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2017

Consolidated Financial Statements

Consolidated financial statements

2017

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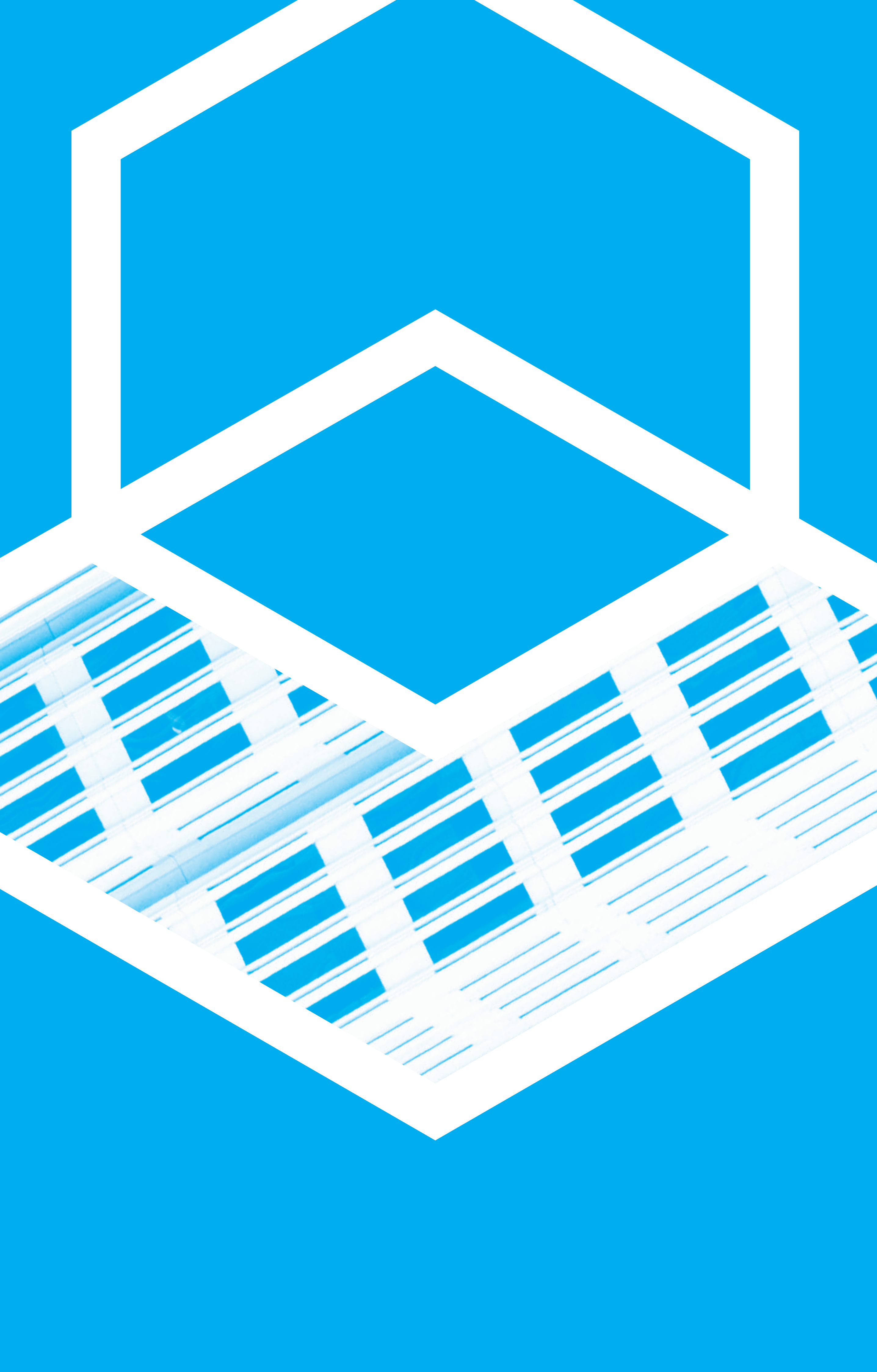
This is a translation of the Italian original "Relazione finanziaria annuale consolidata 2017" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available at the website www.a2a.eu.



