolio of assets and liabilities is also applicable to contracts that fall within the scope of IAS 39 or IFRS 9, although these contracts do not meet the definition of financial asset or liability under IAS 32 (e.g. contracts for the purchase or sale of non-financial assets providing for net cash settlement);
- **IAS 40 Investment Property:** with the amendment to IAS 40, the IASB clarified the interrelationship between this standard and the provisions of IFRS 3. Specifically, it was clarified that:
 - a) the entity has to assess whether it has bought an investment property in accordance with IAS 40; and
 - b) has to make a separate assessment on the basis of IFRS 3 in order to check whether the investment property purchased meets the definition of "business combination."

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 amortized 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 "*amortized 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 is noted that interest income, *expected credit losses* and foreign exchange differences will have to be recognized in profit/(loss) for the year. Conversely, the other effects arising from measurement at *fair value*, will be recognized in OCI and will be reclassified in 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 ex-

periences 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 OCI.

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 that an event of default 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 an event of default 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 cost of the hedge; accordingly, all *mark to market* fluctuations can then be temporarily recognized in 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.

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.

The IFRS 11 amendment must be applied prospectively in the financial statements for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that the IASB document has already been endorsed by the European Union.

IFRS 14 REGULATORY DEFERRAL ACCOUNTS

On 30 January 2014 the IASB published *IFRS 14 Regulatory Deferral Accounts*, the *interim standard* for the *Rate-regulated activities* project.

IFRS 14 lets those who adopt the IFRS for the first time to continue recognise *rate regulation* amounts using the accounting principles adopted previously. To improve the comparison with the entities already applying IFRS that do not recognise said amounts, the standard requires that the effect of the *rate regulation* must be presented separately from other items.

The standard applies from 1 January 2016, though earlier application is permitted.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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. The amendment is effective for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that the IASB document has already been endorsed by the European Union.

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. The entry into force of this amendment is scheduled for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that this document has already been endorsed by the European Union.

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. These amendments will become effective on 1 January 2016, though earlier application is permitted.

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*”. These amendments are effective for annual periods beginning on or after 1 January 2016.

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 cashflows. The proposed amendments, which will be applicable prospectively, should therefore add guidance on this aspect.

Applicability of the amendments to IFRS 7 on offset-

ting 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 statement*.

IFRS 16 Leases

On 13 January 2016, the IASB issued the new accounting standard on leases that replaces accounting requirements introduced over 30 years ago, which are no longer considered fit for purpose; the new standard is a major change in the way companies account for leases in their financial statements. The new IFRS 16 is effective from 1 January 2019, but earlier application is permitted for companies that also apply IFRS 15 - Revenue from Contracts with Customers.

In summary, the standard provides a single accounting model for both finance and operating leases, requiring that an asset be recognized for an amount equal to the lease payments payable over the lease term.

INCOME STATEMENT

Notes Ref.	INCOME STATEMENT	31.12.15	Related Parties	31.12.14	Related Parties	Increase/ (Decrease)
1	Revenue from sales and services	168,975,160	163,114,164	173,734,001	166,103,113	(4,758,841)
2	Other revenue and proceeds	11,115,888	9,415,026	12,650,287	6,112,526	(1,534,399)
	Net revenue	180,091,048	172,529,190	186,384,288	172,215,638	(6,293,240)
3	Staff costs	50,282,857		54,895,464		(4,612,607)
4	Costs of materials and overheads	133,267,564	47,066,292	131,328,863	74,382,078	1,938,701
	Operating costs	183,550,421	47,066,292	186,224,327	74,382,078	(2,673,906)
	Gross Operating Profit	(3,459,373)	125,462,897	159,962	97,833,560	(3,619,334)
5	Amortisation, depreciation, provisions and impairment charges	9,810,941	0	30,916,616	0	(21,105,675)
	Operating profit/(loss)	(13,270,314)	125,462,897	(30,756,655)	97,833,560	17,486,341
6	Financial income	95,091,728	93,081,393	101,287,268	97,736,815	(6,195,540)
7	Financial costs	79,198,262	273,908	87,799,179	687,204	(8,600,917)
8	Profits on Equity Investments	146,438,113	146,438,113	107,916,522	107,916,522	38,521,591
9	Losses on Equity Investments	171,669	171,669	954,146	954,146	(782,477)
	Profit/(loss) before tax	148,889,597	364,536,827	89,693,811	301,845,548	59,195,786
10	Taxation	3,284,085	(84,183,880)	92,377	(64,975,248)	3,191,708
	Net profit/(loss) from continuing operations	145,605,512	448,720,707	89,601,433	366,820,796	56,004,078
	Net profit/(loss)	145,605,512	448,720,707	89,601,433	366,820,796	56,004,078

Amounts in euros

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	31.12.15	31.12.14	Increase/ (Decrease)
Net profit/(loss)	145,606	89,601	56,004
Gains/losses from exchange rate difference	(14,878)	485	(15,363)
Profit/(Loss) From the Effective Portion on Hedging Instruments	23,979	(19,064)	43,044
Actuarial Profit/(Loss) on defined benefit pension plans	(1,613)	(2,862)	1,249
<i>Total other comprehensive income</i>	<i>7,489</i>	<i>(21,441)</i>	<i>28,930</i>
Taxation	(4,204)	5,896	(10,100)
Total Other Comprehensive Income Net of Tax	3,285	(15,545)	18,829
Total Comprehensive Income	148,890	74,056	74,834

Amounts in €/thousand

STATEMENT OF FINANCIAL POSITION

Notes Ref.	ASSETS	31.12.15	Related Parties	31.12.14	Related Parties	Increase/ (Decrease)
11	Property, plant and equipment	151,398,072	0	154,933,079	0	(3,535,007)
12	Investment property	2,697,177	0	2,818,984	0	(121,807)
13	Other intangible fixed assets	13,411,383	0	14,246,458	0	(835,075)
14	Equity investments in subsidiaries and associates	1,768,902,192	0	1,730,150,528	0	38,751,663
15	Other equity investments	2,350,061	0	2,394,811	0	(44,750)
16	Deferred tax assets	32,608,803	0	43,495,908	0	(10,887,105)
17	Financial assets	121,912,954	121,688,248	1,970,999,608	1,931,615,090	(1,849,086,653)
18	Other non-current assets	505,913	0	507,094	0	(1,181)
	NON-CURRENT ASSETS	2,093,786,555	121,688,248	3,919,546,470	1,931,615,090	(1,825,759,915)
19.a	Contract work in progress	270,461	0	270,461	0	0
19.b	Trade receivables	28,345,416	3,861,484	38,419,888	4,543,062	(10,074,473)
19.c	Intragroup trade receivables	95,984,081	95,984,081	42,161,380	42,161,380	53,822,701
19.d	Other current assets	24,070,128	2,342,631	17,072,802	0	6,997,326
19.e	Current financial assets	5,633,545	0	11,644,038	0	(6,010,493)
19.f	Intragroup current financial assets	1,195,870,014	1,195,870,014	298,772,818	298,772,818	897,097,196
19.g	Current tax assets	47,484,321	24,608,700	100,284,255	36,988,383	(52,799,934)
19.h	Cash and cash equivalents	773,511,579	0	978,440,276	0	(204,928,696)
19	CURRENT ASSETS	2,171,169,545	1,322,666,910	1,487,065,917	382,465,643	684,103,628
	TOTAL ASSETS	4,264,956,100	1,444,355,159	5,406,612,386	2,314,080,733	(1,141,656,287)

Amounts in euros

Notes Ref.	LIABILITIES	31.12.15	Related Parties	31.12.14	Related Parties	Increase/ (Decrease)
	Shareholders' equity					
20.a	share capital	1,098,898,884	0	1,098,898,884	0	0
20.b	statutory reserve	87,907,874	0	83,427,802	0	4,480,072
20.c	reserve for treasury shares	0	0	0	0	0
20.d	other reserves	72,222,702	0	62,368,706	0	9,853,996
	retained earnings/ (losses)	52,656,010	0	63,181,206	0	(10,525,196)
	profit (loss) for the year	145,605,512	0	89,601,433	0	56,004,078
20	SHAREHOLDERS' EQUITY	1,457,290,981	0	1,397,478,032	0	59,812,950
21	Staff termination benefits and other defined benefit plans	29,846,837	0	30,684,507	0	(837,670)
22	Provision for liabilities and charges	42,786,400	0	56,567,224	0	(13,780,824)
23	Borrowings and financial liabilities	2,400,100,260	0	2,730,840,300	0	(330,740,039)
24	Other liabilities	0	0	268,700	0	(268,700)
25	Provision for deferred taxes	6,655,307	0	9,817,940	0	(3,162,633)
	NON-CURRENT LIABILITIES	2,479,388,804	0	2,828,178,670	0	(348,789,866)
26.a	Borrowings	77,569,663	53,814,418	929,848,821	905,635,027	(852,279,158)
26.b	Trade payables	176,202,880	71,234,230	143,119,867	91,094,668	33,083,014
26.c	Tax Payables	55,847,952	26,656,133	88,090,648	25,415,223	(32,242,696)
26.d	Other current liabilities	18,655,820	0	19,896,349	0	(1,240,530)
26	CURRENT LIABILITIES	328,276,314	151,704,782	1,180,955,685	1,022,144,919	(852,679,370)
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,264,956,100	151,704,782	5,406,612,386	1,022,144,919	(1,141,656,287)

Amounts in euros

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2014

	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 2014	1,098,899	78,704	102,567	19,542	(34,951)	(5,467)	(2,993)	62,697	41,342	1,360,340
Appropriation of result for 2013:										
Final distribution of dividends									(36,133)	(36,133)
Statutory reserve		4,724							(4,724)	0
Retaining earnings/Loss coverage								485	(485)	0
Other changes							(785)			(785)
Comprehensive income (loss) recorded in the period:										
Profit and losses booked directly to Shareholders' equity				352	(13,822)	(2,075)				(15,545)
Distribution of advance on dividends										0
Profit for the period									89,601	89,601
Total as at 31 December 2014	1,098,899	83,428	102,567	19,894	(48,773)	(7,542)	(3,778)	63,181	89,601	1,397,478

Amounts in €/thousand

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				(10,347)	15,870	(2,238)				3,285
Distribution of advance on dividends										0
Profit for the period									145,606	145,606
Total 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

STATEMENT OF CASH FLOWS

	31.12.15	Related Parties	31.12.14	Related parties	Increase/(Decrease)
Cash flow from operating activities					
Profit before taxes	148,890		89,694		59,196
Depreciation/amortisation	16,195		15,236		959
Revaluations/impairment charges	(144,894)		(101,256)		(43,638)
Increase/(decrease) in provisions for liabilities	(13,781)		1,309		(15,090)
Net increase/(decrease) in staff termination benefits	(3,676)		(946)		(2,731)
Net financial interest expense	(15,893)		(13,488)		(2,405)
Income taxes paid	(2,269)		(14,161)		11,892
Cash flow generated by operating activities before changes in working capital	(15,429)	0	(23,611)	0	8,182
Increase in current receivables	(45,199)	(53,141)	11,370	10,438	(56,569)
Increase/decrease in current payables	33,083	(19,860)	(9,062)	(2,725)	42,145
Increase/(decrease) in inventories	0		0		0
Change in working capital	(12,116)	(73,002)	2,308	7,713	(14,424)
Change in other assets/liabilities during the period	18,839	12,380	7,132	(18,632)	11,708
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	(8,706)	(60,622)	(14,172)	(10,919)	5,466
Cash flow from investment activities					
Purchase/sale of property, plant and equipment and intangible assets	(11,703)		(13,550)		1,847
Equity investments	(32,309)		(24,578)		(7,731)
Proceeds/payments deriving from other financial investments	1,097,439	912,830	(192,432)	(298,153)	1,289,871
Dividends received	101,788	101,788	91,426	91,426	10,362
Interest income received	15,195	(7,031)	26,836	4,190	(11,641)
TOTAL	1,170,410	1,007,587	(112,297)	(202,537)	1,282,708
Cash flow from financing activities					
Repayment of borrowings and long-term loans	(356,562)		(149,166)		(207,396)
Disbursement of borrowings/other medium/long-term loans	0		799,223		(799,223)
Decrease/increase in other short-term borrowings	(852,388)	(851,821)	17,549	(354,418)	(869,937)
Interest expense paid	(62,036)	(23)	(68,088)	(687)	6,052
Dividends paid	(95,647)	(95,647)	(36,133)	(36,133)	(59,513)
TOTAL CASH FLOW	(1,366,633)	(947,490)	563,384	(391,238)	(1,930,017)
Changes in shareholders' equity after net profit	0	0	0	0	0
Cash flows for the period	(204,929)	(525)	436,915	(604,695)	(641,843)
Net opening balance of cash and cash equivalents	978,440	0	541,526	0	436,915
Net closing balance of cash and cash equivalents	773,512	(525)	978,440	(604,695)	(204,929)

Amounts in €/thousand

NOTES TO THE INCOME STATEMENT

REVENUE

1. Revenue from sales and services - 168,975 thousand euros

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

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Revenue from services to customers	66,964	67,770	(806)
from Roma Capitale public lighting service	61,103	60,139	964
from Naples Municipal public lighting service	5,639	7,572	(1,933)
other revenues	222	59	164
Revenue from Intragroup services	102,011	105,964	(3,953)
service contracts	93,184	98,435	(5,251)
other services	8,827	7,529	1,298
Revenue from Sales and Services	168,975	173,734	(4,759)

The reduction in *revenue from services to customers* of 806 thousand euros, is attributable to the net effect produced by the increase in the fee for the public lighting service provided in the Municipality of Rome (+ 964 thousand euros), 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 (- 1,933 thousand euros).

Revenues from intragroup services recorded an overall decrease of 3,953 thousand euros. This change results from (i) lower fees for services rendered on behalf of Group companies, mainly of administrative, financial, legal and technical nature (- 5,251 thousand euros), partially offset by (ii) an increase in revenue from other services provided

to the subsidiaries (+ 1,298 thousand euros).

With reference to the provision of services the decrease is due to lower adjustments recognized during 2015, as compared to those of 2014 (- 5,395 thousand euros), as a result of new service agreements signed with effect from 1 January 2014.

2. Other revenue and proceeds - 11,116 thousand euros

Other revenue and proceeds decreased by 1,534 thousand euros compared to 31 December 2014 mainly due to lower non-recurring gains recognized in the period, mitigated by growth in compensation for seconded staff at Group companies and property income. The breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Non-recurring gains and other revenues	3,660	6,909	(3,249)
Seconded staff	3,336	2,166	1,170
Recharged cost for company officers	2,826	2,649	177
Property income	1,037	736	300
Reimbursement for damages, penalties, compensation	258	191	67
Revenue from Sales and Services	11,116	12,650	(1,534)

COSTS

3. Staff costs - 50,283 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Staff costs including capitalised costs	56,260	57,343	(1,083)
Staff employed in the ACEA2.0 project	(4,339)	0	(4,339)
Capitalised costs	(1,638)	(2,448)	810
TOTAL	50,283	54,895	(4,613)

The decrease in staff costs of 1,083 thousand euros, stems in part from the reduction in the average workforce, as highlighted in the table below, and in part from the recalculation of the third round of the medium - long term Incentive Plan as a result of the changed scope of application. Staff costs is net of capitalized costs and of 4,339 thousand euros representing the total costs of ACEA personnel involved in the ACEA 2.0 Project for the

benefit of all Acea Group companies participating in the "joint venture" and recharged to them. Capitalized staff costs was a decreased by 810 thousand euros.

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		
	31.12.15	31.12.14	Increase/(Decrease)	31.12.15	31.12.14	Increase/(Decrease)
Senior managers	60	62	(2)	59	61	(2)
Middle managers	145	147	(2)	143	146	(3)
White-collar staff	419	437	(17)	411	430	(19)
Blue-collar staff	23	24	(1)	23	24	(1)
TOTAL	647	670	(22)	636	661	(25)

4. Costs of materials and overheads - 133,268 thousand euros

Compared to 31 December 2014, there was an overall increase in the costs of materials and overheads of 1,939 thousand euros (+1.5%), broken down as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Materials	1,307	1,081	227
Services and Contract work	117,709	114,241	3,468
Lease expense	9,778	9,910	(131)
Taxes and duties	2,472	2,489	(17)
General and administrative expenses	2,001	3,609	(1,608)
TOTAL	133,268	131,329	1,939

The composition and changes in costs of materials and overheads by type for the two years are compared below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Materials	1,307	1,081	227
Services and Contract work	117,709	114,241	3,468
Intercompany services	39,739	39,480	259
- Roma Capitale Public Lighting	34,411	32,600	1,811
- Public Lighting services - municipality of Naples	4,980	6,226	(1,246)
Electricity and water consumption	33,417	32,453	964
- Roma Capitale Public Lighting Electricity Consumption	30,396	29,354	1,042
Professional freelance work	10,109	8,798	1,311
Maintenance of buildings	5,228	5,029	199
Maintenance fees	4,447	4,386	61
Services to personnel	4,059	3,998	60
Surveillance services	3,607	3,427	180
Advertising and sponsorship costs	2,405	3,030	(625)
Cleaning, transport and portorage	2,780	3,051	(271)
Seconded staff	3,406	2,874	533
Postal expenses	2,477	2,214	263
Bank fees	1,928	1,720	208
Corporate Bodies	780	1,013	(232)
Telephone costs	716	736	(20)
Insurance costs	475	535	(59)
Travel and transfer expenses	344	432	(89)
Coordinated and continuous collaborations	416	328	88
Technical and administrative services	645	336	309
Printing costs	32	33	(1)
Other	700	368	332
Lease expense	9,778	9,910	(131)
- of which lease payments	7,104	7,536	(432)
- of which Other lease payments and rental costs	2,674	2,373	301
Taxes and duties	2,472	2,489	(17)
General expenses	2,001	3,609	(1,608)
Total costs of materials and overheads	133,268	131,329	1,939

The increase in the costs of materials and overheads of 1,939 thousand euros arises from a number of opposing factors.

On the one hand there was an increase in the costs related to:

- the management of the public lighting service in the municipalities of Rome and Naples, for a net amount of 1,607 thousand euros, with specific reference to the construction and management of facilities and to electrical consumption related to the service (1,042 thousand euros),
- costs for freelance professional work, in relation to technical and information technology consulting services (1,311 thousand euros) and administrative consulting services (309 thousand euros),
- staff seconded to Group companies (533 thousand euros),
- routine maintenance work carried out on the systems of owned buildings (199 thousand euros),
- bank and postal expenses (471 thousand euros),
- other general costs of materials and overheads (332 thousand euros).

On the other, in line with the cost containment policy already implemented in the previous years, there was a reduction in the costs of materials and overheads related to:

- the corporate bodies (232 thousand euros),
- advertising and sponsorship expenses (625 thousand euros),
- costs of transport and portage services (271 thousand euros),

- general services (1,608 thousand euros), with specific reference to non-recurring items generated in the previous year.

As required by article 149 duodecies of the CONSOB Regulations for Issuers, the fees paid to the Independent Auditors, Reconta Ernst & Young, are shown in the table below.

€ thousand	Audit Related Service	Audit Services	Non Audit Services	Total
ACEA S.p.A.	156,279	377,813	249,500	783,592

Note that the above remuneration refers to positions held in 2015, valid up to the date of publication of these Financial Statements

5. Amortisation, depreciation, provisions and impairment charges - 9,811 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Amortisation and depreciation	16,195	15,236	959
Provision for impairment of receivables	1,450	6,923	(5,473)
Provision for liabilities and charges	(7,834)	8,757	(16,591)
TOTAL	9,811	30,917	(21,106)

Amortisation/depreciation amounted to 16,195 thousand euros, of which 8,307 thousand euros intangible assets and 7,877 thousand euros property, plant and equipment. The growth of 959 thousand euros is mainly attributable to the commissioning of new software for technological improvement and development.

The change compared to the previous year, refers to the lower provisions recognized during the year (3,258 thousand euros) and the effect of provisions released as a result of collections and transfers of receivables carried out in 2015, totalling 2,215 thousand euros.

Impairment of receivables amounted to 1,450 thousand euros and mainly relates to the risks connected with the recoverability of amounts due from public counterparties.

The **provisions for liabilities** were negative for 7,834 thousand euros, mainly due to releases of excess provisions recognized in previous years. Their breakdown by type and the related effects are shown below:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Early retirements and redundancies	3,315	5,311	(1,996)
Legal	2,348	2,575	(227)
Suppliers	465	569	(104)
Disputes with staff	130	0	130
Investees	59	247	(188)
Contributory and with Public Bodies	(14)	56	(69)
Release of provision for legal risks	(4,200)	0	(4,200)
Release of provisions for risks on investees	(9,937)	0	(9,937)
TOTAL PROVISIONS	(7,834)	8,757	(16,591)

Compared to the previous year there was a reduction in the level of provisions related to expenses for implementing voluntary redundancy and resignation procedures, for risks of legal disputes with suppliers and on the evaluation of investees.

With reference to the release of provisions it should be noted that following the approval of water tariffs for ACEA Ato 5 by the Mayors' Conference, provisions allocated in 2011 were released for 9,826 thousand euros. With regard to legal disputes, we note the release of provisions for the

risk linked to a dispute (the value of which amounted to 3,000 thousand euros), following the favorable judgment in August 2015 by which the court dismissed the request of the other party. For additional details, reference should

be made to the section Update on major disputes and litigation.

6. Financial income - 95,092 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Income from Intragroup relations	88,023	93,744	(5,720)
Default interest with Roma Capitale	3,621	3,164	458
Bank interest and income	1,285	754	531
Default interest with subsidiaries	1,034	830	204
Recovery of discounting receivables	971	1,077	(106)
Financial income from public lighting contract	403	1,369	(966)
Other financial income	0	1	(1)
from Fair Value Hedge assessment	(247)	349	(595)
Total financial income	95,092	101,288	(6,196)

The reduction in financial income of 6,196 thousand euros, is mainly attributable to intercompany transactions, as a result of the new centralized cash management agreements entered into as of 1 July 2015. This revision resulted in, as of 1 July:

(i) the establishment of a single *revolving credit line*, to cover working capital and investment liquidity needs; therefore, as of that date, the lending commissions provided by the previous credit line agreement, for investment liquidity needs only (-6,593 thousand euros), were brought down to zero and,

(ii) interest income grew by 1,252 thousand euros. The interest rate is fixed depending on the credit limit plus a spread linked to the actual exposure and the charge back of the parent company's rating costs.

Default interest due from Roma Capitale (+ 458 thousand euros) and from certain subsidiaries (+ 204 thousand euros) recorded an increase.

Conversely, there were lower revenues from application of the public lighting agreement and lower financial income from *Fair Value Hedge* assessment of the derivative entered into on the 600 million euros Bond placed on the market in September 2013.

7. Financial costs - 79,198 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Interest on bonds	66,519	66,002	516
Interest on medium/long-term borrowings	7,757	12,245	(4,489)
Costs /(Income) on Interest Rate Swaps	2,679	3,843	(1,164)
Other financial costs	1,013	945	69
Interest on short-term borrowings	927	3,734	(2,807)
Financial costs from public lighting agreement	252	791	(539)
Interest paid on Equitalia and INPS instalment payments	26	76	(51)
Foreign exchange profit/(loss)	24	(525)	548
Expenses from Intragroup relations	2	687	(685)
Total financial costs	79,198	87,799	(8,601)

The decrease in financial costs of 8,601 thousand euros, mainly derives from lower interest on short and medium - long term borrowings (7,296 thousand euros). Specifically, due to the early repayment of loans for 300 million euros, interest decreased by 2,538 thousand euros; the residual change refers to the trend in market rates. Net financial

costs on *interest rate swaps* on bonds, showed an improvement of 1,164 thousand euros. As a result of the new centralized cash management agreements they decreased compared to the previous year by 685 thousand euros.

The average borrowing cost of ACEA increased over the previous year, from 2.86% in 2014 to 3.04% in 2015.

8. Profits on Equity Investments -

146,438 thousand euros

Income from equity investments increased by 38,522

thousand euros over the previous year (107,917 thousand euros in 2014) and the breakdown is summarized in the following table.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Dividend income	146,173	104,025	42,148
ACEA Ato2	71,260	58,835	12,425
A.R.S.E.	17,060	0	17,060
ACEA Distribuzione	25,875	20,769	5,106
Acea Elabori	7,999	4,822	3,177
A.R.I.A.	7,416	3,273	4,143
Acque Blu Fiorentina	4,780	3,074	1,706
ACIP	7,244	1,299	5,945
Aquaser	1,942	6,624	(4,682)
Acea800	950	0	950
Consorcio Agua Azul	725	431	293
Acea Dominicana	530	292	237
Intesa Aretina	217	0	217
Agua Azul Bogotà	74	3,457	(3,383)
Umbria Distribuzione Gas	22	48	(27)
Sarnese Vesuviano	0	660	(660)
Agua de San Pedro	63	441	(379)
Ingegnerie Toscane	17	0	17
Release of provision for risks related to Marco Polo	0	2,300	(2,300)
Gain on the transfer of the public lighting business	265	1,591	(1,326)
Total	146,438	107,917	38,522

As a result of the spin-off of A.R.S.E., dividends for 2014 approved by the Boards of Directors of the Companies Acea Distribuzione and Acea Illuminazione Pubblica to which it was entitled, were absorbed by ACEA. As a result of this recognition dividends increased by 16,559 thousand euros.

9. Losses on equity investments -172 thousand euros

These refer to impairments deriving from the assessment of some subsidiaries, with specific reference to Sienergia in liquidation, Polo Tecnologico Industriale and Wrc Plc.

10. Taxes - 3,284 thousand euros

Taxes for the period amounted to 3,284 thousand euros overall (+ 3,192 thousand euros compared to 31 December 2014).

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 - 2.2% effect on the result before tax.

Total tax is the algebraic sum of the following components.

CURRENT TAXES

As at 31 December 2015, current taxes amounted to 81,243 thousand euros (66,076 thousand euros as at 31 December 2014) for consolidated IRES (corporate income tax), representing the sum of the taxable income and tax losses reported by companies included 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.

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. In accordance with the provisions of IAS 12, the Company recalculated the

deferred taxes and recognized a net charge of 1,694 thousand euros. Deferred taxes that will impact on the financial year 2016 were not taken into account in the recalculation.

Net deferred tax assets increased by 2,235 thousand euros and represent the algebraic sum of provisions (3,167 thousand euros) made primarily with regard to provisions for liabilities, provisions for impairment of receivables and provisions for defined-benefit plans, and uses (5,402 thousand euros). Deferred tax liabilities increase taxes by 1,312 thousand euros; they represent the algebraic sum of uses (464 thousand euros) relating to the taxable portion of the dividends collected and provisions for the period (1,776 thousand euros).

TAX CONSOLIDATION EXPENSE AND INCOME

These amounted to 81,506 thousand euros 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 (4,237 thousand euros) and the tax income recognized as contra entry to the taxable income transferred to the tax consolidation (85,743 thousand euros).

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.

The following table provides a reconciliation of the theoretical and effective tax charges.

	31.12.15	%	31.12.14	%
Profit before tax from continuing operations	148,890		89,694	
Expected tax charge at 27.5% on profit before tax	40,945	27.5%	24,666	27.5%
Permanent differences(*)	(37,661)	(25.3%)	(26,744)	(29.8%)
IRES for the period(**)	3,284	2.2%	(2,078)	(2.3%)
IRAP for the period(**)	0	0.0%	2,171	2.4%
Tax on continuing operations	3,284	2.2%	92	0.1%

(*) They mainly include the portion of untaxed dividends

(**) Including deferred taxes

NOTES TO THE STATEMENT OF FINANCIAL POSITION - ASSETS

11. Property, plant and equipment - 151,398 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Land and buildings	135,146	137,541	(2,395)
Plant and machinery	4,655	3,002	1,653
Industrial and commercial equipment	933	1,029	(96)
Other assets	10,507	13,326	(2,819)
Fixed assets in progress and prepayments	157	35	122
Total property, plant and equipment	151,398	154,933	(3,535)

There was a reduction of 3,535 thousand euros compared to 31 December 2014.

The decrease relates to the net effect between investments in the period, amounting to 4,292 thousand euros overall and depreciation for the period amounting to 7,827 thousand euros.

Investments in the period are mainly investments for extraordinary maintenance on installations and on the registered offices held under lease and investments in hardware required for technological development projects in Acea2.0 and to improve and develop the IT network.

The changes in the period are shown below.

€ thousand	31.12.14			CHANGES DURING THE PERIOD			31.12.15		
	Historical cost	Accumul. deprec.	Net carrying amount	Increases	Disposals	Amortis.	Cost	Accumul. deprec.	Net carrying amount
Property, plant and equipment									
Land and buildings	155,669	(18,127)	137,541	966	0	(3,361)	156,635	(21,489)	135,146
Plant and machinery	12,611	(9,609)	3,002	2,584	0	(931)	15,195	(10,540)	4,655
Industrial and commercial equipment	13,197	(12,168)	1,029	12	0	(108)	13,210	(12,277)	933
Other assets	49,029	(35,703)	13,326	607	0	(3,426)	49,636	(39,129)	10,507
Fixed assets in progress and prepayments	35	0	35	122	0	0	157	0	157
Total property, plant and equipment	230,540	(75,607)	154,933	4,292	0	(7,827)	234,833	(83,435)	151,398

12. Investment property - 2,697 thousand euros

Investment property amounted to 2,697 thousand euros, decreasing by 122 thousand euros due to additions in the period of 4 thousand euros, disposals made

during the year of 94 thousand euros and depreciation of 60 thousand euros; they mainly consist of land and buildings not used in operations and held for rental purposes.

13. Intangible assets - 13,411 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Industrial patents and intellectual property rights	9,693	12,716	(3,023)
Fixed assets in progress and prepayments	3,718	1,530	2,188
Total Intangible assets	13,411	14,246	(835)

The changes in the period are shown below:

€ thousand	31.12.14	Changes during the period					31.12.15
		Net carrying amount	Increases/Decreases	Other changes/Reclassifications	Revaluations/impairment charges	Disposals	
Industrial patents and intellectual property rights	12,716	3,180	2,105	0	0	(8,307)	9,693
Other fixed assets	0	0	0	0	0	0	0
Fixed assets in progress	1,530	4,293	(2,105)	0	0	0	3,718
Total property, plant and equipment	14,246	7,473	0	0	0	(8,307)	13,411

Intangible assets decreased by 835 thousand euros compared to the end of the prior year, due to the net effect of investments for the period of 7,743 thousand euros and amortisation for the period of 8,307 thousand euros.

Additions mainly concerned the purchase and upgrading of software to support the implementation activities of the Acea 2.0 Project, the development of systems for

administrative, personnel and corporate security management.

14. Equity investments in subsidiaries and associates - 1,768,902 thousand euros

The item in question shows an increase of 38,752 thousand euros compared to 31 December 2014 and the breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Equity investments in subsidiaries	1,754,703	1,716,037	38,666
Equity investments in associates	14,200	14,114	86
Total equity investments	1,768,902	1,730,151	38,752

Equity investments in subsidiaries

An increase of 38,666 thousand euros.

The most important transactions during the year are described below.

Equity investments in subsidiaries	Historical cost	Reclassifications and other changes	Revaluations/impairment charges	Disposals	Net carrying amount
Balances at 31 December 2014	2,740,595	(12,317)	(62,147)	(950,094)	1,716,037
Changes in 2015:					
- changes in share capital	(4,491)		0	0	(4,491)
- acquisitions/incorporations	212		0	0	212
- disposals/distributions			0	0	0
- reclassifications and other changes	397,415	(354,295)		0	43,120
- Impairment/revaluations	0	0	(175)	0	(175)
Total changes in 2015	393,135	(354,295)	(175)	0	38,666
Balances at 31 December 2015	3,133,730	(366,612)	(62,322)	(950,094)	1,754,703

The changes in the year regard:

- the reduction in the share capital of Aquaser (4,547 thousand euros), due to the implementation of the ACEA Group corporate restructuring project, which already in 2014 led to the transfer of 100% of the shares in Samace and Solemme to ACEA. In addition, on 1 July 2015 the merger by absorption of Samace in Solemme came into effect; the merger was effective as of 1 January 2015 for accounting and tax purposes,
- the formation of the company ACEA Energy Management S.r.l., of which ACEA is the sole shareholder, (50 thousand euros) on 16 October 2015; the corporate purpose of the new company is the production, distribution and trading of energy, produced from renewable, alternative and other sources, the marketing and sale of electricity, heat, natural gas and other fuels and energy carriers and the purchase of electricity, heat, natural gas and other fuels for the domestic and foreign market,
- the payment for the purchase from Consorzio Toscano Cooperativo - CTC of its shares in the capital of the company Acque Blu Arno Basso (total 1%), for an amount attributable to ACEA of 162 thousand euros. The shareholding in the capital of Acque Blu Arno Basso goes from 76% in 2014 to 76.67%
- the acquisition from Acea Energia, of the entire holding in Elga Sud on 10 December 2015 for 186 thousand euros,
- the write-off of the equity investment in A.R.S.E. (354,295 thousand euros) as a result of the total spin-off, on 30 December 2015, with accounting and tax effect from 1 January 2015, of the Company in favour of ACEA, ACEA Produzione and Elga Sud. This spin-off resulted in the transfer of the shares held in Acea Distribuzione (324,355 thousand euros), Acea Illuminazione Pubblica (19,797 thousand euros) and Di.T.Ne S.c.a.r.l. (12 thousand euros) and the equity shares to be transferred to Acea Produzione (43,441 thousand euros) and Elga Sud (9,636 thousand euros). At 31 December 2015, as a result of that total spin-off, the shares held in the capital of the companies mentioned above were respectively: Acea Distribuzione 100%, Acea Illuminazione Pubblica 100% , Di.T.ne 1.45%, Acea Produzione 19% and Elga Sud 100%,

- the update to current exchange rates of the measurement of equity investments held in companies abroad, for 175 thousand euros.

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 2015 *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 forecasts in the 2016-2020 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				
Acea Distribuzione	value in use	5.6%	Residual value	until 2020
Water Segment	value in use	5.4%	Residual value	until 2020
Energy segment				
Acea Produzione	value in use	6.0%	in two stages	until 2020
Acea Energia	value in use	7.9%	Perpetuity without growth	until 2020
Ecogena	value in use	6.0%	in two stages	until 2020
Environment segment:	value in use	6.0%	in two stages	until 2020

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 ACEA Distribuzione: the present value of the RAB at the end of the concession calculated in accordance with the legislation for the 5th regulatory period
- for the Water segment: the present value of the residual value in the event of taking over when the concession expires.

Note also that a sensitivity analysis was conducted on the WACC. The following should be noted:

- a 0.5% increase in the discount rate results in a deficit in the "Plant from renewable sources" CGU;
- a 2% increase in the discount rate results in a deficit in the "Composting plant" CGU;

The result of the *impairment* test confirms the value of the equity investments accounted for can be recovered.

EQUITY INVESTMENTS IN ASSOCIATES

Investment in associates amounted to 14,200 thousand euros; they increased as a result both of the revaluation at current exchange rates of the investments held in foreign companies, and as a result of the transfer of the stake in Di.T.Ne following A.R.S.E. spin-off.

The changes in the year are shown below.

Investments in associates	Historical cost	Reclassifications	Revaluations/ impairment charges	Disposals	Net carrying amount
Balances at 31 December 2014	92,558	2,957	(79,934)	(1,467)	14,114
Changes in 2015:					
- 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	12	0	0	0	12
- Impairment/revaluations	0	0	73	0	73
Total changes in 2015	12	0	73	0	86
Balances at 31 December 2015	92,570	2,957	(79,861)	(1,467)	14,200

15. Other investments - 2,350 thousand euros

Other investments decreased by 45 thousand euros compared to 31 December 2014 due to the effect of impairment charges applied to the equity investments held in WRC Plc and Polo Tecnologico Industriale Romano.

With reference to the investment in Centro Sviluppo Materiali, it should be noted that the majority shareholder, R.I.N.A., has optioned the stake in the company. Finally, please note that the value of the investment had been fully written down in the previous year.

“Other investments” refers to equity investments that do not qualify as subsidiaries, associates or joint ventures.

16. Deferred tax assets - 32,609 thousand euros

Deferred tax assets decreased by 10,887 thousand euros compared to 31 December 2014.

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. In accordance with the provisions of accounting principle 25 issued by the OIC (Italian Account-

ing Body), the Company recalculated the deferred taxes and recognized a net charge of 1,694 thousand euros. Deferred taxes that will impact on the financial year 2016 were not taken into account in the recalculation.

The table below shows the changes and the balance at 31 December 2015 with reference to 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 a reasonable estimate of the period in which the related difference is expected to reverse.

€ thousand	31.12.14	Changes during the period				31.12.15
		Uses IRES / IRAP	Other changes	Tax rate adjustment	Changes in equity	
Deferred tax assets						
Tax losses	0	0				0
Remuneration of BoD members	0	0				0
Provisions for liabilities and charges	7,216	(2,659)		(57)		1,962
Impairment of investments	0	0				0
Provision for impairment of receivables	5,426	0		(691)		760
Amortisation and depreciation of intangible and tangible assets	976	0		(124)		336
Amortisation of goodwill	0	0		0		0
Defined benefit and defined-contribution plans	8,773	(547)		(813)	(543)	109
Others	21,106	(282)		(231)	(8,110)	0
Total	43,496	(3,487)	0	(1,915)	(8,652)	3,167
Deferred taxes						
Deferred tax on dividends	296	(60)	(26)			495
Amortisation and depreciation of intangible and tangible assets	10	0		(1)	0	0
Defined benefit and defined-contribution plans	343	(4)		(35)	83	0
Others	9,169	(178)	0	(184)	(4,531)	1,280
Total	9,818	(243)	(26)	(220)	(4,448)	1,776
Net total	33,678	(3,244)	26	(1,694)	(4,204)	1,392

17. Non-current financial assets -
121,913 thousand euros

A decrease of 1,849,087 thousand euros on the figure of 1,971,000 thousand euros at 31 December 2014; their breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Financial receivables from Roma Capitale	29,109	32,580	(3,471)
Receivables due from subsidiaries	55,929	1,897,210	(1,841,281)
Receivables from others	36,875	41,210	(4,335)
TOTAL	121,913	1,971,000	(1,849,087)

Receivables due from Roma Capitale decreased by 3,471 thousand euros 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 2015, in compliance with the terms of the Supplementary Agreement to the service contract signed on 15 March 2011.

Financial receivables from subsidiaries decreased compared to 31 December 2014 by 1,841,281 thousand euros as a result of the new centralized cash management agreements signed; their breakdown is detailed below. For more details, reference is made to the description in section 19d.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Receivables for borrowings taken out			
Acea Produzione	0	125	(125)
Total	0	125	(125)
Loan receivables			
ACEA Ato5	52,719	52,719	0
Total	52,719	52,719	0
Intercompany running account - Investments Line			
ACEA Ato2	0	765,506	(765,506)
ACEA Distribuzione	0	653,491	(653,491)
ARIA	0	240,086	(240,086)
Acea Produzione	0	136,241	(136,241)
ARSE	0	40,218	(40,218)
SAO	0	3,120	(3,120)
Ecoenergie	0	1,374	(1,374)
Acea8cento	0	1,119	(1,119)
Total	0	1,841,155	(1,841,155)
Other financial receivables			
Solemme	3,210	3,084	126
Samace	0	126	(126)
Total	3,210	3,210	0
Total non-current financial receivables due from Subsidiaries	55,929	1,897,210	(1,841,281)

The item **Amounts due from others**, amounting to 36,875 thousand euros, 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 the said service.

18. Other non-current assets - 506 thousand euros
This item includes amounts owed for long-term deposits paid and there were no significant changes compared to the previous year (507 thousand euros in 2014)

19. Current assets - 2,171,170 thousand euros

There was an overall increase of 684,104 thousand euros (1,487,066 thousand euros at 31 December 2014), broken down as follows.

19.a - Contract work in progress - 270 thousand euros

There were no changes compared to the previous year; they represent works to construct Public Light-

ing plants, carried out under the service agreement with Roma Capitale and not yet completed at 31 December 2015.

19.b - Trade receivables - 28,345 thousand euros

Trade receivables decreased by 10,074 thousand euros compared to the 38,420 thousand euros at 31 December 2014, and are broken down as follows.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables from other customers	7,790	17,865	(10,074)
Disputed receivables	20,555	20,555	0
Total trade receivables	28,345	38,420	(10,074)

RECEIVABLES FROM OTHER CUSTOMERS

This item decreases by 10,074 thousand euros and includes a 5,318 thousand euros provision for impairment of receivables.

This item includes receivables relating to accrued amounts

due from private and public parties for services, with particular reference to public lighting services in the Municipality of Naples. During the month of December 2015, the company completed the sale without recourse of receivables due from the Municipality of Naples for 7,740 thousand euros.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Gross receivables from customers	13,108	24,615	(11,507)
Provisions for the impairment of receivables	(5,318)	(6,750)	1,432
Total net trade receivables	7,790	17,865	(10,074)

PROVISIONS FOR THE IMPAIRMENT OF RECEIVABLES

The provision for bad debts amounted to 5,318 thousand euros, a decrease of 1,432 thousand euros compared to the previous year due to the net effect of the write-downs of 134 thousand euros and the release of provisions set aside in previous years for 1,566 thousand euros.

Provisions for the impairment of receivables are based on analytical assessments, supplemented by assessments based on historical analyses of amounts due from cus-

tomers 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 -

95,984 thousand euros

Intercompany trade receivables increased by 53,823 thousand euros (42,161 thousand euros at 31 December 2014), broken down as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables due from the parent company Roma Capitale	5,869	5,070	799
Receivables from subsidiaries	86,698	33,893	52,804
Receivables from associates	3,418	3,199	219
Total trade receivables	95,984	42,161	53,823

RECEIVABLES DUE FROM THE PARENT COMPANY ROMA CAPITALE

These amounted to 5,869 thousand euros, an increase of 799 thousand euros compared to 2014 (5,070 thousand euros).

The following table presents an analysis of ACEA's relations with Roma Capitale regarding both receivables and payables, including those of a financial nature, falling due within and after one year.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Receivables for invoiced services	3,265	4,056	(791)
Receivables for services to be billed	2,604	1,013	1,590
Total trade receivables	5,869	5,070	799
Financial receivables for invoices issued	61,009	49,713	11,296
Financial receivables for invoices to be issued	9,561	12,676	(3,115)
Total financial receivables for public lighting services	70,570	62,389	8,181
Total receivables due within one year (A)	76,438	67,459	8,980

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Trade payables	5	7	(2)
Total payables due within one year (B)	5	7	(2)

Total (A) - (B)	76.434	67.452	8.982
Other financial loans and receivables/(borrowings)	(1,415)	31,599	(33,015)
of which: Financial liabilities (Dividends)	(30,524)	(980)	(29,544)
of which: Medium/long-term receivables for public lighting	29,109	32,580	(3,471)
Other trade receivables/(payables)	(20,516)	(20,516)	0
of which: Vatican receivables	(20,516)	(20,516)	0
Net balance	54,502	78,535	(24,033)

The change in receivables and payables results from items accrued in the period, the effects of items offset during 2015 and collections occurred especially in the last months of the year.

During the year, the stock of total receivables increased by 11,952 thousand euros compared to the previous year due to:

- the growth of receivables for invoices issued in relation to works on new public lighting installations for 2,181 thousand euros;
- the growth of receivables for invoices to be issued for 1,590 thousand euros for works of new public lighting installations;
- the growth of financial receivables for public lighting services, amounting to 8,181 thousand euros, reflect the service agreement fees accrued in 2015.

In the reporting period, receivables and payables of the Group were offset for 4,612 thousand euros (end of June), including public Lighting receivables (4,307 thousand euros) which were offset with payables for dividends due from ACEA.

With regard to collections (57,278 thousand euros), the main categories of receivables are listed below:

- 50,597 thousand euros for fees related to the current year;

- 5,001 thousand euros for fees accrued in prior years, upgrading to legal requirements and interest;
- 1,201 thousand euros as reimbursement for stolen cables.

On the payable side, there was an overall increase of 32,514 thousand euros, mainly attributable to dividends accrued, declared by ACEA in 2014 (total amount of + 29,544 thousand euros).

Lastly, in January 2015 the *Split Payment* tax rules came into effect, which require invoicing to the Public Administration (including Roma Capitale) with separate payment of VAT; in addition, from 1 April, electronic invoicing is mandatory.

RECEIVABLES FROM SUBSIDIARIES

These amounted to a total of 89,698 thousand euros, recording an increase of 52,804 thousand euros compared to the previous 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 and it reflects the allocation of the joint investment (45,287 thousand euros) to almost all of the subsidiaries (including those under joint control).

The breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
ACEA Ato2	25,227	2,913	22,315
ACEA Ato5	20,010	14,916	5,094
ACEA Distribuzione	11,731	2,901	8,830
Acea Energia	4,626	1,080	3,546
Publiacqua	3,624	243	3,381
Umbra Acque	3,555	1,968	1,587
GESESA	2,818	2,422	397
GORI	2,408	99	2,309
Acque	2,332	173	2,159
Acquedotto del Fiora	1,804	326	1,478
Crea Gestioni	1,668	1,123	544
Kyklos	987	595	393
Acea8cento	962	617	345
Acea Elabori	818	427	391
Sarnese Vesuviano	789	778	11
Acea Illuminazione Pubblica	679	102	577
ARIA	393	371	23
Acea Servizi Acque	382	382	0
Acea Produzione	376	85	290
Acea Dominicana	262	262	0
Innovation and environmental sustainability	260	14	246
Solemme	176	59	117
Ingegnerie Toscane	176	71	105
Aquaser	153	127	26
Coema	87	32	55
Acque Industriali	74	30	44
Ombrone	73	123	(50)
Others	247	1,655	(1,408)
TOTAL	86,698	33,893	52,804

RECEIVABLES FROM ASSOCIATES

This item amounts to a total of 3,418 thousand euros, an increase of 219 thousand euros compared to 31 De-

ember 2014. For 211 thousand euros, the change refers to the allocation of costs incurred for the Acea 2.0 programme.

The breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Marco Polo	1,236	1,236	0
Agua de San Pedro	670	568	102
Sienergia	639	639	0
Sogea	603	677	(74)
GEAL	200	9	191
Umbriadue	66	66	0
Le Soluzioni	4	4	0
TOTAL	3,418	3,199	219

Total trade receivables, gross of the bad debt provision, both to third party customers and intercompany, including to Roma Capitale, amounted to 140,347 thousand euros; the aging is provided below:

- Trade receivables non yet expired: 96,153 thousand euros
- Past due trade receivables: 44,194 thousand euros of which:

- Within 180 days: 5,484 thousand euros
- Between 180 and 360 days: 5,773 thousand euros
- Over 12 months: 32,936 thousand euros

19.d - Other current receivables and assets - 24,070 thousand euros

A 6,977 thousand euros decrease, broken down as follows.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables due from Autoparco (car park) assignee	10,250	10,250	0
Receivables due from Laurentina Area assignee	6,000	0	6,000
Accrued income and prepayments	2,133	1,578	555
Receivables from reintegration of the Marco Polo business unit for payables to employees	2,116	2,116	0
Other receivables	1,343	1,186	157
Receivables from Equitalia	718	718	0
Receivables due from social security institutions	679	666	13
Restricted receivables from disposal of the PV business unit	397	397	0
Receivables for staff termination benefits from single transfers	227	0	227
Advances to suppliers and deposits at third parties	207	162	45
TOTAL	24,070	17,073	6,997

Following its evaluation, the current receivable recognized in previous years in relation to the sale of the Laurentina Area was reclassified for the purpose of better reporting.

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 lease of the Data Processing and Remote Control Centre, the property complex in Valleranello, insurance premiums and maintenance fees.

19.e - Current financial assets - 5,634 thousand euros
Current financial assets decreased by 6,010 thousand euros compared to 31 December 2014, mainly due to the reclassification of the receivable resulting from the sale of the Laurentina Area, for the purpose of better reporting.

The balance at 31 December 2015 is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables due from Laurentina Area assignee	0	6,000	(6,000)
Receivables for managing the public lighting service	5,360	5,376	(16)
Receivables due from SEIN from liquidation of Acea ATO5 Servizi	274	268	6
TOTAL	5,634	11,644	(6,010)

19.f - Intragroup current financial assets -

1,195,870 thousand euros

There was an increase of 897,097 thousand euros

compared to 31 December 2014 (298,773 thousand euros); the breakdown of this item is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables due from the parent companies - Roma Capitale	70,570	62,389	8,181
Receivables from subsidiaries	1,121,759	232,849	888,906
Receivables from associates	3,541	3,535	10
TOTAL	1,195,870	298,773	897,097

RECEIVABLES DUE FROM THE PARENT COMPANIES - ROMA CAPITALE

This item amounts to a total 70,570 thousand euros (62,389 thousand at 31 December 2014) and refers to receivables due from Roma Capitale in relation to the lighting Service Agreement as mentioned in the section

“Trade receivables due from Roma Capitale”.

RECEIVABLES FROM SUBSIDIARIES

These receivables amounted to 1,121,759 thousand euros (232,849 thousand euros at 31 December 2014), broken down as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables for cash pooling transactions	951,264	176,474	774,789
Current accrued finance income on loans and cash pooling transactions	94,797	23,845	70,951
Dividend receivable from subsidiaries	43,944	13,054	30,890
Loans to subsidiaries	20,498	14,668	5,826
Receivables for commission on guarantees given	11,135	4,694	6,440
Short-term EIB loans to subsidiaries	122	113	9
TOTAL	1,121,759	232,849	888,906

The change compared to the previous year, totalling 888,906 thousand euros mainly stems from the new centralized cash management agreements signed, which provide for the establishment of a single *revolving credit line* to cover working capital and investment liquidity needs; the line has a fixed interest rate, defined according to the rates applied on the capital market for “hybrid” issues in the *utilities* sector, reviewable on an annual basis, plus a *spread* linked to the level of exposure and the charge-back of the parent company’s rating costs.

Receivables for dividends from subsidiaries increased, mainly as a result of the spin-off of A.R.S.E. as a result of which the dividends for 2014 approved by the Boards of Directors of the Companies Acea Distribuzione and Acea Illuminazione Pubblica to which it was entitled (total of €

16.559 million) were absorbed by ACEA, the spin-off having retroactive accounting and tax effects as at 1 January 2015. The remaining change is due to the 2014 dividends of A.R.S.E. of 17,060 thousand euros.

RECEIVABLES FROM ASSOCIATES

This item amounted to 3,541 thousand euros at 31 December 2015 and is basically unchanged compared with the previous year (3,531 thousand euros at 31 December 2014).