1
Consolidated financial statements

Consolidated balance sheet (1-2)

Assets

millions of euro	Note	12 31 2017	12 31 2016 Restated (*)
NON-CURRENT ASSETS			
Tangible assets	1	4,606	5,129
Intangible assets	2	1,863	1,704
Shareholdings carried according to equity method	3	63	67
Other non-current financial assets	3	44	69
Deferred tax assets	4	301	341
Other non-current assets	5	8	12
Total non-current assets		**6,885**	**7,322**
CURRENT ASSETS			
Inventories	6	147	159
Trade receivables	7	1,671	1,821
Other current assets	8	216	389
Current financial assets	9	8	218
Current tax assets	10	107	70
Cash and cash equivalents	11	691	402
Total current assets		**2,840**	**3,059**
NON-CURRENT ASSETS HELD FOR SALE	12	**224**	**6**
TOTAL ASSETS		**9,949**	**10,387**

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

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 40.

(2) Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 41 as required by Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

millions of euro	Note	12 31 2017	12 31 2016 Restated (*)
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(54)	(54)
Reserves	15	1,010	919
Result of the year	16	293	232
Equity pertaining to the Group		**2,878**	**2,726**
Minority interests	17	135	553
Total equity		**3,013**	**3,279**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,501	3,436
Employee benefits	19	319	365
Provisions for risks, charges and liabilities for landfills	20	625	671
Other non-current liabilities	21	148	109
Total non-current liabilities		**4,593**	**4,581**
Current liabilities			
Trade payables	22	1,381	1,384
Other current liabilities	22	521	744
Current financial liabilities	23	437	359
Tax liabilities	24	4	33
Total current liabilities		**2,343**	**2,520**
Total liabilities		**6,936**	**7,101**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	25	**-**	**7**
TOTAL EQUITY AND LIABILITIES		**9,949**	**10,387**

Consolidated income statement (1-2)

millions of euro	Note	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)
Revenues			
Revenues from the sale of goods and services		5,590	4,581
Other operating income		206	279
Total revenues	27	**5,796**	**4,860**
Operating expenses			
Expenses for raw materials and services		3,681	2,859
Other operating expenses		281	243
Total operating expenses	28	**3,962**	**3,102**
Labour costs	29	**635**	**596**
Gross operating income - EBITDA	30	**1,199**	**1,162**
Depreciation, amortization, provisions and write-downs	31	**489**	**719**
Net operating income - EBIT	32	**710**	**443**
Result from non-recurring transactions	33	**-**	**52**
Financial balance			
Financial income		19	34
Financial expenses		158	192
Affiliates		5	(3)
Result from disposal of other shareholdings (AFS)		-	-
Total financial balance	34	**(134)**	**(161)**
Result before taxes		**576**	**334**
Income taxes	35	**192**	**122**
Result after taxes from operating activities		**384**	**212**
Net result from discontinued operations	36	**(85)**	**19**
Net result		**299**	**231**
Minorities	37	**(6)**	**1**
Group result of the year	38	**293**	**232**
Result per share (in euro):			
- basic		0.0944	0.0745
- basic from continuing operations		0.1215	0.0684
- basic from assets held for sale		(0.0271)	0.0062
- diluted		0.0944	0.0745
- diluted from continuing operations		0.1215	0.0684
- diluted from assets held for sale		(0.0271)	0.0062

(*) The figures at December 31, 2016 include the economic effects deriving from the LGH Group's PPA and the reclassification for the purposes of IFRS 5 of the EPCG Group's income statement items.

(1) For details regarding the consolidation effects of acquisitions in 2017, reference is made to the specific statement below.

(2) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of related party transactions on the consolidated financial statements are provided in the statements and discussed in Note 40. Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 41 as required by Consob Communication DEM/6064293 of July 28, 2006.

Consolidated statement of comprehensive income

millions of euro	12 31 2017	12 31 2016 Restated
Net result of the year (A)	**299**	**231**
Actuarial gains/(losses) on employee's benefits booked in the Net equity	19	(27)
Tax effect of other actuarial gains/(losses)	(7)	9
Total actuarial gains/(losses) net of the tax effect (B)	**12**	**(18)**
Effective part of gains/(losses) on cash flow hedge	(26)	31
Tax effect of other gains/(losses)	8	(8)
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**(18)**	**23**
Other gains/(losses) of companies valued at equity net of the tax effect (D)	**-**	**-**
Total comprehensive result (A) + (B) + (C) + (D)	**293**	**236**
Total comprehensive result attributable to:		
Shareholders of the parent company	**299**	**235**
Minority interests	**(6)**	**1**

With the exception of the actuarial effects on employee benefits recognized in equity, the other effects stated above will be reclassified to the Income Statement in subsequent years.

Consolidated cash-flow statement

millions of euro		12 31 2017		12 31 2016 Restated
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**402**		**636**
Change in EPCG consolidation method		(55)		-
Edipower demerger in favour of Cellina Energy		-		(38)
Contribution of first consolidation of acquisitions of 2017		7		-
Contribution of first consolidation of LGH and other acquisitions of 2016		-		86
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**354**		**684**
Operating activities				
Net result (**)		297		196
Tangible assets depreciation		338		374
Intangible assets amortization		72		55
Fixed assets write-downs/disposals		43		252
Result from affiliates		(5)		3
Held for sale activities write off		86		-
Net financial interests		139		158
Net financial interests paid		(115)		(133)
Net taxes paid (a)	*(192)*		*(168)*	
Gross change in assets and liabilities (b)	*203*		*90*	
Total change of assets and liabilities (a+b) (*)		11		(78)
Cash flow from operating activities		**866**		**827**
Investment activities				
Investments in tangible assets		(306)		(259)
Investments in intangible assets and goodwill		(148)		(127)
Investments in shareholdings and securities (*)		(23)		(123)
Disposal of fixed assets and shareholdings		-		6
Dividends received		2		1
Cash flow from investment activities		**(475)**		**(502)**
FREE CASH FLOW		**391**		**325**

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

(**) Net Result is exposed net of gains on shareholdings', fixed assets' disposals and from discontinued operations (equal to 52 millions of euro - included in the item "Result from non-recurring transactions" of 2016 Consolidated Income statement).

millions of euro	12 31 2017	12 31 2016 Restated
Financing activities		
Changes in financial assets		
Monetary changes:		
Issuance of loans	-	(12)
Proceeds from loans	7	14
Other monetary changes	(10)	37
Total monetary changes	**(3)**	**39**
Non-monetary changes:		
Other non-monetary changes	5	14
Total non-monetary changes	**5**	**14**
Total changes in financial assets (*)	**2**	**53**
Changes in financial liabilities		
Monetary changes:		
Borrowings/bonds issued	743	780
Repayment of borrowings/bond	(613)	(1.247)
Lease payments	(2)	(2)
Dividends paid by the parent company	(153)	(126)
Dividends paid by the subsidiaries	(2)	(5)
Other monetary changes	(3)	(5)
Total monetary changes	**(30)**	**(605)**
Non-monetary changes:		
Amortized cost valuations	-	-
Other non-monetary changes	(26)	(55)
Total non-monetary changes	**(26)**	**(55)**
Total changes in financial liabilities (*)	**(56)**	**(660)**
Cash flow from financing activities	**(54)**	**(607)**
CHANGE IN CASH AND CASH EQUIVALENTS	**337**	**(282)**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**691**	**402**

Statement of changes in Group equity

Description *millions of euro*	Share Capital Note 13	Treasury Shares Note 14	Cash Flow Hedge Note 15
Net equity at December 31, 2015	**1,629**	**(61)**	**(25)**
2015 result allocation			
Operations on own shares		7	
Distribution of dividends			
IAS 19 reserves (*)			
IAS 32 and 39 reserves (*)			23
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2016 Restated	**1,629**	**(54)**	**(2)**
2016 result allocation			
Distribution of dividends			
IAS 19 reserves (*)			
IAS 32 and 39 reserves (*)			(18)
EPCG equity method			
Other changes			
Group and minorities result of the year			
Net equity at December 31, 2017	**1,629**	**(54)**	**(20)**

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

Other Reserves and retained earnings Note 15	Result of the year Note 16	Total Equity pertaining to the Group	Minority interests Note 17	Total Net shareholders' equity
1,030	**73**	**2,646**	**613**	**3,259**
73	(73)			
		7		7
(126)		(126)	(5)	(131)
(18)		(18)		(18)
		23		23
(38)		(38)	(54)	(92)
	232	232	(1)	231
921	**232**	**2,726**	**553**	**3,279**
232	(232)			
(153)		(153)	(1)	(154)
12		12		12
		(18)	1	(17)
			(420)	(420)
18		18	(4)	14
	293	293	6	299
1,030	**293**	**2,878**	**135**	**3,013**

Reconciliation table between Consolidated Income Statement IFRS5 and Reported figures