19.g – Current tax assets - 47,484 thousand euros

Deferred tax assets decreased by 52,800 thousand euros compared to the end of the prior year; the breakdown is provided below:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
IRES and IRAP receivables for which refund was requested in 2013	13,135	15,194	(2,059)
VAT credits	5,287	44,781	(39,493)
Other tax receivables	2,325	1,564	667
IRAP receivables for advance payments	2,157	1,757	400
Total receivables from the tax authorities	22,904	63,296	(40,485)
Tax consolidation receivables due from subsidiaries	24,580	36,988	(12,315)
Total tax receivables	47,484	100,284	(52,800)

The VAT receivables arise from the Group VAT periodic settlements; no refund was requested and the receivable will be used in FY2016 monthly VAT settlements. The IRES and IRAP receivables for which reimbursement has been requested, relate the refund applications submitted by the Group companies during the year 2013.

19.h - Cash and cash equivalents -

773,512 thousand euros

Cash and cash equivalents decreased by 204,929 thousand euros (978,440 thousand euros at 31 December 2014) and consist of the balance of bank and post office current accounts opened with various banks and the Italian Post Office.

NOTES TO THE STATEMENT OF FINANCIAL POSITION - LIABILITIES

20. Shareholders' equity - 1,457,291 thousand euros

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Share capital	1,098,899	1,098,899	0
Statutory reserve	87,908	83,428	4,480
Reserve for treasury shares in portfolio	0	0	0
Other reserves	72,223	62,369	9,854
Retained earnings	52,656	63,181	(10,525)
Profit/(loss) for the period	145,606	89,601	56,004
TOTAL	1,457,291	1,397,478	59,813

Shareholders' equity increased by 59,813 thousand euros compared to 31 December 2014. The change mainly refers to the profit for the year and the effects generated by the allocation of the net profit for 2014, 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 euros

This amounts to 1,098,899 thousand euros, represented by 212,964,900 ordinary shares with a value of 5,16 euros 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 euros;
- Market: 103,936,757 shares for a total par value of 536,314 thousand euros;
- Treasury shares: 416,993 ordinary shares for a total par value of 2,151 thousand euros.

20.b - Legal reserve - 87,908 thousand euros

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 4,480 thousand euros at 31 December 2015 compared to last year, due to the allocation of 2014 profit.

20.c - Reserve for treasury shares in portfolio - 0 thousand euros

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 euros each (a total of 2,152 thousand euros), representing 0.196% of share capital.

At 31 December 2015 the reserve for treasury shares in portfolio amounted to 3,853 thousand euros; 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 - 72,223 thousand euros

The composition and changes of the item in the period are shown below:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Extraordinary reserve	180	180	0
Demerger reserve	102,567	102,567	0
Reserve for exchange differences	9,548	19,894	(10,347)
Reserve from valuation of financial instruments	(32,903)	(48,773)	15,870
Revenue reserves and actuarial profit/(loss)	(9,781)	(7,542)	(2,238)
Other reserves	2,611	(3,959)	6,569
TOTAL	72,223	62,369	9,854

The reserve for exchange differences, net of related deferred taxes, amounted to 9,548 euros, recording a decrease of 10,347 thousand euros; it reflects the effect of the valuation at the exchange rate of 31 December 2015 of the private placement in Yen signed in 2010.

The cash flow hedge reserve, net of the related deferred taxes, was a negative 32,903 thousand euros, while it showed a negative balance of 48,773 thousand euros at 31 December 2014. Note that this reserve includes 3,333 thousand euros from the negative differential resulting

from the delta of conversion rates between the rate provided for in the hedging contract and the rate recorded at the payment date of the bond (3 March 2010).

Among the changes that occurred during the year, we mention the total spin-off of the company A.R.S.E. for € 6,569 thousand euros, which is the spin-off surplus resulting from derecognition of the investment offset by the equity of the demerged company.

The following table shows distributable and non-distributable reserves.

31 December 2015 € (thousands)					
Nature/description	Amount	Potential use	Available portion	Summary of uses during previous three 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	87,908	A, B	87,908		
Purchased goodwill attributable to Umbra Acque	(3,173)		(3,173)		
Higher acquisition cost of SAMACE	(785)		(785)		
Available reserve for treasury shares	0	A, B, C	0		
Reserve for treasury shares in portfolio	0	To guarantee treasury shares	0		
Extraordinary reserve	180	A, B, C	180		
Demerger reserve	102,567	A, B, C	102,567		
Retained earnings	52,656	A, B, C	52,656		
Revenue reserves from O.C.I.:					
Cash flow hedge reserve	(32,903)		(32,903)		
Reserve for exchange differences	9,548		9,548		
Revenue reserves and actuarial profit/(loss)	(9,781)		(9,781)		
TOTAL	212,787		212,787		
Non-distributable portion			50,813		
Remaining distributable portion			161,973		

(*) Key

A = capital increase - B = to cover losses - C = to pay dividends

21. Staff termination benefits and other defined benefit plans - 29,847 thousand euros

This item decreased by 838 thousand euros (30,685 thousand euros at 31 December 2014) and represents termi-

nation and other benefits payable to employees on retirement or termination of employment. These obligations include defined benefit and defined contribution plans. The table below illustrates the breakdown:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Benefits payable upon termination of employment			
- Staff termination benefits	8,558	9,695	(1,137)
- Monthly bonuses	1,329	1,518	(189)
- Long-term incentive plans (LTIPs)	2,346	2,016	330
Total	12,232	13,229	(997)
Post-employment benefits			
- Tariff subsidies	17,614	17,455	159
TOTAL	29,847	30,685	(838)

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 reportioned 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 reflects (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 scenario, a 2.03% discount rate was used for the evaluation

(compared to a rate of 1.49% used for 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 2015	December 2014
Discount Rate	2.03%	1.49%
Revenue growth rate (average)	1.60%	1.60%
Long-term inflation	1.50%	1.00%

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%	-0.5%
	Thousands of euros	Thousands of euros
Staff termination benefits (TFR)	-470	554
Tariff subsidies	-726	780
Monthly bonuses	-78	84

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
Thousands of euros	
Staff termination benefits (TFR)	14
Tariff subsidies	-777
Monthly bonuses	81

No sensitivity analyses were conducted on other variables such as, for example, the inflation rate.

22. Provisions for liabilities and charges - 42,786 thousand euros

The following table shows a breakdown of provisions and changes compared to the end of the previous year:

€ thousand	31.12.14	Utilisations	Reclassifications/ Releases	Provisions	31.12.15
Investees	43,501	(2,107)	(9,937)	59	31,515
Legal	6,397	(1,480)	(4,200)	2,348	3,066
Risks for contributions relating to social security institutions	3,348	0	0	(14)	3,334
Early retirements and redundancies	1,693	(1,910)	0	3,315	3,098
Other liabilities and charges	1,617	(450)	0	595	1,762
Tax	12	0	0	0	12
Total	56,567	(5,947)	(14,137)	6,303	42,786

The principal changes in the year are as follows:

- the provision allocated in relation to the evaluation of the investee companies, with specific reference to ACEA Ato 5, for which a provision set aside in 2011 was released for 9,826 thousand euros, as the risks linked to it with reference to the application of water tariffs has ceased.
- the provision allocated in relation to the evaluation of Ecoenergie (2,107 thousand euros) following completion of the Company's liquidation proceedings in November 2015,
- a provision for risks related to legal disputes which recorded uses of 1,480 thousand euros and allocations of 2,348 thousand euros; among the releases, we note the release of provisions allocated in prior

years for the risk linked to a dispute (the value of which amounted to 3,000 thousand euros), following the favourable judgment in August 2015 by which the court dismissed the request of the other party,

- 3,315 thousand euros were allocated to the provision set aside for redundancy and resignation/retirement plans, with finalization of the relative procedures, with an overall use of 1,910 thousand euros,
- the provision for risks related to insurance relationships.

It should be recalled that the provision for investee liabilities, amounting to 31,515 thousand euros includes, with respect to the subsidiary GORI, an amount of 22,127 thousand euros for provisions made in previous years, related to the well-known water tariff issues.

23. Non-current borrowings and financial liabilities - 2,400,100 thousand euros

This item amounted to 2,730,840 thousand euros at 31 December 2014; its breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Medium/long-term bonds	1,904,022	1,909,117	(5,095)
Medium/long-term borrowings	496,078	821,723	(325,645)
TOTAL	2,400,100	2,730,840	(330,740)

The change over the previous year, totalling 330,740 thousand euros, mainly stems from the reimbursement of two loans for an overall amount of 300,000 thousand euros.

MEDIUM/LONG-TERM BONDS

This item includes:

- 599,906 thousand euros (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 euros.

The bonds, which have a minimum denomination of 100 thousand euros and maturity 15 July 2024, pay one 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 subject to British law. The settlement date is 15 July 2014. Interest accrued during the period amounted to 15,750 thousand euros,

- 602,880 thousand euros (including accrued interest) referring to a 5-year bond issued by ACEA at the beginning of September 2013 and maturing 12 September 2018. This payable, net of positive Fair Value recognised under net finance costs in the income statement equal to 923 thousand euros, amounted to 601,957 thousand euros.

The bonds pay a 3.75% fixed annual coupon and the issue price was 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 rate (*mid-swap* at 10 years). The bonds are subject to British law. The settlement date is 12 September 2013. Interest accrued during the period amounted to 22,481 thousand euros,

- 516,113 thousand euros (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 euros, 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 subject to British law. The settlement date is 16 March 2010. Interest accrued during the period amounted to 22,451 thousand euros,

- 153,088 thousand euros relating to the *Private Placement* which, net of the *Fair Value* of the hedge, a negative 32,956 thousand euros, amounted to 186,044 thousand euros. The *fair value* was allocated to a specific equity reserve. The exchange rate difference - negative by 12,563 thousand euros - calculated at 31 December 2015 on the hedged instrument was allocated to a translation reserve. The exchange rate at the end of 2015 was 131.07 euros compared to 145.23 euros at 31 December 2014. Interest accrued during the period amounted to 3,843 thousand euros. 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 totalled 496,078 thousand euros, with an overall change of 325,645 thousand euros, and represent the principal outstanding at 31 December 2015 due after 12 months.

The main borrowings, which are reported at 31 December inclusive of short-term portions, amounted to 519,883 thousand euros overall and are described below:

- an unsecured loan for a residual amount of 313 thousand euros; the original amount stood at 25,143 thousand euros and was handled by the Banca di Roma. The loan is subject to a fixed rate of interest of 5.48% and has a term to maturity of 15 years;
- loan stipulated on 25 August 2008 for 200,000 thousand euros for the water services segment investment plan (ACEA Ato2) with a term of 15 years. At 31 December 2015 this loan amounted to 112,466 thousand euros. The first *tranche* of 150,000 thousand euros was disbursed in August 2008; 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 euros with an interest rate equal to the 6-month Euribor plus a spread of 0.646%, maturing on 15 June 2019;

- 100,000 thousand euros 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 2015 this loan amounted to 56,988 thousand euros. 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 99.75% effective, meaning that there was no ineffective portion to be recognized in the income statement. The negative *fair value* of the hedging instrument (7,004 thousand euros) was recognised in a separate component of Shareholders' Equity;
- 100,000 thousand euros loan taken out with the EIB in 2009 aimed to cover the requirements of the four-year investment plan for the development and expansion of the electricity distribution network in Rome. The applied interest rate is 6-month Euribor plus a *spread* of 0.665% and maturity is set in the month of June 2018;
- EIB loan entered into on 23 December 2014 of 200,000 thousand euros, 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 equal to 23,754 thousand euros.

€ thousand	Total Residual Debt	Maturing on 31.12.16	Due between 31.12.16 and 31.12.20	Maturing after 31.12.20
fixed rate	313	313	0	0
floating rate	462,532	15,107	251,591	195,833
floating rate to fixed rate	56,988	8,335	40,320	8,333
Total medium/long-term and short-term borrowings	519,833	23,754	291,912	204,167

Information on financial instruments is provided in the section "Additional disclosures on financial instruments and risk management policies".

24. Other non-current liabilities - 0 thousand euros

Other non-current liabilities were down to zero compared to 31 December 2014, when they amounted to 269 thousand euros. The item included the deferred gain generated in 2005 by the transfer of the public lighting business to ACEA Distribuzione, the last portion of which has been discharged, and was calculated on the basis of the term of the former service contract with Roma Capitale (ten years).

25. Provision for deferred taxes -

6,655 thousand euros

The provision for deferred taxes decreased by 3,163 thousand euros compared to 31 December 2014.

See the table under the item "Deferred tax assets" for the breakdown of the balance.

26. Current liabilities - 328,276 thousand euros

Current liabilities were down by a total of 852,679 thousand euros, mainly due to the reduction in outstanding payables to subsidiary companies. The breakdown is provided below.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Borrowings	77,570	929,849	(852,279)
Trade payables	176,203	143,120	33,083
Tax payables	55,848	88,091	(32,243)
Other current liabilities	18,656	19,896	(1,241)
TOTAL	328,276	1,180,956	(852,679)

26.a - Borrowings - 77,570 thousand euros

Borrowings decreased by 852,279 thousand euros; their breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Due to subsidiaries and associates	21,520	904,655	(883,135)
Bank loans	23,754	24,213	(458)
Amounts due to Roma Capitale	30,524	980	29,544
Due to others	1,771	1	1,770
TOTAL	77,570	929,849	(852,279)

Movements are as follows:

- payables to subsidiaries and associates mainly in relation to **(i)** centralized treasury relations which decreased by 868,019 thousand euros due to the lower outstanding payable to the Group compa-

nies recorded in the year and to **(ii)** the payment of payables to Aquaser recognized in 2014 in relation to the fees due for the acquisition of the stakes in Samace and Solemme. Details follow on the type of payables to Subsidiaries:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Receivables for cash pooling transactions	21,518	889,538	(868,019)
Other borrowings	2	2,457	(2,455)
Payables to Aquaser for purchase of equity investments	0	12,660	(12,660)
TOTAL	21,520	904,655	(883,135)

- bank mortgage loans as a result of the repayments of portions maturing in 2015, mitigated by accruals recognized for the year,
- financial payables to Roma Capitale grew by 29,544 thousand euros due to the recognition of dividends out of profits for 2014 approved by the

Board of Directors.

26.b - Trade payables - 176,203 thousand euros
Trade payables increased by 33,083 thousand euros compared to the end of the previous financial year; their breakdown is as follows.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Amounts due to third-party suppliers	65,647	54,614	11,034
Amounts due to Roma Capitale	20,516	20,516	0
Amounts due to subsidiaries and associates	90,039	67,990	22,049
TOTAL	176,203	143,120	33,083

Amounts due to **third party suppliers** recorded an increase of 11,034 thousand euros; the breakdown of

the balance is provided below:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Bills received	31,626	31,778	(153)
Bills to be received	34,021	22,835	11,186
TOTAL	65,647	54,614	11,034

As for trade payables for bills received amounting to 31,626 thousand euros, it should be noted that the expired portion amounts to 9,515 thousand euros, the remaining amount being due within the

next twelve months.

There was an increase of 22,049 thousand euros in relations with **subsidiaries and associates**; the breakdown is provided below:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Acea Illuminazione Pubblica	57,443	55,164	2,279
ACEA Ato2	15,005	498	14,508
Acea Energia	8,897	7,263	1,640
Publiacqua	3,097	0	3,097
ACEA Distribuzione	2,927	2,480	447
Citelum Acea Napoli	1,629	1,395	234
ACEA Ato5	382	283	99
Acea8cento	207	248	(41)
ARIA	141	76	65
Laboratori	114	7	107
Abab	78	78	0
GORI	77	64	13
Other	40	432	(399)
TOTAL	90,039	67,990	22,049

26.c - Tax payables - 55,847 thousand euros
Tax payables decreased by 32,243 thousand euros;

their breakdown is shown in the following table.

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
IRES and IRAP payables	16,402	31,468	(15,066)
Deferred VAT	8,548	29,398	(20,850)
Staff withholdings	1,903	1,780	124
Other tax payables	93	10	83
Total payables to the tax authorities	26,947	62,656	(35,709)
Tax consolidation payables due to subsidiaries	28,901	25,435	3,466
Total tax payables	55,848	88,091	(32,243)

26.d – Other current liabilities - 18,656 thousand euros
These recorded a decrease of 1,241 thousand euros

compared to 31 December 2014, and their breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/(Decrease)
Amounts due to social security institutions	3,445	3,295	150
Other amounts due to subsidiaries and associates	5	0	5
Other payables	15,206	16,601	(1,395)
Amounts due to staff	7,801	9,016	(1,216)
collections from customers for reconciliation/refunding	5,388	5,376	12
Amounts due to various Municipalities	901	901	0
Payables to INPS, due in instalments	0	0	0
Insurance payables	582	592	(10)
Payables to Equitalia, due in instalments	255	325	(70)
Accrued liabilities and deferred income	0	195	(195)
Other payables	279	195	84
TOTAL	18,656	19,896	(1,241)

For greater clarity, 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.

Trading relations between ACEA and Roma Capitale include the provision of maintenance and upgrading of public lighting by the Parent Company to the municipality.

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.

The supplements 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;
- annual update of the compensation concerning 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 and 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 qualitative/quantitative parameters shall 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. 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 consideration accrued at 31 December 2015, calculated on the basis of lighting points activated up to and including 31 December 2014, amounts to 55,017 thousand euros. The new constructions and investments contribute to the increase in the lump-sum figure due to the annual accrual calculated according to the capital allowance mechanism envisaged for the plants underlying the specific operation as well as the percentage reduction of the ordinary fee due from Roma Capitale, the amount of which is defined in the technical-economic project document.

A variable interest rate is applied to the invested capital.

For further information regarding relations between ACEA and Roma Capitale, reference should be made to the disclosures regarding receivables and payables in note 19.c.

The following table shows details of revenues and costs deriving from the most significant financial relations between ACEA and Roma Capitale as at 31 December 2015.

€ thousand	REVENUES		COSTS	
	31.12.15	31.12.14	31.12.15	31.12.14
Public lighting service contract	55,017	53,557	0	0
TOTAL	55,017	53,557	0	0

ACEA AND ROMA CAPITALE GROUP

ACEA has trading relations with Companies, Special companies or bodies owned 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 31.12.15	Costs 31.12.15	Receivables 31.12.15	Revenue 31.12.15
AMA S.P.A.	96	1,008	64	287
AMA Soluzioni Integrate	74	99	0	0
ATAC S.P.A.	0	0	3,706	0
ROMA METROPOLITANE S.R.L.	0	0	56	0
FONDAZIONE CINEMA PER ROMA	1	0	0	0
FONDAZIONE MUSICA PER ROMA	111	100	0	0
RISORSE PER ROMA R.P.R. S.P.A.	10	0	0	0
ROMA MULTISERVIZI S.P.A.	1,011	860	0	0
LE ASSICURAZIONI DI ROMA	9	9	0	0
Total	1,312	2,077	3,826	287

ACEA AND THE SUBSIDIARIES

Financial relations

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

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

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

Inter-company transactions, the existing cash pooling agreement of which was reviewed as of 1 July 2015, consist of:

- a *revolving* type credit line (Inter-company Credit Line), to cover working capital and investment liquidity needs. This credit line **(i)** came into effect on 1 July 2015 and is valid until 31 December 2017 and **(ii)** generates fixed rate interest calculated on the basis of rates applied to the capital market for so-called hybrid bonds in the *utilities* sector, which can be updated annually. A possible supplementary margin linked to ACEA's level of exposure and rating costs is provided for. For specific projects and plans ACEA can grant a dedicated credit line;
- make its own credit lines available for bank guarantees or by directly issuing corporate guarantees (Guarantee Line). This line **(i)** comes into effect on 1

July 2015 and is valid until 31 December 2017, **(ii)** sets a *credit limit* for the type of guarantee and **(iii)** generates a different fee for bank guarantees and corporate guarantees.

ACEA S.p.A. also provides administrative, financial, legal, logistic, management and technical services to subsidiaries and associates in order to optimise the use of existing resources and *know-how* in an economically advantageous manner. These services are governed by specific annual service agreements.

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 AND MAIN COMPANIES OF THE CALTAGIRONE GROUP

Caltagirone € thousand	Payables 31.12.15	Costs 31.12.15	Receivables 31.12.15	Revenue 31.12.15
PIEMME SPA - CONCESSIONARIA DI PUBBLICITÀ SPA	53	53	0	0
METROPOLITANA DI NAPOLI SPA	0	0	94	25
Total	53	53	94	25

ACEA AND THE MAIN COMPANIES OF THE ONDEO GROUP

Gruppo Roma Capitale € thousand	Payables 31.12.15	Costs 31.12.15	Receivables 31.12.15	Revenue 31.12.15
ONDEO ITALIA SPA	15	30	0	0
Total	15	30	0	0

The impact of relations with related parties on the statement of cash flows is shown below. statement of financial position, the financial results and

IMPACT ON THE STATEMENT OF FINANCIAL POSITION

Statement of Financial Position	31.12.15	Of which related party transactions	% impact	31.12.14	Of which related party transactions	% impact	Increase/ (Decrease)
Financial assets	121,913	121,688	99.8%	1,971,000	1,928,415	97.8%	(1,849,087)
Trade receivables	28,345	3,861	13.6%	38,420	4,543	11.8%	(10,074)
Intragroup trade receivables	95,984	95,984	100.0%	42,161	42,161	100.0%	53,823
Other current assets	24,070	2,343	9.7%	17,073	0	0.0%	6,997
Intragroup current financial assets	1,195,870	1,195,870	100.0%	298,773	298,773	100.0%	897,097
Current tax assets	47,484	24,609	51.8%	100,284	36,988	36.9%	(52,800)
Borrowings	77,570	53,814	69.4%	929,849	905,635	97.4%	(852,279)
Trade payables	176,203	71,234	40.4%	143,120	91,095	63.6%	33,083
Tax Payables	55,848	26,656	47.7%	88,091	25,435	28.9%	(32,243)

IMPACT ON INCOME STATEMENT

Income Statement	31.12.15	Of which related party transactions	% impact	31.12.14	Of which related party transactions	% impact	Increase/ (Decrease)
Revenue from sales and services	168,975	163,114	96.5%	173,734	166,103	95.6%	(4,759)
Other revenue and proceeds	11,116	9,415	84.7%	12,650	6,113	48.3%	(1,534)
Costs of materials and overheads	133,268	47,066	35.3%	131,329	74,382	56.6%	1,939
Financial income	95,092	93,081	97.9%	101,287	97,737	96.5%	(6,196)
Financial costs	79,198	274	0.3%	87,799	687	0.8%	(8,601)
Profits on Equity Investments	146,438	146,438	100.0%	107,917	107,917	100.0%	38,522
Losses on Equity Investments	172	172	100.0%	954	954	100.0%	(782)

IMPACT ON THE STATEMENT OF CASH FLOWS

Statement of Cash Flows	31.12.15	Of which related party transactions	% impact	31.12.14	Of which related party transactions	% impact	Increase/ (Decrease)
Cash flow generated by operations	(8,706)	(60,622)	696.4%	(14,172)	(10,919)	77.0%	5,466
Cash flow generated by investment/ disinvestment	1,170,410	1,007,587	86.1%	(112,297)	(202,537)	180.4%	1,282,708
Cash flow generated by loans	(1,366,633)	(947,490)	69.3%	563,384	(391,238)	(69.4%)	(1,930,017)

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*”.

By Council decision no. 197 of 18 June 2015, Roma Capitale approved the Implementing Instrument, unilaterally making a number of amendments to the text signed in March by its own and ACEA’s representatives, the materiality of which is currently being examined.

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 subtenion indemnity (or compensation for damages incurred due to illegitimate subtenion), which remained frozen in respect of that defendant in the 1980s, amounting to 48.8 million euros (plus the sums due for 2008 and later) or alternatively payment of the sum of 36.2 million euros.

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 subtenion 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.

The expert's report shows a calculation according to which the claims actioned in the proceedings, even when unfounded - which is unclear, because the documents containing the metering parameters of the compensation are still deemed to be applicable and effective - would be greatly altered, substantially reducing the amount of equalisation already estimated by the Group.

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 'subtenion 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.

ACEA/SASI Proceedings

In ruling 6/10, 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 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-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 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. As at 29 February 2016 the judgment was still 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 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 euros.

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 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 1 April 2018.

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 to 23 million euros, 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 its 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. The Investigating Judge also ordered ACEA to deliver the documentation requested by the opposing party. The court appointed expert was asked questions regarding the urban situation of the area at the time of the sale and the buildable volume. The proceedings were thus postponed to 22 October 2015 for the filing of the court appointed expert appraisal. On request of the expert, the filing was postponed to the hearing on 21 September 2016.

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 euros), 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 defense 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 euros.

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 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 postponed to 15 June 2016 for the filing of the expert's report.

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 postponed to 19 January 2016 for the decision on the admission of evidence. The judge reserved his decision on the matter.

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 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 euros (25 million euros until 31 December 2005 and 8 million euros 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 February 2017 for submission of the closing statements, since the proceedings involve legal issues with relevant preliminary objections.

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.

The hearing was scheduled on 5 October 2015. ACEA has not yet filed its appearance, the deadline being set on 25 September 2015. The judge adjourned the hearing to 21 March 2016 for discussion and decision of the case, including the preliminary issues.

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 euros and 185 THOUSAND EUROS 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.

Former COS proceedings

It should be noted that six workers, already assigned to the COS contract, who did not amicably settle the dispute with ACEA and who were successful in the appeal proceedings, their employment contract having been acknowledged, brought legal actions to obtain the wages not taken; their requests were entirely dismissed by the Court, with judgment 5538/15 of 3 June 2015, considering - mainly - that in the meanwhile they had continued to work as employees of the company ALMAVIVA Contact (formerly COS) receiving a salary. The value of the claims was 660 thousand euros net of incidental expenses. They will likely lodge an appeal, which has not been notified so far.

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	85,263	2,350	87,613	
Other equity investments	0		2,350	2,350	15
Financial assets due from Parent Company, subsidiaries and associates	0	85,038	0	85,038	17
Financial assets due from third parties	0	225	0	225	17
Current assets	0	2,101,927	0	2,101,927	
Trade receivables from customers	0	28,345	0	28,345	19
Trade receivables from related parties	0	95,984	0	95,984	19
Financial assets due from Parent Company, subsidiaries and associates	0	1,193,092	0	1,193,092	19
Financial assets due from third parties	0	5,634	0	5,634	19
Cash and cash equivalents	0	773,512	0	773,512	19
TOTAL FINANCIAL ASSETS	0	2,181,830	2,350	2,184,180	

€ thousand	Financial instruments held for trading	Liabilities at Fair Value	Liabilities at amortised cost	Carrying amount	Notes
Non-current liabilities	0	39,037	2,361,064	2,400,100	
Bonds	0	0	1,871,989	1,871,989	23
Bonds valued at FVH	0	(923)		(923)	
Bonds valued at CFH	0		32,956	32,956	
Bank borrowings (non-current portion)	0	0	489,075	489,075	23
Bank borrowings (non-current portion) measured at CFH	0	7,004		7,004	
Current liabilities	0	0	253,773	253,773	
Bank borrowings	0	0	0	0	26
Bonds (current portion)	0	0	0	0	26
Bank borrowings (current portion)	0	0	23,754	23,754	26
Financial liabilities due to the Parent Company, subsidiaries and associates	0	0	53,814	53,814	26
Financial liabilities due to third parties	0	0	1	1	26
Trade payables	0	0	65,647	65,647	26
Trade payables due to Parent Company, subsidiaries and associates	0	0	110,556	110,556	26
TOTAL FINANCIAL LIABILITIES		0	2,614,836	2,653,873	

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-free* and the *adjusted risk-free* 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 translation 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

ACEA SpA'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 mini-

mise 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 2015 the Parent Company held uncommitted credit lines totalling 809 million euros, which are not used. No guarantees were issued to obtain these credit lines.

The Committed credit lines in place at 31 December 2014 (300 million euros) were paid off in the first quarter of 2015.

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 euros, approved in 2014, ACEA can issue bonds up to a total of 900 million euros until 2019.

Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes the structure of assets and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging *funding* costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

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

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure 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 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, 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:

- 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 euros of the 5-year 600 million euros 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 7.0 million euros (negative 9.0 million euros at 31 December 2014),
- negative for 33.0 million euros (negative 54.9 million euros at 31 December 2014) and
- positive 0.9 million (positive for 1.2 million in 2014).

The *fair value* of medium/long-term debt is calculated on the basis of the *risk-free* 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	1,904,022	2,113,920	(209,898)	2,072,369	(168,348)
fixed rate	313	324	(11)	324	(11)
floating rate	462,532	474,199	(11,667)	473,301	(10,769)
floating rate to fixed rate	56,988	62,390	(5,401)	61,489	(4,500)
Total	2,423,855	2,650,833	(226,978)	2,607,483	(183,628)

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%	(172.5)
-1.00%	(112.8)
-0.50%	(55.3)
-0.25%	(27.4)
0.00%	0.0
0.25%	26.8
0.50%	53.2
1.00%	104.4
1.50%	153.6

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.

COMMITMENTS AND CONTINGENCIES

Commitments and contingencies amounted to 1,105,116 thousand euros, representing an increase of 138,551 thousand euros compared to 31 December 2014 (1,243,667 thousand euros).

The balance includes:

ENDORSEMENTS AND GUARANTEES ISSUED AND RECEIVED

This item had a net positive balance of 164,895 thousand euros, resulting from endorsements and guarantees issued of 215,864 thousand euros and endorsements and guarantees received of 50,969 thousand euros.

There was a decrease of 126,911 thousand euros compared to the end of last year.

This reduction is mainly attributable to the release of guarantees issued by B.B.V.A. in favour of the Revenue Agency for a total amount of 46,817 thousand euros, the release of the guarantee issued in favour of the Municipality of Naples for 3,377 thousand euros and the cancellation of guarantees issued by M.P.S. in favour of Terna for 42,701 thousand euros.

LETTERS OF PATRONAGE ISSUED AND RECEIVED

This item had a net positive balance of 691,580 thousand euros, resulting from letters of patronage issued

for 691,782 thousand euros, and letters of patronage received for 203 thousand euros.

There was a decrease in the period of 11,639 thousand euros.

The major changes are as follows:

- reduction of the back-to-back guarantee to Cassa Depositi e Prestiti for the 8,457 thousand euros loan granted to ACEA Distribuzione, which decreased from 377,736 thousand euros in 2014 to 369,279 thousand euros,
- the cancellation of guarantees issued on behalf of Acea Energia in previous years for 56,049 thousand euros ,
- the issuance of guarantees in favour of Terna, EDF Trading, GDF, Eni Trading & Shipping, Italgas and AMS Voghera for an overall amount of 48,514 thousand euros,
- the issuance of corporate guarantees in favour of the former shareholder of Aquaser for 4,067 thousand euros.

THIRD-PARTY ASSETS HELD UNDER CONCESSION

Such assets amount to 86,077 thousand euros and did not undergo significant changes with respect to 31 December 2014. They refer to Public Lighting assets.

ANNEXES TO THE NOTES

**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 31.12.15**

€ thousand	31.12.15	Related parties	31.12.14	Related parties	Increase/ (Decrease)
Non-current financial assets	225	0	225	0	0
Intercompany non-current financial assets	85,038	85,038	1,928,415	1,928,415	(1,843,377)
Non-current borrowings and financial liabilities	(2,361,064)	0	(2,677,108)	0	316,045
Financial assets/ (liabilities) deriving from measurement of derivative instruments	(39,037)	0	(53,732)	0	14,695
Net medium/ long-term debt	(2,314,837)	85,038	(802,201)	1,928,415	(1,512,637)
Cash and cash equivalents and securities	773,512	0	978,440	0	(204,929)
Current financial assets/ (liabilities)	(19,892)	(1,770)	(12,570)	0	(7,322)
Intragroup current financial assets/ (liabilities)	1,141,048	1,141,048	(610,283)	(610,283)	1,751,331
Net short-term debt	1,894,668	1,139,278	355,587	(610,283)	1,539,080
Total net debt	(420,170)	1,224,316	(446,613)	1,318,132	26,443

**ANNEX 2:
STATEMENT OF CHANGES
IN INVESTMENTS AT 31 DECEMBER 2015**

CHANGES DURING THE PERIOD							
€ thousand	31.12.14	Acquisitions	Disposals	Reclass.	Increases/ Decreases/	Impairments/ Losses	31.12.15
Subsidiaries							
Acea Distribuzione S.p.A.	324,295	324,355	0	0		0	648,651
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	5,219	0	0	0	(107)	0	5,113
Acea Elabori S.p.A.	4,024	0	0	0	0	0	4,024
Ecomed S.r.l.	0	0	0	0	56	0	56
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	705	0	0	0	(115)	0	590
Acea Tradexco Consortium	43	0	0	0	0	0	43
Acea Domenicana SA	559	0	0	0	47	0	606
Acque Blu Arno Basso S.p.A.	14,500	162	0	0	0	0	14,663
Ombrone S.p.A.	19,383	0	0	0	0	0	19,383
ARSE S.p.A.	354,295	0	0	0	(354,295)	0	0
Acque Blu Fiorentine S.p.A.	43,911	0	0	0	0	0	43,911
ARIA S.r.l.	22,136	0	0	0	0	0	22,136
Umbra Acque S.p.A.	6,851	0	0	0	0	0	6,851
Aquaser S.r.l.	9,948	0	0	0	(4,547)	0	5,401
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	0	0	0	5,633
Parco della Mistica	10	0	0	0	0	0	10
Sarnese Vesuviano S.r.l.	163	0	0	0	0	0	163
Acea Illuminazione Pubblica S.p.A.	19,977	19,797	0	0		0	39,773
Ingegnerie Toscane S.r.l.	58	0	0	0	0	0	58
Elga Sud	0	9,821	0	0	0	0	9,821
Acea Produzione S.p.A.	0	43,441	0	0	0	0	43,441
Acea Energy Management S.r.l.	0	50	0	0	0	0	50
Acea Servizi Acque S.r.l. in Liquidation	0	0	0	0	0	0	0
Crea S.p.A. S.p.A. in Liquidation	0	0	0	0	0	0	0
Hydreco Scarl in Liq.	0	0	0	0	0	0	0
Total subsidiaries	1,716,037	397,626	0	0	(358,961)	0	1,754,703

CHANGES DURING THE PERIOD

€ thousand	31.12.14	Acquisitions	Disposals	Reclass.	Increases/ Decreases	Impairments/ Losses	31.12.15
Associates							
Aguas De San Pedro SA	1,942	0	0	0	115	0	2,058
Umbria Distribuzione Gas S.p.A.	318	0	0	0	0	0	318
Marco Polo S.p.A. in Liquidation	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 Liquidation	42	0	0	0	0	(42)	0
DI.T.N.E. S.c.a.r.l.	0	0	0	0	12	0	12
Total associates	14,114	0	0	0	128	(42)	14,200

CHANGES DURING THE PERIOD

€ thousand	31.12.14	Acquisitions	Disposals	Reclass.	Increases/ Decreases	Impairments/ Losses	31.12.15
Other companies							
Polo Tecnologico Industriale Romano S.p.A.	2,395	0	0	0	0	(45)	2,350
WRC PLC	0	0	0	0	85	(85)	0
Total other companies	2,395	0	0	0	85	(130)	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 2015 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	DISCONTINUED OPERATIONS	TOTAL
Investments	0	11,769	11,769	0	11,769
Operating Segments					
Property, plant and equipment	0	154,095	154,095	0	154,095
Intangible Assets	0	13,411	13,411	0	13,411
Non-current financial assets	0	1,771,252	1,771,252	0	1,771,252
Other non-current trading assets					33,115
Other non-current financial assets	65,759	56,154	121,913		121,913
Raw materials	270	0	270	0	270
Trade receivables	5,240	23,106	28,345	0	28,345
Trade receivables due from Parent Company	5,245	624	5,869	0	5,869
Receivables due from subsidiaries/ associates	0	90,116	90,116	0	90,116
Other current trading assets	858	70,696	71,554		71,554
Other current financial assets	75,930	1,125,574	1,201,504	0	1,201,504
Bank deposits					773,512
Total assets					4,264,956

**ANNEX 5:
SEGMENT INFORMATION (IFRS 8)**

€ thousand	Public Lighting	Corporate	TOTAL CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Segment liabilities					
Trade payables	879	64,768	65,647	0	65,647
Trade payables due to Parent Company	0	20,516	20,516	0	20,516
Trade payables due to subsidiaries and associates	64,995	25,044	90,039	0	90,039
Other current trading liabilities					74,504
Other current financial liabilities					77,570
Defined benefit plans	0	29,847	29,847	0	29,847
Other provisions	0	42,786	42,786	0	42,786
Provision for deferred taxes					6,655
Other non-current trading liabilities					0
Other non-current financial liabilities					2,400,100
Shareholders' equity					1,457,291
Total Liabilities					4,264,956

**ANNEX 5:
SEGMENT INFORMATION (IFRS 8)**

€ thousand	Public Lighting	Corporate	TOTAL CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Third party revenues	66,743	11,337	78,080	0	78,080
Inter-segment sales	0	102,011	102,011	0	102,011
Staff costs	0	(50,283)	(50,283)	0	(50,283)
Cost of materials and overheads	(70,365)	(62,903)	(133,268)	0	(133,268)
Gross Operating Profit	(3,622)	162	(3,459)	0	(3,459)
Amortisation, depreciation and provisions for the impairment of receivables	0	(9,811)	(9,811)	0	(9,811)
Impairment charges/Reversal of impairment charges on non-current assets	0	0	0	0	0
Operating profit/(loss)	(3,622)	(9,649)	(13,270)	0	(13,270)
Financial (costs)/income					15,893
(Costs)/Income from investments					146,266
Net profit/(loss) from discontinued operations					0
Profit/(loss) before tax					148,890
Taxation					(3,284)
Net profit/(loss)					145,606

Board of Statutory Auditors' Report to the Shareholders' Meeting

(in accordance with art. 153 of Italian Legislative Decree 58/1998
and art. 2429, paragraph 2, of the Italian Civil Code).

Dear Shareholders,

the Acea S.p.A. Board of Statutory Auditors (hereinafter also "Acea" or the "Company") in accordance with art. 153 of Italian Legislative Decree No. 58/1998 (hereinafter referred to also as the Italian Consolidated Financial Act or "TUF") and art. 2429, paragraph 2 of the Italian Civil Code, is required to report to the Shareholders' Meeting called to approve its supervisory activity in the financial year and report any omissions or reprehensible facts. The Board of Statutory Auditors is also required to make proposals concerning the financial statements and the approval of the same and any other matters of its competence.

During the financial year the Board of Statutory Auditors performed its supervisory activities within the terms required by the laws in force, also on the basis of the rules of behaviour recommended by the Italian Association of Certified Accountants and Chartered Accountants, the Consob (Securities and Exchange Commission) regulations on corporate control and the activities of the Board of Statutory Auditors.

* * *

The Acea financial statements were drawn up on the basis of the IAS/IFRS international accounting standards of the International Accounting Standards Board (IASB) homologated by the European Union, conform to the new measures issued to implement art. 9 of Italian Legislative Decree No. 38/2005.

The following documents have been issued by the IASB and endorsed by the European Union as amendments to international accounting standards in force from 1 January 2015: "IFRIC 21 - Taxation" and "Improvements to *International Financial Reporting Standards* (2011-2013 cycle)." Note that this last document amended the following accounting standards: (i) IFRS 1 – First-time Adoption of *International Financial Reporting Standards*; (ii) IFRS 3 – Business Combinations; (iii) IFRS 8 – Operating Segments; (iv) IFRS 13 – *Fair value* Measurement; (v) IAS 40 – Investment property.

The Directors' Report describes the main risks and uncertainties and allows for the foreseeable evolution of the period. The Company financial statements consist of the statement of financial position, the income statement, the statement of assets and liabilities, the statement of changes in shareholders' equity, the statement of cash flows, and the notes to the financial statements. The financial statements include the Directors' Report. The Corporate Governance Report has also been drawn up in accordance with art. 123-*bis* of the TUF, as was the Remuneration Report in accordance with art. 123-*ter* of the TUF.

Nomination of the Board of Auditors

The Board of Auditors in office on the date of this report was elected by the Shareholders' Meeting on 15 April 2013 and consists of the following members: Enrico Laghi (Chairman), Corrado Gatti (Statutory Auditor) and Laura Raselli (Statutory Auditor).

Franco Biancani and Antonia Coppola are the alternate auditors.

Transactions of major significance

Transactions of major significance are shown in the Directors' Report. In particular, note that:

- on 23 April 2015 the Acea Shareholders' Meeting passed a resolution on the allocation of Acea's statutory profit from 2014 with the distribution of a total dividend of 95,834,205.00 euros, equal to 0.4500 euros per share;
- on 23 April 2015 the Acea Shareholders' Meeting approved the enlargement of the Board of Directors from 7 to 9 Members and appointed Massimiliano Capece Minutolo del Sasso and Roberta Neri board members, who shall remain in office until the end of the Board of Directors' term in office, in other words until approval of the 2016 financial statements. The board members Roberta Neri and Massimiliano Capece Minutolo del Sasso declared they meet independence requirements pursuant to the law, the Articles of Association and the Corporate Governance Code of listed companies;
- on 9 June 2015 the Acea Board of Directors approved the Group Business Plan for the period 2015-2019.
- on 24 June 2015, *Moody's* reported that it had confirmed Acea's "Baa2" rating and the "Stable" outlook;
- on 26 June 2015, Fitch Ratings reported that it had confirmed Acea's "BBB+" rating and the "Stable" outlook;
- on 17 September 2015 the Board of Directors passed a resolution on corporate restructuring which, once completed, will make the Company and the Group more efficient by unifying processes and simplifying corporate structures for consequent integration, to create synergies, implement economies of scale and reduce costs, as well as improve the separation of operating costs and capital. There are no third parties involved in this operation as it is an internal Group reorganisation;
- on 17 September 2015, Franco Balsamo, Chief Financial Officer and Executive responsible for financial reporting, resigned, with said resignation coming into effect from 1 October 2015. As a consequence and at the time of said resignation, the Board of Directors, pending the appointment of the new *Chief Financial Officer*, appointed Iolanda Papalini Executive responsible for financial reporting with the appointment coming into effect on 1 October 2015;
- on 4 December 2015 Standard & Poor's reported that it had confirmed Acea's "BBB-" rating for long-term debt and an "A-3" rating for short-term debt, with a "Stable" outlook;
- on 15 December 2015, coming into effect 1 January 2016, the Board of Directors appointed Demetrio Mauro *Chief Financial Officer* of the Company and Acea's Executive responsible for financial reporting;
- on 11 March 2016 the Acea Board of Directors approved the Business Plan for the period 2016-2020.

In the following months the Acea Group will continue the efforts, which started in 2014, to rationalise and increase the efficiency of both corporate processes and operational processes in all *business* and *corporate* segments. These goals will be pursued also through the extensive development of IT systems, now underway, so that by 2016 the Company can manage networks and provide services in a truly 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 the "Acea 2.0" Project.

The digitalisation of processes from 28 September 2015 with Acea Ato 2 S.p.A., was the start of a real *business* transformation, with major focus on the people who are requalified and totally dedicated to the process of change.

There were no significant further events after the reporting date.

Exceptional and/or unusual transactions

No exceptional and/or unusual transactions have been noted.

Intragroup or related party transactions

In accordance with art. 2391-*bis* of the Italian Civil Code and Consob Resolution No. 17221 of 12 March 2010 "Regulation containing provisions regarding related party transactions", subsequently amended by Consob Resolution No. 17389 on 23 June 2010, on 11 November 2010 the Acea Board of Directors, with the approval of the Committee set up specifically for the purpose consisting of Independent Directors only (appointed for the position in accordance with art. 4, paragraph 3, of the above Regulation by specific Resolution of the Board of Directors), adopted the "Related party transactions procedure".

Subsequently, on 18 December 2013 the Acea Board of Directors, on approval of the Related Party Transactions Committee made up of Independent Directors only, unanimously approved the new "Related party transactions procedure" (hereinafter also "Procedure"). The adoption of said new Procedure cancels and replaces, from 1 January 2014, the Related Party Transactions Procedure approved by the Board of Directors by Resolution No. 61 on 11 November 2010.

In accordance with art. 4 of said Regulation, note that the Procedure adopted by the Company (i) is coherent with the principles of the same Regulation and (ii) has been published on the Company web site (www.aceaspa.it).

During the 2015 financial year, on the basis of information received, a series of transactions were carried out with related parties, both intragroup and third parties. The related party transactions were carried out, as far as we can tell, also on the basis of the supervisory activities performed, in substantial accordance with the Procedure and Regulation adopted by Acea. The Intragroup operations we examined are ordinary operations, as they essentially consist of commercial services and reciprocal administrative, financial and organizational services. The above-mentioned relations are regulated by applying the normal conditions determined using *standard* parameters, which reflect the actual use of the services, and were provided in the Company's interest. The non-intragroup related party transactions we examined are also ordinary operations (as they are part of ordinary business activities and the financial activities associated with the same) and concluded at equivalent conditions to those of the market or *standard* conditions. The related party transactions are described in the notes to the Company financial statements and the consolidated financial statements, which also describe the consequent economic effects.

The Board of Statutory Auditors met on 16, 17, 20 and 21 April 2015, and on 27 and 28 September 2015 as the "equivalent supervisory body" pursuant to paragraph 15 of Consob Communication No. DEM/10078683 of 24 September 2010 to examine a related party transaction (so-called "LED Project") and gave the relevant opinion.

In our opinion the above-mentioned operations were performed in the Company's interest and correspond to fair prices and values.

Impairment Test procedure

Note that the Acea Board of Directors, as indicated in the joint document of Banca d'Italia/Consob/ISVAP dated 3 March 2010, approved the procedure and the results of the *impairment test* autonomously and in advance of the approval of the draft financial statements, verifying the same met the requirements of International Accounting Standards IAS 36.

The notes to the financial statements contain information on the results of the assessment processes performed.

Supervisory Activities in accordance with the “Consolidated Act on Statutory Auditing”

In accordance with the Consolidated Act on Statutory Auditing (Italian Legislative Decree No. 39/2010) the Board of Auditors (identified by the Consolidated Act as the “Internal Control and Auditing Committee”) is required to supervise the:

- (i) financial reporting process;
- (ii) effectiveness of the internal control, auditing and risk management systems;
- (iii) auditing of annual accounts and consolidated accounts;
- (iv) independence of the auditing firm, and in particular concerning the provision of services not related to auditing.

The Board of Auditors interacted with the Risk and Control Committee established within the Board of Directors to coordinate the respective competences and avoid an overlapping of activities.

On this point, Acea introduced the practice of having the whole Board of Auditors participate in the activities of the Risk and Control Committee in relation to themes of specific importance in accordance with Italian Legislative Decree No. 39/2010 for fluid relations and to make coordination and the exchange of information between the two bodies easier.

In particular, the whole Board of Auditors participates in the activities of the Risk and Control Committee for specific themes concerning: (i) the financial reporting process; (ii) the effectiveness of the internal control, auditing and risk management systems; (iii) auditing annual accounts and consolidated accounts; (iv) the independence of the auditing firm.

* * *

With specific reference to the activities provided for in the Consolidated Act on Statutory Auditing, the following should be noted.

Financial Reporting process supervisory activity

The Board of Auditors ascertained the existence of rules and procedures regulating the process for drawing up and publishing financial statements. On this subject, note that the Corporate Governance Report defines the guidelines of reference for setting up and managing administrative and accounting procedure systems for Acea and the consolidated companies, regulating the relevant phases and responsibilities.

The Board of Auditors, with the assistance of the Executive responsible for financial reporting, examined the procedures for drawing up the Company financial statements and the consolidated financial statements, as well as other periodic accounting documents. The Board of Auditors also found evidence of the process with which the Executive responsible for financial reporting and the CEO issue the statements required by art. 154-*bis* of the TUF.

The Board of Auditors was informed that the administrative/accounting procedures used to

draw up the financial statements and any other financial communications were prepared under the responsibility of the Executive responsible for financial reporting, who with the CEO, certifies the suitability and effective application of the same for the annual/consolidated financial statements and half-year financial report.

The Audit Department performs audits on the basis of a plan approved by the Board of Directors to verify the suitability of the design and the effectiveness of the controls on the company and processes.

Therefore, the Board of Auditors deems the process used to draw up the financial statements adequate and that there is nothing worthy of note to report to the Shareholders.

Supervisory activity on the effectiveness of the internal control, auditing and risk management systems and auditing annual accounts and consolidated accounts

The Board of Auditors, also jointly with the Risk and Control Committee, met the Head of the Audit Department periodically, receiving information on the results of the audits carried out to verify the suitability and effectiveness of the internal control system, observance of the law, the corporate procedures and processes, and the implementation of the relevant improvement plans. It also received the Audit Plan for 2015, approved by the Board of Directors on 11 March 2015, and was periodically updated on the state of progress of the Plan and any corrective actions. On 7 March 2016 it also received the Head of the Audit Department's Report for 2015 concerning the evaluation of the internal control system. The above Report acknowledges the Company's activities to adapt the internal structure, administrative processes and statements to meet *business* requirements. The Head of the Audit Department's evaluation indicates that the single components of the internal control system are proof of the existence and performance of the fundamental elements used to pursue the goals of conformity, effectiveness and efficiency in activities and the reliability of the statements, and prove the Internal Control and Risk Management System as a whole is essentially suitable and effective.

Furthermore, every six months it received the Risk and Control Committee's report on the committee's activities.

Once again the Board of Statutory Auditors, as the Supervisory Body of the Company in accordance with Italian Legislative Decree No. 231/2001 (hereinafter also referred to as "SB"), acknowledges that the Organisational and Management Model (hereinafter also referred to as the "Model") approved by the Board of Directors on 18 December 2013 is suitable, and by resolution passed on 19 February 2016 the Board of Directors was revised to include the changes in the Company's organisational structure and is now in line with current legislation which expanded the scope of crimes in accordance with the above Decree, until approval of the same.

Note that the SB directed and monitored the project activities for revising the Model in 2015, with particular focus on the activities performed by the Audit Department, and approved the new Model on 15 December 2015.

Finally, the Board of Auditors periodically met the auditing firm Reconta Ernst & Young S.p.A. (hereinafter also referred to as "Ernst & Young") although nothing worthy of note emerged concerning the auditing, nor were there shortcomings that could have an effect on the integrity of the internal control system as far as the financial reporting process is concerned also in accordance with the provisions of art. 19, paragraph 3 of Legislative Decree No. 39/2010.

Therefore, the Board of Auditors deems the internal control system to be substantially adequate and that there is nothing worthy of note to report to the Shareholders.

Independence of the auditing firm, and in particular concerning the provision of services not related to auditing.

Concerning the annual confirmation of independence in accordance with art. 17, paragraph 9, lett. a) of Italian Legislative Decree 39/2010, the Board of Statutory Auditors declares to have received said confirmation from the auditing firm in the relevant letter on 6 April 2016.

The Board of Auditors supervised the independence of the auditing firm and, in particular, periodically received proof of mandates for other than auditing to be attributed (or attributed as a result of specific regulator provisions) to the external auditor.