(NO GAAP MEASURES)

millions of euro	01 01 2017 12 31 2017 (*)	Operating result from discontinued operations	01 01 2017 12 31 2017 Reported	01 01 2016 12 31 2016 Restated (*)	Operating result from discontinued operations	01 01 2016 12 31 2016 Restated Reported
Revenues						
Revenues from the sale of goods and services	5,590	114	5,704	4,581	232	4,813
Other operating income	206		206	279	1	280
Total revenues	**5,796**	**114**	**5,910**	**4,860**	**233**	**5,093**
Operating expenses						
Expenses for raw materials and services	3,681	76	3,757	2,859	109	2,968
Other operating expenses	281	5	286	243	10	253
Total operating expenses	**3,962**	**81**	**4,043**	**3,102**	**119**	**3,221**
Labour costs	**635**	**21**	**656**	**596**	**45**	**641**
Gross operating income - EBITDA	**1,199**	**12**	**1,211**	**1,162**	**69**	**1,231**
Depreciation, amortization, provisions and write-downs	**489**	**16**	**505**	**719**	**39**	**758**
Net operating income - EBIT	**710**	**(4)**	**706**	**443**	**30**	**473**
Result from non-recurring transactions	**-**	**1**	**1**	**52**	**4**	**56**
Financial balance						
Financial income	19	3	22	34	6	40
Financial expenses	158	87	245	192	2	194
Affiliates	5		5	(3)		(3)
Result from disposal of other shareholdings (AFS)	-		-	-		-
Total financial balance	**(134)**	**(84)**	**(218)**	**(161)**	**4**	**(157)**
Result before taxes	**576**	**(87)**	**489**	**334**	**38**	**372**
Income taxes	**192**		**192**	**122**	**(2)**	**120**
Result after taxes from operating activities	**384**	**(87)**	**297**	**212**	**40**	**252**
Net result from discontinued operations	**(85)**		**1**	**19**		**2**
Net result	**299**	**(87)**	**298**	**231**	**40**	**254**
Minorities	**(6)**	**1**	**(5)**	**1**	**(23)**	**(22)**
Group result of the year	**293**	**(86)**	**293**	**232**	**17**	**232**

(*) According to IFRS5.

This table shows for both the 2017 and the Restated 2016 financial years, the reconciliation between the values of the Income Statement that reflect the effects of the application of IFRS 5 and the Reported Income Statement values considered for the purpose of analyzing the results in the Report on Operations.

Breakdown of the balance sheet with evidence of the effect of the first consolidation of the 2017 acquisitions and of the change in the consolidation method of EPCG

(NO GAAP MEASURES)

millions of euro	Note	Consolidated at 12 31 2016 Restated	Effect first consolidation Azienda Servizi Valtrompia S.p.A.	Effect first consolidation LumEnergia S.p.A.
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	1	5,129	-	1
Intangible assets	2	1,704	19	2
Shareholdings carried according to equity method	3	67	-	-
Other non-current financial assets	3	69	-	-
Deferred tax assets	4	341	1	1
Other non-current assets	5	12	-	-
TOTAL NON-CURRENT ASSETS		**7,322**	**20**	**4**
CURRENT ASSETS				
Inventories	6	159	-	-
Trade receivables	7	1,821	7	6
Other current assets	8	389	1	-
Current financial assets	9	218	-	-
Current tax assets	10	70	1	-
Cash and cash equivalents	11	402	-	1
TOTAL CURRENT ASSETS		**3,059**	**9**	**7**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**6**	**-**	**-**
TOTAL ASSETS		**10,387**	**29**	**11**
LIABILITIES				
NON-CURRENT LIABILITIES				
Non-current financial liabilities	18	3,436	2	-
Employee benefits	19	365	1	-
Provisions for risks, charges and liabilities for landfills	20	671	-	-
Other non-current liabilities	21	109	-	-
TOTAL NON-CURRENT LIABILITIES		**4,581**	**3**	**-**
CURRENT LIABILITIES				
Trade payables	22	1,384	5	5
Other current liabilities	22	744	2	1
Current financial liabilities	23	359	-	-
Tax liabilities	24	33	-	-
TOTAL CURRENT LIABILITIES		**2,520**	**7**	**6**
TOTAL LIABILITIES		**7,101**	**10**	**6**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**25**	**7**	**-**	**-**
LIABILITIES		**7,108**	**10**	**6**

	Effect first consolidation Patavina Technologies S.r.l.	Effect first consolidation A2A Rinnovabili Group	Total effect first consolidation acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Consolidated at 12 31 2017
	-	79	80	(559)	(44)	4,606
	1	7	29	(2)	132	1,863
	-	-	-	-	(4)	63
	-	-	-	(32)	7	44
	-	4	6	31	(77)	301
	-	-	-	-	(4)	8
	1	**90**	**115**	**(562)**	**10**	**6,885**
	-	-	-	(16)	4	147
	-	5	18	(60)	(108)	1,671
	-	3	4	(24)	(153)	216
	-	-	-	(197)	(13)	8
	-	1	2	-	35	107
	-	6	7	(55)	337	691
	-	**15**	**31**	**(352)**	**102**	**2,840**
	-	**-**	**-**	**(1)**	**219**	**224**
	1	**105**	**146**	**(915)**	**331**	**9,949**
	-	84	86	(61)	40	3,501
	-	-	1	(13)	(34)	319
	-	1	1	(18)	(29)	625
	-	9	9	(4)	34	148
	-	**94**	**97**	**(96)**	**11**	**4,593**
	-	-	10	(18)	5	1,381
	-	4	7	(38)	(192)	521
	-	3	3	(13)	88	437
	-	-	-	-	(29)	4
	-	**7**	**20**	**(69)**	**(128)**	**2,343**
	-	**101**	**117**	**(165)**	**(117)**	**6,936**
	-	**-**	**-**	**-**	**(7)**	**-**
	-	**101**	**117**	**(165)**	**(124)**	**6,936**

Breakdown of the economic effect of the consolidation of new acquisitions 2017

(NO GAAP MEASURES)

millions of euro	Note	Effect first consolidation Azienda Servizi Valtrompia S.p.A.	Effect first consolidation LumEnergia S.p.A.
REVENUES			
Revenues from the sale of goods and services		11	17
Other operating income		-	-
TOTAL REVENUES	27	**11**	**17**
OPERATING EXPENSES			
Expenses for raw materials and services		4	17
Other operating expenses		3	-
TOTAL OPERATING EXPENSES	28	**7**	**17**
LABOUR COSTS	29	**2**	**-**
GROSS OPERATING INCOME - EBITDA	30	**2**	**-**
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	31	**1**	**-**
NET OPERATING INCOME - EBIT	32	**1**	**-**
RESULT FROM NON-RECURRING TRANSACTIONS	33	**-**	**-**
FINANCIAL BALANCE			
Financial income		-	-
Financial expenses		-	-
Affiliates		-	-
Result from disposal of other shareholdings (AFS)		-	-
TOTAL FINANCIAL BALANCE	34	**-**	**-**
RESULT BEFORE TAXES		**1**	**-**
INCOME TAXES	35	**-**	**-**
RESULT AFTER TAXES FROM OPERATING ACTIVITIES		**1**	**-**
NET RESULT FROM DISCONTINUED OPERATIONS	36	**-**	**-**
NET RESULT		**1**	**-**
MINORITIES	37	**-**	**-**
GROUP RESULT OF THE YEAR	38	**1**	**-**

The economic results deriving from the acquisition of the company Patavina Technologies S.r.l. are less than one million euro and are not shown in this table.

	Effect first consolidation A2A Rinnovabili Group	Total effect consolidation new acquisitions 2017	Old perimeter 12 31 2017	Consolidated at 12 31 2017	Consolidated at 12 31 2016 Restated
	1	29	5,561	5,590	4,581
	2	2	204	206	279
	3	**31**	**5,765**	**5,796**	**4,860**
	1	22	3,659	3,681	2,859
	-	3	278	281	243
	1	**25**	**3,937**	**3,962**	**3,102**
	-	**2**	**633**	**635**	**596**
	2	**4**	**1,195**	**1,199**	**1,162**
	3	**4**	**485**	**489**	**719**
	(1)	**-**	**710**	**710**	**443**
	-	**-**	**-**	**-**	**52**
	-	-	19	19	34
	5	5	153	158	192
	-	-	5	5	(3)
	-	-	-	-	-
	(5)	**(5)**	**(129)**	**(134)**	**(161)**
	(6)	**(5)**	**581**	**576**	**334**
	2	**2**	**190**	**192**	**122**
	(8)	**(7)**	**391**	**384**	**212**
	-	**-**	**(85)**	**(85)**	**19**
	(8)	**(7)**	**306**	**299**	**231**
	-	**-**	**(6)**	**(6)**	**1**
	(8)	**(7)**	**300**	**293**	**232**