As can be seen in the Acea Group consolidated financial statements for 2015 Ernst & Young performed the following activities for the Group:

Company and period of reference <i>Amount in Euros</i>	Audit services	Audit related services	Non audit services	Total
Acea S.p.A. 2015	377,813	156,279	249,500	783,592
Acea Group 2015	1,197,419	290,015	0	1,487,434
Acea SpA and Group total	1,575,232	446,294	249,500	2,271,026

The Board of Auditors considers the above compensation to be suitable for the size, complexity and characteristics of the work done and also deems that the mandates (and relevant fees) other than for auditing services could not have an impact on the independence of the external auditor.

Organisational structure

The Board of Auditors considers the Company's organisational structure to be substantially adequate for the needs it must meet and suitable to guarantee correct administrative principles are observed.

Note that, following the changes in the operational processes and IT systems as a result of the Acea 2.0 Project, a process of corporate reorganisation was implemented, and other opportunities are expected in this area, which could further consolidate and improve overall Group *performance*. In this context, on 15 December 2015 the Board of Directors passed a resolution to set up the *Performance Management Office*.

Further activities of the Board of Auditors and reporting required by Consob

Within the scope of its duties the Board of Auditors, as required by art. 2403 of the Italian Civil Code and art. 149 of the TUF, supervised:

- the observance of the law and by-laws;
- observance of the correct administrative principles;
- the adequacy, for the aspects of its competence, of the Company's organizational structure;
- the methods for concretely implementing the corporate governance rules in the codes of ethics and behaviour the Company declares it adheres to in a public statement. In accordance with art. 123-*bis* of the TUF, the Company drew up the annual Corporate Governance Report for 2015, approved on 11 March 2016, providing information on (i) the corporate governance practices actually applied by the Company; (ii) the main characteristics of the existing internal control and risk management systems also in

relation to the financial reporting process, also for consolidated statements; (iii) the operating mechanisms of the Shareholders' Meeting, its main powers, Shareholders' rights and the procedures for exercising the same; (iv) the composition and operation of the administration and control bodies and the committees of the same, as well as other information required by art. 123-*bis* of the TUF;

- the adoption of the Policy for the Remuneration of Directors and Managers with key responsibilities, in line with the corporate governance code of listed companies issued by Borsa Italiana S.p.A., and the subsequent Remuneration Report in accordance with art. 123-*ter* of the TUF;
- the adequacy of the instructions given to subsidiaries in accordance with art. 114, paragraph 2, of the TUF, having ascertained that the Company is able to timely and regularly meet its notification obligations as required by law, as specified in the above-mentioned art. 114, paragraph 2, of the TUF. This is done also by collecting information from the heads of organizational departments and holding periodic meetings with the auditing firm, for a mutual exchange of relevant data and information. No comments to be made;
- on the application, during the financial year, of the Procedure for assignment of mandates to the auditing firm within the scope of the Acea Group, approved by the Acea Board of Directors on 7 October 2014, coming into effect from 1 November 2014. Within this scope the Acea Corporate Affairs and Legal Department, on 3 March 2016 and with reference to 2015, sent the annual reporting to the Company's Board of Statutory Auditors, in accordance with art. 2.2, last sentence, and art. 4, paragraphs 4.3 and 4.4 of the above Procedure.

The Board of Statutory Auditors acknowledges:

- that the Directors' Report for the financial year 2015 is conform to the laws in force and coherent with the resolutions of the administrative body and the results of the financial statements. It also contains adequate information on the activities in the financial year and on Intragroup operations. The section containing information on related party transactions has been included, in accordance with IFRS principles, in the notes to the financial statements;
- to have verified the rationality of the evaluation procedures applied and that they are in line with the logic of international accounting standards;
- that the Company financial statements and the consolidated financial statements have been drawn up on the basis of the structure and schemes required by current regulations;
- that the Directors and/or Managers of the Parent Company hold executive powers in the Board of Directors of subsidiaries to guarantee coordinated management and the appropriate flow of information, as well as suitable accounting information.

Furthermore, the Board of Statutory Auditors:

- obtained from the Directors, at least every quarter, information on the activities performed and the Company's economic, financial and equity transactions of major significance, as well as the Group's strategic guidelines. The Board of Statutory Auditors can within reason guarantee that the transactions resolved and put into effect are conform to the law and the by-laws and are not evidently imprudent, or reckless, or in conflict of interest, or in conflict with the Resolutions of the Shareholders' Meeting, or such that they could compromise the integrity of the Company's assets;

- in accordance with art. 151, paragraphs 1 and 2, of Italian Legislative Decree No. 58/1998, information was exchanged with the Board of Statutory Auditors of the subsidiaries concerning the activities in 2015;
- as Supervisory Body it assessed the interest profiles in accordance with Italian Legislative Decree No. 231/2001 and no anomalies or significant reprehensible facts emerged;
- held periodic meetings with the auditing firm to exchange data and information of relevance for its duties, as required by art. 150, paragraph 3 of the TUF. On this subject, note that no relevant data or information emerged, worthy of mention in this report;
- no notifications were received in accordance with art. 2408 of the Italian Civil Code;
- approved the remuneration of directors with special powers, in accordance with art. 2389, paragraph 3 of the Italian Civil Code;
- gave its opinion in accordance with art. 154-*bis*, paragraph 1, of Italian Legislative Decree No. 58/1998, initially on the appointment of Iolanda Papalini and then on the appointment of Demetrio Mauro, as Acea's Executive responsible for financial reporting.

In relation to the auditing firm, the Board of Statutory Auditors reports that Ernst & Young:

- on 6 April 2016 provided the annual confirmation of independence in accordance with art. 17, paragraph 9, lett. a) of Italian Legislative Decree No. 39/2010;
- on 6 April 2016 issued a report containing its opinion on the conformity of the financial statements and consolidated financial statements with the regulations and accounting standards applied, as well as its opinion on the coherence of the Directors' Report with the financial statements. Said report, with no comments worthy of note, contains some emphasis of matter;
- issued a report on 6 April 2016 on the fundamental issues that emerged during the external audit, the results of which show no “significant shortcomings” in the internal control system in relation to the financial reporting process. The Board of Statutory Auditors is monitoring the Company's plans of action for areas where improvement is required;
- checked that the Company prepared the Corporate Governance Report;
- checked that the Policy for the Remuneration of Directors and Managers with key responsibilities has been adopted, and the Remuneration Report has been drawn up.

Furthermore, concerning the corporate bodies, the Board of Statutory Auditors reports that:

- as mentioned above, on 23 April 2015 the Shareholders' Meeting approved the enlargement of the Acea Board of Directors from 7 to 9 Members and appointed the new board members, Massimiliano Capece Minutolo del Sasso and Roberta Neri;
- on 30 April 2015 the Board of Directors appointed the following members of these committees:
 - for the Risk and Control Committee: Roberta Neri (Chairperson), Giovanni Giani and Elisabetta Maggini;
 - for the Related Party Transactions Committee: Diane D'Arras (Coordinator), Massimiliano Capece Minutolo Del Sasso and Roberta Neri;
 - for the Appointment and Remuneration Committee: Elisabetta Maggini (Chairperson), Giovanni Giani, Massimiliano Capece Minutolo del Sasso and Roberta Neri, increasing the number of committee members from three to four;
 - for the Ethics Committee; Paola Antonia Profeta (Chairperson), Giovanni Giani, Elisabetta Maggini, Luigi Giuliano (external member) and Maurizio Zollo (external member);

- as mentioned above, on 15 December 2015 the Board of Directors appointed Demetrio Mauro Acea's new Executive responsible for financial reporting;
- in 2015 the Board of Directors held 16 meetings (of which 5 held by the previous Board of Directors and 11 by the new one);
- in 2015 the Risk and Control Committee met 4 times (of which one meeting was held by the previous Committee and 3 by the new one);
- in 2015 the Appointment and Remuneration Committee met 5 times (of which 1 meeting was held by the previous Committee and 4 by the new one);
- in 2015 the Ethics Committee met 4 times (of which 1 meeting was held by the previous Committee and 3 by the new one);
- the Related Party Transactions Committee held no meetings in 2015. The relevant activities were performed in 6 meetings held by the Board of Statutory Auditors as the "equivalent supervisory body" in accordance with paragraph 15 of Consob Communication No. DEM/10078683 of 24 September 2010;
- in 2015 the Supervisory Body met 4 times.

The Board of Auditors attended all the meetings of the Board of Directors and the Risk and Control Committee. It also attended the meetings of the Appointment and Remuneration Committee

Finally, the Board of Statutory Auditors acknowledges:

- to have verified, in accordance with the recommendations of the corporate governance code issued by Borsa Italiana S.p.A., that its members met the same requirements of independence required for the directors by said Code;
- that the criteria and procedures were applied correctly to ascertain the independence requirements adopted by the Board of Directors to evaluate the independence of its members annually, and that the Board of Directors performed an evaluation based on substantial profiles and in coherence with the decisions taken to identify Acea related parties with no comments worthy of note;
- that the Directors describe the main risks and uncertainties to which the Company is exposed in the Company financial statements.

During the supervisory activity and on the basis of the information obtained from the auditing firm, no omissions, or reprehensible facts, or irregularities, or in any case significant events which should be reported to the supervisory bodies or mentioned in this report emerged.

The above activities, also performed jointly with the Risk and Control Committee, were described in the minutes of 15 Board of Auditors' meetings held in 2015, of which 6 held as the "equivalent supervisory body" in accordance with paragraph 15 of Consob Communication No. DEM/10078683 of 24 September 2010.

Proposal for the Meeting

1. Financial statements at 31 December 2015

The Board of Statutory Auditors has no objections to make concerning the financial statements for the year ended 31 December 2015, and the resolutions proposed by the Board of Directors on the allocation of profit.

2. Group Remuneration Policy

The Board of Statutory Auditors has no objections to make on the Remuneration Policy presented to the Shareholders for discussion.

* * *

In accordance with art. 144 *quinquiesdecies* of the Issuer's Regulation, approved by Consob Resolution No. 11971/99 and subsequent amendments, the list of positions held by the members of the Board of Auditors in the company in Volume V, Heading V, Chapters V, VI and VII of the Italian Civil Code is published by the Consob on its web site (www.consob.it).

* * *

Dear Shareholders,
following the approval of the financial statements at 31 December 2015 the mandate of the Board of Statutory Auditors appointed by the Shareholders' Meeting on 15 April 2013 has expired. You are therefore called to appoint the Board of Statutory Auditors for the next 3-year period, in accordance with the law and the by-laws. Thank you for your trust during the years of our mandate.

Rome, 6 April 2016

Enrico Laghi

Corrado Gatti

Laura Raselli

This report has been translated into English language solely for convenience of international readers



ACEA S.p.A.

Financial statements as at 31 December 2015

**Independent auditor's report in accordance with articles 14
and 16 of Legislative Decree n. 39, dated 27 January 2010**



Reconta Ernst & Young S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
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**Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)**

To the Shareholders of 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 2015, 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, paragraph 3 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 2015, 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.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
iscritta alla S.O. del Registro delle imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione: 09434000584
P.IVA 00891231003
iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/07/1998
iscritta all'Albo Speciale delle società di revisione
Consob al provvedimento n. 2 del 26/11/2003 del 14/7/1997

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Emphasis of Matter

For a better understanding of the financial statements, we draw your attention to the following matters:

- With reference to the associate GORI S.p.A., management has disclosed in the notes and in the report on operations the reasons that required the provisions recognized in a prior year to be maintained, related to the persistent uncertainty affecting GORI S.p.A.'s operations and the uncertainty relating to the tariff adjustments' recovery.
- The ACEA Group carries on significant transactions with related parties, whose nature and extent are described in the explanatory notes to financial statements.

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 SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the 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 financial statements of ACEA S.p.A. as at 31 December 2015.

Rome, 6 April 2016

Reconta Ernst & Young S.p.A.
Signed by: Filippo Maria Aleandri, partner

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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 2015.

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. The financial statement also includes a reliable analysis of the disclosure on significant related parties transactions.

Rome, 06 April 2016

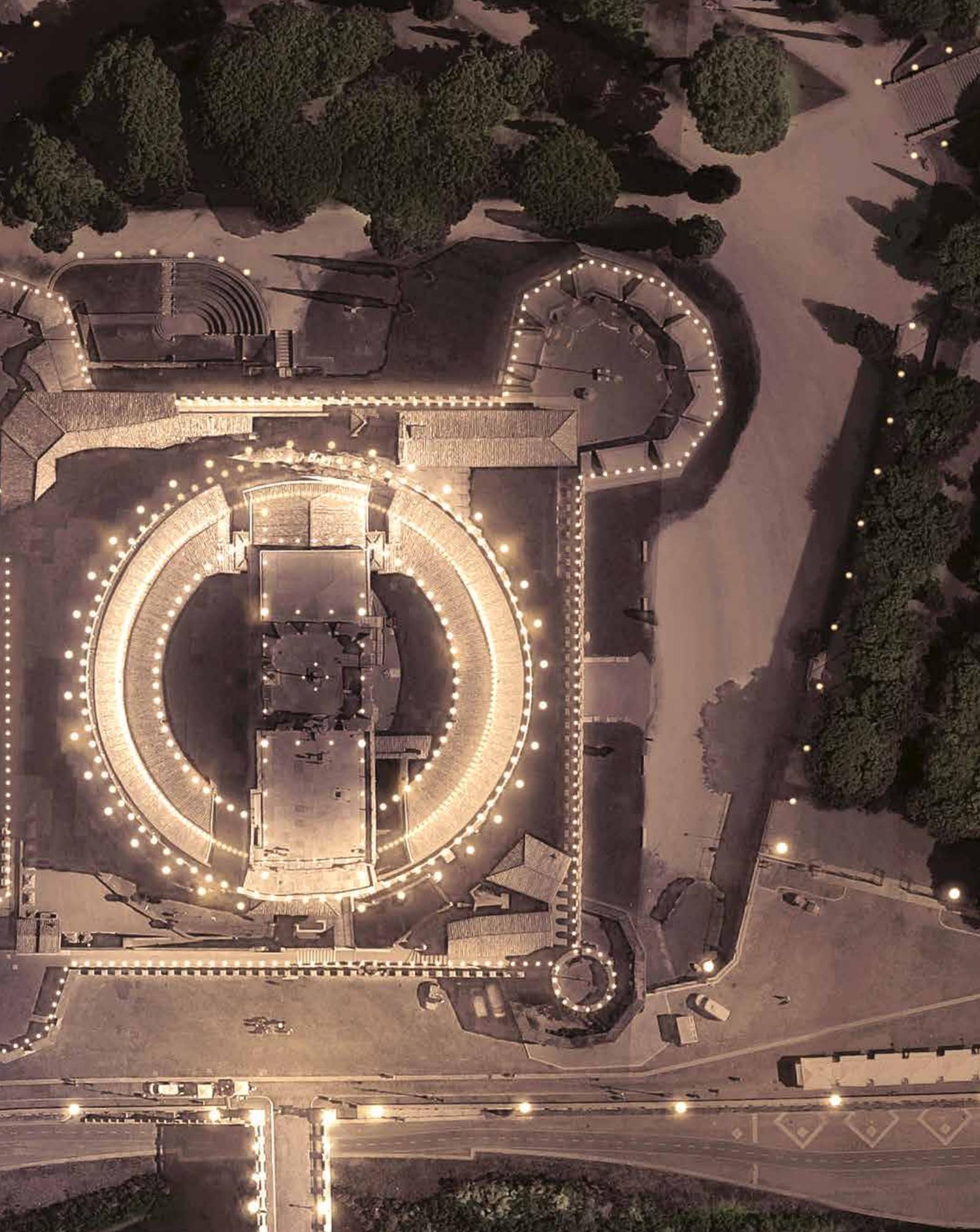
signed by: Alberto Irace, The CEO

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



Castel Sant'Angelo in Rome



**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

FORM AND STRUCTURE

GENERAL INFORMATION

The consolidated financial statements of the ACEA Group for the financial year 31 December 2015 were approved by Board of Directors' resolution on 11 March 2016. 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 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 are classified as current and non-current, the Statement of Comprehensive Income reports the profit or loss for the period in addition to the income and expenses that, as expressly required by IAS/IFRS, are recognized directly in equity, 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

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

1. for the ACEA Group, the *gross operating profit* (or EBITDA) is an operating *performance* indicator and from 1 January 2014 also includes the condensed result of equity investments in jointly controlled entities for which the consolidation method changed when international accounting standards for financial reporting IFRS10 and IFRS11 came into force. The *gross operating profit* is calculated by adding the item "Amortisation, depreciation, provisions and impairment charges" to the Operating profit;
2. *net financial position* is an indicator of the ACEA Group's financial structure, obtained by adding together Non-current borrowings and financial liabilities net of Non-current financial assets (loans and receivables and securities other than equity investments), Current borrowings and other Current liabilities net of Current financial assets, Cash and cash equivalents;
3. *net invested capital* is the sum of "Current assets", "Non-current assets" and Assets and Liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account when calculating the *net financial position*.

USE OF ESTIMATES

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 at the reporting date. 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, employee benefits, *fair value* of derivatives, taxes and other provisions. The original estimates and assumptions are periodically reviewed and the impact of any change is recognised in the income statement.

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 rules for estimating the values 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. 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.

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.

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 value of the investment previously held has to be

remeasured 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 remeasured until its extinction is booked against equity. Goodwill on acquisition is recognised as an asset and initially valued at cost, represented by 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 acquired. This goodwill is not amortised, but is tested for *impairment*. If, on the other hand, the Group's interest in the *fair value* of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the relevant amounts are re-determined. If the Group's interest in the resulting fair value of the identifiable assets, liabilities and contingent liabilities still exceeds the cost of the acquisition, the difference is immediately recognised in the Income statement.

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 translated using the exchange rates at the end of the reporting period. Revenue and costs are translated using average exchange rates for the period. Any translation 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 translated at the exchange rate at the end of the reporting period. Translation 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

At 31 December 2015 the area of consolidation had changed compared to the prior year due to the acquisition of 100% of Cesap Vendita Gas S.r.l. by Umbria Energy S.p.A. This investment was previously held by Si(e)nergy S.p.A. in liquidation. Following this acquisition Cesap Vendita Gas is consolidated on line-by-line basis.

In addition during the year:

- ACEA increased its percentage ownership in ABAB capital by 0.67% as a result of the purchase of 68,148 shares from Consorzio Toscano Cooperative at a price of 162 thousand euros. Accordingly, the interest in this company is now 76.67%,
- On 24 May 2015, Acea Energia purchased the shareholding owned by Puglienergy (51%) in Elga Sud priced at 63 thousand euros, thereby acquiring 100% of the share capital of Elga Sud. On 10 December 2015, the investment was sold to the parent company ACEA,
- On 10 December 2015 Acea Energia acquired the

stake held by ASM Vendita e Servizi (50%) in Voghera Energia Vendita (VEV) in liquidation, thereby acquiring 100% of the subsidiary's share capital. As a result of this purchase VEV is now consolidated on a line-by-line basis. On 28 January 2016 the plan for the merger by absorption of VEV in the parent Acea Energia was approved,

- with effect from 1 November 2015, Crea Gestioni decreased by 1.59% its equity holding in GESESA as a result of the transfer of business unit carried out by Cabib, a consortium of seven municipalities in the province of Benevento. At year end Crea held 57.93% of the capital of GESESA,
- Ecoenergie in liquidation, in which AIR has a 90% stake, was removed from the Register of Companies on 9 November 2015,
- the merger by absorption of Samace in Solemme became effective on 1 July 2015,
- at year end Kyklos was wholly owned by Aquaser which, on 23 December 2015 acquired 49% from the private shareholder at a price of 3,203 thousand euros,
- on 30 December 2015 the full spin-off of ARSE came into effect, in favour of three existing beneficiaries: ACEA, Elga Sud and Acea Produzione. As a result of the spin-off, ACEA has acquired a 19% interest in Acea Produzione.

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 translated 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 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.

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;
- **Revenue from integrated water services** is determined on the basis of the Water Tariff Method (MTI), valid for determining tariffs for the years 2014 and 2015, approved with AEEGSI Resolution No. 643/13/R/idr, as amended.

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 recognized as revenue where it is expressly recognized by the Area Authorities which establish its intended use.

Revenue for the period also included 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 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

Construction contracts 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 in assets or liabilities. 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. Expected losses are recognised regardless of the stage of contract completion.

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 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 nor 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 reverse 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 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 recognized in equity.

Property, plant and equipment

Property, plant and equipment is stated at historical cost, including any directly attributable costs of making the asset ready for its intended use, 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 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 depreciated 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 depreciated as it has an unlimited useful life.

Depreciation 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. 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.

An asset held under a financial lease is depreciated over its expected useful life, in line with assets that are owned, or, if lower, over the lease term.

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 cost, including any negotiating costs less accumulated depreciation and any impairment charges.

Depreciation 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 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 substance of the transaction. 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.

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 a 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, an intangible asset is carried at cost. The useful life 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 or jointly controlled entity at the date of the acquisition. 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 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 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 goodwill, 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,
- the goodwill, attributable to this item, deriving from ACEA's acquisition of ACEA Ato5.

Concessions are amortised on a straight-line basis over the residual term of each concession.

RIGHT ON INFRASTRUCTURES

Pursuant to 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 2010, 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 each end of the 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 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 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 al-

located for the negative difference between the said burden and the contribution estimated pursuant to AEEGSI Resolution No. 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; 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 collection of the full amount is no longer probable.

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 at 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 equity are recycled through the income statement for the period. The total loss is equal to 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 amortised cost using 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 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 at bank and in hand, demand deposits and highly liquid short-term investments, which are readily convertible into cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES

Financial liabilities are stated at amortised cost. Borrowing costs (transaction costs) and any issue premiums or discounts are recognised as direct adjustments to the nominal value of the borrowing. Net financial costs are consequently re-determined using the effective rate method.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised at cost and then re-measured at *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.

DERECOGNITION 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 derecognised 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 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 an item of property, plant and equipment, the initial provisions are accounted for as a contra 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 2015

The following documents have already been issued by the IASB and endorsed by the European Union as amendments to international accounting standards in force from 1 January 2015:

IFRIC 21 - TAXATION

Regulation (EU) No. 634/2014 of the Commission of 13 June 2014 was published in the Official Journal L 175 on 14 June 2014, and adopts the IFRS 21 Interpretation - Taxation. It deals with the recognition of a liability relating to the payment of a levy in the event that such liability does not fall within the scope of other standards and is not a fine or penalty due as a result of law infringement, imposed by the Government, or, in general, by local, national or international government agencies. The aforementioned liabilities must be recognized in the financial statements upon occurrence of the obligating event that triggers the payment of the levy, the timing and amount of which are uncertain.

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (2011-2013 CYCLE)

The document "Improvements to International Financial Reporting Standards (2011-2013 cycle) has introduced changes to the following accounting standards with respect to some aspects that were not clear:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** with the amendment to IFRS 1, the IASB clarified that a "first-time adopter" may, but is not obliged to, use the documents issued by the IASB but not yet in force, in the first financial statements prepared in accordance with IFRS, if their early application is permitted. The amendments to IFRS 13, as they only relate to the *Basis for Conclusions*, were not subject to endorsement by the European Union;
- **IFRS 3 Business combinations:** with the amendment to IFRS 3, the IASB clarified that the provisions of this standard do not apply to the formation of all joint control arrangements, thus also to joint operations. This exclusion refers to the financial statements prepared by the joint arrangement;
- **IFRS 8 Operating segments:** with the amendment to IFRS 8, the IASB amended the disclosure requirements in the event that different operating segments, with common economic characteristics, are aggregated;
- **IFRS 13 Fair value measurement:** with the amendment to IFRS 13, the IASB clarified that the exception to fair value measurement on a net basis of a portfolio of assets and liabilities is also applicable to contracts that fall within the scope of IAS 39 or IFRS 9, although these contracts do not meet the definition of financial asset or liability under IAS 32 (e.g. contracts for the purchase or sale of non-financial assets providing for net cash settlement);
- **IAS 40 Investment property:** with the amendment to IAS 40, the IASB clarified the interrelationship between this standard and the provisions of IFRS 3. Specifically, it was clarified that:
 - a) the entity has to assess whether it has bought an investment property in accordance with IAS 40; and
 - b) has to make a separate assessment on the basis of IFRS 3 in order to check whether the investment property purchased meets the definition of "business combination".

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 amortized 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 "*amortized 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 is noted that interest income, *expected credit losses* and foreign exchange differences will have to be recognized in profit/(loss) for the year. Conversely, the other effects arising from measurement at *fair value*, will be recognized in OCI and which will be reclassified in 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 OCI.

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 that an event of default 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 an event of default 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 cost of the hedge; accordingly, all *mark to market* fluctuations can then be temporarily recognized in 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.

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.

The IFRS 11 amendment must be applied prospectively in the financial statements for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that the IASB document has already been endorsed by the European Union.

IFRS 14 REGULATORY DEFERRAL ACCOUNTS

On 30 January 2014 the IASB published *IFRS 14 Regulatory Deferral Accounts*, the *interim standard* for the *Rate-regulated activities* project.

IFRS 14 lets those who adopt the IFRS for the first time to continue recognise *rate regulation* amounts using the accounting principles adopted previously. To improve the comparison with the entities already applying IFRS that do not recognise said amounts, the standard requires that the effect of the *rate regulation* must be presented separately from other items.

The standard applies from 1 January 2016, though earlier application is permitted.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On 29 May 2014 IASB and FASB jointly published the new provisions for accounting revenues, after a decade of studies and consultation. In 2017 the new standard will replace IAS 18 (Revenues) and IAS 11 (Work in progress). The fundamental parts for accounting purposes 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 extensive qualitative and quantitative information so that stakeholders can clearly understand the content and important elements to determine revenues.

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

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. The amendment is effective for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that the IASB document has already been endorsed by the European Union.

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. The entry into force of this amendment is scheduled for annual periods beginning on (or after) 1 January 2016. Earlier application is permitted provided that this document has already been endorsed by the European Union.

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.

These amendments will become effective on 1 January 2016, though earlier application is permitted.

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*". These amendments are effective for annual periods beginning on or after 1 January 2016.

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 cashflows. The proposed amendments, which will be applicable prospectively, should

therefore add guidance on this aspect.

Applicability of the amendments to IFRS 7 on off-setting 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 off-setting 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 statement*.

IFRS 16 LEASES

On 13 January 2016, the IASB issued the new accounting standard on leases that replaces accounting requirements introduced over 30 years ago, which are no longer considered fit for purpose; the new standard is a major change in the way companies account for leases in their financial statements. The new IFRS 16 is effective from 1 January 2019, but earlier application is permitted for companies that also apply IFRS 15 - Revenue from Contracts with Customers.

In summary, the standard provides a single accounting model for both finance and operating leases, requiring that an asset be recognized for an amount equal to the lease payments payable over the lease term.

CONSOLIDATED INCOME STATEMENT

Notes Ref.		31.12.15	of which with related parties	31.12.14	of which with related parties	Increase/ (Decrease)
1	Revenue from sales and services	2,800,570		2,931,592		(131,021)
2	Other revenue and proceeds	116,748		106,661		10,087
	Consolidated net revenue	2,917,318	147,511	3,038,253	203,943	(120,934)
3	Staff costs	211,157		229,543		(18,387)
4	Costs of materials and overheads	2,002,709		2,109,768		(107,059)
	Consolidated operating costs	2,213,865	45,684	2,339,311	28,248	(125,446)
5	Net income/(costs) from commodity risk management	0		(47)		47
6	Income/(Costs) from equity investments of a non-financial nature	28,501		18,822		9,679
	Gross Operating Profit	731,954	101,827	717,716	175,696	14,238
7	Amortisation, depreciation, provisions and impairment charges	345,489		327,273		18,217
	Operating profit/(loss)	386,465	101,827	390,444	175,696	(3,979)
8	Financial income	20,163	335	28,170	3,065	(8,008)
8	Financial costs	(111,246)	0	(129,348)		18,103
9	Income/(Costs) from Equity Investments	1,010		527		484
	Profit/(loss) before tax	296,392	102,163	289,793	178,761	6,599
10	Taxation	114,847		120,874		(6,027)
	Net profit/(loss)	181,545	102,163	168,919	178,761	12,626
	<i>Profit/(loss) attributable to non-controlling interests</i>	<i>6,553</i>		<i>6,460</i>		<i>93</i>
	Net profit/(loss) attributable to the Group	174,992	102,163	162,459	178,761	12,533
11	Earnings (loss) per share attributable to Parent Company's shareholders					
	Basic	0.8217		0.7628		0.0588
	Diluted	0.8217		0.7628		0.0588
	Earnings (loss) per share attributable to Parent Company's shareholders, net of Treasury Shares					
	Basic	0.8233		0.7643		0.0590
	Diluted	0.8233		0.7643		0.0590

Amounts in € thousand

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31.12.15	31.12.14	Increase/ (Decrease)
Net profit/(loss)	181,545	168,919	12,626
Profit/(Loss) from translation of financial statements expressed in a foreign currency	(544)	2,917	(3,461)
Profit/(Loss) From the Effective Portion on Hedging Instruments	26,404	(21,690)	48,094
Gains/losses from exchange rate difference	(14,878)	485	(15,363)
Actuarial Profit/(Loss) on defined benefit pension plans	3,868	(15,293)	19,161
Total other comprehensive income	14,850	(33,581)	48,431
Taxation	(7,022)	10,088	(17,110)
Total Other Comprehensive Income Net of Tax	7,829	(23,492)	31,321
Total Comprehensive Income Net of Tax	189,374	145,427	43,947
Total comprehensive income (loss) net of tax attributable to:			
Non-controlling interests	7,789	5,260	2,529
Group	181,584	140,167	41,417

Amounts in € thousand

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Notes Ref.	ASSETS	31 December 2015	of which with related parties	31 December 2014	of which with related parties	Increase/ (Decrease)
13	Property, plant and equipment	2,087,324		2,031,410		55,914
14	Investment property	2,697		2,819		(122)
15	Goodwill	155,381		150,772		4,608
16	Concessions	1,520,304		1,398,571		121,733
17	Other intangible fixed assets	104,696		85,284		19,411
18	Equity investments in subsidiaries and associates	247,490		224,767		22,722
19	Other equity investments	2,750		2,482		267
20	Deferred tax assets	274,577		296,224		(21,647)
21	Financial assets	31,464	29,109	34,290	32,580	(2,826)
22	Other assets	39,764		43,972		(4,208)
	NON-CURRENT ASSETS	4,466,446	29,109	4,270,593	32,580	195,853
	Inventories	26,623		29,229		(2,606)
	Trade receivables	1,098,674	157,905	1,259,920	159,362	(161,247)
	Other current assets	130,675		141,467		(10,792)
	Current tax assets	75,176	0	99,843	0	(24,667)
	Current financial assets	94,228	80,593	92,130	72,134	2,098
	Cash and cash equivalents	814,653		1,017,967		(203,314)
23	CURRENT ASSETS	2,240,030	238,498	2,640,556	231,496	(400,526)
24	Non-current assets held for sale	497		497		0
	TOTAL ASSETS	6,706,972	267,607	6,911,645	264,075	(204,673)

Amounts in € thousand

Notes Ref.	LIABILITIES	31 December 2015	of which with related parties	31 December 2014	of which with related parties	Increase/ (Decrease)
	Shareholders' equity					
	share capital	1,098,899		1,098,899		0
	statutory reserve	87,908		176,119		(88,211)
	other reserves	(350,254)		(477,826)		127,572
	retained earnings/(losses)	512,381		470,915		41,465
	profit (loss) for the year	174,992		162,459		12,533
	Total Group shareholders' equity	1,523,924	0	1,430,566	0	93,359
	Non-controlling interests	72,128		71,825		304
25	Total shareholders' equity	1,596,053	0	1,502,391	0	93,662
26	Staff termination benefits and other defined benefit plans	108,630		118,004		(9,374)
27	Provision for liabilities and charges	189,856		168,644		21,212
28	Borrowings and financial liabilities	2,688,435		3,040,712		(352,277)
29	Other liabilities	184,100		177,990		6,110
30	Provision for deferred taxes	87,059		93,284		(6,225)
	NON-CURRENT LIABILITIES	3,258,079	0	3,598,633	0	(340,554)
	Trade payables	1,245,257	157,020	1,249,366	130,872	(4,109)
	Other current liabilities	306,052		287,259		18,793
	Borrowings	259,087	35,931	189,957	8,229	69,131
	Tax Payables	42,346		83,941		(41,595)
31	CURRENT LIABILITIES	1,852,741	192,951	1,810,522	139,101	42,219
24	Liabilities directly associated with assets held for sale	99		99		0
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,706,972	192,951	6,911,645	139,101	(204,673)

Amounts in € thousand

CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	31.12.15	Related parties	31.12.14	Related parties	Increase/ (Decrease)
Cash flow from operating activities					
Profit before tax from continuing operations	296,392		289,793		6,599
Profit before tax from discontinued operations	0		0		0
Depreciation/amortisation	233,990		203,543		30,447
Revaluations/impairment charges	29,533		90,817		(61,284)
Increase/(decrease) in provisions for liabilities	21,138		(37,414)		58,552
Net increase/(decrease) in staff termination benefits	(7,442)		(3,181)		(4,262)
Gains on disposals	0		0		0
Net financial interest expense	91,083		101,178		(10,095)
Income taxes paid	(109,256)		(60,631)		(48,625)
Cash flow generated by operating activities before changes in working capital	555,438		584,105		(28,668)
Increase in current receivables	120,504	(1,705)	(15,958)	(2,469)	136,462
Increase/decrease in current payables	(23,321)	26,147	38,657	25,052	(61,978)
Increase/(decrease) in inventories	2,606		4,525		(1,920)
Change in working capital	99,788		27,224		72,564
Change in other assets/liabilities during the period	27,448		37,045		(9,597)
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	682,673		648,374		34,299
Cash flow from investment activities					
Purchase/sale of property, plant and equipment	(189,252)		(134,556)		(54,696)
Purchase/sale of intangible fixed assets	(245,869)		(181,143)		(64,726)
Equity investments	7,250		9,590		(2,339)
Purchase/sale of investments in subsidiaries	(389)		(4,220)		3,831
Proceeds/payments deriving from other financial investments	1,553	4,988	27,616	11,403	(26,063)
Dividends received	7,137	7,137	51	51	7,087
Interest income received	27,750		45,007		(17,257)
TOTAL	(391,820)		(237,657)		(154,163)
Cash flow from financing activities					
Non-controlling interests in subsidiaries' capital increase	5,412		(7,531)		12,943
Repayment of borrowings and long-term loans	(374,508)		33,880		(408,388)
Disbursement of borrowings/other medium/long-term loans	0		599,223		(599,223)
Decrease/increase in other short-term borrowings	67,774	27,702	(411,842)	(24,755)	479,616
Interest expense paid	(91,721)		(125,696)		33,975
Dividends paid	(101,123)	(101,123)	(43,852)	(43,852)	(57,271)
TOTAL CASH FLOW	(494,167)		44,182		(538,349)
Changes in shareholders' equity after net profit	0		0		0
Cash flows for the period	(203,314)		454,900		(658,214)
Net opening balance of cash and cash equivalents	1,017,967		563,066		454,900
Net closing balance of cash and cash equivalents	814,653		1,017,967		(203,314)

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 2014 Restated	1,098,899	167,353	(98,920)	155,300	1,322,633	84,195	1,406,827
Net profit (loss)				162,459	162,459	6,460	168,919
Other comprehensive income (losses)				(22,292)	(22,292)	(1,200)	(23,492)
Total comprehensive income (loss)	0	0	0	140,167	140,167	5,260	145,427
Appropriation of result for 2013		4,619	150,681	(155,300)	0	0	0
Distribution of dividends			(36,204)	0	(36,204)	(7,648)	(43,852)
Change in basis of consolidation		4,147	(177)	0	3,970	(9,982)	(6,012)
Balances as at 31 December 2014	1,098,899	176,119	15,381	140,167	1,430,566	71,825	1,502,391

€ 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 2014			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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

CONSOLIDATED NET REVENUE

At 31 December 2015 consolidated net revenue amounted to 2,917,318 thousand euros (3,038,253 thousand

euros at 31 December 2014), recording a decrease of 120,934 thousand euros (-4%) over the previous year; its breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue from sales and services	2,800,570	2,931,592	(131,021)	(4.5%)
Other revenue and proceeds	116,748	106,661	10,087	9.5%
Consolidated net revenue	2,917,318	3,038,253	(120,934)	(4.0%)

1. Revenue from sales and services -

2,800,570 thousand euros

This item shows a total decrease of 131,021 thousand

euros (-4.5%) compared to 31 December 2014 which reported an amount of 2,931,592 thousand euros; the breakdown is shown in the table below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Revenue from electricity sales and services	1,942,588	2,101,452	(158,863)	(7.6 %)
Revenue from gas sales	79,293	59,015	20,278	34.4 %
Revenue from the sale of certificates and rights	20,933	21,633	(700)	(3.2 %)
Revenue from the Integrated Water Service	582,592	580,373	2,219	0.4 %
Revenue from Overseas Water Services	9,898	7,707	2,191	28.4 %
Revenue from biomass transfer and landfill operations	37,522	39,419	(1,897)	(4.8 %)
Revenue from services to customers	95,257	93,516	1,741	1.9 %
Connection fees	32,487	28,476	4,011	14.1 %
Revenue from sales and services	2,800,570	2,931,592	(131,021)	(4.5 %)

REVENUE FROM ELECTRICITY SALES AND SERVICES

Revenue from electricity sales and services amounted to 1,942,588 thousand euros and, net of intercompany eliminations, include the following items:

€ millions	31.12.15	31.12.14	Changes	% Increase/ (Decrease)
Electricity sales	1,455,312	1,613,799	(158,487)	(9.8%)
Transport and metering of energy	402,362	403,799	(1,437)	(0.4%)
Energy sales from WTE	43,151	42,387	763	1.8%
Electricity and heat generation	37,522	38,357	(835)	(2.2%)
Cogeneration	3,843	2,554	1,290	50.5%
Energy from photovoltaic plants	398	556	(158)	(28.4%)
Total revenue from electricity sales and services	1,942,588	2,101,452	(158,864)	(7.6%)

The major changes refer to:

- the reduction of 158,487 thousand euros in revenue from the sale of electrical energy due to: **i)** the decrease in the volumes of electricity sold in the Protected Categories market (-1.6%), due to strong competition on the Rome market, **ii)** the decrease in the volumes of electricity sold in the Free Market (-18%) which covered 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,
- an 835 thousand euros decrease in revenues from electricity and heat generation due to a reduction in the amount of energy produced by hydroelectric plants (- 9.3%) also as a result of the Castel Madama shutdown for repowering at the end of July 2015,
- a 1,437 thousand euros decrease in revenue from the transport and metering of energy for the free and protected market, due to the different value attributed to the tariff parameters and the effect of lower volumes and lower amount of electricity fed into the grid,
- the growth of revenues from cogeneration (1,290 thousand euros) stems from higher volumes of heat sold for various uses,
- the increase in revenues from the sales of WTE energy produced by the San Vittore del Lazio plant to GSE for 763 thousand euros.

REVENUE FROM GAS SALES

These amounted to 79,293 thousand euros, recording an increase of 20,278 thousand euros compared to 31 December 2014 mainly due to higher volumes sold by Acea Energia as a result of the increase in the number of customers in the "business segment" and stable level of customers in the domestic market. In addition, in 2015 Acea Energia, through its subsidiary Umbria Energy, acquired Cesap Vendita Gas, a company operating in Umbria which resulted in the consolidation of higher revenues for 6,312 thousand euros.

REVENUE FROM THE SALE OF CERTIFICATES AND RIGHTS

Revenue from the sale of certificates and rights amounted to 20,933 thousand euros, down 700 thousand euros compared to the previous year. This item includes the recognition of revenue from green certificates: **i)** of Acea Produzione (16,390 thousand euros) accruing in relation to energy produced at the Salisano and Orte plants and **ii)** of A.R.I.A. (4,464 thousand euros) deriving from a system of incentives for renewable sources for 4,281 thousand euros from the Terni WTE plant and for 183 thousand euros from the San Vittore del Lazio WTE plant.

The breakdown of this item by type is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Green certificates	20,933	21,585	(652)	(3.0%)
CO2 rights	0	48	(48)	(100.0%)
Revenue from the sale of certificates and rights	20,933	21,633	(700)	(3.2%)

REVENUE FROM THE INTEGRATED WATER SERVICE

They are almost exclusively produced by the companies that manage the service in Lazio and to a lesser extent

those of Campania.

These revenues amounted to 585,592 thousand euros, up 2,218 thousand euros (+0.3%) compared with the previous year (580,374 thousand euros).

Details of the breakdown by company are given below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
ACEA Ato2	502,236	504,006	(1,770)	(0.4%)
ACEA Ato5	68,130	64,826	3,304	5.1%
Crea Gestioni	3,811	3,841	(31)	(0.8%)
GESESA	8,415	7,701	714	9.3%
Revenue from the Integrated Water Service	582,592	580,374	2,218	0.3%

The change in ACEA Ato2 (- 1,770 thousand euros) is mainly due to: **(i)** for 16,688 thousand euros to the increased VRG tariffs of 2015 compared to the previous year, **(ii)** for 11,988 thousand euros to lower adjustments to pass-through items (electricity, concession fees). Please note that the 2014 balance included some revenues, for a total amount of 6,917 thousand euros, that have been classified as revenue from services to customers in the 2015 accounts.

The increase in revenue of ACEA Ato5 (+ 3,304 thousand euros) is due to recognition by AEEGSI, as part of the procedure for the financial restructuring of guaranteed revenues for the period 2012 to 2015 (pursuant to Regulation 51/2016/R/idr of 11 February 2016), of an unpaid ratio at least equal to that acknowledged for the macro region of Southern Italy and the recovery of adjustments as of 2019 with discounting using the compound rate of inflation.

REVENUE FROM OVERSEAS WATER SERVICES

These amounted to 9,898 thousand euros, up by 2,191 thousand euros compared to the previous year (7,707 thousand euros). The change is essentially due to AguaAzul Bogotà (+ 1,443 thousand euros) as a result of higher volumes sold.

REVENUE FROM BIOMASS TRANSFER AND LANDFILL OPERATIONS

These amounted to 37,522 thousand euros, down by 1,897 thousand euros compared to the previous year (39,419 thousand euros).

The breakdown by company is provided below:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
A.R.I.A.	23,719	22,015	1,704	7.7%
SAO	9,135	9,328	(192)	(2.1%)
Kyklos	0	3,130	(3,130)	(100.0%)
Aquaser	3,552	3,528	24	0.7%
Solemme	903	1,118	(215)	(19.2%)
Innovation and sustainability	213	300	(87)	(29.0%)
Revenue from biomass transfer and landfill operations	37,522	39,419	(1,897)	(4.8%)

This change was almost exclusively determined by the seizure of the Kyklos plant by order of the Public Prosecutor's Office following a fatal accident in July 2014. For more information, reference is made to the Operating Segments Performance in the Report on Operations.

REVENUE FROM SERVICES TO CUSTOMERS

Revenue from services to customers totalled 95,257 thousand (93,516 thousand euros at 31 December 2014) and increased by 1,741 thousand euros.

This type of revenue comprises:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Public Lighting - Rome	61,103	60,139	964	1.6%
Public Lighting - Naples	5,639	7,572	(1,933)	(25.5%)
Revenue from services requested by third parties	15,980	11,338	4,642	40.9%
Intercompany services	5,923	6,947	(1,024)	(14.7%)
PV power	279	393	(114)	(28.9%)
GIP revenue	6,332	7,127	(795)	(11.2%)
Revenue from services to customers	95,257	93,516	1,741	1.9%

The increase reflects the combined effect of: **i)** an increase in revenue from contract work ordered by third parties for 4,642 thousand euros mainly carried out by ACEA Ato2, **ii)** a decrease in the services provided to Group companies that are not line-by-line consolidated for 1,024 thousand

euros, **iii)** lower Public Lighting revenues with the municipality of Naples (- 1,933 thousand euros).

The table below shows the breakdown of this item by operating segment:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	267	532	(266)	(49.9%)
Energy	478	876	(398)	(45.4%)
Water	15,788	10,863	4,925	45.3%
Networks	11,263	12,279	(1,016)	(8.3%)
Parent Company	67,461	68,965	(1,504)	(2.2%)
Revenue from services to customers	95,257	93,516	1,741	1.9%

CONNECTION FEES

They amounted to 32,487 thousand euros, an increase of 4,011 thousand euros compared to 31 December 2014. These fees are broken down as follows:

- Energy segment 19,284 thousand euros (+ 2,165 thousand euros),
- Water Segment: 3,968 thousand euros (- 182 thousand euros),
- Networks Segment: 9,235 thousand euros (+ 2,029 thousand euros).

2. Other revenue and proceeds - 116,748 thousand euros
This item increased by 10,087 thousand euros (+ 9.5%) compared to 31 December 2014, which closed with a total of 106,661 thousand euros.

The change was mainly due to the following opposing effects:

(i) a 18,263 thousand euros reduction in tariff contribu-

tions accrued on energy efficiency certificates as a result of lower purchased amounts in the reporting period (- 82,972 certificates). The reversal, in 2014, of provisions allocated in 2013 (8,377 thousand euros) to cover the purchase of the certificates required to meet 2013 obligations, adds to the effect of the above reduction,

(ii) a 28,684 thousand euros increase in non-recurring gains mainly due to the assessment of Acea Energia energy related items pertaining to previous years (32,453 thousand euros), partially offset by the decrease in those of ACEA Ato2 (- 7,133 thousand euros) due to the effect of recognition as at 31 December 2014 of prior adjustments for the period 2006 – 2011. The increase in this component is substantially reduced to zero by the increase in non-recurring losses posted as Other operating costs.

A breakdown of said item is shown in the table below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Non recurring gains	54,056	25,372	28,684	113.1%
Contributions from Entities for Energy Efficiency Certificates	18,453	36,717	(18,263)	(49.7%)
other revenues	13,823	11,089	2,734	24.7%
Reimbursement for damages, penalties, compensation	9,852	7,659	2,193	28.6%
Feed-in-tariff	4,281	5,045	(764)	(15.1%)
Government grant (Prime Ministerial Decree of 23/04/04)	4,000	4,947	(947)	(19.2%)
Income from end users	3,318	2,353	965	41.0%
Seconded staff	2,179	1,518	661	43.5%
Regional grants	2,112	2,105	7	0.3%
Property income	1,934	1,659	276	16.6%
IFRIC 12 margin	1,423	1,227	196	16.0%
Recharged cost for company officers	1,029	1,109	(80)	(7.2%)
Service continuity bonuses	192	212	(20)	(9.4%)
Gains on asset disposals	95	261	(166)	(63.4%)
Income from fraudulent withdrawals	0	5,389	(5,389)	(100.0%)
Other revenue and proceeds	116,748	106,661	10,087	9.5%

CONSOLIDATED OPERATING COSTS

As at 31 December 2015 these amounted to 2,213,865 thousand euros (2,339,311 thousand euros at 31 De-

ember 2014), recording a decrease of 125,446 thousand euros (- 5.4%) over the previous year. The breakdown is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Staff costs	211,157	229,543	(18,387)	(8.0%)
Costs of materials and overheads	2,002,709	2,109,768	(107,059)	(5.1%)
Consolidated operating costs	2,213,865	2,339,311	(125,446)	(5.4%)

3. Staff costs - 211,157 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Staff costs including capitalised costs	301,392	298,581	2,810	0.9%
Capitalised costs	(90,235)	(69,038)	(21,197)	30.7%
Staff costs	211,157	229,543	(18,387)	(8.0%)

As for capitalized costs, the increase is essentially determined by companies of the networks and water segments.

The following tables show the average number of staff by operating sector compared to same period of the previous year. The figure for the end of 2014 is also shown.

€ thousand	Average number of employees		
	31.12.15	31.12.14	Δ
Environment	216	216	0
Energy	543	532	11
Water	2,301	2,413	(112)
<i>Lazio-Campania</i>	1,801	1,837	(35)
<i>Overseas</i>	332	414	(82)
<i>Engineering and services</i>	168	163	5
Networks	1,336	1,377	(41)
Parent Company	634	670	(36)
TOTAL	5,029	5,207	(178)

€ thousand	End-of-period number of employees		
	31.12.15	31.12.14	Δ
Environment	227	221	6
Energy	549	522	27
Water	2,251	2,366	(115)
<i>Lazio-Campania</i>	1,812	1,792	20
<i>Overseas</i>	268	412	(144)
<i>Engineering and services</i>	171	162	9
Networks	1,315	1,335	(20)
Parent Company	636	661	(25)
TOTAL	4,978	5,105	(127)

4. Costs of materials and overheads –
2,002,709 thousand euros

This item reported an overall decrease of 107,059 thousand euros (-5.1%) compared to 31 December 2014, which closed with a total of 2,109,768 thousand euros.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Electricity, gas and fuel	1,612,357	1,746,466	(134,110)	(7.7%)
Materials	28,867	27,541	1,326	4.8%
Services	228,359	234,861	(6,502)	(2.8%)
Concession fees	43,879	43,115	765	1.8%
Cost of leased assets	22,939	23,907	(968)	(4.1%)
Other operating costs	66,308	33,877	32,431	95.7%
Consolidated operating costs	2,002,709	2,109,768	(107,059)	(5.1%)

ELECTRICITY, GAS AND FUEL COSTS

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Purchase of electricity	1,081,745	1,145,884	(64,139)	(5.6%)
Gas purchase	22,904	16,676	6,228	37.4%
Transport of electricity and gas	488,306	552,038	(63,732)	(11.5%)
White certificates	18,141	30,995	(12,854)	(41.5%)
Green certificates and Co2 rights	1,261	873	388	44.5%
Electricity, gas and fuel costs	1,612,357	1,746,466	(134,110)	(7.7%)

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 64,139 thousand euros and 71,084 thousand euros). 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)** higher costs for the procurement of gas in line with the increase in revenues in this market; **iii)** a reduction in the cost of white certificates

purchased by ACEA Distribuzione to meet regulatory energy efficiency requirements, as a result of lower quantities purchased to cover its 2014 and 2015 obligations.

MATERIALS

The cost of materials amounted to 28,867 thousand euros and represents the cost of materials used during the period net of capital expenditure, as shown in the table below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Purchase of materials	47,951	43,973	3,978	9.0%
Change in inventories	2,275	4,069	(1,793)	(44.1%)
Change in inventories	50,227	48,042	2,184	4.5%
Capitalised costs	(21,360)	(20,501)	(859)	4.2%
Materials	28,867	27,541	1,326	4.8%

Capitalised costs posted an increase of 859 thousand euros mainly attributable to ACEA Distribuzione for 383 thousand euros and Acea Ato5 for 380 thousand euros.