2
Consolidated financial statements pursuant to Consob Resolution no. 17221 of March 12, 2010

Consolidated balance sheet

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

Assets

millions of euro	12 31 2017	of which Related Parties (note 40)	12 31 2016 Restated	of which Related Parties (note 40)
NON-CURRENT ASSETS				
Tangible assets	4,606		5,129	
Intangible assets	1,863		1,704	
Shareholdings carried according to equity method	63	63	67	67
Other non-current financial assets	44	8	69	7
Deferred tax assets	301		341	
Other non-current assets	8		12	
Total non-current assets	**6,885**		**7,322**	
CURRENT ASSETS				
Inventories	147		159	
Trade receivables	1,671	102	1,821	102
Other current assets	216		389	1
Current financial assets	8		218	10
Current tax assets	107		70	
Cash and cash equivalents	691		402	
Total current assets	**2,840**		**3,059**	
NON-CURRENT ASSETS HELD FOR SALE	**224**	**224**	**6**	
TOTAL ASSETS	**9,949**		**10,387**	

Equity and liabilities

millions of euro	12 31 2017	of which Related Parties (note 40)	12 31 2016 Restated	of which Related Parties (note 40)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(54)		(54)	
Reserves	1,010		919	
Result of the year	293		232	
Equity pertaining to the Group	**2,878**		**2,726**	
Minority interests	135		553	
Total equity	**3,013**		**3,279**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,501		3,436	
Employee benefits	319		365	
Provisions for risks, charges and liabilities for landfills	625	2	671	3
Other non-current liabilities	148		109	
Total non-current liabilities	**4,593**		**4,581**	
Current liabilities				
Trade payables	1,381	32	1,384	30
Other current liabilities	521	7	744	8
Current financial liabilities	437	1	359	2
Tax liabilities	4		33	
Total current liabilities	**2,343**		**2,520**	
Total liabilities	**6,936**		**7,101**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**-**		**7**	
TOTAL EQUITY AND LIABILITIES	**9,949**		**10,387**	

Consolidated income statement

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

millions of euro	01 01 2017 12 31 2017	of which Related Parties (note 40)	01 01 2016 12 31 2016 Restated	of which Related Parties (note 40)
Revenues				
Revenues from the sale of goods and services	5,590	396	4,581	409
Other operating income	206	1	279	
Total revenues	**5,796**		**4,860**	
Operating expenses				
Expenses for raw materials and services	3,681	23	2,859	9
Other operating expenses	281	33	243	34
Total operating expenses	**3,962**		**3,102**	
Labour costs	**635**	**2**	**596**	**3**
Gross operating income - EBITDA	**1,199**		**1,162**	
Depreciation, amortization, provisions and write-downs	**489**		**719**	**3**
Net operating income - EBIT	**710**		**443**	
Result from non-recurring transactions	**-**		**52**	
Financial balance				
Financial income	19	6	34	6
Financial expenses	158		192	
Affiliates	5	5	(3)	(3)
Result from disposal of other shareholdings (AFS)	-		-	
Total financial balance	**(134)**		**(161)**	
Result before taxes	**576**		**334**	
Income taxes	**192**		**122**	
Result after taxes from operating activities	**384**		**212**	
Net result from discontinued operations	**(85)**	**(86)**	**19**	
Net result	**299**		**231**	
Minorities	**(6)**		**1**	
Group result of the year	**293**		**232**	

3
Notes to the Consolidated annual report

General information

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

The A2A Group mainly operates in the following sectors:

- the production, sale and distribution of electricity even from renewable resources;
- the sale and distribution of gas;
- the production, distribution and sale of heat through district heating networks;
- waste management (from collection and sweeping to disposal) and the construction and management of integrated waste disposal plants and systems, also making these available for other operators;
- integrated water cycle management;
- technical consultancy relating to energy efficiency certificates.

Consolidated annual report

The consolidated annual report (hereafter referred to as the "**Annual report**") of the A2A Group at December 31, 2017, is presented in millions of euro; the euro is also the functional currency of the economies in which the Group operates.