The costs for materials incurred by the operating segments are detailed below.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	4,826	5,346	(520)	(9.7%)
Energy	1,032	480	552	114.9%
Water	12,376	13,522	(1,145)	(8.5%)
Networks	9,459	7,243	2,216	30.6%
Parent Company	1,174	951	223	23.4%
Costs for Materials	28,867	27,541	1,326	4.8%

SERVICES AND CONTRACT WORK

This item amounted to 228,359 thousand euros, down

by 6,502 thousand euros from 234,861 thousand euros at 31 December 2014. For an analysis of the breakdown, please see the following table:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Technical and administrative services (including consulting and freelance work)	49,252	46,489	2,763	5.9%
Contract work	37,931	43,245	(5,313)	(12.3%)
Disposal and transport of sludge, slag, ash and waste	23,958	27,395	(3,437)	(12.5%)
Other services	29,083	26,414	2,669	10.1%
Payroll services	15,922	16,429	(507)	(3.1%)
Insurance costs	12,076	13,104	(1,028)	(7.8%)
Electricity, water and gas consumption	6,574	9,529	(2,955)	(31.0%)
Internal use of electricity	7,541	8,461	(920)	(10.9%)
Intragroup services	7,486	7,617	(131)	(1.7%)
Telephone and data transmission costs	5,588	5,977	(389)	(6.5%)
Postal expenses	7,682	5,976	1,706	28.6%
Maintenance fees	7,486	4,590	2,896	63.1%
Cleaning, transport and portorage	4,044	4,264	(220)	(5.1%)
Advertising and sponsorship costs	3,736	3,851	(115)	(3.0%)
Corporate bodies	3,050	3,702	(652)	(17.6%)
Meter readings	1,880	2,756	(876)	(31.8%)
Bank charges	2,503	2,265	238	10.5%
Travel and accommodation expenses	1,271	1,311	(40)	(3.1%)
Seconded staff	1,070	1,290	(221)	(17.1%)
Printing costs	224	196	29	14.7%
Costs for services	228,359	234,861	(6,502)	(2.8%)

CONCESSION FEES

Concession fees totalled 43,879 thousand euros (+ 765 thousand euros compared to 2014) and referred to com-

panies that manage Area Authorities under concession in Lazio and Campania.

The following table shows a breakdown by Company, compared to the previous year.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
ACEA Ato2	36,876	35,632	1,244	3.5%
ACEA Ato5	6,604	7,089	(485)	(6.8%)
Gesesa	348	343	4	1.3%
Crea Gestioni	52	51	0	0.6%
Concession fees	43,879	43,115	765	1.8%

The increase is mainly ascribable to ACEA Ato2 (+ 1,244 thousand euros), which acquired new territorial municipalities in 2015. Further information is provided in the section "Service concession arrangements".

compared to the previous year (23,907 thousand on 31 December 2014). This item includes lease payments of 10,844 thousand euros (11,173 thousand euros at 31 December 2014) and charges relating to other lease payments and rentals for 12,095 thousand euros (12,734 thousand euros at 31 December 2014).

The following table illustrates the changes by operating segment:

COST OF LEASED ASSETS

This item amounted to 22,939 thousand, decreasing

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	667	1,069	(402)	(37.6%)
Energy	3,903	3,563	340	9.5%
Water	4,998	5,310	(312)	(5.9%)
Networks	3,592	4,193	(601)	(14.3%)
Parent Company	9,778	9,771	7	0.1%
Cost of leased assets	22,939	23,907	(968)	(4.1%)

OTHER OPERATING COSTS

Other operating costs amounted to 66,249 thousand euros at 31 December 2015, an increase of 32,372 thousand euros; their breakdown is as follows.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Taxes and duties	11,541	12,555	(1,014)	(8.1%)
Damages and outlays for legal disputes	3,747	1,352	2,394	177.0%
Contributions paid and membership fees	2,709	3,398	(689)	(20.3%)
General and administrative expenses	6,867	3,191	3,676	115.2%
Losses on asset disposals	1,322	370	952	257.2%
Non recurring losses	40,063	13,010	27,053	207.9%
Other operating costs	66,249	33,877	32,372	95.6%

The change in the period mainly stems from the recognition in Acea Energia of non-recurring losses arising from previous years, offset by the increase in non-recurring gains recorded under "Other revenue and proceeds".

The component "Damages and outlays for legal disputes" increased due to the recognition of compensation payable by Acea Energia to its customers according to AEEGSI provisions.

General and administrative expenses recorded an increase as a result of repayments to users entitled to refund of the sewerage and waste water treatment fee charged from 2003 to 2008 pursuant to ruling 335/2008 of the Constitutional Court.

5. Net income/(Costs) from commodity risk management - 0.0 thousand euros

At 31 December 2015, the *fair value* of financial contracts was 0.00 euros (it was also 0.00 in 2014).

For further details please refer to the section "Additional disclosures on financial instruments and risk management policies" in the 2015 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 - 28,501 thousand euros

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

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
GROSS OPERATING PROFIT	143,875	125,714	18,161	14.4%
Amortisation, depreciation, impairment charges and provisions	(89,865)	(82,353)	(7,513)	9.1%
Financial items	(7,849)	(9,717)	1,869	(19.2%)
Taxation	(17,660)	(14,822)	(2,838)	19.1%
Total	28,501	18,822	9,679	51.4%

The companies' valuation is detailed below:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Publiacqua	11,572	7,209	4,362	60.5%
Acque Group	7,767	6,329	1,437	22.7%
Acquedotto del Fiora	2,385	3,455	(1,070)	(31.0%)
Umbra Acque	(28)	17	(45)	(266.8%)
Gori	3,909	69	3,840	5568.0%
Nuove Acque and Intesa Aretina	384	242	143	59.0%
Agua Azul	1,095	742	353	47.5%
Voghera Energia Vendita S.p.A. in liquidation	0	(357)	357	(100.0%)
Ingegnerie Toscane	1,480	970	509	52.5%
Ecomed in liquidation	(62)	145	(207)	(142.9%)
Total	28,501	18,822	9,679	51.4%

The increase mainly refers to:

- in terms of Gross Operating Profit, the improved performance of Publiacqua (+ 8,433 thousand euros), Gruppo Acque (+ 6,840 thousand euros), Acquedotto del Fiora (+ 1,173 thousand euros) and GORI (+ 2,242 thousand euros);
- with regard to amortization, depreciation, impairment and provisions from the effects resulting from (i) higher amortization/depreciation recognized in Publiacqua (+ 2,073 thousand euros), Gruppo Acque (+ 4,210 thousand euros) and Acquedotto del Fiora (+ 1,355 thousand euros); (ii) overall lower provisions

for litigation risks primarily referred to GORI for 1,841 thousand euros and Gruppo Acque for 1,082 thousand euros only partly offset by higher provisions for Acquedotto del Fiora for 1,592 thousand euros;

- with regard to financial operations, there was a reduction across all companies for a total amount of 1,869 thousand euros;
- The change in taxation was influenced by the effect of the adjustment of deferred taxes (approximately 2 million euros) as a result of the expected reduction in IRES Corporate Income Tax (from 27.5% to 24%) as of 2017.

7. Amortisation, depreciation, impairment charges and provisions - 345,489 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Amortisation and depreciation	233,990	203,543	30,447	15.0%
Provision for impairment of receivables	59,044	110,165	(51,121)	(46.4%)
Provision for liabilities and charges	52,455	13,564	38,891	286.7%
Total	345,489	327,273	18,217	5.6%

AMORTISATION AND DEPRECIATION

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Depreciation	122,451	118,656	3,795	3.2%
Amortization	100,186	81,199	18,986	23.4%
Impairment charges	11,353	3,688	7,665	207.8%
Depreciation/amortisation	233,990	203,543	30,447	15.0%

The change was due to:

- by the increase in depreciation of property, plant and equipment of 3,795 thousand euros due to the increase of capital expenditures in all business areas;
- By the increase in amortization of intangible assets of 18,986 thousand euros due to investments in information technology assets that began operating between the end of 2014 and 2015;

In addition, for water companies, the item in question includes adjustments to regulatory and invested capital tariff changes according to choices made by the service Operator and the 1,411 thousand euros write-down of goodwill with indefinite useful life related to Ecogena, as a result of the impairment test as reported in the half-

year report for 2015.

IMPAIRMENT CHARGES AND LOSSES ON RECEIVABLES

This item amounted to 59,044 thousand euros, a decrease of 51,121 thousand euros related (i) to the Companies in the Energy Segment for 18,566 thousand euros and (ii) to the Water Segment for 28,521 thousand euros, as a result of the reduction in receivables and, for ACEA Ato5, due to the completion of the analysis of the 2012-2015 tariffs which defined the amount of tariff adjustments payable to the Company.

The breakdown by operating segment is provided below:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	465	52	413	789.0%
Energy	57,064	75,630	(18,566)	(24.5%)
Water	(4,506) ¹	24,015	(28,521)	(118.8%)
Networks	4,571	6,744	(2,173)	(32.2%)
Parent Company	1,450	3,723	(2,273)	(61.0%)
Impairment charges and losses on receivables	59,044	110,165	(51,121)	(46.4%)

¹ It contains the release of the 6 million euros surplus recorded by ACEA Ato5

PROVISIONS

Provisions for liabilities recorded a significant change (+38,891 thousand euros) due to the effect of excess provisions released in 2014 (22,070 thousand euros). Gross of said effect, there was a 23,920 thousand euros increase

which is essentially due to the allocation of a provision to partially cover energy accruals from previous years (13,332 thousand euros), higher allocations to the provision for restoration costs as a result of higher investments by water companies (3,637 thousand euros) and higher allocations for legal risks.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Legal	7,647	2,664	4,984
Tax	1,371	2,376	(1,005)
Regulatory risks	8,678	4,139	4,539
Investees	2,575	117	2,458
Contributory risks	68	112	(44)
Early retirements and redundancies	14,754	19,047	(4,293)
Contracts and supplies	0	865	(865)
Insurance excess	1,895	0	1,895
Other liabilities and charges	14,396	1,783	12,613
TOTAL	51,384	31,101	20,282
ifric 12 restoration charges	8,171	4,533	3,637
TOTAL PROVISIONS	59,555	35,635	23,920
Release of provisions	(7,099)	(22,070)	14,971
Total	52,455	13,564	38,891

The breakdown of provisions by operating segment are shown in the following table:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	441	(302)	744	(246.0%)
Energy	22,115	6,098	16,017	262.7%
Water	20,056	(9,533)	29,589	(310.4%)
Networks	7,740	8,666	(926)	(10.7%)
Parent Company	2,103	8,638	(6,535)	(75.6%)
Provisions	52,455	13,564	38,891	286.7%

The allocation of 8,787 thousand euros to cover regulatory risks mainly relate to Acea Energia and Acea Produzione.

Further information is provided in note 27 and in the section "Update on major disputes and litigation".

8. Financial income - 20,163 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Interest on loans and receivables	3,757	3,363	395	11.7%
Bank interest income	1,334	813	522	64.2%
Interest on trade receivables	12,933	20,040	(7,106)	(35.5%)
Interest on other receivables	697	808	(111)	(13.8%)
Financial income from discounting to present value	971	2,447	(1,476)	(60.3%)
Financial income from measurement of fair value hedges	(247)	349	(595)	(170.7%)
Other income	715	353	362	102.5%
Financial income	20,163	28,170	(8,008)	(28.4%)

Financial income amounted to 20,163 thousand euros, down by 8,008 thousand euros compared to the previous year. The change mainly resulted from the decrease in income on receivables from customers (- 7,106 thousand euros), mainly in Acea Energia (- 5,701 thousand euros) and ACEA Ato2 (-1,317 thousand euros), and the decrease in income

arising from application of the public lighting agreement. Income/charges from valuation of *fair value hedges* were negative and amounted to 247 thousand euros; they relate to the measurement of the derivative entered into on the Bond of 600 million euros placed on the market in September 2013.

9. Financial costs - 111,246 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Costs (Income) on Interest Rate Swaps	2,679	3,843	(1,164)	(30.3%)
Interest on bonds	66,577	66,002	575	0.9%
Interest on medium/long-term borrowings	24,237	29,914	(5,677)	(19.0%)
Interest on short-term borrowings	1,474	4,382	(2,908)	(66.4%)
Default interest and interest on deferred payments	3,087	4,783	(1,696)	(35.5%)
Interest cost net of actuarial gains and losses	1,897	3,230	(1,333)	(41.3%)
Factoring fees	10,126	13,553	(3,427)	(25.3%)
Interest on payments by instalment	380	924	(544)	(58.9%)
Costs from discounting to present value	0	1,387	(1,387)	(100.0%)
Other financial charges	247	1,088	(841)	(77.3%)
Interest payable to end users	648	283	365	128.9%
Foreign exchange gains (losses)	(107)	(41)	(65)	157.2%
Financial expenses	111,246	129,348	(18,103)	(14.0%)

With regard to financial costs related to borrowings, the following changes should be noted:

- net financial costs on *interest rate swaps* on bonds, showed an improvement of 1,164 thousand euros compared to 31 December 2014;
- interest on short and medium-long term borrowings decreased by 8,585 thousand euros compared to 31 December 2014, due both to the early repayment of loans and the trend in market rates;
- default interest and interest on deferred payments decreased by 1,696 thousand euros compared to 31 December 2014;
- the portion of *Interest Cost* arising from application of IAS19 decreased by 1,333 thousand euros compared to 31 December 2014;
- commissions on receivables sold decreased by 3,427 thousand euros compared to 31 December 2014, due to the rate applied to transferred

receivables despite their amount has increased compared to the previous year.

The average overall "All in" cost of the ACEA Group's debt at 31 December 2015 stood at 3.29% against 3.12% of the previous period.

10. Income and costs from Equity Investments – 1,010 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Income from investments in associates	3,034	3,368	(334)	(9.9%)
(Costs) from investments in associates	(2,024)	(2,842)	818	(28.8%)
(Costs)/Income from investments	1,010	527	484	91.8%

These refer to the result of the consolidation under the equity method of certain Group companies, with specific reference to Agua de San Pedro, Geal, Sienergia and Umbria2.

11. Income Tax - 114,847 thousand euros

Tax expenses for the year were 114,847 thousand euros compared to 120,874 thousand euros in the previous year.

The breakdown is essentially as follows:

- Current taxes: 105,101 thousand euros (105,998 thousand euros at 31 December 2014),
- Net deferred/(prepaid) taxes: 9,746 thousand euros (14,876 thousand euros at 31 December 2014),

Both financial years under comparison reflect the negative adjustment in deferred taxes: in 2014, as a consequence of the abolition of the Corporate Income Tax

(IRES) surcharge on grounds of unconstitutionality, the Group had recognised a cost of 17,051 thousand euros compared to a cost of 19,871 thousand euros (of which 2,205 thousand euros for lower provisions) recognised in 2015 allowing for the reduction, provided for by the 2016 Italian Stability Law, in the IRES rate from 2017.

Net of said effect, taxation amounted to 94,976 thousand euros, with a reduction of approximately 8,847 thousand euros compared to 2014. This reduction is essentially due to the elimination of the above-mentioned Corporate Income Tax (IRES) surcharge and changes, from 1 January 2015, to the IRAP (Regional Income Tax) regulation concerning the deductibility of the cost of staff hired on open-ended contracts.

The table below shows the breakdown of taxes for the period and the correlated percentage weight calculated on consolidated pre-tax profit.

€ thousand	2015	%	2014	%
Profit/(loss) before tax	296,392		289,793	
Theoretical tax charge at 27.5% on profit before tax (A)	81,508	27.5%	79,693	27.5%
Net deferred taxation (B)	3,032	1.0%	8,166	2.8%
Permanent differences (C)	610	0.2%	(7,863)	(2.7%)
IRES (corporate income tax) for the period (D) = (A) + (B) + (C)	85,149	28.7%	79,996	27.6%
IRAP (Regional Income Tax) (E)	22,988	7.8%	34,168	11.8%
Tax Assets (F)	6,710	2.3%	6,710	2.3%
Total taxes recognised in Income statement (G) = (D) + (E) + (F)	114,847	38.7%	120,874	41.7%

The tax rate for the period was 38.7% (41.7% in 2014).

The adjustment of deferred taxes in 2015 accounts for about 7 percentage points.

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. 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 2015 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:

	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Net profit attributable to the Group (€/000)	174,992	162,459	12,533	7.7%
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	174,992	162,459	12,533	7.7%
Weighted average number of ordinary shares outstanding for the purpose of determining earnings per share				
- basic (B)	212,964,900	212,964,900	0	0.0%
- diluted (C)	212,964,900	212,964,900	0	0.0%
Earnings per share (€)				
- basic (A/B)	0.8217	0.7628	0.0588	7.7%
- diluted (A/C)	0.8217	0.7628	0.0588	7.7%

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

At 31 December 2015 these amounted to 6,706,972 thousand euros (6,911,645 thousand euros at 31 De-

cember 2014), recording a decrease of 204,673 thousand euros or 3.0% over the previous year; they are broken down as follows.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Non-current assets	4,466,446	4,270,593	195,853	4.6%
Current assets	2,240,030	2,640,556	(400,526)	(15.2%)
Non-current assets held for sale	497	497	0	0.0%
Total assets	6,706,972	6,911,645	(204,673)	(3.0%)

13. Property, plant and equipment - 2,087,324 thousand euros

The net book value of infrastructure used for the distribution of electricity (1,466,147 thousand euros) accounted for 70.3% of Property, plant and equipment.

The remaining 29.7% was mainly composed of:

(a) assets of the Waste Management segment (244,722 thousand euros) including waste to energy plants, the Orvieto landfill which is managed by the com-

pany SAO and the composting plants owned by the companies Kyklos and Solemme,

- (b) for 191,356 thousand euros by generation and photovoltaic facilities and by cogeneration and trigeneration plants operated by Ecogena,
- (c) by the Parent Company's property, plant and equipment for 154,617 thousand euros, which comprise the registered office and the technological infrastructure used by the main Group companies.

The following table shows the breakdown and changes in property, plant and equipment at 31 December 2015.

€ thousand	Land and buildings	Plant and machinery	Industrial equipment	Other assets	Fixed assets in progress	Assets to be relinquished	Total property, plant and equipment
Historic cost 31.12.14	484,789	2,420,149	639,505	100,173	33,400	4,486	3,682,501
Investments/ Acquisitions	6,260	75,224	43,398	11,278	43,162	2,312	181,634
Divestments	(27)	(183)	0	(1,086)	(140)	0	(1,437)
Change in basis of consolidation	0	(1,668)	8	191	0	0	(1,468)
Other changes	(22)	11,624	2,958	469	(19,718)	(1,767)	(6,457)
Historic cost 31.12.15	490,999	2,505,146	685,869	111,025	56,704	5,031	3,854,774
Accumulated depreciation 31.12.14	(109,787)	(1,285,434)	(181,178)	(72,140)	0	(2,552)	(1,651,091)
Depreciation/ amortisation	(14,921)	(83,135)	(17,690)	(6,950)	0	(394)	(123,091)
Divestments	0	165	0	991	0	0	1,156
Change in basis of consolidation	0	1,671	(3)	(134)	0	0	1,534
Other changes	1,137	2,597	167	141	0	0	4,042
Accumulated depreciation 31.12.15	(123,571)	(1,364,136)	(198,705)	(78,092)	0	(2,946)	(1,767,450)
Net book value 31.12.15	367,429	1,141,010	487,164	32,932	56,704	2,085	2,087,324

Capital expenditures during the reporting period increased compared to the prior year and are equal to 181,634 thousand euros. Capital expenditures are primarily those carried out by:

- **ACEA Distribuzione** for 129,240 thousand euros, for construction works, ordinary and extraordinary maintenance on HV, LV and MV lines and on primary and secondary stations,
- **SAO** for 13,264 thousand euros in relation to the soil consolidation work and revamping of the waste treatment plant.
- **Acea Produzione** for 12,754 thousand euros for *revamping* of the Castel Madama hydroelectric plant,
- **ARIA** for 11,544 thousand euros for improvements of the 2nd and 3rd lines of the San Vittore del Lazio plant and for *revamping* operations on the first line of the plant in question,
- **ACEA** for 4,292 thousand euros. Investments in the period are mainly investments for extraordinary maintenance on installations and on the registered

offices held under lease and investments in hardware required for the improvement and development of the IT network, mainly within 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; special mention deserves the 6,000 thousand euros write-down in ACEA Ato2 which takes into account regulatory and invested capital tariff changes according to the choices made by the Operator pursuant to Article 18 Annex A Resolution 643/2013.

14. Investment property - 2,697 thousand euros

Investment property primarily includes land and buildings not used in operations and held for rental. The decrease compared to the end of last year is mainly due to the effect of depreciation for the period of 60 thousand euros.

€ thousand	Opening balance	Investments/ Acquisitions	Change in basis of consolidation	Depreciation/ amortisation	Disposals and other changes	Closing Balance
Investment property	2,819	4	0	(60)	(66)	2,697
Total	2,819	4	0	(60)	(66)	2,697

15. Goodwill - 155,381 thousand euros

At 31 December 2015 goodwill amounted to 155,381 thousand euros (150,772 thousand euros at 31 December 2014). The increase over the previous year, amounting to 4,608 thousand euros, was mainly due to the net effect:

- of the acquisition of a 49% stake in Kyklos (5,991 thousand euros).
- of the goodwill impairment in Ecogena (1,411 thousand euros) as a result of the *impairment* test carried out during the year.

During 2015, as a result of the corporate restructuring plans approved by the Board of Directors of ACEA, the CGUs were revised, essentially with regard to:

- **Energy Segment:** it consists of two CGUs called "Renewable energy plants" and "Sale of electricity"
 - The former consists of Acea Produzione, which, following the total spin-off of ARSE, also includes the photovoltaic division and Ecogena. Thus, compared to 2014, there has been a change in

scope concerning the photovoltaic division and Ecogena. Please note that, even in the absence of such change in scope, no impairment losses would have resulted from the ;

- the latter refers to Acea Energia; compared to 2014, there were no changes in scope;
- **Environment Segment:** it consists of two CGUs called "Waste to energy plants" and "Composting plants"
 - the former comprises ARIA and SAO entity; compared to 2014 there were no changes in the "ARIA" CGU;
 - the latter refers to Solemme (which also includes SAMACE as a result of the merger that took place on 1 July 2015) and Kyklos; in 2014 the "Aquaser" CGU included Solemme, Samace and Kyklos.

For a better understanding of the changes discussed above, the table below provides a comparison between the balance at 31 December 2014 of each CGU of 2014 compared to those evaluated in 2015, by Segment.

Operating area/CGU	2014 € thousand	Operating area/CGU	2014 € thousand
Energy segment	141,392	Energy segment	141,392
Acea Produzione	91,618	Renewable energy plants	91,618
Ecogena	2,839	Renewable energy plants	2,839
Acea Energia	46,935	Energy sale	46,935
Environment segment:	9,380	Environment segment:	9,380
ARIA	7,744	Waste to energy plants	7,744
Aquaser	1,636	Composting plants	1,636
Goodwill	150,772	Goodwill	150,772

The changes in the year for each CGU are provided below.

€ thousand	31.12.14	Acquisitions	Impairments/ Revaluations	Other changes	31.12.15
Energy segment	141,392	24	(1,411)	5	140,010
Renewable energy plants	94,457		(1,411)		93,046
Energy sale	46,935	24	0	5	46,964
Environment segment:	9,380	4,128	1,863	0	15,371
Waste to energy plants	7,744	0	0	0	7,744
Composting plants	1,636	4,128	1,863	0	7,627
Goodwill	150,772	4,152	452	5	155,381

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 impairment process for 2015 provides an estimated range of recoverable amounts for the individual *cash generating units* (CGU) in terms of value in use in line

with the methodology of the previous year, i.e. by discounting to PV the flows of operating profits using a *post-tax* discount rate that represents the weighted average cost of 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 forecasts set out in the 2016-2020 Plan approved by the Board of Directors. The recoverable amount of the CGUs 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 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 area/CGU	Amount € millions	Recoverable value	WACC	Terminal value	Cash flow period
Energy segment					
Renewable energy plants	93.0	value in use	6.03%	in two stages	until 2020
Energy sale	46.9	value in use	7.94%	<i>Perpetuity without growth</i>	until 2020
Environment segment:					
Waste to energy plants	7.7	value in use	6.04%	in two stages	until 2020
Composting plants	7.6	value in use	6.04%	in two stages	Until 2020

The Terminal Value was determined as follows:

- for the CGU Renewable energy plants: 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 2021-2035 period (2038 for the Solemme facility), while the second stage comprises the residual value corresponding to the net invested capital at the end of the useful life of the asset.

Note also that a sensitivity analysis was conducted on the WACC. The following should be noted:

- a 0.5% increase in the discount rate results in a deficit in the "Renewable energy plants" CGU;
- a 2% increase in the discount rate results in a deficit in the "Composting plant" CGU;

Following the impairment test, the values in the financial statements were confirmed since they are recoverable.

INTANGIBLE ASSETS

€ thousand	Patent rights intangible	Other assets	Fixed assets in progress	Concessions	Total Intangible assets
31.12.2014	48,112	16,791	20,381	1,398,571	1,483,855
Investments/ Acquisitions	22,451	1,497	27,387	195,895	247,229
Divestments	0	0	(15,491)	0	(15,491)
Change in basis of consolidation	2,106	169	(2,100)	199	374
Depreciation/amortisation	(36,636)	(1,637)	0	(71,151)	(109,423)
Other changes	7,044	3,772	10,850	(3,210)	18,455
Historical cost 31.12.2015	43,076	20,591	41,028	1,520,304	1,625,000

Intangible assets decreased by 141,145 thousand euros compared to 31 December 2014; this increase mainly relates to investments made in the period and amounting to 247,229 thousand euros. Amortisation for the period amounted to 109,423 thousand euros.

16. Concessions and Rights on Infrastructure - 1,520,304 thousand euros

This item mainly refers to water services and includes the values of concessions received from the municipalities (150,193 thousand euros) and, pursuant to IFRIC 12, the aggregate amount of tangible infrastructures used for the management of the water service (1,370,111 thousand euros).

Concessions refer for 148,506 thousand euros to the thirty-year concession from Roma Capitale on the assets consisting of water and sewage treatment facilities, and for 498 thousand euros to 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 S.p.A. and Roma Capitale and the remaining term of the Management Agreement signed by the Mayors and AATO2.

Investments for the year relating to infrastructure rights amounted to 195,895 thousand euros and were mainly attributable to (i) ACEA Ato2 for reclamation work and expansion of water pipelines, transport and water treatment plants and extraordinary maintenance on water facilities and (ii) ACEA Ato5 for ordinary and extraordinary maintenance on buildings of water plants and for investments made on water and waste water pipelines.

The item also includes the value of the assets absorbed from the acquisition of the business unit 2iRete Gas S.p.A., for 1,794 thousand euros, with reference to the management of the water services in the municipalities of Colferro and Valmontone and, for 3,423 thousand euros as a result of the Agreement with the municipality of Ciampino.

17. Other intangible assets - 104,696 thousand euros

The increase over the previous year, amounting to 19,411 thousand euros, arises from investments incurred in the period (51,334 thousand euros), net of amortization (38,273 thousand euros) and reclassifications following the entry into operation of the assets.

Capital expenditures carried out during the year totalled 51,334 thousand euros and are mainly attributable to:

- ACEA Distribuzione for 25,610 thousand euros primarily for the re-engineering of information systems (18,122 thousand euros) and for the development of software projects related to Acea2.0 and for the *Work Force Management* project;
- Acea Energia for 14,347 thousand euros in relation to the implementation and development of software used for the free market and the protected categories market;
- ACEA for 7,743 thousand euros for the purchase and upgrading of software to support the implementation activities of the Acea 2.0 Project, the development of systems for administrative, personnel and corporate security management.

This item includes the increase in Green Certificates of Acea Produzione and ARIA which recorded an overall growth of 3,033 thousand euros.

18. Investments in unconsolidated subsidiaries and associates - 247,490 thousand euros

The composition of ACEA Group's investment portfolio is shown in the following table.

€ thousand	2014	Impact on income statement	Impact on equity	Change in basis of consolidation	Other changes	2015
Investments in unconsolidated subsidiaries and associates	224,767	29,596	1,775	(1,512)	(7,137)	247,490

The changes occurred during the year refer to:

- valuations of companies consolidated using the equity method, whose impact on the income statement totalled 29,596 thousand euros; these valuations are booked in the income statement mainly under "Income/costs from equity investments of a non-financial nature" (29,501 thousand euros) and under "Income/costs from equity investments" (1,010 thousand euros);
- the "change in the scope of consolidation" mainly reflects the effect of the liquidation of Eur Power, which took place in November;
- the impact of valuations of companies consolidated using the equity method in shareholders' equity (1,775 thousand euros);
- dividends distributed by companies 7,137 thousand euros

Economic/financial and consolidated balance sheet data is provided for the principal investments in subsidiaries calculated using the equity method.

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	8,598	598	-	(471)	266	617	316
NUOVE ACQUE	20,055	5,059	(13,913)	(2,869)	8,746	730	(8,205)
ECOMED	3	314	0	(374)	0	(62)	103
FIORA	99,781	21,687	(80,523)	(17,132)	39,802	3,008	(51,918)
GORI	73,076	162,167	(64,421)	(133,092)	75,665	4,024	1,677
Ingegnerie Tosca	3,205	8,219	(464)	(6,151)	9,407	1,480	(1,666)
ACQUE IND	1,496	3,049	(717)	(2,772)	4,523	(27)	(439)
ACQUE SER	868	10,075	(1,050)	(6,848)	10,889	304	(798)
ACQUE	176,923	45,667	(143,688)	(41,946)	68,518	7,895	(95,167)
PUBLIACQUA	183,210	58,287	(76,804)	(73,242)	96,031	11,709	(36,453)
UMBRA	51,626	13,436	(30,265)	(25,150)	28,165	111	(12,382)

31.12.2014 € thousand	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Net profit/(loss)	NMP
AZUL	6,989	1,006	(283)	(932)	2,734	742	(82)
INTESA ARETINA	8,096	831	0	(602)	266	586	340
NUOVE ACQUE	20,388	4,247	(14,755)	(2,331)	8,202	666	(9,246)
ECOMED	3	285	0	(339)	232	145	74
FIORA	93,226	21,519	(26,638)	(66,673)	38,968	3,940	(49,031)
GORI	70,148	154,975	(59,414)	(132,004)	74,663	184	(7,346)
Ingegnerie To- scane	3,354	7,087	(607)	(5,755)	8,693	970	(2,121)
ACQUE IND	1,457	1,984	(805)	(1,500)	3,805	233	(694)
ACQUE SER	558	7,734	(418)	(4,655)	9,932	554	402
ACQUE	184,097	35,463	(156,232)	(35,210)	62,728	4,882	(103,582)
PUBLIACQUA	181,328	45,453	(64,188)	(76,638)	88,949	7,279	(36,171)
UMBRA	50,083	14,901	(30,756)	(24,800)	27,569	301	(12,695)

19. Other investments - 2,750 thousand euros

This item, amounting to 2,750 thousand euros (2,482 thousand euros at the end of the previous year), consists of equity interests that do not qualify as subsidiaries, associates or joint ventures; they increased by 267 thousand euros compared to the prior year.

20. Deferred tax assets - 274,577 thousand euros

At 31 December 2015 these amounted to 274,557 thousand euros (296,224 thousand euros at 31 December 2014) and are broken down as follows: (i) 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, amounting to 35,630 thousand euros (39,893 thousand euros at 31 December 2014), (ii) lower accelerated depreciation/amortisation of 117,322 thousand euros (127,240 thousand euros at 31 December 2014), (iii) tax deductible provisions for liabilities of 24,810 thousand euros (19,370

thousand euros at 31 December 2014), (iv) provision for doubtful receivables amounting to 51,441 thousand euros (52,338 thousand euros at 31 December 2014).

The following should be noted:

- the "rate adjustment" column shows the recalculation amounts of deferred tax assets and liabilities as a result of the amendment introduced by the 2016 Stability Law, which reduced the corporate income tax rate - IRES - from 27.5% to 24%, effective for the tax periods following the one in progress at 31 December 2016.
- the recalculation does not take into account the deferred taxes that will reverse in the year 2016.

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 a reasonable estimate of the period in which the related difference is expected to reverse.

The following table details the changes in this item:

€ thousand	Balance	Change in basis of consolidation	Adjustments/Reclassifications	Changes in shareholders' equity	Utilisations	Rate adjustment	IRES/IRAP provisions	Balance
Deferred tax assets								
Tax losses	996	0	(1)	0	0	(362)	43	677
Remuneration of BoD members	849	0	0	0	(3)	(185)	30	691
Provision for liabilities and charges	19,370	0	0	0	(7,848)	(945)	14,233	24,810
Impairments of receivables and investments	52,338	0	6	0	(653)	(4,176)	3,924	51,441
Depreciation/amortisation	127,240	0	1	935	(7,339)	(16,332)	12,816	117,322
Defined benefit and defined contribution plans	16,876	0	2	(2,014)	(1,197)	(803)	324	13,188
Tax assets on consolidation adjustments	39,893	0	0	0	(6,710)	(3,369)	5,816	35,630
Fair value commodities and other financial instruments	18,596	0	0	(8,304)	0	0	0	10,292
Others	20,067	509	53	(681)	(1,185)	(851)	2,617	20,529
Total	296,224	509	61	(10,064)	(24,934)	(27,023)	39,804	274,577
Deferred taxes								
Depreciation/amortisation	75,992	0	0	365	(3,379)	(7,637)	6,132	71,473
Defined benefit and defined contribution plans	(311)	0	13	518	(304)	(328)	337	(74)
Fair value commodities and other financial instruments	9,749	0	11	(4,528)	0	(232)	131	5,130
Others	7,854	0	(170)	(28)	(1,605)	(1,160)	5,639	10,530
Total	93,284	0	(145)	(3,673)	(5,288)	(9,358)	12,238	87,059
Net	202,941	509	206	(6,392)	(19,646)	(17,665)	27,565	187,518

The item "Others" includes deferred taxation concerning connection fees.

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 - 31,464 thousand euros
These amounted to 31,464 thousand euros (34,290 thousand euros at 31 December 2014), recording a decrease

of 2,826 thousand euros.

This item mainly includes receivables due from Roma Capitale for 29,109 thousand euros, 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 - 39,764 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Advances and deposits	1,477	1,327	150	11.30%
Other receivables	36,698	41,567	(4,869)	(11.71%)
Accrued income and prepayments	450	965	(514)	(53.26%)
Amounts due from the State	1,138	113	1,025	904.3%
Other non-current assets	39,764	43,972	(4,208)	(9.57%)

Other receivables totalled 36,698 thousand euros (they were 41,567 thousand euros at 31 December 2014) 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 service, 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 - 2,240,030 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Inventories	26,623	29,229	(2,606)	(8.9%)
Trade receivables:				
Receivables from customers	1,005,113	1,162,973	(157,858)	(13.6%)
Receivables due from the Parent Company	63,679	67,231	(3,552)	(5.3%)
Receivables from associates and joint ventures	29,882	29,716	166	0.6%
TOTAL TRADE RECEIVABLES	1,098,674	1,259,920	(161,247)	(12.8%)
Other current receivables and assets	130,675	141,467	(10,792)	(7.6%)
Current financial assets	94,228	92,130	2,098	2.3%
Tax assets	75,177	99,843	(24,667)	(24.7%)
Cash and cash equivalents	814,653	1,017,967	(203,314)	(20.0%)
Current assets	2,240,030	2,640,556	(400,526)	(15.2%)

INVENTORIES

These amounted to 26,623 thousand euros (29,229 thou-

sand euros compared to 31 December 2014); the breakdown by operating segment is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	3,708	3,410	298	8.7%
Energy	1,632	1,515	117	7.7%
Water	7,069	8,420	(1,351)	(16.0%)
Networks	13,944	15,613	(1,669)	(10.7%)
Parent Company	270	270	0	0.0%
Total	26,623	29,229	(2,606)	(8.9%)

The decrease is essentially attributable to ACEA Distribuzione (- 2,039 thousand euros) and ACEA Ato2 (- 1,340 thousand euros).

TRADE RECEIVABLES

These amounted to 1,098,674 thousand euros, recording a decrease of 161,247 thousand euros compared to the previous year, when the figure was 1,259,920 thousand euros.

RECEIVABLES FROM CUSTOMERS

This item amounted to 1,005,113 thousand euros, a decrease of 157,859 thousand euros compared to 31 December 2014.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Receivables due from end users for bills issued	428,469	549,835	(121,366)
Receivables due from end users for bills to be issued	402,118	416,132	(14,014)
Total receivables due from end users	830,587	965,967	(135,380)
Receivables from other customers	153,451	175,148	(21,696)
Disputed receivables	21,075	21,858	(784)
Total receivables	1,005,113	1,162,973	(157,859)

The reduction compared to 31 December 2014 is attributable to the decrease in receivables from users primarily in the Energy Segment and to a lesser extent in the

Networks and Corporate segments.

The table below summarises the changes by operating segment:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	29,742	29,702	40	0.1%
Energy	505,292	643,955	(138,663)	(21.5%)
Water	411,736	406,340	5,395	1.3%
Networks	29,690	43,638	(13,949)	(32.0%)
Parent Company	28,653	39,337	(10,684)	(27.2%)
Total	1,005,113	1,162,973	(157,860)	(13.6%)

Receivables are stated net of the Provision for Impairment of Receivables which at 31 December 2015 amounted to 320,195 thousand euros, an increase over the previous year of 42,003 thousand euros.

Environment segment receivables

They amounted to 29,742 thousand euros overall, substantially in line with the previous year.

Energy segment receivables

Receivables in this segment amounted to 505,292 thousand euros; they are primarily generated by the sale of electricity to the protected and free market customers and by gas sales. The decrease compared to 2014 amounts to 138,663 thousand euros and results from the reduction in Acea Energia (- 155,830 thousand euros) as a result of both successful recovery actions taken and

the effect of lower volumes sold.

The transfer of the PV business unit to Acea Produzione, after the total spin-off of ARSE, resulted in a reduction in Networks Segment receivables and an increase in Energy Segment receivables amounting to 13,936 thousand euros. The line-by-line consolidation of Cesap Vendita Gas also resulted in a 4,487 thousand euros increase in Segment receivables.

The provision for impairment of receivables at 31 December 2015 amounted to 238,894 thousand euros, with an increase net of uses of 50,480 thousand euros compared to 31 December 2014.

Water segment receivables

These totalled 411,736 thousand euros and were composed as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Italian water services	409,758	403,990	5,768	1.4%
Lazio-Campania	409,486	403,728	5,758	1.4%
Tuscany-Umbria	272	262	10	3.8%
Overseas Water Services	1,621	1,823	(202)	(11.1%)
Engineering and Laboratory Services	357	528	(171)	(32.4%)
Total	411,736	406,340	5,395	1.3%

The substantial stability of the Water Segment derives from the billing of ACEA Ato2 tariff adjustments and ACEA Ato5 prior-year items.

The provision for impairment of receivables at 31 December 2015 amounted to 56,013 thousand euros, with a decrease net of uses of 10,175 thousand euros compared to 31 December 2014.

Network segment receivables

Network segment receivables stood at 29,690 thousand euros, a decrease of 13,949 thousand euros compared to 31 December 2014, which reflects the transfer of the photovoltaic division to ACEA Produzione following the total spin-off of ARSE.

The provision for impairment of receivables amounted to 17,145 thousand euros, up by 2,708 thousand euros, mainly attributable to ACEA Distribuzione.

Parent Company receivables

Parent Company receivables amounted to a total of 28,653 thousand euros, decreasing by 10,684 thousand euros compared to 31 December 2014. The change is mainly attributable to relations with the Municipality of Naples, as a result of a transaction for the sale of receiv-

ables due from the Municipality.

The Provisions for Impairment of Receivables amounted to 5,318 thousand euros, a decrease of 1,432 thousand euros, due to the net effect of the write-downs made in the year and the release of provisions recognized in prior years.

For more information on the aging of receivables, reference is made to the section "Additional information on financial instruments and risk management policies" in the annex to this document.

RECEIVABLES FROM THE PARENT COMPANY ROMA CAPITALE

Trade receivables due from Roma Capitale totalled 72,203 thousand euros at 31 December 2015 (72,889 thousand euros at 31 December 2014).

The total amount of receivables (including financial receivables resulting from the public lighting contract and both current and non-current receivables) is equal to 142,773 thousand euros compared to 135,278 thousand euros at the end of the previous year.

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

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
RECEIVABLES	163,325	162,273	121,661	0.6%
PAYABLES (including dividends)	185,512	119,888	(81,954)	54.7%
Balance (Receivables - Payables)	(22,187)	42,385	(64,572)	(152.3%)

The following tables also provide a breakdown of Group receivables/payables due from/to Roma Capitale.

Amounts due from Roma Capitale	31.12.2015	31.12.2014	Increase/ (Decrease)
Utility receivables	46,756	51,318	(4,562)
Contract work and services	17,722	16,493	1,229
Other receivables: seconded staff	184	151	33
Total services billed	64,662	67,963	(3,301)
Grants receivable	2,402	2,402	0
Total services requested	67,063	70,364	(3,301)
Receivables for bills to be issued: Public Lighting	2,604	1,013	1,590
Receivables for bills to be issued: other	2,537	1,512	1,025
Total services to be billed	5,140	2,525	2,615
Total trade receivables	72,203	72,889	(686)
Financial receivables for Public lighting services	70,570	62,389	8,181
Financial receivables for billed Public lighting services	61,009	49,713	11,296
Financial receivables for Public lighting services to be billed	9,561	12,676	(3,115)
Total receivables due within one year (A)	142,773	135,278	7,495

Amounts due to Roma Capitale	31.12.15	31.12.14	Increase/ (Decrease)
Electricity surtax payable	(15,232)	(15,178)	(54)
Concession fees payable	(99,339)	(74,047)	(25,292)
Total trade payables	(114,571)	(89,225)	(25,346)
Total payables due within one year (B)	(114,571)	(89,225)	(25,346)
Total (A) - (B)	28,202	46,053	(17,851)
Other financial receivables/(payables)	(6,186)	29,442	(35,628)
Dividends payable	(35,295)	(3,138)	(32,157)
Medium/long term financial receivables for Public lighting services	29,109	32,580	(3,471)
Other trade receivables/(payables)	(41,213)	(33,111)	(8,103)
<i>Of which: Disputed payables - Vatican City</i>	<i>(20,516)</i>	<i>(20,516)</i>	<i>0</i>
Net balance	(19,197)	42,385	(61,582)

The change in receivables and payables results from items accrued in the period, the effects of items offset during 2015 and collections occurred especially in the last months of 2015.

During 2015, the stock of total receivables increased by 7,495 thousand euros compared to the previous year; specifically the following changes occurred:

- a decrease in utility receivables of 4,562 thousand euros related to electricity (for comments, see the note at the bottom of this section);
- an increase in trade receivables for invoices to be issued of 2,615 thousand euros, equally spread among new Public Lighting installations and water-system works, area plans and the water contract;
- the growth of financial receivables for public lighting services, amounting to 8,181 thousand euros, reflects the service agreement fees accrued in 2015.

In 2015, 19,331 thousand euros were offset (end June 2015), through which utility receivables of 14,700 thousand euros and Public Lighting receivables of 4,307 thousand euros were offset with payables for dividends due from ACEA to Roma Capitale.

With regard to collections (101,279 thousand euros), the main categories of receivables are listed below:

- 57,159 thousand euros for receivables relating to the public lighting contract, of which: (i) 50,597 thousand euros for current year fees, (ii) 5,001 thousand euros for fees accrued in prior years and adjustments to regulations and interest, (iii) 1,201 thousand euros as reimbursement for stolen cables;
- 27,391 thousand euros for water utility receivables of which 22,257 thousand euros for invoices issued

in the current year and 5,134 thousand euros for old receivables resulting from non-recurring liquidation proceedings of Roma Capitale recognized as off-balance sheet item;

- 15,196 thousand euros for electrical utility receivables in relation to old receivables resulting from non-recurring liquidation proceedings of Roma Capitale recognized as off-balance sheet item;
- 1,105 thousand euros for receivables related to water-system works.

On the liability side, there was an overall increase of 65,542 thousand euros mainly attributable to ACEA Ato2, as a result of the concession fee accrued in the year (+ 25,292 thousand euros) and to the Parent Company and ACEA Ato2 for dividends accrued in 2014 and respectively approved by ACEA and ACEA Ato2 (total of + 32,157 thousand euros).

Lastly, in January 2015 the *Split Payment* tax rules came into effect, which require invoicing to the Public Administration (including Roma Capitale) with separate payment of VAT; in addition, from 1 April, electronic invoicing is mandatory. The application of these new rules resulted in billing delays with regard to utility receivables, which are now being made up for.

It should furthermore be noted that Acea Energia has interrupted the supply of electricity as of 28 February 2015 (date of termination of the contract) and that for this reason there was a decrease in receivables.

TRADE RECEIVABLES FROM ASSOCIATES AND JOINT VENTURES

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	Increase/ (Decrease)
Amounts due from associates	5,188	7,351	(2,163)	(29.4%)
Receivables from jointly controlled entities	24,694	22,366	2,329	10.4%
Total	29,882	29,716	166	0.6%

Receivables from associates

These receivables totalled 5,188 thousand euros (7,351 thousand euros at 31 December 2014) and primarily refer to receivables from Marco Polo for 1,229 thousand euros, receivables from Umbria Due Servizi Idrici for 1,165 thousand euros, receivables from Sogea for 952 thousand euros, receivables from Si(e)nergia in liquidation for 639 thousand euros and receivables from Agua de San Pedro for 605 thousand euros.

Receivables from Joint Ventures

These receivables totalled 24,694 thousand euros (22,366

thousand euros at 31 December 2014), up by 2,329 thousand euros; they refer to amounts due from companies consolidated using the equity method in application of IFRS11. In particular the balance consists of 13,526 thousand euros in receivables recognised in ACEA due from its subsidiaries and 8,150 thousand euros in Sarnese Vesuviano due from its subsidiary GORI. The change compared to the previous year in receivables from subsidiaries recorded in ACEA S.p.A. was affected by the recognition of receivables arising from the allocation of costs incurred for the Acea2.0 program and reflects the allocation of the investment in the joint venture.

OTHER CURRENT RECEIVABLES AND ASSETS

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	Increase/ (Decrease)
Receivables from others	117,866	126,783	(8,917)	(7.0%)
Accrued income and prepayments	12,809	14,685	(1,875)	(12.8%)
Total	130,675	141,467	(10,792)	(7.6%)

Receivables from others

These totalled 117,866 thousand euros, with breakdown of the main contributing items as follows:

	31.12.15	31.12.14	Increase/ (Decrease)	Increase/ (Decrease)
Receivables due from Equalisation Fund	38,928	17,708	21,220	119.8%
Other minor receivables	13,604	4,354	9,249	212.4%
Receivables from Equalisation Fund for Tariff Contribution from meeting the targets	12,642	18,501	(5,859)	(31.7%)
Receivables due from Equalisation Fund for energy equalisation	12,224	47,299	(35,075)	(74.2%)
Receivables due from the Trifoglio Immobiliare	10,250	10,250	0	0.0%
Regional grants receivable	7,355	6,521	834	12.8%
Receivables due from INPS for welfare contributions in accordance with article 41, paragraph 2, letter A of Act 488/1999	5,408	6,240	(832)	(13.3%)
Receivables from individual transfers	4,373	2,465	1,908	77.4%
Receivables from Equitalia	4,168	4,157	11	0.3%
Receivables from social security institutions	3,475	3,301	174	5.3%
Security deposits	3,368	3,566	(197)	(5.6%)
Suppliers' advances	2,072	1,722	350	20.4%
Receivables for insurance reimbursement	0	700	(700)	100.0%
Total	117,866	126,783	(8,918)	(7.0%)

The 8,918 thousand euros reduction in receivables compared to the end of 2014 is mainly due to the following phenomena:

- the growth in receivables from the Equalization Fund accrued by Acea Energia is attributable to the effects of AEEGSI Resolution 670/2014/R/eel which defined the national unpaid ratio at 24 months;
- the reduction in receivables from the Equalisation Fund for energy equalisation is attributable to higher sales in 2015 compared to the previous year of receivables arising from the general equalization;
- the reduction in receivables from the Equalisation Fund for Energy Efficiency Certificates for 5,859 thousand euros relates to higher sales made in the period.

Accrued income and prepayments

These amounted to 12,809 thousand euros (14,685 thousand euros at 31 December 2014) and refer mainly to rent on public land, rentals and insurance.

The change was negative for 1,875 thousand euros and is mainly attributable to Acea Energia for 3,340 thousand euros, partially offset by increases in Umbria Energy (+ 468 thousand euro) and in ACEA (+ 555 thousand euros).

Receivables from commodity derivatives

The fair value of commodity contracts at 31 December 2015 amounted to 0,000 euros, the same as at 31 December 2014.

CURRENT TAX ASSETS

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
VAT receivables	16,272	55,566	(39,294)
IRAP and IRES receivables	31,362	11,770	19,592
Municipal and provincial surcharge, revenue tax	4,001	906	3,095
Other tax receivables	23,542	31,600	(8,058)
Current tax assets	75,176	99,843	(24,667)

CURRENT FINANCIAL ASSETS

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Financial receivables from the Parent Company	70,570	62,389	8,181	13.1%
Financial receivables from associates and joint ventures	6,776	6,653	123	1.8%
Financial receivables from third parties	16,883	23,088	(6,205)	(26.9%)
Total current financial assets	94,228	92,130	2,098	2.3%

Financial receivables from the Parent Company

These amounted to 70,570 thousand euros (62,389 thousand euros at 31 December 2014) and 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 "Receivables due from the Parent Company Roma Capitale".

Financial receivables from associates and joint ventures

These amounted to 6,776 thousand Euros, (6,653 thousand euros at 31 December 2014) and refer to 2,777 thousand euros for a loan, including accrued interest, disbursed in November 2010 to Sienergia to cover certain investment projects, 3,076 thousand euros recognised in Crea Gestioni with Umbriadue Servizi and 322 thousand euros for a loan granted to the company Citelum Acea Napoli Pubblica Illuminazione.

Financial receivables from third parties

These receivables totalled 16,883 thousand euros (23,088 thousand euros at 31 December 2014) and are mainly broken down as follows:

- 10,700 thousand euros recorded in ACEA Ato5. This amount 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,
- 5,360 thousand euros accrued for the management of the public lighting service.

CASH AND CASH EQUIVALENTS

The balance at 31 December 2015 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 814,653 thousand euros. A breakdown and changes in this item by operating segment are shown in the table below:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Environment segment	328	1,140	(812)
Energy segment	6,805	1,532	5,273
Water Segment	35,223	36,215	(992)
Networks Segment	(200)	639	(839)
Parent Company	772,497	978,440	(205,943)
Total	814,653	1,017,967	(203,314)

24. Non-current assets held for sale/Liabilities directly associated with assets held for sale - 497 thousand euros

The balance at 31 December 2015 amounted to 398 thousand euros, unchanged from 31 December 2014. It includes the recognition of 497 thousand euros 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 euros for the amount due to the buyer for the repayment of *equity* corresponding to the plants subject to the *put*.

LIABILITIES

At 31 December 2015 these amounted to 6,706,972 thousand euros (6,911,645 thousand euros at 31 December 2014),

recording a decrease of 204,673 thousand euros or 3.0% over the previous year; they are broken down as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Shareholders' equity	1,596,053	1,502,391	93,662	6.2%
Non-current liabilities	3,258,079	3,598,633	(340,554)	(9.5%)
Current liabilities	1,852,741	1,810,522	42,219	2.3%
Liabilities directly associated with assets held for sale	99	99	0	0.0%
Total Liabilities	6,706,972	6,911,645	(204,673)	(3.0%)

25. Shareholders' equity - 1,596,053 thousand euros

The consolidated shareholders' equity at 31 December 2015 amounted to 1,596,053 thousand euros (1,502,391 thousand euros at 31 December 2014). The changes occurred during the year are shown in the relevant table.

Share capital

The share capital totals 1,098,899 thousand euros, represented by 212,964,900 ordinary shares with a par value of 5.16 euros 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 euros;
- **Free float: 103,936,757** ordinary shares with an overall par value of 536,314 thousand euros;
- **Treasury shares: 416,993** ordinary shares for a total par value of 2,152 thousand euros.

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 87,908 thousand euros.

Other reserves and retained earnings

At 31 December 2015 these amounted to 162,126 thousand euros; at 31 December 2014 they were a negative 6,911 thousand euros. The increase in this item stems in part from changes in retained earnings (+ 41,465 thousand euros) and partly from the reclassification made in 2015 from the Legal Reserve (+ 88,211 thousand euros). The *cash flow hedge* reserve related to financial instruments for 6,667 thousand euros (net of taxation), the reserve for the *Fair Value* measurement of derivative contracts of Acea Energia for 566 thousand euros and the change in actuarial gains and losses amounting to 1,144 thousand euros contribute to the change. The change was also affected by the dividend distribution of 95,647 thousand euros.

At 31 December 2015 ACEA held 416,993 treasury shares to be used for future medium/long-term incentive schemes. At this time there are no medium/long-term share-based payment schemes planned.

Non-controlling interests

Non-controlling interests totalled 72,128 thousand euros, having risen 304 thousand euros. 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 2014 and the change in the basis of consolidation after the acquisitions occurred in the period of Cesap Vendita Gas and additional shareholdings in the companies Acque Blu Arno

Basso, Elga Sud, Voghera Energia Vendite and Kyklos.

26. Staff termination benefits and other defined benefit plans - 108,630 thousand euros

At 31 December 2015, said item totalled 108,630 thousand euros (118,004 thousand euros as at 31 December 2014) and represents termination and other benefits payable to employees on retirement or termination of employment.

The following table shows the change in actuarial liabilities during the year.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Benefits payable upon termination of employment				0.0%
- Staff termination benefits	64,012	69,116	(5,105)	(7.4%)
- Monthly bonuses	10,020	10,792	(772)	(7.1%)
- Long-Term Incentive Plans (LTIP)	2,346	2,016	330	16.3%
Post-employment benefits				0.0%
- Tariff subsidies	32,252	36,080	(3,828)	(10.6%)
Total	108,630	118,004	(9,374)	(7.9%)

Please be informed that the liabilities shown above include the income statement component related to the service cost for 14,280 thousand euros and the interest cost for 1,897 thousand euros, respectively recognised in staff costs and financial costs.

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, which results in a decrease in liabilities due to the effect of the remeasurement of actuarial gains and loss-

es (3,868 thousand euros) accounted for in "Other Comprehensive Income" (OCI).

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 2015	December 2014
Discount Rate	2.03%	1.49%
Revenue growth rate (average)	1.6%	1.6%
Long-term inflation	1.5%	1.0%

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	+0.5%	-0.5%
	€ millions	€ millions
Staff termination benefits (TFR)	-3.5	+3.9
Tariff subsidies	-2.0	+0.8
Monthly bonuses	-1.1	+0.1

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	+1.5
Monthly bonuses	-0.1

No sensitivity analyses were conducted on other variables such as, for example, the inflation rate.

27. Provisions for liabilities and charges -

189,856 thousand euros

These provisions 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 movements in the period:

€ thousand	31.12.14	Utilisations	Provisions	Payment of Redundancy Funds	Reclassifications/ Other changes	31.12.15
Legal	20,117	(3,692)	7,647	(4,200)	359	20,232
Tax	4,604	(2,793)	1,371	0	(493)	2,689
Regulatory risks	46,595	(1,015)	8,678	0	(39)	54,218
Investees	12,374	(6,157)	2,575	(2,899)	(243)	5,650
Contributory risks	6,594	(141)	87	0	19	6,540
Early retirements and redundancies	2,710	(14,029)	14,754	0	46	3,481
Post mortem	23,137	0	0	0	(93)	23,044
Insurance excess	255	(958)	1,895	0	0	1,192
Other liabilities and charges	9,172	(1,221)	14,377	0	(792)	21,554
Subtotal Provisions for Liabilities and Charges	125,557	(30,007)	51,384	(7,099)	(1,237)	138,599
Provisions for restoration charges	43,087	0	8,171	0	0	51,257
Total Provisions for Liabilities and Charges	168,644	(30,007)	59,555	(7,099)	(1,237)	189,856

The 21,212 thousand euros increase compared to 31 December 2014, resulted from:

- **uses**, amounting to 30,007 thousand euros, primarily referring to:
 - the provision for redundancy and early retirement costs used in the period for 14,029 thousand euros;
 - provisions for the assessments of the long leasehold property of ARSE (now Elga Sud following the spin-off) used for 1,737 thousand euros;
 - the provision for legal disputes used for 3,692 thousand euros, as a result of the disputes settled in the financial year;
 - provision for investee liabilities for uses resulting from the line-by-line consolidation of equity investments previously accounted for using the equity method.
- Allocations, amounting to 59,555 thousand euros, primarily include:
 - the recognition of 14,754 thousand euros for costs generated by early retirements and voluntary redundancy procedures;
 - 14,377 thousand euros allocated to the provision for other liabilities and charges, essentially referring to allocations recognised by Acea Energia (13,332 thousand euros) for valuations of energy related items pertaining to previous years.
 - 8,171 thousand euros to cover the cost of maintaining the infrastructure used in the management of water services;
 - 7,647 thousand euros for provisions allocated in relation to litigation costs and contingent liabilities that the companies will have to pay in the event of unfavourable outcome in ongoing disputes;

- 8,678 thousand euros related to regulatory risks mainly detected in Acea Energia and Acea Produzione.

The component covering regulatory risks includes the amount of 39,205 thousand euros to cover the uncertainties related to GORI.

The releases in 2015 relate to: (i) for 4,200 thousand euros to the reduction of the provision for legal disputes as a result of judgments issued in favour of ACEA and (ii) for 2,899 thousand euros to the reduction in the provision for investee liabilities set aside in previous years.

For more details about the nature of the allocation please refer to note 7.

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 "Update on major disputes and litigation".

28. Non-current borrowings and financial liabilities - 2,688,435 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Bonds	1,904,022	1,909,117	(5,095)
Medium/long-term borrowings	784,413	1,131,595	(347,182)
Total	2,688,435	3,040,712	(352,277)

The figures in the table include the *fair value*, at the end of the year, 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	2015	Hedged instrument	Fair value of derivative	2014
Bonds	1,866,346	37,676	1,904,022	1,855,385	53,732	1,909,117
Medium/long-term borrowings	769,837	7,004	784,413	1,122,558	9,037	1,131,595
Non-current borrowings and financial liabilities	2,636,183	44,680	2,688,435	2,977,943	62,769	3,040,712

BONDS

These amounted to 1,904,022 thousand euros (1,909,117 thousand euros at 31 December 2014) and refer to the following:

- 599,906 thousand euros (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 euros. The bonds, which have a minimum denomination of 100 thousand euros and maturity 15 July 2024, pay one 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 subject to British law. The settlement date was 15 July 2014. Interest accrued during the period amounted to 15,750 thousand euros,
- 602,880 thousand euros (including accrued interest) referring to a 5-year bond issued by ACEA at the beginning of September 2013 and maturing 12 September 2018. This payable, net of positive Fair Value recognised under net finance costs in the income statement equal to 923 thousand euros, amounted to 601,957 thousand euros. The bonds pay a 3.75% fixed annual coupon and the issue price was 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 rate (*mid-swap* at 10 years). The bonds are subject to British law. The settlement date was 12 September

2013. Interest accrued during the period amounted to 22,481 thousand euros,

- 516,113 thousand euros (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 euros, 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 subject to British law. The settlement date was 16 March 2010. Interest accrued during the period amounted to 22,451 thousand euros,
- 153,088 thousand euros relating to the *Private Placement* which, net of the *Fair Value* of the hedge, a negative 32,956 thousand euros, amounted to 186,044 thousand euros. The *fair value* was allocated to a specific equity reserve. The exchange rate difference - negative by 12,563 thousand euros - calculated at 31 December 2015 on the hedged instrument was allocated to a translation reserve. The exchange rate at the end of 2015 was 131.07 euros compared to 145.23 euros at 31 December 2014. Interest accrued during the period amounted to 3,843 thousand euros. 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 (INCLUDING SHORT-TERM PORTIONS)

They totalled 830,421 thousand euros (1,178,058 thousand euros at 31 December 2014) and include: (i) principal outstanding falling due beyond twelve months amounting to 784,413 thousand (1,131,595 thousand euros at 31 December 2014), (ii) the portions of the same borrowings falling due in the twelve months thereafter, totalling 46,008 thousand euros (46,462 thousand euros at 31 December 2014) and (iii) 7,004 thousand euros 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 in € thousand	Total Residual Debt	Due by 31.12.2016	Falling due between 31.12.2021 and 31.12.2016	Due after 31.12.2021
fixed rate	309,416	21,757	88,882	198,777
floating rate	464,016	15,917	252,267	195,833
floating rate to fixed rate	56,988	8,335	40,320	8,333
Total	830,421	46,008	381,469	402,944

The *fair value* of ACEA hedging derivatives was a negative 7,004 thousand euros, decreasing 2,033 thousand euros compared to 31 December 2014 (negative 9,037 thousand euros).

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 ACEA Distribuzione 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 2015.

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.

During the year there was no evidence that any of the covenants had not been complied with.

Information on the fair value of the above borrowings is provided in the section "*Additional disclosures on financial instruments and risk management policies*".

29. Other non-current liabilities - 184,100 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Advances received	110,688	102,464	8,224	8.0%
Capital grants and water connection fees	44,704	42,940	1,764	4.1%
Accrued liabilities/deferred income	28,709	32,586	(3,877)	(11.9%)
Total other liabilities	184,100	177,990	6,110	3.40%

ADVANCES FROM END USERS AND CUSTOMERS

Advances from end users and customers regarding the supply of fresh water are not interest-bearing, whilst those regarding the distribution and sale of electricity

and urban heating distribution accrue interest according to the conditions established by AEEGSI rules (Resolution No. 204/99) and the Supply Regulations, respectively. The following table provides the breakdown by industrial area:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)
Energy	42,410	36,142	6,268
Water	67,761	65,066	2,694
Networks	494	1,232	(738)
Parent Company	23	23	0
Total	110,688	102,464	8,224

CAPITAL GRANTS AND WATER CONNECTION FEES

This item amounted to 44,703 thousand euros overall (42,940 thousand euros at 31 December 2014) and mainly refer to connection fees in ACEA Ato2 for 19,257 thousand euros and ACEA Ato5 for 4,759 thousand euros. The item also includes 20,687 thousand euros (18,259 thousand in 2014) for grants accounted for in liabilities and progressively recognised in the income statement of each year over the term of the underlying investment. The amount recognised as income is determined on the basis of the useful life of the asset to which it refers.

to the depreciation generated by the associated capital expenditure. In particular, this item includes 19,780 thousand euros for the grant received by ACEA Distribuzione for the replacement of electromechanical meters with electronic meters (AEEGSI Resolution No. 292/06).

ACCRUED LIABILITIES AND DEFERRED INCOME

Accrued liabilities and deferred income, amounting to 28,709 thousand euros, mainly refer to grants received, recognised in the income statement by an amount equal

30. Provision for deferred taxes - 87,059 thousand euros

At 31 December 2015 the provisions totalled 87,059 thousand euros (93,284 thousand euros at 31 December 2014). These provisions above all regard the difference between economic and technical rates of depreciation and tax-related rates. Uses in the period totalling 5,288 thousand euros and allocations amounting to 12,238 thousand euros contributed to this item. In addition the item "other liabilities" includes deferred taxes on default interest not collected for 10,530 thousand euros. Reference is made to note 20 for details.

31. Current liabilities - 1,852,741 thousand euros

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Financial debt	259,087	189,957	69,130	36.47%
Trade payables	1,245,257	1,249,366	(4,109)	(0.3%)
Tax Payables	42,346	83,941	(41,595)	(49.6%)
Other current liabilities	306,052	287,259	18,793	6.5%
Current liabilities	1,852,741	1,810,522	42,219	2.3%

BORROWINGS

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Short-term bank credit lines	12,71	11,699	1,011	8.6%
Bank loans	46,008	46,462	(454)	(1.0%)
Amounts due to the parent company Roma Capitale	35,295	3,138	32,157	1,024.9%
Payables to associates and joint ventures	596	1,735	(1,139)	(65.7%)
Payables due to third parties	164,48	126,923	37,557	29.6%
Total	259,087	189,957	69,131	36.4%

Short-term bank credit lines

These amounted to 12,710 thousand euros (11,699 thousand euros at 31 December 2014) with a 1,011 thousand euros increase which mainly reflects the growth in debt of the Water Segment and Energy Segment.

Bank loans

These totalled 46,008 thousand euros and refer to the current portion of bank loans falling due within twelve months. Further details are provided in note 28 of these notes.

Due to the Parent Company Roma Capitale

The value, amounting to 35,295 thousand euros, increased by 32,157 thousand euros due to dividends accrued, declared by ACEA and ACEA Ato 2 (total + 32,157 thousand euros).

For further information on the composition and changes of the item, reference should be made to the corresponding item in assets.

Payables due to third parties

These amounted to 164,480 thousand euros (126,923 thousand euros at 31 December 2014). The breakdown of this item mainly concerns:

As regards payables to shareholders for dividends, there was a decrease of 3,981 thousand euros as a result of the payment, made in the year, of the 2014 dividends to the other shareholders. During the year the outstanding debt to factors decreased in all segments except the Networks as a result of higher liabilities arising from the sale of receivables from the equalization fund related to the various energy equalizations.

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Dividends payable to shareholders	401	4,382	(3,980)	(90.8%)
<i>Environment</i>	158	1,270	(1,112)	(87.6%)
<i>Water</i>	242	3,110	(2,868)	(92.2%)
<i>Parent Company</i>	1	1	0	0.0%
Payables due to third parties	164,079	122,541	41,538	33.9%
<i>Environment</i>	5,936	2,862	3,074	107.4%
<i>Energy</i>	43,306	56,555	(13,249)	(23.4%)
<i>Water</i>	44,243	53,459	(9,216)	(17.2%)
<i>Networks</i>	68,824	7,896	60,928	771.6%
<i>Parent Company</i>	1,769	1,769	0	0.0%
TOTAL	164,480	126,923	37,557	29.6%
Water	44,243	53,459	(9,216)	(17.2%)
Networks	68,824	7,896	60,928	771.6%
Parent Company	1,769	1,769	0	0.0%
TOTAL	164,480	126,923	37,557	29.6%

TRADE PAYABLES

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Amounts due to third-party suppliers	1,092,264	1,130,158	(37,894)	(3.4%)
Amounts due to the parent company Roma Capitale	147,259	116,678	30,582	26.2%
Payables to associates and joint ventures	5,734	2,531	3,203	(7.7%)
Current payables	1,245,257	1,249,366	(4,109)	(0.3%)

Amounts due to third-party suppliers

Trade payables amounted to 1,092,264 thousand euros. The decrease of 37,894 thousand euros is the result of contrasting factors:

- **Environment Segment:** the increase of 8,313 thousand euros was mainly due to higher trade payables in SAO in relation to revamping works;
- **Energy Segment:** trade payables decreased by 73,240 thousand euros compared to 31 December 2014, mainly due to the reduction of payables in Acea Energia for 76,045 thousand euros. The effect is attributable to the reduction in purchased volumes and the simultaneous decrease in prices;
- **Water Segment:** the increase in trade payables of 24,587 thousand euros, compared to 31 December 2014, is mainly due to ACEA Ato2 for 24,151 thousand euros as a direct result of increased investments in the year;
- **Networks Segment:** trade payables decreased by 7,594 thousand euros compared to 31 December 2014, mainly due to the decrease of this item in ACEA Distribuzione (- 6,325 thousand euros);
- **Parent Company:** trade payables increased by 10,038 thousand euros compared to 31 December 2014 due to greater costs incurred in the Acea2.0 project.

Trade payables due to the Parent Company Roma Capitale

These totalled 147,259 thousand euros. Details are provided in Note 23 on trade receivables.

Trade payables to associates and joint ventures

The balance, amounting to 5,734 thousand euros, increased by 3,203 thousand euros compared to 31 December 2014. This change is essentially attributable to the purchase of technological infrastructure by Publiacqua, as part of the Acea2.0 project.

TAXES PAYABLE

These amounted to 42,346 thousand euros (83,941 thousand euros at 31 December 2014) and include 20,319 thousand euros for IRES and IRAP tax payables for the period (34,844 thousand euros in 2014) and 23,778 thousand euros for VAT (46,813 thousand euros at 31 December 2014). The change in VAT payable is mainly attributable to the new regulations that came into force in 2015.

OTHER CURRENT LIABILITIES

These amounted to 306,052 thousand euros with breakdown as shown in the following table:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Amounts due to social security institutions	18,126	17,480	646	3.7%
Accrued expenses	321	686	(365)	(53.2%)
Other current liabilities	287,605	269,093	18,512	6.9%
Total	306,052	287,259	18,793	6.5%

Due to social security institutions

These amounted to 18,126 thousand euros (17,480 thou-

sand euros at 31 December 2014); their breakdown by operating segment is as follows:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	745	694	51	7.3%
Energy	1,944	1,778	165	9.3%
Water	6,290	5,992	298	5.0%
Networks	5,702	5,719	(17)	(0.3%)
Parent Company	3,445	3,295	150	4.6%
Total	18,126	17,480	646	3.7%

Other current liabilities

These totalled 287,605 thousand euros, up 18,512 thou-

sand euros compared to 31 December 2014. This item essentially consists of:

€ thousand	31.12.15	31.12.14	Increase/ (Decrease)	% Increase/ (Decrease)
Payables to Equalisation Fund	89,678	78,073	11,605	14.9%
Payables for collections subject to verification	58,202	48,606	9,596	19.7%
Payables to municipalities for concession fees	53,737	51,827	1,910	3.7%
Amounts due to staff	32,756	45,277	(12,521)	(27.7%)
Other payables	14,277	8,088	6,189	76.5%
Welfare contribution payables	13,130	8,363	4,767	57.0%
Other payables to Municipalities	9,748	14,296	(4,548)	(31.8%)
Payables to Equitalia	9,168	11,078	(1,910)	(17.2%)
Payables for environmental premium Art. 10 of AT14 agreement of 13/08/2007	3,200	1,149	2,051	178.5%
Payables for acquisition of services under a protected regime	2,644	1,106	1,538	139.1%
Payables for purchase of surface rights	1,017	1,133	(116)	(10.2%)
Amounts due to end users for refund of Tariff Component as per referendum outcome	48	98	(50)	(51.0%)
Other current liabilities	287,605	269,093	18,512	6.9%

The change, amounting to 18,512 thousand euros, mainly refers to the combined effect of the following opposite factors:

- + 11,605 thousand euros for higher payables to the Equalisation Fund. As known, the equalization regime has become compulsory, together with other types of equalizations, in the second tariff period in force since 1 February 2004. The equalization amount is the best estimate made on the basis of available information in accordance with AEEGSI regulations from time to time in force;
- + 9,596 thousand euros due to higher payables related to the stock of collections from end users;
- + 1,910 thousand euros due to higher payables to the municipalities for concession fees, with specific reference to those accrued by ACEA Ato 5 and ACEA Ato2;
- - 12,521 thousand euros for lower payables to employees, especially in ACEA Ato2 (- 5,559 thousand euros), in ACEA Distribuzione (- 4,306 thousand euros) and ACEA (- 1,660 thousand euros);
- + 4,767 thousand euros for payables to the STO ATO2 deriving from revenue relating to application of the welfare contribution (this revenue is allocated to a fund for subsidised tariffs granted to families in hardship);
- - 4,548 thousand euros for other liabilities to municipalities, especially in ACEA Ato2 (- 4,341 thousand euros) for billings prior to its inclusion in the integrated water service.

PURCHASES IN THE YEAR

On 11 December 2015, the Group, through its subsidiary Acea Energia, purchased 100% of Voghera Energia Vendita in liquidation.

The purchase price amounted to 1.0 euro and is not subject to adjustment.

Net acquired assets	Carrying amount of acquired company	Fair value Adjustments	Fair Value
Property, plant and equipment	0.4		0.4
Intangible Assets	0		0
Trade receivables	1,339.7		1,339.7
Other receivables	1,634.5		1,634.5
Financial receivables	168.2		168.2
Cash and cash equivalents	1,176.2		1,176.2
Staff termination benefits and other defined benefit plans	0.0		0.0
Tax payables	(118.8)		(118.8)
Provisions for liabilities and charges	(28.2)		(28.2)
Trade payables	(22.5)		(22.5)
Payables to the parent company AE	(6,698.3)		(6,698.3)
Other payables	(270.4)		(270.4)
Bank borrowings	(678.4)		(678.4)
Other financial payables	0.0		0.0
NET BALANCE	(3,438.1)		(3,438.1)
Of which attributable to non-controlling interests			0.0
Goodwill			0.0
Investment price			0.0
Total Outlay			0.0

Amounts in €/thousand

The acquisition can be considered to be final.

In the course of 2015, the Group, through its subsidiary Aquaser, acquired 49% of Kyklos.

Net acquired assets	Carrying amount of acquired company	Fair value Adjustments	Fair Value
Property, plant and equipment	3,524.3		3,524.3
Intangible Assets	78.8		78.8
Non-current financial assets	0.0		0.0
Trade receivables	258.1		258.1
Other receivables	271.3		271.3
Cash and cash equivalents	68.5		68.5
Staff termination benefits and other defined benefit plans	(67.4)		(67.4)
Provisions for liabilities and charges	(179.6)		(179.6)
Provision for deferred taxes	0.0		0.0
Tax payables	(70.1)		(70.1)
Trade payables	(1,916.5)		(1,916.5)
Other payables	(573.8)		(573.8)
Bank borrowings	(1,456.1)		(1,456.1)
Other financial payables	(772.1)		(772.1)
NET BALANCE	(834.5)		(834.5)
Of which attributable to non-controlling interests			0.0
Goodwill			4,127.6
Investment price			3,293.1
Total Outlay			3,293.1

Amounts in € thousand

The acquisition was accounted for using the acquisition method on a provisional basis.

COMMITMENTS AND CONTINGENCIES

ENDORSEMENTS, SURETIES AND GUARANTEES

At 31 December 2015 they totalled 610,991 thousand euros; they amounted to 713,555 thousand euros at 31 December 2014 and showed a decrease of 102,564 thousand euros.

The breakdown is as follows:

- the issue of a bank guarantee for 100,000 thousand euros 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 euros 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 euros entered into on 25 October 2012 by ACEA and the European Investment Bank;
- 83,989 thousand euros 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 euros 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;
- 66,000 thousand euros in favour of Acea Energia and in the interests of Enel Distribuzione S.p.A. as a back-to-back guarantee for the transport of electricity;
- 53,666 thousand euros 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 euros). The sum of 53,666 thousand euros refers to the guaranteed portion exceeding the loan originally disbursed (439 million euros);
- 10,000 thousand euros 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;
- the *Global Guarantees* totalling 20,000 thousand euros, respectively issued for 10,000 thousand euros in favour of Barclays Bank (renewed in April 2014 for 5,000 thousand euros less than at 31 December 2013) and for 10,000 thousand euros in favour of BNP Paribas, in the interests of Acea Energia as back-to-back guarantees on transactions agreed or to be agreed between the parties under the terms of the ISDA Master Agreements in place;
- 21,424 thousand euros issued by insurance institutions on behalf of SAO: (i) in favour of the Province of Terni for the management of landfill operations and post-closure operations (15,492 thousand euros) and

waste disposal (3,157 thousand euros) and (ii) in favour of suppliers to back contracts (2,775 thousand euros);

- the guarantee of 19,000 thousand euros in favour of Enel Trading in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- the guarantee of 15,000 thousand euros in favour of Enel Trade in the interests of Acea Energia as a back-to-back guarantee on electrical energy trading transactions;
- the guarantee in favour of Deutsche Bank AG for 10,000 thousand euros, issued in the interests of Acea Energia as back-to-back guarantees on transactions agreed or to be agreed between the parties under the terms of the ISDA Master Agreement;
- the guarantee in favour of Iren Mercato S.p.A. in the amount of 8,000 thousand euros for the precise fulfilment of the EFET agreement entered into in July 2012 between the beneficiary company and Acea Energia;
- 4,202 thousand euros 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 euros and ACEA Ato 2 for 1,501 thousand euros;
- 3,712 thousand euros for the guarantee issued in favour of Italgas SpA in the interest of Acea Energia, renewed in October 2014;
- 1,295 thousand euros 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.

Sureties issued also include those issued by ACEA to Sidra S.p.A., totalling 6,830 thousand euros, in relation to a contract to carry out a "Project to repair water leaks in the Catania distribution network" and sureties amounting to 5,165 thousand euros issued to the Sarnese Vesuviano Area Authority in order to take part in the tender process to select a partner to take an interest in GORI.

The changes occurred during the year refer to:

- the 46,817 thousand euros release of guarantees issued by B.B.V.A. in favour of the Revenue Agency;
- the release of the guarantee issued in favour of the Municipality of Naples for 3,377 thousand euros;
- the cancellation of guarantees issued by M.P.S. in favour of Terna for 42,701 thousand euros.
- the cancellation of guarantees issued on behalf of Acea Energia in previous years for 56,049 thousand euros;
- the issuance of guarantees in favour of Terna, EDF Trading, GDF, Eni Trading & Shipping, Italgas and AMS Voghera for an overall amount of 48,514 thousand euros;
- the issuance of corporate guarantees in favour of the former shareholder of Aquaser for 4,067 thousand euros.

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 SAO and the ARIA Group.

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 Fiore 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.p.A.

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 Law Decree no. 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 euros, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.

Further information is provided in the section *"Related Party Transactions"*.

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 111 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 year the Company acquired:

- the sewerage and waste water treatment in the municipality of Rocca di Papa which is now fully managed,
- the drinking water service in the Municipality of Colferro previously managed by 2I Rete Gas. As for the sewerage and waste water treatment, ACEA Ato2 has assumed the obligation to manage the facilities on behalf of the municipality, pending completion of upgrading operations,

- the sewerage and waste water treatment in the Municipality of Rocca Priora, thus completing the acquisition of the integrated water service,
- the integrated water service in the Municipality of Manziana,
- the drinking water service in the Municipality of Valmontone previously managed by 2I Rete Gas.

After successfully taking over the management of services in the mentioned municipalities at the end of 2014, which is in addition to the acquisition of the water abstraction and/or distribution services for six municipalities in the reference ATO (Canterano, Capranica Prenestina, Gerano, Olevano Romano, Rocca Canterano and Rocca di Papa), the Area Authority, through the technical Secretariat, announced to ACEA Ato 2 and to AEEGSI that the impact in terms of internal operating costs resulting from the change in the area of operations and the consequent increase in 2015 VRG, had been quantified in 1.9 million euros. The higher internal operating costs, calculated on the basis of Article 25 of Annex A to Resolution 643/2013, had no effect on the 2015 tariff multiplier (which therefore remains unchanged at 1.251); accordingly they will be taken into account in the tariff determinations for subsequent years as adjustments for 2015.

In 2015 the company applied the tariffs approved by AEEGSI Resolution No. 463/2014/R/idr of 25 September 2014 which specifies a tariff multiplier of 1.251. The 2015 rates enabled the recovery of tariff adjustments accrued in 2012 and 2013 (pro-rated) for a total amount of 53.8 million euros.

2015 revenues amounted to a total 502.2 million euros inclusive of estimated pass-through item adjustments and the increase calculated by the Area Authority as a result of the change in the area of operations.

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 470,000 inhabitants, about 460,000 inhabitants supplied and a number of end users equal to around 185,673.

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.

As for the Municipality of Paliano, due to the continuing inactivity of the Municipal Authority, and the attempt to draw up a memorandum of understanding to solve various problems, which to this date have prevented the changeover of the integrated water service, on 14 September 2015 the Company sent the Municipal Authority and AMEA, as well as the other Bodies involved, further notice to immediately transfer the plant within and no later than 30 days after receiving the above note.

As for the Municipality of Atina, the preparatory activities for the acquisition of instrumental integrated water service works and plants continues on the basis of an agreement between the ACEA Ato5 S.p.A. office and the Atina Municipal Authority

With regard to the appeal filed by the Company in July 2014 against the Municipality of Cassino against its persistent failure to deliver the equipment for the integrated water service, it should be noted that on 26 May 2015 the Council of State, by ruling no. 2614/2015, finally decided on the appeal filed by the Municipality of Cassino against the first instance judgment (no. 1090/2014) which had upheld the appeal lodged by ACEA Ato5.

Despite the decision of the Council of State in substance confirmed the Company's right to acquire the service (and, therefore, the obligation of the Municipality to perform), to date the Municipality has not yet formally replied to ACEA Ato5's request of 28 May 2015 to enable the complete delivery of the equipment, within 90 days. For this reason, the Company has filed an application with the Council of State to obtain enforcement of the judgment no. 2614/2015.

As is known, the tariff multipliers shown in the table below, which exceeded the maximum permissible limits, were derived from the tariff proposals for the years 2012 - 2013 and 2014 - 2015, approved by the Mayors' Conference, respectively, in April and July 2014.

Year	Multiplier approved by the Mayors' Conference and subject to investigation by AEEGSI
2012	1.350
2013	1.397
2014	1.669
2015	1.660

During the year 2015, as part of additional investigations referred to in paragraph 7.1 of Resolution 585/2012, AEEGSI submitted a request to the Area Authority for clarification and information in order to check that the data provided are correct and consistent with mandatory

financial sources and the metering service is effective in line with the aforementioned provision of the MTT which regulates cases in which the tariff proposal leads to annual changes higher than the 6.5% limit; clarification was also requested regarding the technical and economic

values of reference disclosed as part of the tariff determination for the years 2014 and 2015. The Area Authority provided AEEGSI with the requested replies in due time, adopting the report prepared by the Company. In September the AEEGSI convened the Company and the Area Authority to discuss and clarify certain aspects of the investigation in progress: in this context, it asked the Area Authority to provide its opinion, within twenty days, regarding (i) review of the operating costs of the Plan, (ii) recovery of adjustments for amounts in excess of the maximum applicable tariff increase, and (iii) opinion on the Arrearage Application submitted by the company at the end of the review of the *unpaid ratio*. The Area Authority acknowledged the request, essentially referring the decisions to AEEGSI.

In November, the Company proposed a plan to AEEGSI for recovering the adjustments arising from cost differences attributable to the years 2012-2015 through:

- restructuring of the tariff arrangement approved by the Area Authority;
- acknowledgement, also provisionally and pending the outcome of the proceedings started by specific application, of an *unpaid ratio* at least equal to that for Southern Italy (6.5%);
- calculation of a tariff increase for the first regulatory period equal to the maximum permitted limit and, after 2015, providing for methods for the financial recovery of some cost components totalling 54.7 million euros adjusted for inflation.

The Company's proposal was approved by the AEEGSI in Resolution No. 51/2016/R/idr of 11 February 2016: the decision was taken provisionally in accordance with Resolution No. 204/2014 pending settlement of the disputes open with the Council of State in relation to Resolution No. 585/2012.

By Resolution 51/2016, AEEGSI ordered the Area Authority to send, within 30 days of publication of the mentioned Resolution, the conclusion of the inspection concerning the Operator's request for the acknowledgement of arrearage costs higher than the maximum permitted threshold provided by paragraph 30.2 of Annex A to Resolution No. 643/2013.

2015 revenues amounted to a total of 68.1 million euros inclusive of the estimated adjustments of pass-through items and higher arrearage costs (2.6 million euros) recognised provisionally for 2014 and 2015 pending the settlement of the proceedings opened by request of the Operator. As for 2012, 2013 and 2014, these are calculated on the basis of a tariff multiplier which is higher than the maximum permitted tariff multiplier: in particular the € used for 2015 is equal to 1.660.

As described above, the financial recovery of the differences accrued in the first regulatory period will be done in compliance with Resolution No. 51/2016.

As for prior adjustments for the period 2006 – 2011, quantified by the appointed Commissioner as equal to 75.2 million euros, note that the 26 June 2015 sentence of the Lazio Regional Administrative Court – Latina District, rejected the appeal filed by the ATO 5 for the annulment of the Commissioner's Decree, judging it to be "*devoid of legal basis*".

With reference to judgment 335/2008 of the Constitutional Court, as determined by the Commissioner specifically appointed by the Lazio Regional Administrative

Court, separate Latina section, as of March 23, 2015, the procedures for refunding the waste water treatment fees not due by end users were started by setting up physical and virtual channels for acceptance of the refund applications submitted by users.

Campania - GORI S.p.A. (Sarnese Vesuviano)

GORI provides integrated water services in 76 municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on 30/09/2002 by the company and the Sarnese Vesuviano Area Authority. GORI pays a fee to the grantor (the Sarnese Vesuviano Area Authority) of the concession, based on the date the right to manage the related services is effectively acquired. The area of operations has remained essentially unchanged compared to the previous year, since the process of acquiring management is now complete. In fact, 76 municipalities are managed, i.e. all those falling under ATO 3 in the Campania Region.

As known, by Resolution no. 27 of 31/03/2014, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority approved the regulatory framework under AEEGSI Resolution 643/2013/R/idr and the tariffs defined for the years 2014 and 2015.

Following approval of the regulatory framework, the Commissioner, by Resolution no. 43 of 30 June 2014 (as amended by Resolution no. 46 of 3 July 2014), in accordance with the investigation results and the decisions passed by the General Meeting of the Sarnese Vesuviano Area Authority by Resolution no. 5 of 27 October 2012, and in implementation of articles 31 and 32 of Appendix A to Resolution no. 643/2013/R/idr of the Authority - defined the prior-year items (tariff adjustments for periods prior to the transfer of control functions in the water segment to AEEGSI) for the 2003-2011 period for a total amount of 122.5 million euros and, accordingly, approved the payment by instalments of this amount, in four years as of 2014 (the year in which 50% of the amount was expected to be reimbursed) and three instalments of equal amount in the years from 2015 to 2017.

The tariff adjustments set by the Commissioner primarily relate to the debt position accrued over the years vis à vis the Campania Region - due to an inadequate tariff structure which, basically, did not cover (nor, does it currently cover) costs - for the provision by the latter of the wholesale water supply and collection and waste water treatment services. Therefore, the approval of the Economic-Financial Plan (PEF) and of prior-year items were mainly aimed at ensuring the financial balance of the integrated water service managed by ATO3.

As known, GORI, in accordance with the above resolutions, billed the tariff component for 2014 as "Recovery of prior-2012 items". Various subjects, including Municipal Authorities, associations and users, challenged the resolutions through the administrative courts and in civil courts requested the annulment of bills containing the adjustments. Furthermore, on the basis of the AEEGSI inquiry opened with Resolution No. 122/2015/R/idr, to establish financial equalisation measures also for the water sector, in a joint note of 17/04/2015 the Commissioner and the Campania Regional Authority, a request was made for access in advance to the Electricity Sector Equalisation Fund to obtain funds to cover the division into instalments of the above-mentioned prior-year items for users, with an extension to the time originally set in Commissioner's Resolutions Nos. 43 and 46 of 2014. Pending conclusion of the AEEGSI inquiry into the above request for access in advance, the Extraordinary

Commissioner of the Sarnese Vesuviano Area Authority in Resolution No. 14 of 29 June 2015, approved the amendment of the instalments to collect prior-year items to make collection of the relevant amounts more sustainable in social-economic terms. The above-mentioned resolution passed at the end of June provides for division into instalments for the period 2015-2018 (with postponement of one year compared to the previous resolution) of 122.5 million euros, 10% of which in 2015 with the remaining divided into equal amounts over the next three years. Furthermore, there is also the possibility of proceeding with another amendment to the instalments which is more favourable to users if the AEEGSI gives GORI access to the economic and financial equalisation measures referred to in Resolution No. 122/2015. Therefore the Company, implementing the above-mentioned resolution of the Extraordinary Commissioner of the Area Authority, issued all the credit notes to users to settle the amounts of prior-year items, billed in relation to the first plan of instalments.

However, in October 2015, the Campania Regional Administrative Court passed four sentences (on cases filed by the municipalities of Angri, Casalnuovo and Nocera Inferiore and the Federconsumatori Consumers' Association) annulling some resolutions passed by the Sarnese Vesuviano Area Authority including Resolutions Nos. 43, 46 of June and July 2014. In particular, the administrative judge ruled that the above-mentioned resolutions were adopted without the pertinent powers as the mandate of the Extraordinary Commissioner had expired on 21 July 2013 (six months after the nomination of the Commissioner on 21 January 2013), and therefore from the same date no longer held the required powers.

GORI requested these sentences be suspended, which was discussed in a closed session on 28 January 2016. In consideration of the publication of Campania Regional Law No. 1 of 18 January 2016², of the times and content of the intervention, a timely definition of the merits of the appeal was held to be necessary; therefore, in a closed session on 28 January 2016 a request was made for joint judgement of the discussion on the injunction with the hearing to discuss the merits of the appeal.

In Resolution No. 15 of 30 June 2015 the Extraordinary Commissioner once again approved the VRG recognised restriction on revenues for 2014 and 2015 with the relevant tariff multipliers equal to 1.445010 and 1.493518; the tariff multiplier for 2014 was determined only for the purpose of calculating the tariff adjustments for 2016. In the resolution the Commissioner also:

- confirmed the allocation of the FoNi portion for 2014 and 2015 to fund social subsidies;
- amended the fee structure approved by Commissioner's Resolution No. 27/2014, from 1 July 2015;
- approved the criteria for calculating sewerage and waste water treatment tariffs for industrial users, pending the adoption by the AEEGSI of sewerage and waste water treatment tariff measures.

The grounds for revising the Economic-Financial Plan are essentially the implementation of the effects of Regional Law No. 16/2014³ approved following decisions taken on tariffs in March 2014. In particular the Economic-Financial Plan considers the costs deriving from the transfer of regional works starting in June 2018 and from the same date provides for the reduction of wholesale water costs and the collection and treatment of sewage by the Campania Regional Authority. The Economic-Financial Plan also provides for the division into instalments over a ten-year period, in compliance with the provisions of Regional Law No. 1/2012, of GORI debts with the Campania Regional Authority for the period 1 January 2013 – 31 March 2015 and conversely, adopts a different instalment division procedure for prior-year items.

On 9 July 2015, the AEEGSI amended Resolution No. 338/2015/R/idr in which it had officially approved, for the first regulatory period 2012-2015, the tariff multiplier (equal to 0.9) for the Campania Regional Authority wholesaler (supplying wholesale drinking water to the region and waste treatment and collection services for municipal sewage in regional plants); likewise Resolution No. 362/2015/R/idr, for the same regulatory period, officially set the tariff multiplier (equal to 0.9) for the wholesaler Acqua Campania, supplying the wholesale service for the abstraction and sale of water in the Campania Regional territory.

The procedure for the Authority to approve the 2012-2015 tariffs is pending and on 16 October 2015 GORI submitted a report of acknowledgement on the effect that AEEGSI Resolution No. 338/2015/R/IDR had on Extraordinary Commissioner's Resolution No. 15/2015 requesting the inquiry be concluded as soon as possible.

In January 2016 the Company sent AEEGSI some supplements to be added to the data sent by the Operator in October 2015 with the above-mentioned report of acknowledgement as well as the Economic-Financial Plan development in coherence with the above proposals. The AEEGSI then asked the Extraordinary Commissioner's opinion on the following aspects:

- method for adapting the tariff proposals to the official tariff calculations adopted for the Campania Regional Authority by Authority Resolution No. 338/2015/R/IDR;
- maintaining the financial balance of operations in consideration of the new Economic-Financial Plan, which - in order to make the Integrated Water Service user cost more sustainable - was drawn up by the Operator on the assumption of a reallocation of adjustments (corresponding to the value of the tariff multipliers previously approved by the Area Authority, as amended by effect of the above Resolution No. 338/2015) which in particular requires specific recovery methods to be used from 2016;

² On 18 January 2016 Campania Regional Law No. 1/2016 was published, art. 7, paragraph 3) of which provides for some amendments to Regional Law 15/2015 of 2 December 2015 - Reorganisation of the Integrated Water Service and setting up the Campano Water Authority - and in particular letter d) requires that "after paragraph 9 of article 21 the following be added: "9bis. In initial implementation of this law, the deeds adopted by the Commissioners nominated to wind up the eliminated Area Authorities concerning tariffs and tariff adjustments in compliance with AEEGSI resolution No. 643/2013 pending settlement of disputes in the administrative court, are null until the final decisions are adopted by the Campano Water Authority to be constituted, after consultation with the competent Area Council".

³ The above-mentioned regional regulation requires that the Regional Works are transferred after the provisional management of said works for a period of thirty-six months, with costs borne by the Regional Authority, and with the implementation of a efficiency plan for the above-mentioned provisional management. On the expected 36-month deadline, the final management will be definitively entrusted to the Integrated Water Service operators of territorial competence. Note that Constitutional Court Sentence No. 117 of 25 June 2015, ruled Campania Law No. 16 of 7 August 2014 on the water service to be anti-constitutional, with reference to "art. 1, paragraphs 49, letters a), e), f), g), i), 88, 89, 93, letter b), 104, letter a), 105 and 108, letter a), of Campania Regional Law No. 16 of 7 August 2014 (Interventions to relaunch and develop the regional economy and of a legislative and organisational nature - linked to the 2014 regional stability law)".

- procedure for approval by the Campania Regional Authority of the request for the debt accrued by the Operator to be divided into instalments, as well as any relevant impact on the financial balance of operations;
- considerations on the possible application for recognition of a higher arrearage cost than that set by the Authority.

The Extraordinary Commissioner replied by essentially referring the question to the Campania Regional Authority, asking the AEEGSI to call a meeting with the same.

Concerning the division into instalments of the regional debt, in December 2015 the Campania Regional Authority informed GORI that it would not authorise the division into the requested instalments of the waste treatment and collection service fees for 2013-2015 and gave notice to the Company to pay 21.84 million euros (subject to adjustments) for 2013 and 2014 plus interest. GORI challenged said notice, while willing to find a method of payment that would meet the requirements of the Regional Authority to collect the fees maintaining GORI's economic and financial balance; the company also reasserted the need to jointly establish the methods for calculating pricing for the waste treatment and collection service and adjustment methods in relation to the implementation of AEEGSI Resolution No. 338/2015 through a specific technical committee.

2015 revenues were calculated on the basis of Extraordinary Commissioner's Resolution No. 15/2015 and consider the effects deriving from AEEGSI Resolution No. 338/2015: these amount to 161.2 million euros (Group share 59.7 million euros) and include the estimated adjustments of pass-through items. These revenues, as for those in previous years starting in 2012, include the difference between the revenue derived from the application of the rules in Resolutions Nos. 585/2012 and 643/2013 and the maximum allowed in the first phase. The AEEGSI procedure to approve the 2012-2015 tariff multipliers is still underway: tariff adjustments accrued in the period 2012-2014 amount to a total of 59.3 million euros (Group share 22 million euros) and allow for the effects of AEEGSI Resolution No. 338/2015 which, through the application of the 0.9 multiplier to the tariffs of the Campania regional Authority wholesaler, resulted in the adjustment of costs for water abstraction and waste water collection and treatment services, with consequent reduction by 27.8 million euros. 2015 tariff adjustments are equal to 1.3 million euros.

Note that AEEGSI Resolution No. 104/2016/R/idr finally clarified the tariff system for managing the ATO3 Integrated Water Service in the 4-year period 2012-2015, with a positive conclusion to the procedure for approval and the relevant tariff proposals, finally approving the tariffs applied to end users and revealing the adjustments for restriction on guaranteed revenues (VRG) that exceeded the ordinary tariff multiplier limit to be recovered in the future.

Furthermore, in said resolution, the Authority acknowledged and considered that "The tariff components deferred by effect of the maximum applicable tariff multiplier limit were to cover the financial costs of the Wholesale

water supply, sewage collection and treatment service, also in accordance with the Agreement [of 24 June 2013 signed by the Campania Regional Authority, the Area Authority, Acqua Campania S.p.A. and GORI S.p.A., implementing Campania Regional Government Resolution No. 171 of 3 June 2013] and the Additional Regulatory Agreement".

It is worthwhile to note that there are still significant critical elements concerning the capacity of the Company to meet its obligations with the Campania Regional Authority, (and its regional operator Acqua Campania S.p.A.), whom between the end of 2015 and the beginning of 2016 sent GORI notices to pay amounting to a total of approximately 122 million euros, in relation to the problems concerning debt collection from customers and the billing times for a significant part of the credit attributable to the regulatory legislation of the sector, with an evident impact on cash flow.

GORI promptly rejected and challenged the above notices, and subsequently submitted the following applications to deal with this situation and make up for the financial imbalance deriving from the inadequacy of the tariff and to guarantee regular service, observance of commitments and obligations also of a conventional nature:

- application for economic-financial stability provided for by the Uniform Agreement in accordance with AEEGSI Resolution No. 656/2015/R/idr, including the request for access to financial equalisation measures, sent in Note No. 14231/2016 of 23/03/2016 including the billing of the adjustment of so-called Prior-Year Items in 10 years starting in 2016, to bypass the current limits imposed by regional law on the above resolutions of the Extraordinary Commissioner, passed in accordance with Resolution No. 643/2013/R/idr along with access to equalisation measures in accordance with AEEGSI Resolution No. 122/2015/R/idr.
- the application for recognition of the effective arrearage cost for 2014 and 2015, in accordance with art. 30.3 of Annex A to AEEGSI Resolution No. 643/2013/R/idr (hereinafter referred to as the "Arrearage application"), sent by Note No. 14217/2016 of 23/03/2016;
- the proposal sent to the Campania Regional Authority for a fee payment plan for 2013 and subsequent years concerning wholesale regional services for "sewage collection and treatment", also in relation to and within the scope of the Application for stability.

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.

Please note that a provision of 39.2 million euros, allocated in 2011 for 44.1 million euros, is recognised in the Consolidated Financial Statements, designed to cope with the uncertainties affecting GORI.

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 ATO 1 Calore Irpino which promotes and develops the initiative for the management of the Integrated Water Service in Municipalities in the Province of Avellino and Benevento. 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 Integrated Water Service.

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. This, also in consideration of the amendments introduced by Law 164/2014 Art. 7; to Decree 152/2006, with particular reference to art. 147 and 172 and the 2015 Stability Law. This activity is urgent due to the deadlines set by art. 172 in the above-mentioned Decree 152/2006, which requires that the Regulatory Agencies must adopt final measures to appoint a sole operator to manage the service (paragraphs 1-3), regulating also the implementation of the 'first application' phase of the regulation by 30 September 2015. In November 2015 the Campania Regional Authority approved Law No. 15 for the Reorganisation of the Integrated Water Service and setting up the Campano Water Authority.

On 15 October 2015 the Consortium CABIB conferred the business unit set up to manage the Integrated Water Service of the Municipalities in the consortium to GESESA starting 1 November. As a result of this operation, the management of the Integrated Water Services of the Municipalities of Vitulano, Foglianise, Paupisi, Castelpoto and Torrecuso and the wholesale supply to the Municipalities of Tocco Caudio and Campoli Monte Taburno were acquired. The conferment added GESESA's share capital (2.68%) to the Consortium with changes to the shares held by the other partners: Crea Gestioni's share decreases from 59.52% to 57.93%.

With this last acquisition, the company operates the service in twenty municipalities in the province of Benevento.

Following the approval of Regional Law 15/2015 on the reorganisation of the Campania Integrated Water Service, GESESA sent its *due diligence* to Alto Calore Servizi, the current operator for the Province of Avellino and some Municipalities in the Province of Benevento.

Tuscany - Acque S.p.A. (Ato2 - Basso Valdarno)

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

TARIFFS

In 2015 the company applied the tariffs approved by AEEGSI Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.251.

Furthermore, note that Tuscany Water Authority Resolution No. 16 of 11 May 2015 amended the Acque's tariff structure. The new tariffs, which came into effect on 1 July 2015, as well as encouraging a process of standardization at a regional level, should contribute to reaching the VRG recognised restriction on revenues (Integrated Water Service) limiting the amount of future adjustments. The most relevant changes concern the "domestic resident" and "production" categories.

EXTENSION OF THE CONCESSION TO 2026

By Resolution No. 12 of 6 December 2011, the General Meeting of the ATO 2 (now Tuscan Water Authority - AIT) approved the extension of the SII management concession of the ATO2 Basso Valdarno to Acque - currently due to expire on 31 December 2021 - for 5 years and, therefore, until 31 December 2026, subject to the prior fulfilment of three conditions precedent: (i) submission of a reasoned proposal by the Operator, (ii) written approval of current Acque Lenders and (iii) evidence that leading banks are available to finance any additional funding requirements, where not covered by the current Lenders, or other solutions satisfactory to the Authority.

By this resolution, 30 April 2012 was set as deadline, subsequently postponed until 31 December 2014, for submission of the proposed extension by the Company.

The Tuscan Water Authority's extension resolution is based on the need for a series of additional investments, not included in the Area Plan in force at the time of signing the loan agreement, nor in the subsequent revisions of the Plan or in the Operational Action Plans (POT). Indeed, a decision by the Authority imposing to the Operator such additional investments without a corresponding economic and financial rebalancing measure in the contract, which is legally mandatory for the Authority, would have been unlawful.

The only tool that was identified to ensure the economic and financial balance was precisely to extend the term of the concession.

The changed regulatory framework arising after resolution No. 12 of 6 December 2011 enabled Acque to prepare a proposal for the extension of the concession until 2026, with a review of the investment plan in line with the requirements set by the Tuscan Water Authority, without however relying on the banks and/or on any modification of the financing structure in place in order to implement

the larger investments envisaged for the 2014-2021 period. Therefore, in December 2014 the Board of Directors of Acque approved the proposal, which was then officially sent to the Tuscan Water Authority.

Specifically, compared to the last approved Plan the new Investment Plan contained in the Proposal provides for (i) higher net investments of 37.7 million euros in the period from 2014 to 2021 and (ii) total investments of 349 million euros in the period 2022-2026.

The Proposal also provides for the early start in 2020 of some of the new works, for a total amount of 28.4 million euros, making use of concession arrangements and a substantial deferment in the payment of the price that may take place after 31 December 2021, thus without affecting the *cash flow* of the company intended for the repayment of the loan.

The Tuscany Water Authority approved the Company's proposal on 13 February 2015 and Acque submitted a request for a *waiver* to the *Lenders* to obtain approval for the extension and make it fully effective.

The *Lenders* requested that the documentation, tariff model and the extension financial model be checked by three independent *advisors* (a lawyer, technician and *Model Auditor*) who were appointed for the task in June 2015. Following lengthy negotiations with the *Lenders*, it has been agreed that the *waiver* would be conditional upon fulfilment of the following three new obligations, currently not envisaged in the agreement:

- *cash sweep* of the outstanding debt to be paid on 31 December of the years 2017, 2018 and 2019, calculated as the minimum of (i) 50% of the *cash flow* after debt service and (ii) 6 million euros
- a constraint on dividend distribution between 3 and 5 million euros
- obligation to have the annual financial ratios of the company certified by the independent auditors

In January 2016 the *Model Auditor* sent a *Comfort Letter* with the final version of the financial model to meet *Lenders'* requirements. Negotiations are still underway.

The loan taken on in 2006 amounts to a total of 255 million euros with a drawdown of 218 million euros; the repayment period started in 2014 with six-monthly instalments increasing on the basis of the profile of the loan.

With regard to the main **disputes** of the Company, it should be noted that:

- an appeal was lodged 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 euros, 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.

Tuscany - Acquedotto del Fiore S.p.A. (Ato6 - Ombrone)

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiore) 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.

On the question of **tariffs**, for 2015 Publiacqua also applied the tariff calculations approved by the AEEGSI in Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.208.

Revenues of 2015, recognized on the basis of the tariffs established for such year, totalled 93.2 million euros (Group share of 37.3 million euros), including the estimate of pass-through item adjustments.

Note that, with regard to the impact of Constitutional Court Sentence No. 335/2008, all rebates were paid to eligible users by 30 September 2015.

After further in-depth study and related requests from *Lenders* concerning the calibration of cash flows to favour the bankability of the Fiore project, the Tuscany Water Authority in Resolution No. 9 of 13 February 2015 restructured the Investment Plan with the same balances for the period 2015-2023.

The above facts, also in consideration of renewed general stability in regulatory terms and thanks to the timely collaboration of the Tuscany Water Authority, allowed the Company to successfully proceed with the structuring of the Medium/long-term loan, which was taken out on 30 June 2015.

After completion of the competitive procedure, the Company and the lending Banks entered into the Loan Agreement for an overall amount of 143.0 million euros which will completely cover the Company's existing debt (consisting of current mortgage loans, Bridge loans and short-term borrowings with various banks) as well as funding part of the planned investments; final maturity is expected to be 31 December 2025. The loan is a variable rate loan with guarantee on the Company's current accounts and receivables and upon pledge of Ombrone's shares in Acquedotto del Fiore.

In order to protect the Company from excessive market volatility, in line with the *term sheet*, in consideration of the principles of economical convenience and financial risk, the Company contracted a *plain vanilla* type rate equal to 70% of the "Loan" with some *Lenders* until final maturity, through *Interest Rate Swap* operations to transform the current variable rate into a fixed rate.

Finally, in connection with legal proceedings, the Company has ongoing proceedings against third parties for reserves on contracts (the most significant one is related to ANAS) and outstanding claims, in relation to which adequate provisions were set aside in the 2015 accounts.

Tuscany - 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, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to 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.

On the question of **tariffs**, for 2015 Publiacqua also applied the tariff calculations approved by the AEEGSI in Resolution No. 402/2014/R/idr of 31 July 2014 which specifies a tariff multiplier of 1.171.

Revenues for 2015 were calculated on the basis of approved tariff calculations, and amount to a total of 213.7 million euros, including pass-through item adjustments (Group share 85.5 million euros).

In terms of **funding sources**, on 5 May 2015 the Company took on a 50 million euros loan with the European Investment Bank (EIB) which matures at the end of 2020. 42.5 million euros in bilateral loans were paid off. We are currently selecting banks to cover Publiacqua's liquidity need until the end of the concession.

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.

With Resolution 252/R/idr passed on 29 May 2014 the AEEGSI approved the tariff proposals for 2014 and 2015 with tariff multipliers respectively equal to 1.126 and 1.195. In its report, the Area Authority specified that it opted for the non-application of financial amortization and, exercising its right, reset the FNI new tariff component for 2014. An adjustment of 6.3 million euros was also approved for 2012, equal to a maximum of 2.1 million euros per year to be added to the 2014, 2015 and 2016 tariffs. 2015 revenues, including adjustments of pass-through items, amounted to a total 61.9 million euros (Group share 24.8 million euros) including the FoNI component equal to 0.4 million euros (Group share 0.16 million euros) used entirely to provide tariff subsidies to low income families.

On 20 April 2015 the General Meeting of Representatives approved 5.3 million euros in prior-year items for 2003 - 2011.

With reference to the significant outstanding debt of Umbra Acque to its Shareholders Municipalities for the fees due under the Agreement for the repayment of the loan instalments taken out by the municipalities to carry out the Integrated Water Service investments, in the course of 2015 the company paid off approximately 5.7 million euros to creditors.

The Company commenced discussions with the municipalities and the reference ATIs for a review of the Economic and Financial Plan to ensure - inter alia - a repayment plan also for this debit item.

Finally, it should be noted that on 28 May 2015 the Company received a payment injunction issued by the Civil Court of Perugia at the request of the Municipality of Pietralunga for the recovery of the latter's receivables arising from concession fees due for the use of the SII infrastructure in the years 2011, 2012, 2013 and 2014. The Company has retained its legal advisors to submit a defence statement against the aforementioned decree in the terms and manner prescribed by law.

Tuscany - GEAL S.p.A., Azga Nord S.p.A. and Lunigiana Acque S.p.A. (Ato1 - Toscana Nord)

GEAL S.P.A.

GEAL S.p.A. manages integrated water services in the municipal territory of Lucca.

On 18 April 2014 the Tuscan Water Authority approved the 2014 and 2015 tariff proposals and the relevant Economic-Financial Plan, with Resolution No. 6. In particular, the new tariff includes a 6.5 % increase for 2014 on the previous year. Nevertheless, over 60% of said increase is represented by the component intended to cover 2012 tariff adjustments, already accounted for as revenues in the relevant financial year.

The figures required to acknowledge the adjustment of integrated water service fees for 2010 and 2011 were sent to the competent body on 27 June 2014, in accordance with Resolution No. 268/2014. Said fees are payable to the company as they were not calculated at the time by CIPE, as required by the Council of State. As there are some errors in the above resolution, the company reserves the right to appeal against the same in the competent courts of law.

LUNIGIANA ACQUE S.P.A. IN LIQUIDATION AND AZGA NORD S.P.A. IN LIQUIDATION

As is known the companies were placed in liquidation respectively on 2 August 2011 and 20 December 2010. Although still in liquidation, both continued to manage the service to guarantee continuation of supply in this essential public service until handing over control to GAIA on 1 April 2012 (Lunigiana) and 1 July 2013 (AZGA Nord).

Lunigiana and AZGA Nord both drew up lease contracts for the business units with GAIA which must be transformed into definitive transfer contracts to collect the value of the non-amortised assets. Negotiations are ongoing for the completion of the sale in question.

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.

ACEA and ACEA Ato 2, respectively, provide public lighting and integrated water services under the terms of two thirty-year concession agreements. Further details are provided in the section "Service concession arrangements".

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 15 March 2011, ACEA and Roma Capitale signed a supplemental agreement effective as of the beginning of the year.

The supplements 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;
- annual update of the compensation concerning 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 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 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. 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 current contract, as amended by the supplemental agreement, involves a lump-sum payment as compensation for ordinary operations, ongoing and extraordinary maintenance and the supply of electricity.

The consideration accrued at 31 December 2015, calculated on the basis of lighting points activated up to and including 31 December 2014, amounted to 55 million euros.

The new constructions and investments contribute to the increase in the lump-sum figure due to the annual accrual calculated according to the capital allowance mechanism envisaged for the plants underlying the specific operation as well as the percentage reduction of the ordinary fee due from Roma Capitale, the amount of which is defined in the technical-economic project document.

A variable interest rate is applied to the invested capital. As a local authority, Roma Capitale has the power to regulate municipal taxes and duties that the Group companies are required to pay and which fall under its territorial jurisdiction. However, the Group is not solely liable for any such taxes and duties with respect to other companies operating in the municipality.

The reciprocal receivables and payables – with regard to payment terms and conditions – are governed by each single contract:

- a) 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,
- b) 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.
- c) for the supply of electricity and water to Roma Cap-

itale (solely with reference to regulated market users), it is envisaged that Roma Capitale makes an advance payment of 90% within 40 days of receiving a summary list of the invoices issued by Group companies. Moreover, Roma Capitale must settle the remaining balance by June of the following year. In the case of late payment for electricity or water, interest is payable to the extent permitted under the terms of prevailing AEEGSI provisions,

- d) the prices applied to sales of electricity to free market users are in line with the commercial policies of Acea Energia. Payment terms are sixty days and, in case of delay, a default interest rate will be applied,
- e) the terms of payment for the ACEA Group relating to fees for the water services concession and the rental on its head office premises are set at thirty days

from receipt of the invoice, and in the case of late payment interest shall be paid in accordance with the current bank rate at the time.

Please be informed that the contract for the sale of electricity expired on 28 February 2015.

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.

The following table shows details of revenues and costs at 31 December 2015 of the ACEA Group (compared to those for the same period of 2014) deriving from the most significant financial relations.

€ thousand	Revenue		Costs	
	31.12.15	31.12.14	31.12.15	31.12.14
Supply of fresh water	37,216	34,693	0	0
Supply of Electricity	13,724	31,948	0	0
Public lighting service contract	55,017	53,557	0	0
Public lighting contract interest	3,621	3,164	0	0
Water maintenance service contract	217	289	0	0
Monumental fountain service contract	217	289	0	0
Concession fee	0	0	21,601	20,391
Rental expenses	0	0	138	115
Taxes and duties	0	0	5,560	2,923

In the course of 2015, Roma Capitale and ACEA offset items for 19,331 thousand euros, while collections amounted to 101,279 thousand euros. 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	31.12.14	Collections/ payments	Accruals 2015	31.12.15
Receivables	162,273	(120,610)	121,661	163,325
Payables	119,888	(19,331)	81,954	182,512

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 Capitale Group is 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. With regard to the supply of electricity, please note that ATAC is no longer supplied by Acea Energia with effect from 1 February 2012.

The following table shows the most significant amounts of revenues, costs, receivables and payables deriving from relations between the ACEA Group and entities owned by the Roma Capitale Group.

Roma Capitale Group	Trade payables	Costs	Trade receivables	Revenue
AMA S.P.A.	152	1,506	3,988	13,021
ATAC S.P.A.	239	65	16,882	2,092
ROMA MULTISERVIZI S.P.A.	1,011	860	0	0
Total	1,402	2,431	20,871	15,113

ACEA GROUP AND SUEZ ENVIRONNEMENT COMPANY SA GROUP

At the reporting date there were no relationships with the Suez Group.

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 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 relating to financial relations between the ACEA Group and entities owned by the Caltagirone Group at 31 December 2015.

€ thousand	Revenue	Costs	Receivables	Payables
Caltagirone Group	9,839	10,699	4,523	865

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".

By Council decision no. 197 of 18 June 2015, Roma Capitale approved the Implementing Instrument, unilaterally making a number of amendments to the text signed in March by its own and ACEA's representatives, the materiality of which is currently being examined.

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	31.12.15	of which with related parties	% weight	31.12.14	of which with related parties	% weight
Financial assets	31,464	29,109	92.5%	34,290	32,580	95.0%
Trade receivables	1,098,674	157,905	14.4%	1,259,920	159,362	12.6%
Current financial assets	94,228	80,593	85.5%	92,130	72,134	78.3%
Trade payables	1,245,257	157,020	12.6%	1,249,366	130,872	10.5%
Borrowings	259,087	35,931	13.9%	189,957	8,229	4.3%

IMPACT ON THE INCOME STATEMENT

€ thousand	31.12.15	of which with related parties	% weight	31.12.14	of which with related parties	% weight
Consolidated net revenue	2,917,318	147,511	5.1%	3,038,253	203,943	6.7%
Consolidated operating costs	2,213,865	45,684	2.1%	2,339,311	28,248	1.2%
Total financial (expense)/income	(91,083)	335	(0.4%)	(101,178)	3,065	(3.0%)

IMPACT ON THE STATEMENT OF CASH FLOWS

	31.12.15	of which with related parties	% weight	31.12.2014	of which with related parties	% weight
Increase in current receivables	120,504	(1,457)	(1.2%)	(15,958)	(2,469)	15.5%
Increase/decrease in current payables	(23,321)	26,147	(112.1%)	38,657	25,052	64.8%
Proceeds/payments deriving from other financial investments	1,553	4,988	321.2%	27,616	11,403	41.3%
Dividends received	7,137	7,137	100.0%	51	51	100.0%
Decrease/increase in other short-term borrowings	67,774	27,702	40.9%	(411,842)	(24,755)	6.0%
Dividends paid	(101,123)	(101,123)	100.0%	(43,852)	(43,852)	100.0%

UPDATE ON MAJOR DISPUTES AND LITIGATION

TAX ISSUES

SAO 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 filed its appearance with its defense 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 euros 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.

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 Rev-

enue 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 sentence 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.

ARSE tax inspection

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 16,198,714.87 euros.

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 Law Decree 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 Law Decree 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.

ACEA Distribuzione tax inspection

On 6 May 2015, ACEA Distribuzione was notified two notices of assessment relating to higher IRES, IRAP and VAT taxes for the financial year 2010 and, on the same day, a notice of assessment to ACEA for the consolidated IRES for the same year in its capacity as tax consolidating entity of Acea Distribuzione.

These notices resulted from the general audit of the company carried out by the Revenue Agency in 2013. The additional taxes and penalties requested amount to 2,220 thousand euros. The Company submitted an application for tax settlement to the relevant Revenue Agency office and on 30 September 2015 the Revenue Agency formulated a tax settlement proposal with a reduction in the requested taxes and penalties by about 65% compared to the amount initially assessed.

As a result of this agreement, the assessed amount, inclusive of penalties, went from 2,220 thousand euros to 770 thousand euros. The Company accepted the proposal made by the Revenue Agency.

In the Report on Findings regarding the general audit for the year 2010, an irregularity was also found for the years 2008-2012 concerning the tax treatment of certain items already identified as irregular and having a multi-year impact on the accounts.

On the basis of the irregularity reported in the report of findings, the Regional Department of Lazio - Large Taxpayers' Office, on 23 December 2014, served two distinct notices of assessments for the year 2009, one concerning direct taxes (IRES and IRAP) and one concerning indirect taxes (VAT). The Company filed an application for internal review dated 17 February 2015 and the Revenue Office acknowledged the validity of the reasons submitted by Acea Distribuzione in connection with its activities and ordered the full annulment of the document relating to direct taxes. With regard to the VAT irregularities, the Revenue Office partially acknowledged the reasons put forward by the Company and therefore ordered the partial annulment of the assessment document, bringing the total request to 129 thousand euros plus penalties. Regarding the VAT irregularity, the Company has deemed it appropriate to bring the matter before the court.

Kyklos tax inspection

On 20 March 2014 the Latina Tax Police Department of the Guardia di Finanza launched a general inspection (IRES, IRAP and VAT) against Kyklos for 2012.

On 6 May 2014 a report of findings was notified, which contains the following main findings:

- failure to apply the accruals principle with regard to the deductibility of the board of directors' remuneration;
- non-deductibility of lease payments;
- non-deductibility of maintenance costs regarding vehicles.

The total taxable amount assessed is equal to: 78 thousand euros for IRES; 38 thousand euros for IRAP; 5 thousand euros for VAT.

On 23 September 2015 a notice of assessment was served confirming all the findings contained in the report of findings.

Against that notice of assessment, the Company filed an application for tax settlement and the procedure was closed by entering into an agreement that provides for the payment of 13 thousand euros including penalties and interest.

Alleged irregularities/ tax litigation regarding ARSE

During the month of January 2015 ARSE and Apollo - transferee of the photovoltaic plants built by ARSE, sold to RTR Capital in late 2012, - were served thirteen notices of tax assessment and payment regarding the higher value, for the purposes of registration, mortgage and cadastral taxes, compared to the amount declared upon establishment of the surface rights on some land on which the PV plants have been built.

The deeds in question essentially provide for the closing of existing leases of the land and the simultaneous establishment of surface rights on the same land. The Revenue Agency has challenged the value declared in the deeds arguing that they concerned the transfer, not only of the real right on the land, but also of the long leasehold of the photovoltaic plants. It should be noted that these plants were built by ARSE; accordingly, at the time of the establishment of the surface rights they were already owned by ARSE and, subsequently, by Apollo to which they had been transferred. The additional taxes assessed against ARSE and Apollo totalled approximately 9.5 million euros, including penalties and interest.

The amount assessed was reduced to 1.7 million euros as part of the tax settlement procedure that was finalized in June.

In January 2016, ARSE, a defunct company at such date following its total spin-off, was notified a tax payment notice relating to the additional registration tax in relation to the reclassification of the transfer and subsequent sale of the stake of Apollo S.r.l., transferee company of the photovoltaic plants. The requested tax payment, including interest, amounted to 672 thousand euros.

The beneficiary companies of the Arse spin-off, Acea, Elga Sud and Acea Produzione, consider the payment notice is groundless both in terms of obvious formal irregularities, and as regards the subject-matter of the notice. An application for internal review was submitted, requesting full annulment of the document and, in the event that such a request is not accepted, an appeal will be lodged with the relevant Tax Commission.

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 euros.

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 - Tariff

During the month of June 2015, the Regional Administrative Court of Latina dismissed the application brought on 31 July 2013 by the Area Authority, as destitute of legal basis; the application was seeking the cancellation of the final report of the special Commissioner of 30 May 2013 who, replacing an inactive Administration, had completed the procedure in accordance with ruling no. 529/11 concerning the definition of adjustments and service levels for the period 2006-2011. Against that decision the Area Authority has appealed to the State Council that will discuss the merits of the appeal at the hearing scheduled for 7 April 2016.

ACEA Ato5 - Injunction Order requested for credit collection on the settlement agreement of 2007

With regard to the 10.7 million euro 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 receivable recognised by the A.ATO to the company.

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 euros.

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 euros.

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 17 June 2016.

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 directly supplies water wholesale 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 0.225 €/cu.m, while the ABC's tariff is 0.56 €/cu.m.⁴

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 €/cm.

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. 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.

We draw your attention to the recent judgment no. 1343/15 issued by the Court of Naples, which rejected ABC (plaintiff) claims concerning the request of payment for the water supplied to the Municipality of Camposano in the period from the 4th quarter of 2007 to the 2nd quarter 2008.

Moreover the Court of Naples, Section XI, by ruling no. 12198 of 28 September 2015, rejected ABC claims brought by summons in which it was seeking an order of payment against GORI for 1,843,617.04 euros: (i) by way of breach of contract for failing to pay the fees for the wholesale water supply, (ii) for damages pursuant to Art. 2043 of the Italian Civil Code, on the assumption that the offence constitutes a theft crime and, in the alternative, in the event that breach of contract is not admitted, (iii) for unjust enrichment. More specifically, in support of the judgment, the Magistrate noted the lack of contractual relationship between ABC and GORI, as such relationship failed to comply with the essential requirement of the written form, the non-existence of the crime of theft and the non-existence of unjust enrichment as not duly documented and proven.

⁴ This value does not take into account the effects of AEEGSI Resolution 338/2015/R/idr.

GORI – Dispute against the Campania Regional Government for annulment of Regional Council Resolution No. 172/2013 - part defining the methods for transferring Regional Works

GORI challenged Regional Council Resolution No. 172/2013 before the Campania Regional Administrative Court, considering this way of transferring Regional Works to be prejudicial, as it does not allow for some fundamental and functional aspects for correct Integrated Water Service management such as the exact acknowledgement of the state of the Work also from a technical-management point of view (verification and examination of all relevant costs), which makes it impossible to enter the economic and financial data required to guarantee full coverage of operating costs for Regional Works, in the Area Plan's Economic-Financial Plan.

The proceedings in question seem superseded, as a result of the new legislative provisions introduced by art. 23, paragraph 2, of Regional Law no. 15/2015, which appear to require further activities by the Regional Council, preparatory to the transfer, consisting in a survey of the current status of each facility and of the staff, and the adoption of new measures governing the transfer. If this were the case, the decision challenged with the initial application and the consequent acts, challenged on the basis of additional grounds, would no longer be effective.

A.R.I.A. - Avoided Fuel Cost (CEC)

In a decree passed on 31 January 2014, published on 18 February 2014, the Ministry of Economic Development, establishing the value of the adjustment of the avoided cost of fuel component for 2013 and the advance payment for the first quarter of 2014, confirmed the application of the so-called "pre-chosen initiatives" for the Avoided Cost of Fuel updating criterion based on the "evolution of conversion efficiency" with reference to the specific consumption values in the Italian Ministerial Decree of 20 November 2012.

ARIA already filed an appeal for the annulment of the above-mentioned Italian Ministerial Decree of 20 November 2012, and the Italian Ministerial Decree of 24 April 2013 (respectively, on 24 January 2013 and 16 July 2013). In an appeal filed for additional grounds on 4 October 2013, the question of constitutionality was also brought up for art. 5, paragraphs 3 and 4, of Italian Legislative Decree No. 69 - 21 June 2013, converted into Italian Law No. 98 - 9 August 2013, for the part that attributes legal value to the provisions of the Italian Ministerial Decree of 20 November 2012.

Therefore, as the Italian Ministerial Decree of 31 January 2014, with reference to the parameter of the "specific consumption values" in the Italian Ministerial Decree of 20 November 2012, changed the same profiles of legitimacy that ARIA considered prejudicial, analytically referred to in the introductory appeal, ARIA also lodged an appeal based on additional grounds with the Lazio Regional Administrative Court for annulment of the Ministerial Decree of 31 January 2014.

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 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 euros (plus the sums due for 2008 and later) or alternatively payment of the sum of 36.2 million euros.

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.

The expert's report shows a calculation according to which the claims actioned in the proceedings, even when unfounded - which is unclear, because the documents containing the metering parameters of the compensation are still deemed to be applicable and effective - would be greatly altered, substantially reducing the amount of equalisation already estimated by the Group.

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 '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. It should also be noted that, with effect from 1 December 2015, E.ON. Produzione S.p.A. transferred, through a partial spin-off, the business unit engaged in the production of energy from hydroelectric sources, to ERG Hydro s.r.l.

ACEA/SASI PROCEEDINGS

In ruling 6/10, 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. As at 29 February 2016 the judgment was still 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 euros.

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 1 April 2018.

Volteo Energie

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 euros plus interest and costs (suspending a decision on the remaining 654,136.66 euros until the end of the enquiry).

After requisition of 1,347,787.38 euros, Volteo proposed payment in instalments.

They have already paid the entire amount of the requisition equal to 1,347,787.38 euros. 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.

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 to 23 million euros, 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.

Enforcement was also suspended, after the temporary enforcement of the injunction order.

At the hearing on 13 March 2014, the Judge reserved its 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. The Investigating Judge also ordered ACEA to deliver the documentation requested by the opposing party. The court appointed expert was asked questions regarding the urban situation of the area at the time of the sale and the buildable volume. The proceedings were thus postponed to 22 October 2015 for the filing of the court appointed expert appraisal. On request of the expert, the filing was postponed to the hearing on 21 September 2016.

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 euros), 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 defense 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 euros.

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 postponed to 15 June 2016 for the filing of the expert's report.

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 postponed to 19 January 2016 for the decision on the admission of evidence. The judge reserved the decision on the matter.

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 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 euros (25 million euros until 31 December 2005 and 8 million euros 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 February 2017 for submission of the closing statements, since the proceedings involve legal issues with relevant preliminary objections.

Enel Green Power

On 4 September 2014 Enel Green Power (EGP) asked ACEA Ato2 to pay the amounts due by way of adjustments of subtransmission charges relating to the abstraction of water for hydroelectric and drinking water use from the springs of " Le Capore", quantified for the period 2009 - 2013 in approximately 17 million euros (excluding VAT), demanding to update the ACEA-ENEL agreements of 1985, through application of the Single National Price as calculation criterion (instead of the "energy prices in HV for resale in the Municipality of Rome" as provided in those agreements).

The request was immediately challenged by invoking the case law derived from the E.ON. proceedings on the same issue, decided by the Regional Court of Public Waters which dismissed the application, confirming the validity of the agreed price and the absence of any automatic mechanism that would amend the agreements. Accordingly the EGP invoice containing the alleged updating of the fees was returned, and the financial claim, unilaterally and illegitimately quantified, was totally rejected.

To date EGP has not replied, nor has it summoned Acea Ato 2 in court, probably waiting for the decision of the Higher Court in the proceedings that involve E.ON, ACEA, ACEA Ato 2 and Acea Produzione.

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.

The hearing was scheduled on 5 October 2015. ACEA has not yet filed its appearance, the deadline being set on 25 September 2015. The judge adjourned the hearing to 21 March 2016 for discussion and decision of the case, including the preliminary issues.

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 euros and 185 thousand euros 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.

Parco della Mistica

By note received on 19 March 2015, Roma Capitale, pleading alleged authorization deficiencies, informed ARSE that proceedings had been started pursuant to Articles 7 and

8 of law 241/1990, for the issuance of orders to recover the land, which is part of Parco della Mistica, on which the greenhouse photovoltaic plant has been built.

ALMA CIS dispute

The company Alma Cis s.r.l., lead company of the Temporary Grouping of Companies, along with other companies, appealed to the Administrative Court against the final award of the two lots of the contract (total value 220 million euros), concerning maintenance works - emergency works - water and sewer networks as well as the facilities in ATO 2 Lazio Centrale, on ground of procedural irregularities.

The applicant seeks the annulment of the award and compensation by way of specific performance with award of the contract in its favour or by way of monetary compensation with order to pay the damage quantified as 10% of the contract value (i.e.: the non-awarded lot). On 16 July 2015 in closed session, the court rejected the application for the precautionary suspension of the award. By judgment of 6 November 2015 no. 12519/15, the Administrative Court declared the application was partly inadmissible, while part of the application was dismissed on the merit.

Former COS proceedings

It should be noted that six workers, already assigned to the COS contract, who did not amicably settle the dispute with ACEA and who were successful in the appeal proceedings, their employment contract having been acknowledged, brought legal actions to obtain the wages not taken; their requests were entirely dismissed by the Court, with judgment 5538/15 of 3 June 2015, considering - mainly - that in the meanwhile they had continued to work as employees of the company ALMAVIVA Contact (formerly COS) receiving a salary. The value of the claims was 660 thousand euros net of incidental expenses. They will likely lodge an appeal, which has not been notified so far.

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		31,464	2,750	34,213	
Other equity investments			2,750	2,750	18
Financial assets due from Parent Company, subsidiaries and associates		29,109		29,109	20
Financial assets due from third parties		2,355		2,355	20
Current assets		2,018,407		2,018,407	
Trade receivables from customers		1,005,113		1,005,113	23
Trade receivables from related parties		68,866		68,866	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		(412)		(412)	23
Other current assets: energy equalisation and specification		11,264		11,264	23
Other current assets: subsidiaries		24,694		24,694	23
Financial assets due from Parent Company, subsidiaries and associates		77,345		77,345	23
Financial assets due from third parties		16,883		16,883	23
Cash and cash equivalents		814,653		814,653	23
TOTAL FINANCIAL ASSETS	0	2,049,871	2,750	2,052,621	

(*) This refers to the fair value measurement of contracts to purchase or sell commodities that qualify for application of IAS 39, with changes recognised through profit or loss or in shareholders' equity.

	Financial instruments held for trading	Loans and receivables	Liabilities at amortised cost	Carrying amount	Notes
Non-current liabilities		6,081	2,682,354	2,656,402	
Bonds			1,871,989	1,871,989	27
Bonds valued at FVH		(923)			
Bonds valued at CFH			32,956		
Bank borrowings (non-current portion)			777,409	777,409	27
Bank borrowings (non-current portion) measured at CFH		7,004		7,004	27
Current liabilities			1,504,344	1,504,443	
Bank borrowings			58,718	58,718	30
Payables to third parties			9,864	9,864	30
Financial payables to factoring companies			154,616	154,616	30
Financial payables to subsidiaries and associates			35,890	35,890	30
Trade payables			1,092,264	1,092,264	30
Trade payables due to Parent Company, subsidiaries and associates			152,993	152,993	30
TOTAL FINANCIAL LIABILITIES	0	6,081	4,186,698	4,160,746	

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 payables and receivables is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.

The *fair value* of trade receivables and payables falling due within twelve months is 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.

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 2016:

Swaps	Purpose	Purchases/Sales	Fair Value	Amount recognised in shareholders' equity	Amount recognised in income statement
PUN	Hedge power portfolio	Purchase Electricity sales	(706)	(706)	0
IT CONSIP	Hedge power portfolio	Purchase Electricity sales	45	45	0
ITEC	Hedge power portfolio	Purchase Electricity sales	10	10	0
IT REMIX	Hedge power portfolio	Purchase Electricity sales	23	23	0
			(627)	(627)	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*).

Liquidity risk

ACEA SpA'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.

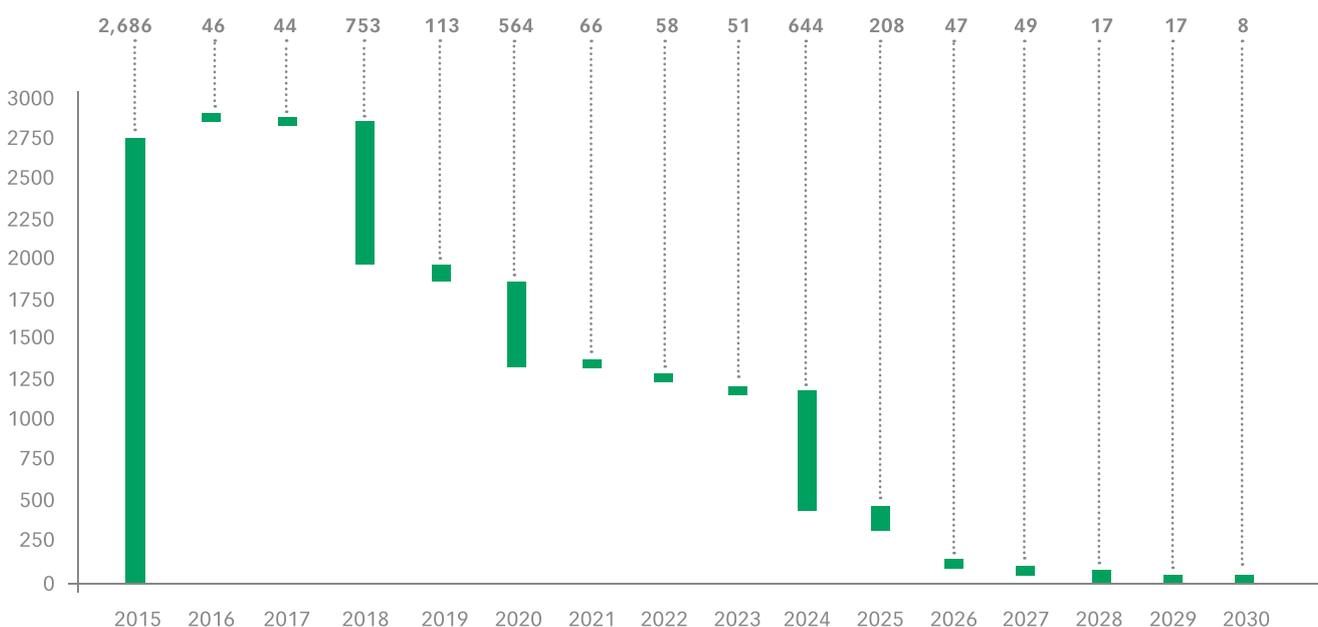
At 31 December 2015 the Parent Company held uncommitted credit lines totalling 809 million euros, which are not used. No guarantees were issued to obtain these credit lines.

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 euros, approved in 2014, ACEA can issue bonds up to a total of 900 million euros 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 trade payables (1,092.3 million euros), it should be noted that the portion which is due to expire in the next twelve months amounted to 810.1 million euros. The amount already expired of 282.2 million euros will be paid by the first quarter of 2016.

Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes the structure of *assets* and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging *funding* costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.

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

A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure 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 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 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 euros of the 5-year 600 million euros 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 7.0 million euros (negative 9.0 million euros at 31 December 2014),
- negative for 33.0 million euros (negative 54.9 million euros at 31 December 2014) and
- positive for 0.9 million euros (positive for 1.2 million euros at 31 December 2014).

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	RISK-FREE FV	increase/ (decrease)	RISK ADJUSTED FV	increase/ (decrease)
(in €000)	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	1,904,022	2,113,920	(209,898)	2,072,369	(168,348)
fixed rate	309,416	405,533	(96,117)	392,563	(83,147)
floating rate	464,016	475,684	(11,667)	474,786	(10,769)
floating rate to fixed rate	56,988	62,390	(5,401)	61,489	(4,500)
Total	2,734,443	3,057,527	(323,084)	3,001,207	(266,764)

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%	(172.5)
-1.00%	(112.8)
-0.50%	(55.3)
-0.25%	(27.4)
0.00%	0.0
0.25%	26.8
0.50%	53.2
1.00%	104.4
1.50%	153.6

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 installment*", "*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 2015, 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, during 2015, 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 proce-

dures (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 table below shows the aging of trade receivables, gross of the allowance for doubtful accounts, detailed in Note 23.

- Total trade receivables, gross of Provision for Impairment of Receivables : 1,324 million euros
- Trade receivables non yet expired: 584 million euros
- Past due trade receivables: 740 million euros, of which:
 - Within twelve months: 220 million euros
 - Over twelve months: 520 million euros.

ANNEXES

- A. LIST OF CONSOLIDATED COMPANIES
- B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED
- C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS, KEY MANAGERS AND INDEPENDENT AUDITORS
- D. SEGMENT INFORMATION: STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

A. LIST OF CONSOLIDATED COMPANIES

Name	Registered Office	Share capital (€)	% interest	Group's consolidated interest	Method of consolidated
Area Ambiente					
ARIA S.r.l.	Via G. Bruno 7- Terni	2,224,992	100.00%	100.00%	Line-by-line
Aquaser S.r.l.	Via dei Lecceti, 16 – Volterra (PI)	3,900,000	88.29%	100.00%	Line-by-line
Innovazione Sostenibilità Ambientale S.r.l.	Via Ravano K.m. 2,400 - Pontecorvo (FR)	91,800	51.00%	100.00%	Line-by-line
Kyklos S.r.l.	Via Ferriere – Nettuno n. km 15 - Latina	500,000	100.00%	100.00%	Line-by-line
S.A.O. S.r.l.	Loc. Pian del Vantaggio 35/B - Orvieto (TR)	7,524,400	100.00%	100.00%	Line-by-line
Solemme S.p.A.	Località Carboni in Monterotondo Marittimo (GR)	761,400	100.00%	100.00%	Line-by-line
Area Energia:					
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
Elga Sud S.p.A.	P.le Ostiense, 2 - Roma	250,000	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
Voghera Energia Vendita S.p.A. (in liquidation)	Largo Toscanini n.5 – Voghera (PV)	250,000	100.00%	100.00%	Line-by-line
Acea Energia Management S.r.l.	P.le Ostiense, 2 Roma	50,000	100.00%	100.00%	Line-by-line
Area Idrico					
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 -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
Acea Servizi Acqua S.r.l. (in liquidation)	P.le Ostiense, 2 - Roma	10,000	70.00%	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 Fiorentine S.p.A.	P.le Ostiense, 2 - Roma	15,153,400	75.01%	100.00%	Line-by-line
Aguaazul Bogotà S.A.	Calle 82 n. 19°-34 - Bogotà- Colombia	1,482,921	51.00%	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
Area Reti					
ACEA Distribuzione 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 (€)	% interest	Group's consolidated interest	Method of consolidated
Area Ambiente					
Ecomed S.r.l.	P.le Ostiense, 2 - Roma	10,000	50.00%	50.00%	Equity Method
Area Idrico					
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.	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 (€)	% interest
Area Ambiente			
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%
Area Idrico			
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%
Aguas de San Pedro S.A.	Las Palmas, 3 - San Pedro (Honduras)	6,162,657	31.00%
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%
Area Reti			
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%
Sinergetica S.r.l.	Via Fratelli Cairoli, 24 - Perugia	10,000	21.46%
Sinergetica Gubbio S.r.l.	Via Fratelli Cairoli, 24 - Perugia	15,000	35.77%
Sienergy Project S.r.l.	Via Fratelli Cairoli, 24 - Perugia	40,000	23.85%
Sienergygas Distribuzione S.r.l.	Via Fratelli Cairoli, 24 - Perugia	20,000	42.08%
Umbria Distribuzione Gas S.p.A.	Via Bruno Capponi 100 – Terni	2,120,000	15.00%

B. RECONCILIATION OF SHAREHOLDERS' EQUITY AND STATUTORY PROFIT – CONSOLIDATED

	Profit for the year		Shareholders' Equity	
	31.12.15	31.12.14	31.12.15	31.12.14
Balances in ACEA's statutory financial statements	145,606	89,601	1,457,291	1,397,478
Excess of shareholders' equity and net profit measured at fair value compared to book value	140,317	170,425	127,659	137,058
Higher depreciation and amortisation in consolidated financial statements	(3,059)	(1,715)	6,002	9,061
Elimination of effects of business combination of entities under common control	(398)	(2,377)	(398)	(2,377)
Elimination of tax effects, including those from previous years	(10,079)	(6,710)	10,314	20,393
Accounted for using the equity method	22,554	14,614	85,767	63,214
Elimination of dividends	(151,440)	(126,063)	0	0
Derecognition of Goodwill - ACEA ATO2, ACEA Distribuzione, ARIA	24,741	24,741	(169,463)	(194,204)
Elimination of extraordinary items	6,751	(57)	6,751	(57)
Balances in consolidated financial statements	174,992	162,459	1,523,924	1,430,566

C. REMUNERATION OF DIRECTORS, STATUTORY AUDITORS, KEY MANAGERS AND INDEPENDENT AUDITORS

Board of Directors and Board of Statutory Auditors

€ thousand	Remuneration due				
	Remuneration for the office	Non-monetary benefits	Bonuses and other incentives	Other compensation	Total
Board of Directors	218	66	210	399	893
Board of Statutory Auditors	492	0	0	0	492

Key Managers

Fees due to executives with strategic responsibilities for the year 2015 amounted to:

- salaries and bonuses 1,941 thousand euros,
- non-monetary benefits 127 thousand euros.

Remuneration paid to key managers is established by the

Remuneration Committee based on average levels of pay in the labour market.

For more information, please refer to the Remuneration Report.

Independent Auditors

In accordance with Article 149 duodecies of Consob Is-

Company Amounts in € thousand	Audit Related Service	Audit Services	Non Audit Services	Total
ACEA S.p.A.	156,279	377,813	249,500	783,592
of the ACEA Group	290,015	1,197,419	0	1,487,434
ACEA S.p.A. and Group total	446,294	1,575,232	249,500	2,271,026

suers' Regulations, the fees accrued by the independent auditors Ernst & Young are provided in the table below.

Note that the above remuneration refers to positions held in 2015, valid up to the date of publication of these Financial Statements.

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, Voghera Energia Vendite in liquidation, 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 ACEA Distribuzione 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 Companies of the ARIA Group and the Aquaser and Solemme Group.

Please be informed that, due to the total spin-off of ARSE which, inter alia, resulted in the transfer of the photovoltaic plants to Acea Produzione, the photovoltaic segment was eliminated. The statement of financial position and income statement figures for 2014 have been restated accordingly.

2014 STATEMENT OF FINANCIAL POSITION

	Generation	Distribution	Sales	Public Lighting	Italian water services	Overseas	Engineering	Corporate	Environment	Group total	Consolidation adjustments	Total Consolidated
Investments	11,852	121,404	8,142	747	146,839	590	1,499	14,159	13,341	318,574	0	318,574
Operating Segments												
Property, plant and equipment	204,734	1,407,170	1,744	765	14,073	2,571	3,008	160,971	243,855	2,038,890	(4,671)	2,034,219
Intangible Assets	6,504	41,908	128,545	2,407	1,809,739	153	206	14,344	26,085	2,029,890	(395,252)	1,634,638
Non-current financial assets measured at equity	0	0	0	0	0	0	0	0	0	2,079,897	(1,855,130)	224,767
Non current financial assets												2,482
Other non-current trading assets												340,196
Other non-current financial assets												34,290
Inventories	1,719	9,175	0	6,505	8,096	324	0	0	3,410	29,229	0	29,229
Trade receivables from third parties	42,253	102,859	707,666	15,598	404,976	1,818	32,244	25,753	53,475	1,386,641	(223,668)	1,162,973
Trade receivables from Parent Company	469	1,514	37,538	4,533	31,389	5	15	591	88	76,141	(8,910)	67,231
Trade receivables from subsidiaries and associates	0	0	16,784	0	8,452	16	0	36,850	317	62,419	(32,702)	29,716
Other current trading assets												241,310
Other current financial assets												92,130
Cash and cash equivalents												1,017,967
Non-current assets held for sale	497									497		497
Total assets												6,911,645

Amounts in €/thousand

2014 STATEMENT OF FINANCIAL POSITION

	Generation	Distribution	Sales	Public Lighting	Italian water services	Overseas	Engineering	Corporate	Environment	Group total	Consolidation adjustments	Total Consolidated
Segment liabilities												
Trade payables to third parties	16,961	311,857	532,559	14,043	364,908	725	3,500	49,868	41,526	1,335,947	(205,789)	1,130,158
Trade payables to Parent Company	3,059	8,082	16,897	100	98,636	0	214	20,523	1,107	148,618	(31,941)	116,678
Trade payables to subsidiaries and associates	0	32	5,215	3,282	650	232	0	7,050	29	16,489	(13,959)	2,531
Other current trading liabilities												371,199
Other current financial liabilities												189,957
Staff termination benefits and other defined-benefit plans	2,592	38,724	4,672	3,036	31,419	203	3,266	30,685	3,419	118,016	(12)	118,004
Other provisions	7,797	8,170	10,502	411	56,954	0	745	35,073	27,613	147,264	21,380	168,644
Provision for deferred taxes												93,284
Other non-current trading liabilities												177,990
Other non-current financial liabilities												3,040,712
Liabilities directly associated with assets held for sale	99									99		99
Shareholders' equity												1,502,391
Total liabilities and shareholders' equity												6,911,645

Amounts in €/thousand

INCOME STATEMENT AS AT 31 DECEMBER 2014

	Generation	Distribution	Sales	Public Lighting	Italian water services	Overseas	Engineering	Environment	Corporate	Group total	Consolidation adjustments	Total Consolidated
Revenue	65,887	486,102	2,047,684	67,267	622,630	8,703	31,311	128,412	122,802	3,580,800	(542,547)	3,038,253
Staff costs	5,842	56,137	20,573	7,384	85,036	2,933	10,067	10,715	54,895	253,582	(24,038)	229,543
Energy purchase	5,337	110,597	1,861,963	0	221	0	0	3,012	277	1,981,407	(234,941)	1,746,466
Sundry materials and overheads	16,484	77,046	86,932	53,307	277,355	3,892	9,971	60,346	61,510	646,843	(283,494)	363,348
Income/(Costs) from equity investments of a non-financial nature			(357)	0	18,292	742	0	145	0	18,822	0	18,822
EBITDA	38,223	242,322	77,860	6,576	278,310	2,621	11,274	54,485	6,120	717,790	(73)	717,716
Depreciation/amortisation	19,129	94,279	88,191	611	70,963	286	(36)	26,330	27,587	327,340	(68)	327,273
Operating profit/(loss)	19,094	148,042	(10,331)	5,965	207,347	2,335	11,309	28,155	(21,467)	390,449	(6)	390,444
Financial (costs)/income												(101,178)
(Costs)/Income from investments		(1,139)	(349)		113	585		(55)	1,371	527		527
Profit/(loss) before tax												289,793
Taxation												120,874
Net profit (loss)												168,919

Amounts in €/thousand

2015 STATEMENT OF FINANCIAL POSITION

	Environment	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
Property, plant and equipment	245,366	191,184	6,710	20,737	1,998	2,994	1,466,147	926	157,314	2,093,376	(3,355)	2,090,022
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		7,084	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
Total assets												6,706,973

Amounts in €/thousand

2015 STATEMENT OF FINANCIAL POSITION

	Environment	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 due 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

2015 INCOME STATEMENT

	Environment	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 Equity investments	1,841	(4)		94	753		(1,345)		(329)	1,010		1,010
Profit/(loss) before tax												296,392
Taxation												114,847
Net profit/(loss)												181,545

Amounts in €/thousand



ACEA S.p.A.

Consolidated financial statements as at 31 December 2015

**Independent auditor's report in accordance with articles 14
and 16 of Legislative Decree n. 39, dated 27 January 2010**



Reconta Ernst & Young S.p.A.
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00198 Roma

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**Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)**

To the Shareholders of 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 2015, 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, paragraph 3 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 Group ACEA as at 31 December 2015, 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.

Reconta Ernst & Young S.p.A.
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Iscritta al S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.IVA 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consolidato progressivo n. 2 delibera n. 10831 del 16/7/1997

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Emphasis of Matter

For a better understanding of the consolidated financial statements, we draw your attention to the following matters:

- With reference to the associate GORI S.p.A., management has disclosed in the notes and in the report on operations the reasons that required the provisions recognized in a prior year to be maintained, related to the persistent uncertainty affecting GORI S.p.A.'s operations and the uncertainty relating to the tariff adjustments' recovery.
- With the enactment of Law n. 214 of 22 December 2011, the Regulatory Authority for Electricity, Gas and Water ("AEEGSI", formerly "AEEG") has assumed the functions of regulating, controlling and monitoring water services. The water sector is characterized by complex regulatory measures, which have an impact on the consolidated financial statements. Among these measures, attention is drawn in particular to the resolution n.585/2012/R/idr of 28 December 2012 and the subsequent resolution of 27 December 2013 n. 643/2013/R/idr. In relation to the above, management has disclosed in the notes and in the report on operations the main aspects introduced by the aforementioned resolutions and, in particular, the procedure and terms for defining the tariff adjustments subject to specific authorization processes, which involve the Area Authorities and AEEGSI.
- The ACEA Group carries on significant transactions with related parties, whose nature and extent are described in the explanatory notes to the consolidated financial statements.

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 SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of 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 2015.

Rome, 6 April 2016

Reconta Ernst & Young S.p.A.
Signed by: Filippo Maria Aleandri 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 2015.

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. The financial statement also includes a reliable analysis of the disclosure on significant related parties transactions.

Rome, 06 April 2016

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



St. Peter's Basilica in Rome



CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

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CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

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1. ISSUER'S PROFILE

Acea is one of the major Italian multiutility groups, with over a hundred years of experience in the industrial development of important network services of economic interest. Listed on the stock exchange since 1999, the company manages and develops water and electrical energy networks and environmental services.

Today, the Acea Group is the biggest Italian operator in the water sector in terms of the number of inhabitants it supplies services to, it's one of the biggest Italian operators both on the electricity end-user market, and in municipal environmental services. It is also one of the major Italian operators in the sale of electricity.

This report shows 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 of the Corporate Governance Code of listed companies promoted by Borsa Italiana (the Italian stock exchange). This corporate governance system was also drawn up on the basis of CONSOB recommendations, and more generally, on the basis of international *best practices*.

The corporate governance system adopted by ACEA is basically aimed at creating value for its shareholders over the medium-long term, aware of the social relevance of the Group's business and the need therefore to adequately take

account of all the interests involved in running its business. ACEA's *corporate governance* structure is based on the traditional organisational model and consists of the following bodies: General meeting of shareholders, Board of Directors (assisted by the Committees set up as part of the same Board), Board of Auditors and Auditing Firm.

Without prejudice to the duties of the General meeting, the strategic management of the company is performed by the Board of Directors, the fulcrum of the organisational system, and the supervisory functions are performed by the Board of Auditors, a body with independent duties and powers, appointed on the basis of meeting the professional, reputation and independence requirements established by law.

In accordance with the law, a specialized auditing firm, regularly registered with the Register of Auditors, is appointed by the General Meeting on the basis of the Board of Auditor's proposal to perform the statutory auditing of accounts. The information in this Report refers to 2015 and some specific matters were updated to 11/03/2016, the date of the Board of Directors' meeting that approved this Report, the text of which has been published on the web site www.acea.it, under the section "*Rules and Values*", in the "*Corporate Governance*" sub-menu.

2. OWNERSHIP STRUCTURE INFORMATION (ART. 123 BIS TUF, PAR. 1)

A) SHARE CAPITAL STRUCTURE (IN ACCORDANCE WITH ARTICLE ART. 123 BIS OF THE TUF, PAR. 1 LETT. A)

The Company's share capital, equal to 1,098,898,884.00 euros, fully subscribed and paid up, is divided into 212,964,900 ordinary shares with a nominal value of 5.16 euros each, listed on the electronic equity market (MTA) organised and managed by Borsa Italiana (cf. Table 1).

There are no shares with limited voting rights or without voting rights, except for 416,993 treasury shares with suspended voting rights, in accordance with art. 2357-ter of the Italian Civil Code.

B) RESTRICTIONS ON STOCK TRANSFERS (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. B)

There are no restrictions on stock transfers, except for individual restrictions for individual shareholders.

C) RELEVANT SHAREHOLDINGS (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. C)

Direct or indirect relevant shareholdings, in accordance with art. 120 of the TUF, on the basis of information available at 11/03/2016 on the CONSOB web site and from communications in accordance with the same article, are shown in *Table 1*.

D) SHARES THAT GRANT SPECIAL CONTROL RIGHTS (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. D)

No shares were issued that grant special control rights.

E) EMPLOYEE'S EQUITY INTEREST: MECHANISM FOR EXERCISING RIGHT TO VOTE (ART. 123 BIS TUF, PAR. 1 LETT. E)

In accordance with art. 13 of the Articles of Association, in order to facilitate the collection of proxies from shareholders who are employees of the Company, its subsidiaries and associates who adhere to shareholders' associations that meet the requisites dictated by the effective applicable regulations, appropriate areas will be made available for notification and the proxy collection process.

F) RESTRICTIONS ON STOCK TRANSFERS (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. F)

Art. 6 of the Articles of Association restricts an equity investment to 8% of the share capital, with the sole exception of Roma Capitale; the Company shall be notified if this limit is exceeded. This limit shall be considered reached, both in

direct and indirect terms, as better specified in paragraphs 2 and 3 of the cited article and as described below in the "General Meeting" chapter of this Report. If it is violated, the shareholder shall be prohibited from exercising their voting rights for shares exceeding the indicated measure and, in the event that a resolution was made with the determining vote originating from the shares exceeding that percentage, the resolution shall become contestable.

G) SHAREHOLDERS' AGREEMENTS (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. G)

The company does not have any shareholders' agreements of any kind in accordance with art. 122 of the TUF, nor special veto powers or other extraordinary powers to influence decisions other than those for direct issue in relation to the equity interest held.

H) CHANGE OF CONTROL CLAUSES (IN ACCORDANCE WITH ARTICLE 123 BIS OF THE TUF, PAR. 1 LETT. H) AND PROVISIONS CONCERNING TOB (IN ACCORDANCE WITH ART. 104, PARAGRAPH 1-TER, AND 104-BIS, PARAGRAPH 1)

Acea has entered into the following significant agreement, which comes into effect or loses validity in the case of changes of control of the contractor:

- ACEA S.p.A. has taken on a 200 million euros long-term loan with the European Investment Bank (EIB).
- ACEA S.p.A. has a 200 million euros loan with the European Investment Bank (EIB). (Efficiency of Network III).

In terms of TOB, there is no departure in the Articles of Association as in art. 104, paragraphs 1 and 1-bis of the TUF, nor are there any neutralisation rules as in art. 104 bis of the TUF.

I) DELEGATIONS FOR CAPITAL INCREASE IN ACCORDANCE WITH ART. 2443 OF THE ITALIAN CIVIL CODE; DIRECTORS' POWERS TO ISSUE PARTICIPATIVE FINANCIAL INSTRUMENTS AND AUTHORISATIONS FOR THE PURCHASE OF TREASURY SHARES (ART. 123 BIS TUF, PAR. 1 LETT. M)

At 31/12/2015 and on the date of this Report, there are no Board of Director's delegations for a capital increase, nor for the purchase of treasury shares.

Moreover, as already indicated, as of today the Company holds 416,993 treasury shares with suspended voting rights in accordance with art. 2357-ter of the Italian Civil Code, remaining from purchases of treasury shares, authorised by a resolution made by the ordinary general meeting on 23 October 1999, amended by a resolution made by the ordinary general meeting on 29 April 2000, re-approved by ordinary general meeting resolution on 31 October 2001 and supplemented by a resolution made by the ordinary general meeting of 30 April 2002.

**L) MANAGEMENT AND COORDINATION ACTIVITIES
(IN ACCORDANCE WITH ART. 2497 ET SEQ.
OF THE ITALIAN CIVIL CODE)**

Art. 2497 et seq. of the Italian Civil Code is not applica-

ble since ACEA autonomously defines its own strategic policies and is endowed with full organisational, management and business autonomy, not being subject to any management and co-ordination activity.

3. COMPLIANCE

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. A), OF THE TUF)

ACEA constantly adopts the provisions of the Corporate Governance Code (hereinafter the "Code"), which contains a complex series of recommendations on the procedures and rules for the management and control of companies quoted on the stock exchange.

Despite the fact that there is no legal obligation to adopt the principles of the Code, ACEA started adopting the Code in 2001, along with any amendments approved by the Borsa Italiana (the Italian stock Exchange) Corporate Governance Committee, as in July 2015.

The complete Corporate Governance Code is made available to the public on the Italian Stock Exchange's web site <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>

The company provides disclosure on its governance system and its compliance with the Code through a Report issued on a yearly basis, drafted also in accordance with article 123-bis of the TUF; it notes the degree of compliance with the standards and application established by the Code along with international best practices.

The Report is made available to the Shareholders on an annual basis with the documentation provided for the Shareholders' Meeting to approve the financial statements, and it is also duly published on the Company web site (www.acea.it) in the "Corporate Governance" section.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (art. 123 bis, par.1, lett. l), of the TUF)

The appointment and replacement of Directors are governed by the regulation in force, as incorporated and integrated within the allowed limits by the Articles of Association, prepared in adherence to and compliance with the requisites of the Code for listed companies.

According to the Company's Articles of Association, the Board of Directors consists of five to nine members, appointed by the ordinary general meeting of shareholders (which determines the number within these limits) for a period of up to three financial years, who can be re-elected at the end of their term.

Directors can be elected if they meet the requirements of the law and regulations.

The election of directors is regulated by art. 15.1 of the Articles of Association, which specifies that: the criteria regarding gender balance as established by law must be complied with in the composition of the Board;

directors are elected on the basis of lists in which the candidates shall be listed in numerical order in accordance with the positions to be filled; each list must indicate at least two candidates who qualify as independent in accordance with the law; the first independent candidate shall not be lower than second on the list and the second independent candidate shall not be lower than fourth; appointments are made as follows:

A. *half plus one of the directors to be appointed shall be taken from the list which obtained the majority of votes ("Majority Shareholder List"), in numerical order, rounding down to the lower unit in the event of a fractional number;*

B. *without prejudice to compliance with legal regulations and the Articles of Association provisions regarding limits of relation with the majority shareholder list, the remaining directors shall be taken from the other lists. To this end, the votes that the lists receive shall be divided, for each list, subsequently by 1, 2, 4 and 8 up to the number of directors to be elected. The quotients obtained in this way shall be progressively assigned to the candidates of each of these lists, according to the order of the same respectively assigned to the candidates. The quotients allocated to the candidates from the various lists shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected.*

If more than one candidate obtains the same quotient, the candidate from the list that did not elect any director or which elected the lowest number of directors shall be appointed.

In the event that none of these lists has yet appointed a director, or all have appointed the same number of directors, from among these lists, the candidate from the list that received the highest number of votes shall be appointed. If list votes are equal, and the quotients are equal, a new vote shall be cast by the entire general meeting, and the candidate who receives a simple majority of votes shall be appointed.

In any case, if only one regular list is presented other than the Majority Shareholder List, the candidates shall be elected from this one, according to the order of presentation."

The election mechanism introduced guarantees the appointment of at least one director representing the minority shareholders as well as the appointment of the minimum number of independent directors in accordance with the law (one if the Board has less than seven members, two if the Board has more than seven members) in accordance with art. 147 ter par. 4 TUF.

The lists must be submitted twenty-five days before the date set for the first meeting by the Shareholders who alone or with other shareholders, represent at least one percent of the shares entitled to vote at the Ordinary general meeting.

No party can be a candidate in more than one list and each shareholder has the right to vote for one list only. The lists of candidates are filed at the head office and published in three daily national newspapers at the Company's expense.

Outgoing directors:

In accordance with art. 15.3 of the Articles of Association: *"If during the financial year a Director appointed on the basis of the list system described above is no longer able to perform his/her function, the Board shall replace the director through co-optation pursuant to Article 2386 of the Italian Civil Code, with the first non-elected candidate on the list to which the outgoing Director belonged, in accordance with the law in force regarding gender balance, or if there are no other candidates on the list, with the first candidate among the non-elected ones, irrespective of his/her original list. If the outgoing Director was not from the Majority List, in any case the non-relation requirement with the Majority List must be observed. If the outgoing Director meets all independence requirements, and/or belongs to the lesser represented gender group, and because they are outgoing the number of independent directors and/or the number of directors that belong to the lesser represented gender is reduced to below the minimum number required by law, the first unelected candidate on the list the outgoing Director was from who meets the independence requirements pursuant to the law and/or that is the same gender as the retiring director shall be co-opted. Directors so appointed shall remain in office until the first subsequent general meeting."*

Replacement of Director:

In accordance with art. 15.4 of the Articles of Association: *"When appointing new Directors to replace those who stepped down during the year, by majority vote the meeting will choose the new Director, in accordance with prevailing law on independence and gender balance, where possible, from the unelected candidates on the list that the outgoing Director was on, who confirmed his or her candidature in writing at least ten days prior to the date of the meeting, along with the statements regarding the fact that there are no reasons for which he or she would be ineligible or incompatible, and that the requirements provided for by the law in force or the Articles of Association for the position were met.*

If the Director cannot be replaced using this method, a resolution must be passed by majority vote, in accordance with requirements regarding minority representation and the minimum number of independent Directors.

The Directors appointed in this manner will remain in office for the same term as the other Directors.

If, for any reason, the number of Directors in office is reduced to less than half, the entire Board of Directors will stand down and the Meeting must be called at the earliest opportunity to elect another board. The Board will however remain in office to carry out ordinary administration duties only, until the Meeting has decided on its reconstitution, and at least half of the new Directors have accepted the appointment."

Majorities required to make changes to the Articles of Association

In accordance with article 12 of the Articles of Association, to make changes to the Articles of Associations, the Extraordinary shareholders' meeting will pass a resolution with the majorities set forth by law.

4.2 COMPOSITION

(in accordance with art. 123 bis, par. 2, lett. d, of the TUF)

In accordance with art. 15.1 of the Articles of Association, the Company is managed by a Board of Directors consisting of five to nine members, appointed by the Ordinary general meeting of shareholders, which determines the number within these limits.

The General meeting held on 5 June 2014 set the number of Directors at seven, appointed the new Board of Directors and the Chairman of the Board, specifying that the Board of Directors shall remain in office for three years, and in any case until the date the General Meeting is called to approve the 2016 financial statements.

Subsequently, as a consequence of the appraisals of the competent Appointment and Remuneration Committee (in accordance with art. 5.C.1, lett. a, of the Corporate Governance Code of listed companies) and Board evaluation activities, which the Board of Directors performed (in accordance with art. 1.C.1, lett. g, of the above-mentioned Code) with the assistance of the external independent consultant Egon Zehnder, a major international consulting firm with many years of experience, to make the Board of Directors and Board Committees more effective, the enlargement of the Board of Directors from 7 to 9 Members with the appointment of 2 independent board members with specific capacities was submitted to the Shareholders' Meeting for discussion.

On 23 April 2015 the Meetings passed a resolution to enlarge the number of members on the Board of Directors from 7 to 9 members, in compliance with art. 15.1 of the Articles of Association, and appointed two new members of the board, Roberta Neri and Massimiliano Capece Minutolo Del Sasso. Therefore, as at 31 December 2015, and to this date, the Board of Directors is composed of the following members: Catia Tomasetti (Chairman), Alberto Irace (CEO), Paola Antonia Profeta, Elisabetta Maggini, Francesco Caltagirone, Diane D'Arras, Giovanni Giani, Roberta Neri and Massimiliano Capece Minutolo Del Sasso.

Of the aforesaid Directors in office, 2 are *Executive* Directors (the Chairman and the CEO), to which the Board has delegated individual management powers, while the remaining 7 Directors are *non-executive*, and do not have individual management authority.

The following provides a summarised personal and professional profile of the Directors in office:

Catia Tomasetti: born in Rimini on 17/12/1964, graduated in law magna cum laude, lawyer registered with the Court of Cassation. For almost 20 years she has been specializing in project finance operations, restructuring, lending and bank law. She was part of the first project finance operation in Italy and since then has been involved in many "market

firsts" in Italy and many major Italian project finance and refinancing operations. She is acknowledged as one of the major Italian experts in project finance, infrastructure, energy and restructuring by the most prestigious international legal guides, such as Chambers, Legal500 and IFLR.

She is also an expert on public-private partnerships and the privatisation of public services and regularly provides consulting assistance for draft legislation on the electricity sector, integrated water service and project bonds. She has been involved in the first and biggest project finance operations in the Italian electricity production, gas, waste and water sectors.

She regularly helps public authorities draw up legislation, including legislation applicable to public-private partnerships and for the integrated water service. She assists the Territorial Agency of Emilia-Romagna for Water and Waste Services (ATERSIR) in the allocation of the integrated water service in an "in house providing" regime.

She is currently a Board Member of the Rome Chamber of Commerce; Vice-Chair of Utilitalia (was Federutility); a member of the Unindustria Board of Directors and Council; a member of the Civita Association Governance Advisory Council, Head of the banking and Finance Dept. and Head of the Project Finance Dept. at the Bonelli Erede Pappalardo Law Firm. Since 6 February 2016 she has been the Chairman of the Board of Directors of the Cassa di Risparmio di Cesena bank.

Appointed from list No. 1 submitted by Roma Capitale (containing: No.1 Catia Tomasetti, No. 2 Elisabetta Maggini, No. 3 Alberto Irace, No. 4 Paola Antonia Profeta, No. 5 Franco Papparella, No. 6 Salvatore Monni, No. 7 Fausto Valtriani, No. 8 Giovanni Campa, No. 9 Donatella Visconti); her appointment was approved with 68.6247% of the votes.

Alberto Irace: born in Cagliari on 13/11/1967, was already the head of Acea's water sector, the company's most important operating segment, and coordinated the development and management of the Tuscany Region integrated water service. As CEO of Publiacqua SpA, a group company operating in the integrated water cycle in Florence, Prato, Pistoia and Arezzo, he introduced state-of-the-art technological and organisational solutions in network service management for the first time to Italian network service management. For his contribution to technological innovation in water service management he was awarded the prestigious "Utility Manager of the year 2013" award.

An expert in local public services, in particular he specialises in the juridical-administrative and organisational aspects of the water resource and gas distribution sector.

Appointed from list No. 1 mentioned-above submitted by Roma Capitale.

Elisabetta Maggini: born in Rome on 24/07/1982, Doctor of Law, specialised in Real Estate Finance with a Master from the Luiss "Guido Carli" University Business School; she is a Director of Sorgente Group, with a proxy for Institutional Relations; she is a member of the Committee for Female Entrepreneurship of the Rome Chamber of Commerce; member of the Steering Committee for the ACER Giovani young building contractors association of Rome. From 2008 to 2013 she worked with young female entrepreneurs for the Governance Advisory Committee of the Rome Provincial Authority and later for the Governance Advisory Committee of the Lazio Regional Authority.

Appointed from list No. 1 mentioned-above submitted by Roma Capitale.

Paola Antonia Profeta: born in Milan on 02/05/1972, with an honours degree in economics and social studies from Bocconi University, she also holds a PhD in Economics

from the Pompeu Fabra University of Barcelona. Associate professor of finance at the Bocconi University of Milan; a member of the CESifo Research Network, Munich (Germany); part of the editorial committee of scientific journals in the economic field; author of numerous international publications on public economy as well as gender and the economy; collaborator with the Department of equal Opportunities at the Prime Minister's Office; scientific advisor for Unicredit and Universities Foundation. Director of the Banca Profilo bank, a company listed on the Italian Stock Exchange. Appointed from list No. 1 mentioned-above submitted by Roma Capitale.

Francesco Caltagirone: born in Rome on 29/10/1968. Currently Chairman and Chief Executive Officer of Cementir Holding and member of the Board of Directors of the following listed companies: Caltagirone and Caltagirone Editore. Appointed from list No. 2 submitted by Fincal SpA, owner, at the time of the shareholders' meeting for the appointment, of 7.513% of the share capital (list containing 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, No. 8 Annalisa Mariani) he obtained 13.3813% of the votes with a quotient of 21,437,487.

Giovanni Giani: born in Lecco on 14/01/1950, engineer, manager with vast international experience in the development of business and managing public service companies and companies in the industrial sector, an expert in international industrial relations.

Currently the Chairman and Chief Executive Officer of Suez Italia SpA, Suez's Italian Holding.

Appointed from list No. 3 submitted by Ondeo Italia SpA, owner of 12.483% of the share capital at the date of the appointment meeting (list containing 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, No. 9 Francesco Nocentini) obtaining 17.9524% of the favourable votes, with a quotient of 28,760,573.

Diane D'Arras: born in Henin Beaumont (France) on 02/05/1955, engineer, a graduate of the Ecole Nationale des Ponts et Chaussées, Institut des Sciences Politiques de Paris, Institut des Hautes Etudes de Défense Nationale.

Appointed Water Western Senior Executive V.P. in January 2011. Responsible for strategy and partnership in Europe for the water segment. A founding member and the 1st Chairperson of the Water Supply and Sanitation Technology Platform, a European association dedicated to research with members from over 20 countries.

Appointed from list No. 3 submitted by the above-mentioned Ondeo Italia SpA, with a quotient of 14,380,286.50.

Roberta Neri: born in Rome on 8/08/1964, with an honours degree in Economics and Commerce from the "La Sapienza" University of Rome, Chief Executive Officer of ENAV since July 2015.

She started her career in Italsiel to continue in ACEA SpA, where from 1991 to 2004 she held positions of increasing responsibility until being appointed CFO and Executive responsible for financial reporting in 2004.

She has been a Director at Sorgenia SpA since March 2015. Chairman and Chief Executive Officer of Manesa, providing technical/financial and co-investment consulting services in structured operations for financial and industrial investors. Appointed by 73.436570% of the favourable votes.

Massimiliano Capece Minutolo Del Sasso: born in Naples on 7/04/1968, with a degree in engineering, he is currently a board member of various companies, some of which are listed on the Milan Stock Exchange, including Caltagirone SpA and Vianini Lavori SpA.

Appointed by 73.436570% of the favourable votes.

Maximum positions held in other companies

The BoD in its session on 23 March 2011, subject to the favourable opinion of the Internal Audit Committee resolved that the maximum number of positions that each Director can hold in listed companies is 10, including the one held in ACEA, so that maximum availability to carry out the role is ensured.

The nature of Directors' responsibilities requires that they have sufficient time to pursue their duties: the nature and number of other positions held by serving Directors must permit them to perform their duties to the best of their ability. All the Directors in office, when the lists were submitted and subsequently on acceptance of the position, revealed any other positions held by the same in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance or large companies.

According to the latest communications received by the Board of Directors in implementation of resolutions passed, on 11/03/2016 all Directors held a number of positions compatible with the maximum number resolved by the Board.

Chart 1 enclosed with this Report contains a list of director or auditor positions held by each Director in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance or large companies.

Induction Programme

The characteristics of the meeting disclosures give the Directors adequate knowledge of the business sector in which the company operates, the corporate dynamics and the evolution of the same, as well as the relative regulatory framework of reference.

4.3 ROLE OF THE BOARD OF DIRECTORS

The Company Board of Directors plays a central role in corporate *governance* and is responsible for the strategic and organizational functions of the Group companies. In consideration of its role, the Board of Directors meets on a regular basis and operates in order to ensure that it carries out its functions as efficiently as possible.

More specifically, in accordance with the law, the Articles Of Association and the Guidelines of the Internal Control and Risk Management System (hereinafter "Guidelines") approved 20 December 2012, the Board of Directors has the following duties:

- to establish the strategic and general management guidelines and development areas for the Company; the economic and financial co-ordination of Group activities by approving long-term strategic plans providing guidance on Group development, investment plans, financial plans, and annual budgets; making and disposing of equity investments, excluding intragroup transactions;
- to define the nature and level of risk that can be taken in accordance with the strategic goals of the Company;
- to approve and change internal regulations for the Company's general organisational structure, the Group's macrostructure and any changes to the same which could have a significant effect on the group's organization;
- to appoint the General Manager;

- to define the corporate governance system and set up specific Board Committees, appoint the members and establish the duties when approving the respective operating rules;
 - to adopt the Organisation and Management Model pursuant to Italian Legislative Decree 231/2001 and appoint the Supervisory Body;
 - to designate directors and auditors for significant subsidiaries, within the scope of ACEA's responsibilities; those listed on regulated markets and those which require capital commitments, shareholder financing or guarantees of over 10 million euros;
 - to attribute and revoke CEO delegations, defining their limits and methods;
 - to reserve and exercise authority on behalf of Acea and its subsidiaries for amounts of over 7.5 million euros if in line with the budget, and over 1 million euros if not included in the budget;
 - to establish, upon proposal by the appropriate Committee and in consultation with the Board of Auditors, the remuneration of the Chairman, the CEO and the other Directors with specific duties, and the amount due to the members of the Board Committees, and payment for Top Management taking strategic decisions;
 - to define, subject to the opinion of the Risk and Control Committee (hereinafter also "RCC") the duties of which can be found in chapter 10, the Guidelines, so the principal risks to which Acea and the main Group companies are exposed are correctly identified, and adequately measured, managed and monitored;
 - to assess the adequacy of the ACEA organisational, administrative and accounting structures and its strategic subsidiaries, with particular reference to the Internal Control and Risk Management System (hereinafter also referred to as the "Control System");
 - to assess general performance (art. 2381 of the Italian Civil Code), in particular taking into consideration information received from delegated bodies, as well as periodically comparing the results achieved with those budgeted;
 - to appoint and dismiss:
 - the Head of the Audit Department, subject to the approval of the RCC, on proposal of the Director in charge of the Internal Control and Risk Management System, and having consulted the Board of Auditors, ensuring that he or she has adequate resources to meet responsibilities and establishing remuneration in accordance with company policies;
 - an Executive responsible for financial reporting, if the general meeting has not provided for this and considering the Board of Auditors' judgement, (in accordance with Articles of Association art. 22-ter) and supervise the adequacy of the Executive's powers and resources for exercising their duties;
 - to approve, on an annual basis, the work plan of the Head of the Audit Department, having consulted with the Board of Auditors and the Director in charge of the Control System;
 - to evaluate, in consultation with the Board of Auditors, the results provided by the external auditors in any suggestion letter and in the report on the fundamental issues that emerge during the external audit;
 - to evaluate, at least every six months, the adequacy of the Control System with respect to the Company's characteristics and in accordance with the risk profile assumed, and illustrate the main characteristics of the same in the Corporate Governance Report, expressing its assessment, subject to the opinion of the Risk and Control Committee on its adequacy;
 - to establish corporate procedures for personal or confidential third-party data processing (in accordance with *Italian Legislative Decree 196/2003*);
 - to adopt the procedures necessary to protect the health of workers and appoint parties to oversee occupational safety (in accordance with *Legislative Decree 81/2008*);
 - to promote continuous dialogue with shareholders founded on the reciprocal understanding of roles;
 - to take initiatives aimed at favouring the broadest possible participation of shareholders in general meetings and facilitating the exercise of shareholder rights;
 - to adopt, on the basis of the CEO's proposal, procedures for the internal management and market disclosure of company documents and information, with particular reference to "price sensitive" information and information on operations concerning financial instruments performed by persons who have access to relevant information as a result of the position held;
 - to make a self-assessment of the function of the Board and its Committees, including with respect to their size and composition, at least once a year;
 - to evaluate the independence of its non-executive members, at least once a year.
- The Board of Directors has performed the aforesaid tasks in these ways, among others:**
- evaluated general performance during 2015, when preparing the accounting reports (draft financial statements for the year and consolidated financial statements as of 31/12/14; half-year financial reports; interim report on operations for the 1st and 3rd quarter of the financial year), in particular taking into consideration information received from delegated bodies, as well as periodically comparing the results reached with those planned;
- On 11/03/2016, the BoD:
- evaluated the adequacy of the Internal Control and Risk Management System, as well as the adequacy of the organisational, administrative and general accounting structure of the Company and of the subsidiaries of strategic importance, considering Acea's Control System to be suitable as a whole to pursue company objectives.
 - carried out, as an integral part of the aforesaid evaluation process, a self-assessment of the composition and operations of the Board and its internal Committees. This evaluation regarded the independence, structure and composition of the Board of Directors, the operations of the Committees and the Board and the information flows received by the Board and by its Committees in exercising their functions. The Board of Directors hired a specialised auditing firm, as described in greater detail below.
- Function**
- In compliance with the terms provided for by law and with the timetable, the Board meets regularly, organising itself and operating to guarantee it will effectively and efficiently perform its functions.
- During 2015 the Board of Directors held 16 meetings, each lasting about 2 hours and 20 minutes on average, with the regular participation of the directors and the attendance of the Board of Auditors.
- The participation of each director in the Board meetings is reported in Table 2.
- For 2016, four BoD meetings to approve financial reports for the reporting period have been planned and commu-

nicated to the market. 3 meetings have been held to date, including today's meeting.

The Board works in accordance with an Operations regulation which has been in effect since 22 April 2003, and governs the methods for guaranteeing timely and complete pre-meeting disclosures; the regulation provides that resolution proposals and disclosures should be sent to the company secretariat, together with all the useful documentation checked by the General Manager and the Managers for the specific subjects, at least 10 calendar days before the date set for the Board's session. The segment then submits these without delay to the CEO for approval, for the purpose of drafting the Agenda.

At least 6 days before the date set for the Board's session, the company secretariat submits the resolution proposals and disclosures along with the draft Agenda, already seen by the CEO, to the BoD Chairman for approval.

The Chairman draws up the Agenda, also with proposals and topics within his sphere of responsibility, which, at least 3 days before the date set for the Board session, is transmitted to the individual Directors and to the members of the Board of Auditors, together with all of the documentation prepared by the Company's units.

Company (or Group company) managers or consultants may be invited to discuss the points of the Agenda, but they must exit the meeting before the Board makes a resolution.

Board of Directors and Committee Evaluation

The Board of Directors, in accordance with the provisions of the application criteria established by 1.C.1 lett g) of the Corporate Governance Code, must at least once a year assess the size, composition and performance of the same Board and its Committees ("*board evaluation*"), autonomously or through an external independent consultant.

In 2014 ACEA contracted the consultant Egon Zehnder to perform the Board Evaluation for the 3-year period. Egon Zehnder is a major consulting firm, an expert with many years of experience. The consulting firm meets independence requirements and has not been contracted for other work by Acea.

The consultant's activities involve the evaluation of the Board and Committees, in accordance with best international practices; in particular, all the operating areas of the Board were assessed to find any areas that could be improved in the future.

The Board evaluation, in particular, as well as assessing the level of adhesion of the Board to the principles and behaviour defined in the Regulation of the Board itself and the Corporate Governance Code, also evaluates the *benchmarking* compared to the *best practices* in Italy and abroad, focusing on finding the most suitable action to take to improve the Board's performance.

The process used in the evaluation is essentially based on gathering various personal opinions in interviews performed using both a questionnaire and in open talks with each single Board Member and the Chairman of the Board of Auditors, the data from which is then processed by the consultant.

The questions in the questionnaire and in the Board Member interviews are focused on various aspects of Board and Committee performance, such as:

- suitability of the size and composition of the Board, allowing for the professional characteristics, competence and the specific experience of its members;
- the role of the Board when examining strategies and evaluating performance in general;
- agendas and Board meetings;
- information flow and quality;

- the atmosphere in the Board and in relations with the Management;
- the role, competence and performance of the Board Committees;
- relations with the Board of Auditors and Supervisory Body.

At the 11 March Board Meeting, Egon Zehnder submitted the results of the evaluation made for the second year of the current Board; in particular, on the basis of comments and the comparative analysis performed, the consultant drew the following conclusions:

"On the basis of comments and the comparative analysis performed, we express a positive opinion in terms of compliance by Acea with the requirements of the Corporate Governance Code for the second year of the Board's mandate. The Board proved its considerable commitment to the feedback offered in the previous Board evaluation, consolidating known strengths and producing tangible results, also thanks to the new composition of the Board. The Board has proven to be very aware of some opportunities for increasing its effectiveness.

In general terms, as well as emphasizing the comments gathered on:

- *The consolidation of the role of the Chairman and CEO, obviously on the same wavelength;*
- *The fluidity of relations and the reciprocal trust between majority and minority directors;*
- *The greater awareness and understanding of the specific business by the Directors;*
- *The solid support provided by the Company Secretariat and other corporate bodies".*

4.4 DELEGATED BODIES

Chief Executive Officer

In compliance with art. 20 of the Articles of Association, the Chief Executive Officer is delegated all powers of ordinary management, signature, legal and court representation as well as powers held by proxy, within certain limits.

The Chief Executive Officer reports to the Board of Directors and the Board of Auditors at least once every quarter and in any case at the Board meetings, on the activities concerning the Company's operating review, and any acts passed by proxy, in accordance with art. 20.1 of the Articles of Association. The CEO currently also acts as General Manager, without receiving any additional fee.

As decided at the BoD meeting of 09 June 2014, the Chief Executive Officer will:

- perform his duties based on long-term plans and annual budgets approved by the Board and assuring and verifying compliance with the relevant operating guidelines. Those powers have been delegated to the Chief Executive Officer for ACEA and its subsidiaries, with respect to transactions of 7.5 million euros or less (tender contracts, purchases, leases, disposals, participation in tenders, etc.) if in line with the *budget* and up to 1 million euros if it is outside of the *budget*; for Group subsidiaries working in the electrical energy and gas markets, the CEO's powers include: i) issuing guarantees or other sureties for up to 12 million euros if budgeted and up to 2 million euros if not budgeted; ii) issuing all guarantees or other obligatory sureties to the AEGGSI [Italian Regulatory Authority for Electricity Gas and Water], GSE [the national grid operator], GME [Energy Market Manager], Terna SpA, the Single Buyer and other public bodies;
- signing contracts for any amount on the basis of Legislative Decree No. 163/2006;
- organisational and procedural implementation of the

- Parent Company's operations in compliance with guidelines approved by the Board of Directors;
- preside over and coordinate the Management Committee, a Consulting Committee that is comprised of Company managers, and is responsible for monitoring the Group's operating performance and individual *business* areas, as well as any failure to meet targets;
- ensure the correct management of corporate information. Please refer to chapter 5 "Market Disclosures of Company Information" for more details.

Furthermore, with resolution of 09 June 2014, the CEO was granted the role of executive director responsible for supervising the operations of the Internal Control and Risk Management System, with the duties indicated in paragraph 10.

Chairman

Pursuant to art. 20 of the Articles of Association, the Chairman is the Company's legal representative and signatory and, furthermore, may convene and chair Board and General Meetings.

With a resolution on 9 June 2014, the Board delegated certain institutional policy and control duties to the Chairman, granting the corresponding management delegations, in particular: monitoring Group operations and verifying the implementation of Board resolutions and *corporate governance*, rules also to implement powers reserved for the BoD; verifying corporate activities and procedures with respect to the quality of services provided and received, environmental impact and social sustainability; supervising the BoD secretariat and all related activities; the power to perform all the activities required by the laws in force concerning the press and communications, also through publication in papers or magazines, and also online, including the appointment of the Press Officer from amongst group employees who meet the legal requirements.

The BoD's activities are co-ordinated by the Chairman, who calls board meetings, sets their agendas and chairs the meetings, ensuring that the directors have all the documentation and information necessary in a timely manner, except in necessary or urgent cases, so the Board can express a knowledgeable opinion on the subjects submitted.

Joint powers of the Chairman and Chief Executive Officer

With a BoD resolution on 09 June 2014, joint proxy was also granted to the Chairman and the CEO, in the event of proven urgency and necessity, with the right to implement acts normally reserved to the BoD regarding contract work, purchases, company transformation, participation in tenders and issuing guarantees when urgency does not allow time to call the BoD. In the first subsequent meeting the Chairman and CEO are required to inform the Board, which shall verify the requirements of necessity and urgency were fulfilled, to appoint the members of the Board of Auditors and the members of the Board of Directors of Subsidiaries, and most significant associated companies, intended as the following:

- listed on regulated markets or with publicly traded shares pursuant to art. 116 of Legislative Decree 58/98 of the Italian Consolidated Financial Act;
- that require capital commitments, shareholder loans or guarantees of more than 10 million euros.

In addition, the Chairman and the CEO will appoint the

members of the Board of Auditors and the Boards of Directors of Acea S.p.A. Group Companies that are not considered to be the "most significant".

Board disclosures

Pursuant to art. 20 of the Articles of Association and in compliance with legal dispositions, the BoD, as well as the Board of Auditors, shall receive constant and exhaustive disclosures from the Chairman and the CEO regarding activities carried out while exercising proxies, reported at least on a quarterly basis in a dedicated report regarding the general business performance and its foreseeable outlook. In particular, for all of the more important transactions carried out in the context of their own powers (including therein any atypical transactions or related party transactions, whose approval is not reserved to the BoD), the Chief Executive Officer and the Chairman shall refer to the Board about the characteristics of those transactions, the subjects involved and any relation to the Group, the methods of determination and the related economic and equity effects.

4.5 OTHER EXECUTIVE DIRECTORS

There are no other executive directors.

4.6 INDEPENDENT DIRECTORS

As at 31 December 2015 and to date, there are 5 independent non-executive directors in the Board of Directors, specifically: Elisabetta Maggini, Paola Antonia Profeta, Diane D'Arras, Roberta Neri and Massimiliano Minutolo Capece Del Sasso (cf. table 2).

The procedure followed by the Board to verify independence dictates that the Director must declare the requirement has been met when presenting the list as well as at the time of accepting the appointment, to be verified by the Board of Directors in the first meeting following the appointment. The independent director must also promptly inform to the Board of Directors if this requirement is no longer met.

The directors were assessed as independent pursuant to the law and art. 3 of the Corporate Governance Code.

No parameters other than those set out in the Corporate Governance Code were used in the evaluation of Director independence requirements.

Therefore, based on the information provided by the individual subjects concerned or in any case available to the Company, immediately after appointment, and most recently, in March 2016, the Board of Directors certified that independence requirements in the Corporate Governance Code were met by the above mentioned Directors.

The Board of Auditors, in compliance with the provisions in art. 3 of the Code, checked that the criteria and procedures adopted by the Board of Directors to assess the independence of its members had been correctly applied.

4.7 LEAD INDEPENDENT DIRECTOR

On 11/03/2016, as in previous years, the BoD confirmed that the requisites set forth by the Code of Conduct for appointing a *lead independent director* are still unfulfilled, taking into account that the Chairman of the Board does not hold the main role of company manager (*chief executive officer*) nor do they have a controlling interest in the company's share capital.

5. MARKET DISCLOSURES OF COMPANY INFORMATION

Since September 2006, upon proposal of the CEO, ACEA's BoD adopted a Regulation for the internal management and market disclosure of company documents and information, which can be consulted on www.acea.it (in the corporate governance section), which:

- establishes the methods for processing and distributing company information within the Group;
- establishes the confidentiality obligations for the Company's employees who come into possession of information, the imprudent dissemination of which could be damaging to the Company's and/or its shareholders' assets; establishes the Company's obligation, in certain circumstances, to provide timely and full information to the markets;
- The regulations also govern announcements of *Price Sensitive* information in order to avoid distortions and misstatements

A list of persons who have access to Privileged Information has been kept since the same year, in accordance with

art. 115-bis of the Italian Consolidated Financial Act (TUF). Privileged Information for these purposes is defined as information, pursuant to art. 181 of the TUF, which is not in the public domain, and relates directly or indirectly to ACEA and/or its Subsidiaries and that, if made public, would have a material effect on the price of the Company's shares.

In addition, an *Internal Dealing Code* was adopted in compliance with the provisions of art. 114 par. 7 of the TUF on the basis of which, on the request of relevant parties who assign the specific task, ACEA may make legal notifications on their behalf regarding transactions on financial instruments related to the Company which they have carried out or which people closely related to them have carried out, if these transactions, where the amount is equal to or higher than 5,000.00 (five thousand/00) euros by 31 December of each year; the transactions where the total amount does not reach more than 5,000.00 (five thousand/00) euros by the end of the year are not communicated after each notification.

6. BOARD COMMITTEES

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. D) TUF)

The BoD has set up two internal Committees with proposal and consulting functions: the Risk and Control Committee and the Appointment and Remuneration Committee.

These committees consist of at least three non-executive directors, the majority of whom are independent, appointed by the Board of Directors, which selects the Chairman of the Committee from the independent directors.

The composition, duties and functioning of the committees are governed by specific regulations, approved by the BoD. The BoD also created the Related Party Transactions Com-

mittee pursuant to Consob Resolution No. 17221 of 12 March 2010 as amended, and on the basis of the provisions of the "Related Party Transactions procedure" adopted by the Company and briefly described in paragraph 11 of this report.

The Related Party Transactions Committee, consisting of at least three independent Directors, has powers and duties to perform examinations, make proposals and provide advice to evaluate the decisions taken on Related Party Transactions, whether of little relevance or significant.

7. APPOINTMENT AND REMUNERATION COMMITTEE

The Appointment and Remuneration Committee comprises four directors as of 31 December 2015, all non-executive, three of whom are independent as follows: Elisabetta Maggini (independent Chairperson), Giovanni Giani (not independent), Roberta Neri and Massimiliano Capece Minutolo del Sasso (both independent). The Board of Directors acknowledged the experience and qualification in accounting and financial matters of Roberta Neri.

The Committee held five meetings in 2015, the minutes of which were kept, characterised by the regular participation of the committee members. Each meeting lasted for about 1 hour 10 minutes.

Within the range of duties assigned to it, the Appointment and Remuneration Committee makes recommendations and advises the Board of Directors, monitoring application of the criteria and decisions adopted by the Board.

The Committee also makes proposals and offers advice on remuneration for directors with specific duties, the General Manager and key personnel. The Committee also expresses an opinion on wage policies and guarantees concerning Group personnel submitted by the Chief Executive Officer.

Specifically:

1. proposes policies to the Board of Directors regarding remuneration of directors and Executives with strategic responsibilities, promoting medium-long term sustainability, in consideration of the fact that, for Executives with strategic responsibilities and when compatible, the fixed component and the variable component must be adequately balanced in accordance with the key objectives and the risk management policies for executive directors or those with specific duties;
2. periodically evaluates adequacy, overall consistency and actual application on the basis of information provided by the CEO, making recommendations to the Board of Directors to that end;
3. presents proposals or expresses opinions to the Board of Directors regarding the remuneration of the executive directors and other directors with specific duties, setting performance objectives for the variable component of their remuneration;
4. expresses opinions to the Board of Directors on remuneration policies for Executives with strategic responsibilities;
5. monitors the application of the decisions made by the Board, and more specifically checks they achieved their performance goals;
6. submits the Remuneration Report to the Board, which the directors will then present to the annual meeting.

The Directors cannot participate in Committee meetings in which proposals to the BoD are formulated regarding its own remuneration.

The Committee has access to the information required to perform its duties, also through Corporate departments, and using external consultants within the terms defined by the BoD.

In 2015, the Committee:

1. examined and approved the Annual Report on the activities carried out by the Remuneration Committee;
2. examined and approved the Remuneration Report in accordance with art. 123-ter of Legislative Decree No. 58 - 24 February 1998;
3. acknowledged the economic-financial goals had been met and authorised the payment of the MBO 2015 variable incentive plan;
4. examined the new Variable Incentives Plan and proposed the 2015 goals for the BoD;
5. examined the results of a study done by a resource suitable for the position of CFO and approved the profile found as well as the remuneration and contractual conditions to propose, considered to be in line with the responsibilities of the position and coherent with those of professionals with similar responsibilities and hierarchical level in this sort of company.

The Board of Directors confirmed the allocation of an annual budget for 2016 of 25,000.00 euros (twenty-five thousand/00 euros) for the Committee in order to enable it, where necessary, to hire external consultants to support its activities.

8. REMUNERATION OF DIRECTORS

General remuneration policy

The Remuneration Policy on fees received by the Directors and Executives with strategic responsibilities defined by the Board of Directors is described in detail in the document "Remuneration Report" approved by the BoD on 11 March 2016, pursuant to art. 123-ter, paragraph 2 of the TUF, to which we refer for further information. The same will be available on the web site www.acea.it and is subject to the advisory vote of the Shareholders' General Meeting, which will be called on to approve the 2015 financial statements in April 2016.

As mentioned in the previous Report, the remuneration of the members of the Board of Directors and additional payments for members of the Committees with consulting and proposal functions established within the BoD was established by the General Shareholders' Meeting on 5 June 2014. For more information, refer to the "Remuneration Report".

Said Remuneration Policy, the current payment system of which is described in detail in the above-mentioned "Remuneration Report", defines guidelines coherent with the following themes:

- a significant part of remuneration for Company Executive Directors and Executives with strategic responsibilities is linked to the economic results that the Company achieves and, possibly, to reaching specific *performance* pre-set and measurable goals, which are previously indicated by the Board itself in Section I of the "Remuneration Report";
- the 2013-2015 3-year cycle of the Long Term Incentive Plan, approved by the Board of Directors in Resolution No. 36 of 11/06/2013 has concluded. The aim of the Plan was to provide an incentive for *management* to pursue the economic/financial results of the Group in the shareholders' interest;
- from 2015, in line with a growing request for transparency in the Corporate Governance Code and to make the remuneration policy more responsible, the scope of the *clawback* clause adopted in the past for Top Management, Directors and Executives with strategic responsibilities has been extended to include also managers with the greatest impact on Group *business*. On the

basis of this clause the Company is entitled to request the reimbursement of the variable remuneration (both medium and long-term) paid out if it is found that such remuneration has been paid on the basis of fraudulent behaviour and/or gross negligence, such as the intentional alteration of data used for the achievement of the goals or achievement of such goals by acting in a manner contrary to the laws or company regulations.

Remuneration of Directors and Executives with strategic responsibilities

Details of the fixed and variable remuneration package of the Chairman and Chief Executive Officer, can be found in the Remuneration Report, 2015 - Section II, in accordance with art. 123-ter of the TUF.

Incentive mechanisms for the Head of the *internal audit* department and the Executive responsible for financial reporting

As for the incentive mechanisms for the Head of the *internal audit* department and the executive responsible for financial reporting, these executives are subject to an annual assessment that is based on quality and efficiency criteria; on the basis of these criteria the executives are assigned their individual goals which, therefore, are not linked to economic-financial goals, except for the *gates*.

Remuneration of non-executive Directors

The remuneration of non-executive directors is not linked to the economic results achieved by the Company and is proportional to their required commitment and their participation in one or more committees, if any. None of the non-executive Directors participates in share incentive plans.

Director indemnity in the event of resignation, dismissal or termination of contract following a take-over bid (art. 123 bis, par.1, lett i, of the TUF)

No agreements providing for compensation in the event of resignation or dismissal/termination without just cause have been signed between ACEA and the Directors in office.

9. RISK AND CONTROL COMMITTEE

The Risk and Control Committee assists the Board of Directors, making sure the Board of Directors has all the necessary information for evaluations and decision-making concerning the Control System, and to approve periodic financial reports.

The Committee consist of at least three non-executive directors, the majority of whom are independent. The Chairman of the Committee is elected from amongst the independent directors. At least one member of the Committee has adequate accounting and finance or risk management experience, to be evaluated by the Board of Directors when said member is appointed.

The members and the Chairman of the Committee are appointed by the Board of Directors.

The Committee members hold office for the same term as the Board of Directors that appointed them. The Committee members are dismissed by the Board of Directors if they do not meet independence, non-executive and reputation requirements.

In the performance of its duties, the Committee has the right to gain access to information and contact any corporate departments necessary to perform said duties with the help of the corporate structure on the basis of their fields of competence, and also have recourse to external consultants within the limits of the annual budget allocated by the Board of Directors. The consultant should be chosen avoiding any possible conflict of interest and without appointing subjects who provide services to the company of such key strategic nature that this would compromise the consultant's independent judgement.

The Committee can ask the Audit Department to audit specific areas, informing the Chairman of the Board of Auditors, the Chairman of the Board of Directors and the Director in charge of the Internal Control and Risk Management System, except in cases in which these are subject to audit.

The Chairman of the Board of Auditors or another auditor appointed by the same, participates in the work of the Committee. The Head of the Audit Department also usually participates at the meetings. The Director in charge of the Internal Control and Risk Management System, the Chairman of the Board of Directors and the other auditors also participate. Furthermore, when requested by the Chairman of the Committee, other Board members or managers may also participate, to provide information and express their opinions when pertinent.

The Committee performs enquiries for and gives opinions to the Board of Directors in order to:

- define Guidelines so the principal risks to which ACEA S.p.A. and its subsidiaries are exposed are correctly identified, and adequately measured, managed and monitored;
- determine the criteria of compatibility of said risks with a management coherent with the strategic goals established;
- evaluate, at least once every six months, the adequacy of the Control System with respect to the Company's characteristics and in accordance with the risk profile assumed, and the effectiveness of the same;
- approve, at least once a year, the work plan of the Head of the Audit Department, having consulted the Board of Auditors and the Director in charge of the Internal

- Control and Risk Management System;
- describe the principal characteristics of the Control System in the annual Corporate Governance Report, evaluating the overall suitability of the same;
- evaluate, in consultation with the Board of Auditors, the results provided by the Auditing Firm in any suggestion letter and in the report on the fundamental issues that emerge during the external audit;
- upon proposal by the Director in charge of the Internal Control and Risk Management System drawn up with the Chairman of the Board of Directors, and having consulted the Board of Auditors, concerning the appointment and dismissal of the Head of the Audit Department, establish the remuneration of the same in accordance with company policies, ensuring that adequate resources have been assigned to meet responsibilities. This opinion is binding.

Furthermore, the Committee assists the Board of Directors by:

- assessing the correct use of accounting standards and the uniformity of the same for preparing the consolidated financial statements jointly with the Executive responsible for financial reporting, the External auditor and the Board of Auditors;
- assessing opinions for the Board of Directors on specific aspects inherent to identifying principal business risks;
- examining the periodic reports that regard the evaluation of the Internal Control and Risk Management System and any significant reports issued by the Audit Department;
- monitoring the independence, adequacy, efficiency and effectiveness of the Audit Department.

The Committee comprises three directors as of 31 December 2015, all non-executive, two of whom are independent as follows: Roberta Neri (independent Chairperson), Elisabetta Maggini (independent) and Giovanni Giani (not independent).

The Director Roberta Neri has accounting and finance experience which was retained adequate by the Board when she was appointed.

In 2015, the Committee held 4 meetings, characterised by the regular participation of the committee members and the Chairman of the Board of Auditors. Each meeting lasted for about 1 hour 10 minutes. Of these, 3 were held with the Board of Auditors.

At the meetings, the minutes of which were regularly kept, on invitation by the Committee, other parties also attended to explain single points on the agenda.

In 2015 the Committee performed its duties as set out in the Corporate Governance Code and the internal Regulations, in particular:

- with suitable enquiries, it supported the decisions and appraisals of the Board of Directors concerning the control system, as well as those concerning the approval of periodic financial reports;
- it assessed the correct use of accounting standards and the uniformity of the same for preparing the consolidated financial statements jointly with the Executive responsible for financial reporting, the External auditor and the Board of Auditors;

- it examined the periodic reports issued by the Audit Department;
- it expressed opinions on specific aspects inherent to identifying principal business risks, discussing the best way to manage said risks with department managers;
- it monitored the independence, adequacy, efficiency and effectiveness of the Audit Department;
- it asked the Audit Department to check specific operating areas, notifying the Chairman of the Board of Statutory Auditors of this;
- it reported to the Board on the activity performed and the adequacy of the internal control and risk manage-

ment system, at least every six months when the interim and annual financial reports were approved.

The Committee had access to information and the company Departments necessary for carrying out its tasks and did not exercise its right to make use of external consultants, with respect to the Internal Control and Internal Auditing systems, Accounting Standards, Legal and Tax Standards, or other types, if necessary to carry out its duties.

The Board of Directors confirmed the allocation of an annual *budget* for 2016 of 25,000.00 euros (twenty-five thousand/00 euros) for the Committee in order to enable it, where necessary, to hire external consultants to support its activities.

10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System of ACEA, an essential element in the Group Corporate governance system, is a process that is based on the *best practices* and standards of the Corporate Governance Code and comprises a set of rules, policies, procedures and organisational structures aimed at permitting the identification, measurement, management and monitoring of the main risks, in order to identify potential events that could influence the achievement of the corporate goals and to manage the risk within acceptable limits. This system is integrated into the more general organisational and corporate governance structure adopted by Acea SpA.

The Board of Directors defined the "Guidelines of the Internal Control and Risk Management System", to:

- provide guidelines to the various parties implementing the Control System so the main risks to which Acea SpA and its subsidiaries are exposed are correctly identified, and suitably measured, managed and monitored, determining the compatibility of said risks with company management in line with the strategic goals established and so that within the scope of the company and its subsidiaries the same parties act consistently with the risk profile identified by the Board of Directors and are able to manage any events that could prevent the corporate goals from being achieved;
- provide guidelines to ensure coordination between the departments in the Control System;
- identify the standards and responsibilities for governance, management and monitoring risks related to company business.

In 2015 the Company, in accordance with the principles in the Guidelines of the Internal Control and Risk Management System, pursuing the objective for the continuous improvement risk supervision and monitoring, updated the list of second level control structures monitoring specific risks and defined the standard content of the periodic information flows produced by said structures sent to the Director in charge of the Internal Control System and to the Supervisory Bodies through the Head of the Audit Department.

COMPREHENSIVE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Preamble

The planning, implementation and the periodic assessment of the ACEA Internal Control and Risk Management System are based on *best practices* of reference (CoSO "Internal Control" integration model) and on the principles of the Corporate Governance Code.

a) Roles and tasks of various Control System parties

The governance and implementation of the comprehensive Control System require the involvement of parties with different business roles (governance and control bodies, business structures, management and employees).

For a description of the roles and tasks of the Bodies, please see the specific sections in this report (BoD, Internal Com-

mittees, CEO, Head of Audit Department, Executive responsible for financial reporting, Supervisory Body).

The role of the Ethics Committee is described in paragraph 16, "Further corporate governance procedures."

The Group's management has the responsibility to define, implement and maintain an effective risk management process that is able to carry out plans and reach strategic objectives. In their daily operations, Acea S.p.A.'s Industrial Areas and Corporate Departments are each specifically responsible for implementing actions to reach the expected business results and for managing the related risks.

Employees have the responsibility to work in compliance with internal and external regulations, procedures and management directives, and, also with the support of appropriate training courses, to increase their skills and professionalism necessary for effectively carrying out controls, as defined in the Internal Control System.

b) Risk Management System

The ACEA risk management system provides for distributed responsibility and involvement of parties at every level of the organisation. More specifically, the risk management process implemented in ACEA includes the identification, evaluation, management and monitoring of risks.

The company uses a complex *Control Risk Self-Assessment (CRSA)* model to help the management define the main risks and intervention priorities and adopt mitigation policies to bring residual risk back to a level which is considered acceptable by the top management. Second level control and monitoring models are adopted for certain types of risk, sometimes with specific risks limits and indicators (ex. PAR and VAR).

The controls are arranged in three complementary levels:

- First level controls, aimed at ensuring the correct execution of business processes in order to prevent and manage risks by opportune mitigating actions, carried out by the regular operational structures.
- Second level controls, aimed at verifying the controls defined for carrying out business operations are effective and operative through continuous monitoring activities with the purpose of ensuring that the risk mitigating actions are adequately identified and implemented within the organisation by those responsible for implementing them.
- Third level controls, assigned to the Audit Department, consist of independent assessments on the design and function of the comprehensive Control System, and on the monitoring of the implementation of improvement plans defined by management.

The Audit Department reports on a hierarchical basis to the Board of Directors and is not responsible for any operational activities. It reports to the Chairman, the CEO, the Risk Control Committee and the Board of Auditors on the function, adequacy and effectiveness of the Control System. The Audit Department follows a work plan drawn up using *risk-based* methods, approved annually by the Board of Directors, after consulting the Board of Auditors

and the Director in charge of the Internal Control and Risk Management System.

c) Control System qualifying elements

CONTROL SYSTEM PERVASIVE ELEMENTS

The pervasive elements which make up the infrastructural foundation of the system represent a fundamental highlight of Acea's control system; among these the following aspects are particularly worthy of note:

- the definition of ethical values and criteria of conduct, which should inspire the behaviour of employees and all those who operate in pursuit of the company's goals, is ensured by the provisions of the Code of Ethics approved by the BoD of Acea SpA and its subsidiaries and communicated within and outside the company;
- the roles and responsibilities as well as relations between corporate Departments are clearly defined within the adopted organisational structure, signatory powers and internal delegations are consistent with the hierarchical level, the supervised organisational unit and the assigned goals.

To this end, organisational charts and other organisational devices, the organisation and management model in accordance with Italian legislative decree 231/2001, business procedures and the delegations and powers system are formalised, adequately distributed and reported.

CENTRAL MONITORING SUPERVISION FOR PARTICULAR RISK CATEGORIES

Central monitoring supervision for particular risk categories represents the method by which it is possible to view risks and the related control systems across different internal processes within the Group. The main areas subject to central monitoring supervision are described below.

Interest rate risk. The approach of the Acea Group to managing the interest rate risk is based on the type of asset structure and the stability of the Group's cash flow; the activity, entrusted to the Administration, Finance and Control Department, is therefore essentially prudent and aims to hedge *borrowing* costs and stabilise cash flows deriving from ordinary activities. The primary objective, considering the needs expressed in the strategic plan, is the optimisation of the Group's borrowing costs and the related limitation of the effects caused by the exposure to the interest rate risk while identifying the optimal combination between fixed and variable rates. The risk appetite and the related limits are defined by the Board of Directors, through the approval of the single financing operations affecting the interest rate risk and any hedging transactions.

Commodity risks. As for the commodity risks deriving from the purchase and sale of electricity and gas, 2015 was characterised by a consolidation of the principle of the separation of duties between the Energy Management Unit trading electricity and gas, and the continuous control and monitoring function of the Parent Company's Administration, Finance and Control Department, which monitors economic and volumetric limits of exposure to make sure the same are observed.

Trade receivables (customers) risk. The Administration, Finance and Control Department also monitors the risk on trade receivables, which is directly related to the risk of insolvency of customers receiving business proposals on Acea Energia's free electricity and gas market, optimising the commercial action with an acceptable level of refusal when compared to local and national (Italian) averages. In

2015, instruments of prevention were further implemented and improved to verify the reliability of counterparties before presenting offers to potential customers, and projects were put into action to improve credit management processes.

Risks concerning health and safety at work. In the corporate macrostructure, the "Staff and Organization" Department controls and monitors the risks related to occupational health and safety. This department, in line with Group strategy, defines and controls the implementation of occupational health and safety policies, as well as monitoring accident prevention measures, also by adopting a management system that complies with BS OHSAS Standard 18001:2007. The Head of the "Staff and Organization" Department has also been attributed the role of Employer in accordance with Legislative Decree 81/2008. The "Staff and Organization" Department also monitors the **internal regulatory and organisation system risks**, in other words verifying the definition of the roles and responsibilities in the organisation structure adopted, making sure processes and procedures are in line with internal regulations and organisation structures.

Compliance risks in accordance with Legislative Decree 231/2001. The Organisation and Management Model was adopted, a description of which can be found in paragraph 10.3.

Regulatory risks. The main *businesses* of the Acea Group form part of regulated segments, since they are based on the use of networks and provide essential services. It is therefore of fundamental importance to adequately supervise the regulatory risks in order to pursue Group goals. The Regulatory Department operates within the organisational structure of Acea SpA with the aim of minimising the regulatory risk by monitoring the evolution of the regulatory framework and identifying the related consequences on the planned objectives and the company processes. In addition, in agreement with the relevant companies and Departments, also through specific functional systems located in the operating companies, the Regulatory Department has the task of identifying and proposing the measures to be adopted to valorise any opportunities, mitigate the effects of any negative consequences, and ensure full compliance of the company activities with the provisions of the Regulatory Authority.

In order to analyse regulatory themes that can have an impact on business and find possible corrective actions and/or ways to improve, the "Regulatory Steering" technical/consulting committee aims to improve the mechanisms with which the various departments integrate, collaborate and communicate with each other, consolidating decision-making processes and optimising operating capacities.

Financial reporting risks (in accordance with Law 262/2005). The Executive responsible for financial reporting is also responsible for monitoring the risks concerning the fitness and effective application of the administrative and accounting procedures related to the financial reporting process (par. 10.5). The Internal Control and Risk Management System over Financial Reporting is described in the paragraph below.

Risks related to compliance with the Privacy Act (in accordance with Legislative Decree 196/2003). From 2015, the Corporate Affairs and Legal Department specifically monitors the risk of violating administrative or criminal law, financial loss or damage to reputation as a consequence of violations of legislative and/or regulatory requirements in terms of Privacy.

The same Department monitors the **antitrust compliance**

risks, in other words the risk of non-compliance with regulations protecting fair competition (the prohibition for enterprises to enter into agreements that restrict the competition and take advantage of a dominant position on the market) as well as non-compliance with consumer protection acts in accordance with Legislative Decree 206/2005 (in other words crimes against consumers/unfair trade practice or misleading advertising).

Computer security risks The Information and Communication Technology (ICT) Department was further updated in 2015. In particular, the ICT defines and updates Group Computer Security Guidelines, in compliance with the laws in force, to guarantee the confidentiality, integrity and availability of said data.

d) Coordination between the subjects in the Internal control and risk management system

The ACEA Guidelines of the Internal Control and Risk Management System provide for a series of activities to coordinate the various subjects in the System, to guarantee the continuous monitoring of the suitability and performance of the same System, and encourage an efficient exchange of information. In brief, these methods involve:

- structured communication and information flows to the Top Management, the Audit Department and the Supervisory Bodies;
- structured information flows between the Supervisory Bodies of Acea subsidiaries and the Supervisory Bodies of the Issuer;
- periodic reports sent to the Board of Directors;
- assistance from the Audit Department in the activities of the Supervisory Bodies of the Issuer and subsidiaries;
- the Issuer's Board of Auditors is nominated Supervisory Body in accordance with Legislative Decree 231/2001;
- coordination meetings are held between the Issuer's Board of Auditors and the boards of auditors of the operating companies;
- the Issuer's Board of Auditors attends the meetings of the Risk and Control Committee.

e) Comprehensive evaluation of Control System adequacy Please refer to paragraph 4.3 on the Board of Directors.

MAIN CHARACTERISTICS OF THE EXISTING INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS (art. 123-bis, par. 2, lett. b), of the TUF)

Introduction

Within the sphere of the Internal Control System, the "Group Management and Control Model pursuant to Law 262" is particularly important as regards Financial Reporting, and it was implemented when the Group's Internal Control System was adapted to meet the requirements of Law 262/2005. More specifically, in 2007 Acea began implementing changes to meet the requirements of Law 262/2005 planning an effective Group Internal Control over Financial Reporting (ICFR) System, which is subject to continuous improvement and adaptation to keep up with the evolution of company activities, so the Executive responsible for financial reporting and the CEO of Acea S.p.A. can issue the reports required by art. 154-bis of the TUF.

This system is defined as the set of activities for identifying risks/controls and defining specific procedures and tools adopted by Acea to ensure with reasonable certainty that the objectives of reliability, accuracy, integrity and timeliness as regards financial reporting shall be reached. The Model defines the guidelines, the methodological refer-

ences and the responsibilities for the establishment, evaluation and maintenance of the ICFR system.

The Model is developed under the assumption that the ICFR system is part of the broader Internal Control System (ICS), an essential element of Acea's corporate governance, and that the reliability of the information reported to the market on the company's position and results is a fundamental element for all stakeholders.

The Model, approved by Acea's Board of Directors on 20 February 2008 and distributed to the Group companies, which define all of the fundamental aspects of the system, consists of a set of documents:

- Regulation on the Executive responsible for financial reporting;
- Guidelines for Model implementation;
- Periodic Group reporting for implementing the information flow.

The Model is supplemented by the Group's accounting standards manual and the Guide for closing the consolidated accounts, by Administrative and accounting procedures and specific operating documents.

The Internal Control and Risk Management system has been implemented in relation to the Group's financial reporting, also through subsequent adaptations, and in consideration of the guidance provided by some category bodies regarding the activities of the Executive responsible for financial reporting, in particular:

- *Andaf Position Paper* "The Executive responsible for financial reporting";
- *AIIA Position Paper* "Internal Audit's contribution in implementing a good Corporate Governance process and organising information flow with the Executive responsible for financial reporting";
- Guidelines issued by Italian Manufacturers' Federation "Guidelines for performing the activities of the executive responsible for financial reporting pursuant to art. 154-bis of the TUF".

DESCRIPTION OF THE MAIN CHARACTERISTICS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Model defines reference guidelines for instituting and managing the administrative and accounting procedures system (so-called activity/risks/controls matrices) for Acea and for significant consolidated companies for the purpose of Financial Reporting (company), regulating the main phases and responsibilities.

a) Phases

Definition of the scope of analysis. Acea annually updates the scope of analysis of the administrative-accounting control systems and the monitoring of underlying processes to guarantee that this is able to cover risks regarding the financial reporting of the most significant account items within the consolidation perimeter.

The scope of the analysis is initially determined based on the effect of each Group Company on the consolidated financial statements, taking into account the relevance that significant accounts and administrative-accounting processes linked with them have on the same; subsequently the results of that analysis are integrated with qualitative considerations to take into account both the Group structure and the characteristics of specific financial statements items.

Analysis of process controls and risks. The approach that Acea has adopted identifies "key" points of risk and con-

control, considered significant with reference to the consolidated financial statements. To this end, control objectives and the relative risks are defined for each process and activity; or:

- assertion of financial statements: an element which needs to be complied with in reporting company affairs for the purpose of representing them in a true and correct way in the financial statements;
- theoretical risk: risk identified at an “inherent level”, so, not taking into account the existence and effective operation of specific control techniques aimed at eliminating the risk itself and at reducing it to an acceptable level;
- specific control objective: objective which must be guaranteed by carrying out control activities. Specifically, the financial statements considered within the Model are:
 - *Existence and occurrence* (the company’s assets and liabilities exist at a certain date and the recorded transactions represent events which actually occurred during a specific period);
 - *Completeness* (all of the transactions, assets and liabilities to be represented have been effectively included in the financial statements);
 - *Rights and obligations* (the company’s assets and liabilities represent the company’s rights and obligations, respectively, at a certain date);
 - *Evaluation and reporting* (the assets, liabilities, net shareholders’ equity, revenues and costs are posted in the financial statements at their correct value, in accordance with generally accepted accounting standards);
 - *Presentation and disclosure* (the financial statement items have been correctly named, classified and described).

The so-called key controls are identified for each specific risk/control objective, required to assess the existing control systems (manual/automatic controls; preventive/subsequent) in relation to each material process, to meet the control objective and effectively mitigate the risk.

Evaluation of controls against identified risks. The evaluation of the **control plans** in administrative and accounting procedures is aimed at analysing how individual control activities are structured and defined in relation to the objective of covering the risk of committing errors in the financial statements. The evaluation is performed on the basis of the goal the control aims to reach; in other words, whether the risk is mitigated (“adequate/inadequate” control).

The so-called Lines of Business are responsible for evaluating control plans, starting from the hierarchical level above the control manager up to the Delegated Administrative Body level in the case of Group companies.

The evaluation of **control operations** found within administrative and accounting procedures is also in turn subject to specific analysis by the Lines. Indeed, for controls whose design is evaluated as adequate, it is necessary to proceed by evaluating their operations (“operative/non-operative” control).

The control operation, certified by the Lines, is corroborated by implementing independent monitoring through the periodic testing plan of the Executive responsible for financial reporting. The testing plan is defined according to priority and rotation on the basis of which a specific sub-set of controls to be tested is selected for each reference period, in order to examine the main controls used in the procedures. The Executive responsible for financial reporting implements a process to share and distribute the test results so

the management of reference can take the necessary corrective actions in their own units.

Corrective actions plan. Where, based on the analyses carried out by the lines, the “key” controls do not exist, are not documented or are not carried out correctly according to company procedures, the managers of the organisational unit involved up to the level of the Delegated Administrative Bodies for Group companies shall define and carry out a corrective plan, indicating the timescales and responsibilities for taking corrective actions. The corrective plan is submitted to the Executive responsible for financial reporting in order to comprehensively evaluate the system and co-ordinate the actions to take, and is updated every six months by the responsible parties.

Comprehensive evaluation. So Acea’s Executive responsible for financial reporting and CEO can issue the statements required by art. 154-bis of the TUF, a system of internal “chain” certifications, more extensively described in the following paragraph, has been set up to ensure suitable internal formalisation of responsibilities in terms of the adequacy and effective application of administrative and accounting procedures, to prepare and distribute the corrective actions plan, where applicable, and to update the procedures (see point b) Roles and Responsibilities).

The comprehensive evaluation is therefore based on a complex evaluation process which considers:

- the evaluation of the design of existing controls and the evaluation of their function, carried out by Acea’s management and by the Delegated Administrative Bodies of the companies, together with implementation of the corrective plans;
- the analysis of test results;
- the final analysis of areas for improvement which emerge with reference to their importance in terms of financial statement reporting.

Where it is retained necessary within the scope of the evaluation process, the adopted methodology indicates that it is possible to design and perform compensatory controls and checks. Significant gaps which may emerge shall be reported to the supervisory bodies, according to the methods in the Regulation on the Executive responsible for financial reporting.

b) Roles and Responsibilities

The Model is based on the clear internal allocation of responsibilities for planning, evaluating and maintaining the ICFR in time, without prejudice to the legal responsibilities of the Executive responsible for financial reporting and the Delegated Administrative Body. To this end, Reporting within the Acea Group is based on an internal “chain” system of certifications which has the goal of ensuring adequate internal formalisation of responsibilities for adequacy and the effective application of administrative and accounting procedures, monitoring the corrective actions plan when applicable, and identifying in a timely manner any changes in control which are the responsibility of the Lines, and change factors/risks which emerged during the course of normal process operations and could influence the ICFR system’s adequacy.

The evaluation process of the Executive responsible for financial reporting and CEO, based on which the financial statements are issued according to the Consob model, therefore includes internal reporting (reporting forms) issued by the Managers of the relevant Acea processes and by the Delegated Administrative Bodies for the companies.

Specifically, through Reporting, Acea has regulated roles and responsibilities, activities to be performed by each party involved, a calendar, instructions for filling out the reporting forms and methods for updating administrative and accounting procedures.

The Model identifies the main stakeholders in the financial reporting process, other than the Executive responsible for financial reporting and the Delegated Administrative Bodies, with their relative responsibilities.

- The **Controller** performs and certifies the execution of controls within the Controller's scope of responsibility, according to the methods and timing in the administrative and accounting procedures, to the Subprocess Manager, providing the informational basis of the reporting flow;
- The **Subprocess Manager** is the party responsible for a correlated set of operating activities necessary for reaching one specific control objective; he/she is responsible for the comprehensive evaluation of the design and function of controls in relation to the applicable subprocess; furthermore, he/she is responsible for updating and ensuring the implementation of the corrective actions plan.
- The **companies' 262 Administrative Referent** represents the Group companies' reference point for all activities required for ACEA's Executive responsible for financial reporting to issue the attestation; responsible for consolidating all information received from the subprocess managers and making the comprehensive evaluation of the design and function of controls for reference companies, submitting it to the company's Delegated Administrative Body; also responsible for guaranteeing the information flow to and from the Executive responsible for financial reporting.
- The **companies' Delegated Administrative Body** is responsible for evaluating the company's control design and function and sending the internal attestation to the Executive responsible for financial reporting in the defined format, together with the appropriately validated corrective actions plan, moreover communicating any change factors/risks which have occurred in the period of reference that could affect ICFR adequacy. Finally, with reference to the other governance and control Bodies within and outside the Group, Acea established a virtuous process of information exchange from and to the Executive responsible for financial reporting, structured and formulated for the purpose of providing the bodies of the Internal Control System with a comprehensive view, which is as extensive as possible.

10.1 DIRECTOR IN CHARGE OF THE CONTROL SYSTEM

The Acea BoD identified the Chief Executive Officer as the person in charge of introducing and maintaining an effective Internal Control and Risk Management System and gave the CEO the authority to implement the guidelines of the Internal Control and Risk Management System.

In 2015, the CEO, with the support of the Audit Department, identified the main company risks, considering the business areas Acea and its subsidiaries operate in, and periodically submitted the same to the Board for discussion. Guidelines defined by the Board provide for the planning, implementation and management of the System and continuously verify its comprehensive adequacy, effectiveness and efficiency. In addition, the CEO adapted the system to the dynamics of the operating conditions and the legal and regulatory context.

10.2 HEAD OF THE AUDIT DEPARTMENT

At the proposal of the CEO, with the approval of the Risk and Control Committee and having consulted the Board of Auditors, with a resolution dated 18 December 2013, the BoD appointed Liberata Giovannelli Head of the Audit Department defining remuneration in line with company policies.

The Internal Control and Risk Management System Guidelines approved by the BoD define the mission and activities of the Audit department, which plays a central role in the coordination of the Internal Control and Risk Management System. The Head of the Audit Department verifies the performance and fitness of the System, also through continuous checks and appraisals performed to meet specific requirements, on the operational character and suitability of the System and the support provided to the CEO in identifying and establishing the priorities of the main risks for Acea SpA and its subsidiaries. In addition, the Audit Department performs the general review of the risk analysis process implemented by the second level control structures in charge of specific risk categories, coordinating the information flows of said structures, (see Chapter 10 "Internal Control and Risk Management System").

The Board of Directors approved the Audit Department's Work Plan in a meeting held on 11 March 2015 and also verified the adequacy of the resources attributed to the department to meet its responsibilities.

The Head of the Audit Department, who has direct access to all the information required to perform his/her duties, is not responsible for operational areas nor subject to the hierarchical structure of operational area Managers, reporting directly to the Board of Directors.

The Audit Department performed the following activities in 2015 in accordance with the duties described:

- both on a continuous basis and in accordance with specific necessities, and in compliance with international standards, checking the effectiveness and suitability of the System through an audit plan, approved by the Board of Directors and based on a structured process of analysis and prioritisation of the main risks for Acea SpA and its subsidiaries;
- preparing regular reports and reports on particularly significant events containing adequate information on the work done, on the suitability of the System, risk management procedures, and compliance with the plans established to reduce risk, sending them to the Chairman of the Board of Auditors, the Risk and Control Committee, the Board of Directors and the CEO;
- checking the reliability of the information systems including the accounting systems within the scope of the processes included in the audit plan;
- supporting the Supervisory Bodies of the subsidiaries to amend the Organisation and Management Model pursuant to Legislative Decree 231/01 as amended and in the assessment of the concrete implementation of the same;
- providing support to the Ethics Committee to monitor the implementation of the Code of Ethics approved by the BoD on 22 February 2012;
- monitoring the work for the disclosure and internal training on the contents of the Code of Ethics for the Ethics Committee;
- providing support to the Supervisory Body for the implementation of the Organisation and Management Model approved by the Board of Directors on 18 December 2013, also by performing the checks required by the Body;
- monitoring, on behalf of the Supervisory Body, train-

ing activities pursuant to Legislative Decree 231/01 as amended;

- verifying, applying the specific procedure (whistleblowing), on the credibility of reports of violations of the Code of Ethics with in-depth investigations to identify conduct non-compliant with the principles of the Code, periodically reporting to the Ethics Committee;
- providing support to the management to identify and assess major risks for Acea SpA and its subsidiaries using a well-organized process of *Control Risk Self Assessment* reporting the findings of the *management analysis* to the Risk and Control Committee and the Board of Auditors.

10.3 ORGANISATIONAL MODEL in accordance with Italian Legislative Decree 231/2001

By adopting the Organisational and Management Model in accordance with Legislative Decree 231/2001, Acea intends to comply with the provisions of the law in accordance with the principles of the Decree, the Corporate Governance Codes and the recommendations of the Supervisory and Control Authorities, to make the control systems and *Corporate Governance* systems more effective, in particular to prevent the crimes referred to in the Decree.

Acea set the following general goals by adopting the Organisational Model:

- awareness of activities subject to the risk of significant criminal activity with respect to the Company (activities at risk) and awareness of the methods and procedures that govern the activities at risk;
- disclosure, personal acquisition and specific declarations supporting a corporate culture based on legality, fully aware that any behaviour that contravenes the law, regulations, corporate governance rules, instructions of the supervisory and control authorities or internal provisions will be strictly censured by the Company;
- disclosure, personal acquisition and declarations supporting a culture of control that monitors the achievement of said goals.

Acea's Organisational Model was approved in 2004 and is systematically revised in specific planned initiatives, involving *management* with the help of the Audit Department. The current Organisational Model, approved by Board of Directors Resolution on 18 December 2013, was drawn up following a thorough analysis of the company's activities, with the aim of identifying potential risks of committing unlawful acts provided for by Legislative Decree 231/2001. The model consists of a set of general principles, rules of conduct and specific control standards to prevent the unlawful acts provided for being committed as far as possible.

In relation to the various criminal offences and related sensitive activities identified, the Organisational Model identifies the corporate, functional and instrumental processes, monitors the areas of activities at risk, and refers to the main organisational and control principles to which the organisational system must respond and which the recipients must comply with when carrying out their activities within the scope of functional and instrumental company processes.

The Supervisory Body ("SB"), set up in accordance with Italian Legislative Decree 231/2001, has full and independent powers of initiative, intervention and control over the function, effectiveness and observance of the Organisational Model, to prevent the risk of offences being committed which could imply the Company's administrative responsibility.

The SB supervises the Organisational Model's effectiveness and adequacy by monitoring its progress and proposing the necessary updates to the BoD. In addition, it has the task of notifying the relevant Acea bodies of any breaches of the Organisational Model which could imply responsibility of the Company.

ACEA's Board of Directors also allocated the SB a specific annual budget for 2016 of 25,000.00 euros (twenty-five thousand/00 euros), to guarantee and implement the independent "powers of initiative, intervention and control" provided for by Legislative Decree 231/01.

Art. 14, par. 2 of the Stability Law No. 183 of 12 November 2011 amended article 6 of Legislative Decree 231/2001 providing for the possibility that the Board of Auditors, in accordance with Legislative Decree 231/2001, can act directly as the Supervisory Body.

Therefore, in order to rationalise the control system, on 16 April 2013 ACEA's Board of Directors passed a resolution to attribute the functions of the supervisory body, in accordance with Legislative Decree 231, to the Board of Auditors; As provided for by Acea's Organisational Model, for the purposes indicated in the Decree, and after having identified the activities subject to the risk of crime and the most suitable measures to prevent them, the subsidiaries adopted an Organisation and Management Model that reflected the principles and contents of the Model adopted by the Parent Company.

In December 2015, at the end of the project revising Acea's Organisational Model to include the new crimes of administrative responsibility introduced in 2015, the SB approved the amendment of the same and sent the Organisational Model proposal to the Acea Board of Directors for discussion and approval.

On 19 February 2016 the Acea Board of Directors approved the above revision.

At the same time projects were implemented to revise/adopt the Organisational Model in Group subsidiaries with reference to the above-mentioned crimes.

In order to guarantee full implementation of the Organisational Model by Acea and its subsidiaries, in accordance with the Decree and/or consolidated case law, the following was done:

- the information flows to the Supervisory Body were re-defined and re-organised, to permit the monitoring of significant and relevant operations in areas defined as at risk of crimes being committed pursuant to Legislative Decree 231/2001. This information was gathered and managed for the main Group companies through a specific information medium, with risk indicators to highlight potentially abnormal transactions;
- communication and training courses relating to Legislative Decree 231/2001 were developed, along with the specific Company Model, the new Code of Ethics and the environmental regulations;
- a specific channel was set up for reporting any non-observance of the Model to the Supervisory Body.

10.4 AUDITING FIRM

In accordance with Art. 22 bis of the current Articles Of Association, an auditing firm performs the statutory auditing of accounts. This auditing firm is nominated and regularly registered in accordance with the law on corporate issuers listed on regulated markets. In particular, the auditing firm performs an audit to verify the regular corporate accounting and correct reporting of operational transactions during the financial year, auditing the financial statements and consolidated financial statements. The meeting called

to approve the financial statements as at 31 December 2007, which met on 29 April 2008, in compliance with the provisions of the law in force at the time, on the grounded proposal of the Board of Auditors, appointed Reconta Ernst & Young S.p.A. to audit the Company financial statements and the consolidated financial statements for nine financial years from 2008 to 2016, in other words until approval of the financial statements of the last financial year of the same appointment, determining also the fee.

10.5 EXECUTIVE RESPONSIBLE FOR FINANCIAL REPORTING

On 13 November 2006, ACEA changed its Articles of Association to include the Executive responsible for financial reporting, introduced by the legislator with Law 262/05, which requires appointment of the same by the BoD. This position was held by Franco Balsamo from 5 August 2013 to the date of his resignation (30 September 2015) and by Iolanda Papalini, from 1 October 2015 to 31 December 2015.

In the board meeting held 30 October 2015, the ACEA BoD appointed Demetrio Mauro Chief Financial Officer of the Company from 1 January 2016 and in the board meeting held 15 December 2015, the Board of Directors appointed the same Demetrio Mauro Executive responsible for financial reporting in accordance with law 262/2005 from 1 January 2016.

The Executive responsible for financial reporting is responsible for establishing and maintaining the Internal Control System on Financial Reporting and issuing specific certification according to the CONSOB model, with the CEO.

More specifically, the Executive responsible for financial reporting has the following duties, pursuant to the Regulation approved by the BoD on 20 February 2008:

- prepares adequate administrative and accounting procedures for drawing up the financial statements, the consolidated financial statements and the consolidated interim report;
- ensures that the financial statements are drawn up in compliance with applicable international accounting standards;
- ensures that the Company's deeds and communications to the market and related accounting disclosures, as well as interim disclosures, correspond to the documented results, the registers and the accounting entries;
- ascertains, together with the Internal Audit Committee, (a) the propriety of the accounting policies adopted, and, (b) their suitability for the preparation of consolidated financial statements.

The Executive responsible for financial reporting with the Chief Executive Officer, in accordance with art. 154 bis of the TUF, issued certification without any comments worthy of note.

11. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

The related party transactions procedure, drawn up in accordance with article 2391-bis of the Italian Civil Code was adopted in compliance with the principles of the "Regulation containing provisions regarding related party transactions" pursuant to Consob Resolution No. 17221 of 12 March 2010 as amended and which took effect from 1 January 2011, amended by the Board of Directors on 18 December 2013, coming into effect 1 January 2014. It applies to transactions carried out directly by Acea, or by its subsidiaries with direct and/or indirect individual control, with related parties.

The transactions are divided out as follows, in accordance with the amount involved:

- transactions of *Major Significance*, in which at least one of the significance indicators in Annex 3 of the Regulation from the aforesaid Consob Resolution No. 17221 of 12 March 2010 as amended, is higher than the 5% threshold for which approval of the Acea SpA BoD is required;
- *low amount* transactions with a value of no more than 200,000.00 euros (two hundred thousand);

- transactions of *Lower Significance*, which includes all related party transactions not included in the transactions of major significance or in the low amount transactions.

Prior to approval of transactions of Major Significance or of Lower Significance with related parties, the procedure requires that a Related Party Transactions Committee should express its opinion on the interests of the company in carrying out the transaction, and on its advantages and the substantial fairness of the relative terms. To date, the Related Party Transactions Committee comprises the three following independent Directors: Diane D'Arras acting as coordinator, Roberta Neri and Massimiliano Capece Minutolo Del Sasso.

The Board of Directors confirmed the allocation of an annual budget for 2016 of 50,000.00 euros (fifty thousand/00 euros) for the Committee in order to enable it, where necessary, to hire external consultants to support its activities. Please refer to the "Rules and Values" menu and the "Corporate Governance" sub-menu on the web site www.acea.it for more information.

12. APPOINTMENT OF AUDITORS

According to the requirements of law and the company's Articles of Association, the Board of Auditors is composed of three statutory auditors and two alternate auditors, appointed by the ordinary general meeting of shareholders for a period of three years, who can be re-elected at the end of their term.

The criteria regarding gender balance as established by law must be complied with in the composition of the Board of Auditors.

The Board of Auditors is elected in compliance with art. 22 of the Articles of Association, using the same procedures as those for the appointment of directors. Half plus one of the eligible statutory auditors and one alternate auditor are taken from the list which obtained the majority of votes, in the progressive order as they are presented on the list, rounding down in the event of a fractional number.

For the other members of the Board of Auditors, those who obtained the first and second highest quotient from the minority lists shall be appointed Statutory Auditor and Alter-

nate Auditor; in accordance with the rules set forth by art. 15 and 22 of the Articles of Association, if there is an equal quotient, the person from the minority shareholder list which obtained the most votes shall be appointed Auditor. In any event, at least one Statutory Auditor shall be appointed by the minority shareholders. If an Auditor resigns during the year, he/she shall be replaced by an alternate auditor from the same list as the Auditor to be replaced.

To appoint the members of the Board of Auditors who have not been elected, for any reason, under the terms indicated in the preceding Paragraphs, the General Meeting shall pass a resolution with the majority of votes provided for by law. The General Meeting shall elect the Chairman from within the group of Auditors appointed by the minority shareholders.

Therefore, as of now, this elective system requires that the lists be submitted by shareholders who, alone or together with other shareholders, represent at least 1% of the share capital. The lists shall be presented to the registered office, and ACEA will publish them in three daily national newspapers.

13. STRUCTURE AND FUNCTION OF THE BOARD OF AUDITORS

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. D, OF THE TUF)

The current Board of Auditors was appointed by the ordinary general meeting on 15 April 2013, and will remain in office until approval of the 2015 financial statements.

During the meeting held to make the appointments, three lists were presented: List No. 1 submitted by Roma Capitale with three candidates, Corrado Gatti, Laura Raselli and Antonia Coppola, List no. 2 submitted by the shareholder FIN-CAL Spa with two candidates, Enrico Laghi and Carlo Schiavone; List No. 3 submitted by the shareholder ONDEO ITALIA Spa with two candidates, Franco Biancani and Davide Carelli. 75.18% of voters voted for List no. 1, 15.1801% voted for List No. 2 and 9.1876% of voters voted for List No. 3.

According to the appointments made at that meeting and as described in *Table no. 3*, the Board of Auditors comprises the following members, and pursuant to art. 144 – decies of the Issuers' Regulation, a brief summary of their professional profile is provided below:

- **Enrico Laghi, Chairman.** Professor of Corporate Economics at La Sapienza University of Rome; registered with the Association of Certified Accountants and Chartered Accountants of Rome and the Register of Statutory Auditors;
- **Corrado Gatti, Statutory Auditor.** Professor of Economics and Corporate Management at La Sapienza University of Rome. Has been a member, auditor and chairman of the board of auditors or supervisory body of companies and authorities. Management consultant on strategic, organizational and financial themes for private and public companies. Registered with the Association of Certified Accountants and Chartered Accountants of Rome, the Register of Statutory Auditors and the Roll of the Technical Consultants of the Court of Rome.
- **Laura Raselli, Statutory Auditor.** An Economics and Commerce graduate from the Libera Università Internazionale degli Studi Sociali Guido Carli (L.U.I.S.S.) independent university of Rome. Registered with the Association of Certified Accountants and Chartered Accountants of Rome, the Register of Statutory Auditors and the Roll of the Technical Consultants of the Court of Rome. Has been a Statutory auditor for companies and a corporate and tax consultant for private and public companies. Court-Appointed Superintendent of the Court of Rome.
- **Antonia Coppola, Alternate Auditor.** Graduated with honours in Corporate Economics and Commerce at La Sapienza University of Rome. Registered with

the Association of Certified Accountants of Rome. Registered on the Register of Auditors. Board Member of the Association of Certified Accountants and Chartered Accountants of Rome. A Statutory Auditor for joint-stock companies; she is a corporate and tax consultant for medium and small private and public enterprises; specialised in fiscal disputes.

- **Franco Biancani, Alternate Auditor.** An Economics and Commerce graduate from La Sapienza University of Rome, chartered accountant. Has been an auditor and chairman of the board of auditors of companies. Registered on the Register of Auditors.

The auditors are chosen from people who are qualified as independent and shall act autonomously and independently also as regards the shareholders who elected them.

The independence of the auditors is assessed by Acea pursuant to law and art. 3 of the Corporate Governance Code. After the appointment of an auditor who is qualified as independent and subsequently at least once a year, based on the information provided by the involved party or in any case available to Acea, the Board of Statutory Auditors shall evaluate any relations which could be or appear to be able to compromise that auditor's independent judgement.

At meetings the BoD provides the Board of Auditors with information on the Board's activities, also via the Board of Statutory Auditors' direct participation in the meetings and examines material illustrating items on the meeting's agenda, prior to such meetings, received in the same form and at the same time as the documentation made available to Directors.

The Board of Statutory Auditors exercises its powers and fulfils its duties set out by current provisions.

In carrying out its activity, the Board of Statutory Auditors co-ordinated with the Audit department mainly through periodic meetings which discussed the independent monitoring work plan and the results of the main operations carried out in the year.

Moreover, the Board co-ordinated with the Risk and Control Committee through the participation of its Chairman in meetings.

During the year the Board of Directors held 15 meetings, lasting about 1 hour and 40 minutes on average, with the regular participation of the statutory auditors.

In 2016, on the date of this report, the Board has met three times, and each meeting lasted for an average of 1 hour and 35 minutes.

14. INVESTOR RELATIONS

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. A), OF THE TUF)

The price-sensitive information concerning the Company is promptly disclosed to the market and the relevant Supervisory Authorities. The information in question is available on the corporate web site www.acea.it, kept constantly up-to-date.

ACEA's organisational structure includes an Investor Relations Department which reports to the CEO; the manager is Elvira Angrisani.

The Company organises special *conference calls* with institutional investors and financial analysts when approving the annual, interim and quarterly results and the Industrial Plan and for any *price-sensitive* operations.

In 2015:

- Conference Calls were held with the Financial Community timed to coincide with approval of the annual and

interim results, as well as the 2015-2019 Business Plan, and following publication by the AEEGSI of the Water Tariff Method for the regulatory period 2016-2019;

- roadshows were organized in major European venues, during which "one on one" meetings were held as well as open presentations with around 170 equity investors, buy side analysts and credit investors/analysts;
- the Company participated at Utility Conferences organized by major Merchant Banks.

In addition, in order to ensure that Shareholders and Investors are provided with timely information, corporate documents, press releases, notices and other corporate information are published on the Company web site (www.acea.it).

15. GENERAL MEETINGS

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. C, OF THE TUF)

The general meeting regulations are in ACEA S.p.A.'s Articles of Association, and, other than referring to legal requirements, articles 10, 11, 12, 13 and 14 deal specifically with the General shareholders' meeting.

As at 31 December 2015, and to date, art. 10 sets forth the methods for calling the General Meeting, indicating at 10.3 that *"without prejudice to the power of convening a meeting established by specific provisions of the law, the Shareholders' Meeting, both ordinary and extraordinary, shall be convened by the Board of Directors through notice of meeting which shall contain the date, the venue and the time of the meeting and the agenda of the business to be transacted."* In paragraph 4 of the same article, it is furthermore confirmed that the meeting may also be called outside the registered office, provided it is held in Italy.

"Notice of meeting must be given on the Company's web site, and in the Official Gazette of the Italian Republic, or in the Il Sole - 24 Ore newspaper in compliance with the terms established by the laws in force. There may be calls for meetings following the second call. The notice calling a meeting may set, for different days, the second, third and possible subsequent meetings to be held in the event of a failure to reach a quorum according to the law in each of the previous meetings" (art. 10.4 of the Articles of Association).

Art. 11.1 sets forth that the *"General Meeting is convened at least once a year to approve the financial statements within 120 days from the close of the financial year, or within 180 days from the above mentioned close if the conditions under art. 2364 of the Italian Civil Code apply."*

Art. 11.2 sets forth that *"the Extraordinary General Meeting shall be convened any time it is necessary to pass a resolution of its competence by law."*

Art. 11.3 indicates that *"both the ordinary and extraordinary general meetings shall be convened when so requested by a number of Shareholders representing the percentages set forth in the laws in force, who must indicate the topics to discuss when making the request, or when the request is made by the Board of Auditors or its members as foreseen by the law."*

Additionally, the number of Shareholders representing the percentages set out in the dispositions of the law in force, in accordance with the terms established by prevailing law, may request other items be added to the agenda, indicating the additional topics to discuss in the request. The Shareholders' Meeting cannot be convened nor can shareholders request additional items be added to the agenda for topics the meeting passes resolutions on by law on the basis of Directors' proposals, projects or reports."

Article 12 of the Articles of Association expressly sets forth that the majorities necessary for validating the ordinary and extraordinary general meeting's constitution and resolutions be those required by law.

Article 13.1 of the General Meeting rules establishes that *"the right to participate at the General meetings and exercise the right to vote will be confirmed by notification sent by the intermediary to the issuer, in accordance with the*

accounting records, to the party who has the right to vote in accordance with the methods and terms provided for by prevailing law" (so-called "record date").

Art. 13.2 however establishes that any shareholder entitled to intervene at the meeting can be represented pursuant to the law.

Furthermore, the same paragraph of article 13 sets forth that *"with the exception of Roma Capitale, or subsidiaries thereof, which have acquired the capacity of Shareholders, the voting right may not be exercised for more than 8% of the share capital, even by proxy"*.

In this regard, note article 6 of the Articles of Association which instead sets forth that: *"with the exception of Roma Capitale and any subsidiary thereof which becomes a Shareholder, no Shareholder may hold an equity interest in the Company greater than 8% of the share capital. In the event of breach, the relevant shareholder may not exercise voting rights on the shareholding that exceeds said limit, and the resolutions passed with the decisive vote of such exceeding shares which are not entitled to cast votes pursuant to Art. 6 may be rescinded pursuant to article 2377 of the Italian Civil Code. Shares which are not entitled to cast votes are in any case counted to determine a quorum for the meeting"* (art. 6.1 of the Articles of Association).

"The aforesaid limit also applies to the equity investments held by the group to which each Shareholder belongs, understood to mean:

- *that formed by the persons, whether natural or legal, which directly or indirectly control, are controlled by or fall under the same control as the shareholder;*
- *that formed by entities connected to the shareholder, even though not having corporate form;*
- *that formed by persons, whether natural or legal, which directly or indirectly, explicitly or by means of conclusive behaviour, have entered into or otherwise adhere to arrangements of the kind described in art. 122 of Italian Legislative Decree 58/98, to the extent that such arrangements concern at least 8% of the voting share capital.*

Control and connection, for the purposes of this article 6, shall be deemed to exist in the instances laid out in art. 2359 of the Italian Civil Code." (art. 6.2 of the Articles of Association)

Point No. 3 of article 6 sets forth that the limit pursuant to art. 6 point 1 also applies to:

- *"shares held by the family of the shareholder, where family shall be deemed to include the same shareholder, a non-divorced spouse and cohabiting and/or tax-deductible children;*
- *shares beneficially held by a natural or legal person through controlled entities, trustees, intermediaries;*
- *shares directly or indirectly held, as security or usufruct, if a secured creditor or usufructuary holds the voting rights;*
- *shares subject to repo arrangements, with reference to both giver-on and taker-in."*

Point 4 of article 6 furthermore sets forth that *“whoever holds shares in excess of the 8% of the share capital shall notify such circumstance to the Company in writing within twenty days of completion of the transaction through which the threshold was crossed”*.

Another restriction set by article 6 in point number 5 is that which sets forth that *“those Shareholders who have not participated in approving the resolutions concerning the introduction or removal of the restrictions on the transfer of the shares shall not be entitled to withdraw”*.

Article 13.3 sets out: *“In order to facilitate the collection of proxies from shareholders who are employees of the Company or its subsidiaries, associates who adhere to shareholders’ associations that meet the requisites dictated by the effective applicable regulations, in accordance with the terms and procedures established by the Board of Directors directly or through its authorised persons, appropriate areas will be made available for notification and the proxy collection process.*

If the proxy is conferred via computer, in accordance with the procedures provided for by prevailing law, each time, notification of the aforesaid proxy may be conferred using the company web site in accordance with the methods in the notice of meeting.”

On 3 November 2000, the General Shareholders’ Meeting approved the adoption of a Regulation governing General Meetings (available at the registered office or on the web site www.acea.it). The approved Regulation is the result of

detailed studies of texts prepared by various study Commissions established in different trade associations, and in particular is inspired by studies carried out by Assonime. Article 7.3 of the aforesaid Regulation regulates the methods by which the shareholders’ right to speak on the subjects set for discussion is guaranteed:

“The request to intervene on individual agenda topics can be presented at the chair’s table (of the General Meeting) from the time of constitution of the General Meeting until when the General Meeting’s Chairman has closed the discussion on the relative agenda topic. In inviting people to speak, by regulation, the Chairman of the General Meeting follows the order in which the requests to intervene were made. Each shareholder can make just one intervention on each agenda topic, within the time limit of ten (10) minutes.”

During the general meeting, the Board of Directors reported on activities carried out following company programmes, providing shareholders with correct information on the elements necessary to make informed decisions on topics of the meeting’s competence.

The Board of Directors considers the General Meeting to be of great importance to Investor relations. The Directors therefore encourage as many Investors as possible to participate at the General Meetings, assisting them in this to the best of their ability.

During the 2015 financial year, and as of today, there have been no significant changes in the capitalisation of ACEA shares or in the composition of its company structure which could damage the prerogatives of minority interests.

16. FURTHER CORPORATE GOVERNANCE PRACTICES

(IN ACCORDANCE WITH ART. 123 BIS, PAR. 2, LETT. A), OF THE TUF)

ETHICS COMMITTEE

The Ethics Committee was established, assigned full and independent powers to take action and control, delegated to supervise the implementation and observance of the rules of behaviour in the Acea's Code of Ethics, by Board of Directors Resolution on 26 July 2001.

The composition and function of the Committee are regulated by a specific Regulation approved by the Board of Directors.

The members of the Committee as at 31 December 2015, are: Paola Antonia Profeta (Chairperson), Elisabetta Maggini and Giovanni Giani (non-executive directors), and two externally appointed members Maurizio Zollo and Luigi Giuliano.

In accordance with the responsibilities attributed by the Code of Ethics and the above-mentioned Regulation, the Committee promotes awareness of the Code of Ethics within the Group; heightens the awareness of Acea S.p.A. managers and employees to ethical matters; assists Acea in ensuring correct application of the Code of Conduct standards and criteria; develops and spreads awareness of the procedures necessary to ensure the aims and compliance with the Code principles; controls any breach of the standards of conduct of the Code, and proposes penalties in accordance with the work contracts. Finally, the Committee proposes suitable revisions to improve the principles of the Code.

On 22 February 2012, the Acea SpA BoD, on the basis of a proposal from the Ethics Committee, decided to adopt the current Code of Ethics amending the same to include the previous regulations on ethics adopted by Acea since 2001. The BoDs of the subsidiaries passed resolutions to adopt

the Code of Ethics, an integral part of the Organisational and Management Models.

The Code of Ethics is a fundamental element of control for Acea, so the Company distributes it to its personnel, both when hired and in cyclical training courses. Employees, suppliers and all those who contribute to the company's activities (consultants, collaborators, etc.) must also adhere to the contents of the Code.

To guarantee the monitoring to make sure the Code of Ethics is adopted, a well-structured procedure to manage reports that indicate behaviour that breaches the principles set out in the Code was introduced (known as *whistle blowing*), providing confidential contact channels and suitable protection for whistle blowers. The Audit Department examined the reports and verified any actual violations. The reports and the consequent actions taken for improvement are monitored by the Ethics Committee. In 2015, to favour the concrete application of the sustainable principles of development in the Code of Ethics, the Ethics Committee decided to perform a *survey* on the diffusion of themes related to sustainability in managerial culture and the implementation of the same in decision-making and strategic processes. In particular, the Committee focused on the observance of the principles of the Code in relations with employees through an in-depth study of the system of values and expected behaviour in policies for staff management and with reference to the reward system.

The BoD confirmed the allocation of an annual budget for 2016 of 25,000.00 euros (twenty-five thousand/00 euros) for the Committee.

When carrying out its duties, the Committee coordinates its work with the work of the Supervisory Body.

17. CHANGES SINCE YEAR END CLOSURE

Changes which occurred after the end of the financial year until today's date have been described in the specific sections.

On behalf of the Board of Directors
The Chairman
Catia Tomasetti

**TABLE 1:
INFORMATION ON OWNERSHIP STRUCTURE**

SHARE CAPITAL STRUCTURE				
	N° Shares	% w.r.t. share capital	Borsa Italiana automated stock Market Listing	Rights and obligations
Ordinary shares	212,964,000	100%	100%	
Shares with limited voting rights	-----			
Shares without voting rights	-----			

OTHER FINANCIAL INSTRUMENTS (attributing the right to subscribe newly issued shares)				
	Listed (indicate the markets) / unlisted	No. of instruments in circulation	Category of shares for the service of conversion/financial year	No. of shares for the service of conversion/financial year
Bonds	-----	-----	-----	-----
Convertible Bonds	-----	-----	-----	-----
Warrant	-----	-----	-----	-----

RELEVANT SHAREHOLDINGS From the Consob web site on 10 March 2016			
Declarant		Share % of the ordinary capital	Share % of the voting capital
ROMA CAPITALE	Roma Capitale	51%	51%
NORGES BANK	Norges Bank	2.020%	2.020%
SUEZ ENVIRONNEMENT COMPANY SA	Suez Italia SpA	12.483%	12.483%
FRANCESCO GAETANO CALTAGIRONE	Gamma S.r.l.	1.033%	15.856%
	Viapar S.r.l.	2.874%	
	Fincal SpA	7.513%	
	So.fi.cos. S.r.l.	2.886%	
	Viafin S.r.l.	1.550%	

**TABLE 2:
STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES AS AT 31.12.15**

BOARD OF DIRECTORS												
Required quorum for the presentation of lists at last appointment: 1% of the shares with voting rights												
Office	Members	Year of birth	Date of First appointment(*)	In office since	In office up to	List (M/m) (**)	Exec.	Non-Exec.	Indep. Code	Indep. acc. to TUF	Other positions (***)	Appointment and Remuneration Committee
Chairman	Catia Tomasetti	1964	05.06.14	05.06.14	31.12.16	M	X				1	16/16
CEO	Alberto Irace	1967	05.06.14	05.06.14 BoD 09.06.14 (CEO)	31.12.16	M	X				-----	16/16
Director	Elisabetta Maggini	1982	05.06.14	05.06.14	31.12.16	M		X	X		-----	16/16
Director	Paola Antonia Profeta	1972	05.06.14	05.06.14	31.12.16	M		X	X		1	15/16
Director	Francesco Caltagirone	1968	29.04.10	05.06.14	31.12.16	m		X			6	15/16
Director	Giovanni Giani	1950	coop. BoD 29.11.11 Rec. 04.05.12	05.06.14	31.12.16	m		X			-----	16/16
Director	Diane D'Arras	1955	15.04.13	05.06.14	31.12.16	m		X	X		-----	14/16
Director	Roberta Neri	1964	23.04.15	23.04.15	31.12.16	M		X	X		11/11	P
Director	Massimiliano Capece Minutolo Del Sasso	1968	23.04.15	23.04.15	31.12.16	m		X	X		9	11/11

NOTES

• This symbol indicates the director in charge of the internal control and risk management system.

(*) The date of the first appointment of each director is understood to be the date on which the director was appointed for the (very) first time as a member of the ACEA SpA BoD

(**) This column shows the list each director was elected from ("M": majority list; "m": minority list).

(***) This column shows the number of director or statutory auditor positions held by the person in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance or large companies. The positions are shown in full on the last page of the Corporate governance report.

(1). This column shows the participation of the directors respectively in BoD and committee meetings

(2). This column shows the qualification of the Committee member: "P": chairperson; "M": member.

**TABLE 3:
STRUCTURE OF THE BOARD OF AUDITORS AS AT 31.12.15**

Board Of Statutory Auditors									
Required quorum for the presentation of lists at last appointment: 1% of the shares with voting rights									
Office	Members	Year of birth	Date of first appointment(*)	In office since	In office up to	List (M/m) (**)	Independence according to Code	(***) (%)	Number of other Positions (****)
Chairman	Enrico Laghi	1969	2010	15.04.13	31.12.15	m	x	10/15	8
Statutory auditor	Laura Raselli	1971	2013	15.04.13	31.12.15	M	x	14/15	1
Statutory auditor	Corrado Gatti	1974	2010	15.04.13	31.12.15	M	x	15/15	13
Alternate auditor	Antonia Coppola	1970	2013	15.04.13	31.12.15	M	x		12
Alternate auditor	Franco Biancani	1942	2013	15.04.13	31.12.15	m	x		-----

NOTES

(*) The date of the first appointment of each auditor is understood to be the date on which the auditor was appointed for the (very) first time as a member of the issuer's board of auditors.

(**) This column shows the list each auditor was elected from ("M": majority list; "m": minority list).

(***) This column indicates the participation of the auditors in the board of auditors meetings.

(****) This column shows the number of director or auditor positions held by the concerned party reported in accordance with art. 148-bis TUF and the relevant implementation rules in the Consob Issuers' Regulation. The full list of positions held is published by the Consob on its web site in accordance with art. 144-quinquiesdecies of the Consob Issuers' Regulation.

**CHART 1:
COMPOSITION OF THE ACEA BOARD OF DIRECTORS
AND POSITIONS HELD BY DIRECTORS IN OTHER COMPANIES**

Role	Name	Position	Other positions (*)
Chairman	Catia Tomasetti	Executive Director	Cassa di Risparmio di Cesena(**) (P) Utilitalia(***) (was Federutility) (C) Rome Chambers of Commerce(****) (C)
Chief Executive Officer	Alberto Irace	Executive Director	-----
Director	Elisabetta Maggini	Independent Director	-----
Director	Paola Antonia Profeta	Independent Director	Banca Profilo bank (C)
Director	Diane D'Arras	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) Sorgenia(**) (C)
Director	Massimiliano Capece Minutolo Del Sasso	Independent Director	ICAL 2 SpA (P) Porto Torre SpA (AU) Vianini Lavori SpA (C) Immobiliare Caltagirone SpA (C) Cementir Italia SpA (C) Cimentas A.S. (C) Grandi Stazioni SpA (C) Fincal SpA (C) Domus Italia SpA (C)

(*) List of the director or statutory auditor positions held by each Director in other companies listed on regulated markets, including foreign markets, in financial, banking, insurance or large companies.

(**) Not listed

(***) association of undertakings

(****) Public authority

2015

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

Artwork, graphics and page layout

SERVIFLAB

Coordination **Tiziana Flaviani**

Web version

SERVIFLAB

Coordination **Laura Colella**

Photographs

Fabio Anghelone, Acea Archive

Visual 2.0

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