The Annual report of the A2A Group at December 31, 2017 has been prepared:

- in compliance with Legislative Decree 58/1998 (art. 154-ter) as amended and with the Issuers' Regulations published by Consob;
- in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union. IFRS means all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In preparing the Annual report, the same principles used in the preparation of the consolidated annual report at December 31, 2016 were applied, other than the principles and interpretations described in detail in the paragraph below "Changes in international accounting standards" adopted for the first time on January 1, 2017.

In this file, use has been made of some alternative indicators of performance (APM) that are different from the financial indicators expressly provided for by the IAS/IFRS international accounting standards adopted by the Group; for details of these indicators, please see the specific paragraph "Alternative Indicators of Performance (APM)" in the file of the "Report on Operations".

This Annual report at December 31, 2017 was approved on March 20, 2018 by the Board of Directors, which authorized publication, and has been audited by EY S.p.A. in accordance with their appointment by the Shareholders' Meeting of June 11, 2015 for the nine years from 2016 to 2024.

Financial statements

The Group has adopted a format for the balance sheet which presents current and non- current assets and current and non-current liabilities as separate classifications, as required by paragraphs 60 and following of IAS 1.

The income statement is presented by nature, a format which is considered more representative than a presentation by function. The selected format is in agreement with the presentation used by the Group's major competitors and in line with international practice.

The specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings (AFS)" are in the format of the income statement in order to provide clear and immediate identification of the results arising from non-recurring transactions forming part of continuing operations, separating these from the results from discontinued operations. In particular, it should be noted that the item "Result from non-recurring transactions" is intended to include the results from the sale of investments in subsidiaries and associates and other non-operating expenses/ income. This item is presented between net operating income and the financial balance. In this way net operating income is not affected by non-recurring operations, making it easier to measure the effective performance of the Group's ordinary operating activities.

The Cash Flow Statement is prepared using the indirect method, as permitted by "IAS 7" and includes the disclosure amendments introduced by the integration to "IAS 7" approved on November 9, 2017.

The statement of changes in equity has been prepared in accordance with IAS 1.

The formats adopted for the financial statements are the same as those used to prepare the annual consolidated financial statements at December 31, 2016.

Basis of preparation

The consolidated annual report at December 31, 2017 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value.

The consolidation principles, the accounting principles, the accounting policies and the methods of measurement used in the preparation of the Annual report are consistent with those used to prepare the annual consolidated report at December 31, 2016, except as specified below.

Changes in international accounting standards

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

The following paragraphs, "Accounting standards, amendments and interpretations approved by the European Union" and "Accounting standards approved by the European Union but applicable in future years" instead detail the accounting standards and interpretations already issued, whether not yet approved or approved by the European Union and therefore not applicable for the preparation of the financial statements at December 31, 2017, any impacts of which will then be transposed as of the financial statements of the following years.

Accounting principles, amendments and interpretations applied by the company from the current year

As from January 1, 2017, some additions have been applied following specific paragraphs of the international accounting standards already adopted by the company in previous years, none of which had an effect, with respect to December 31, 2016, on the company's economic and financial results.

The main changes are described in the following:

- IAS 7 "Cash Flow Statement": issued by the IASB on January 29, 2016 and published in the Official Journal of the European Union on November 9, 2017, the amendment to the standard in question requires that information be provided to enable the user of the financial statements to evaluate changes in liabilities deriving from financing activities, including both changes deriving from financial flows, and changes that did not result in a cash flow (non-cash changes).
  Specifically, the A2A Group has provided for the presentation of the data relating to this financial year and the comparison one, highlighting the changes deriving from financing cash flow (loans and leasing) and changes deriving from business combinations.

- IAS 12 "Income Taxes": issued by the IASB on January 19, 2016 and published in the Official Journal of the European Union on November 9, 2017, the amendment to the standard in question aims to clarify that an entity must consider whether tax limits the sources of taxable income against which it could make deductions related to the reversal of the deductible temporary differences. In addition, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances in which taxable income could include the recovery of certain assets for a value greater than their carrying amount.
  The amendment did not have any effects on the economic and financial results of the A2A Group or on the presentation methods at December 31, 2017.

Accounting standards, amendments and interpretations not yet approved by the European Union

The following standards and amendments to existing standards are still pending approval by the European Union and are therefore not applicable by the company. The dates indicated reflect the expected effectiveness date and enacted in the standards; this date is however subject to the actual approval by the competent bodies of the European Union:

- IFRIC 22 "Transactions in foreign currency and recognition of prepayments or collections": issued by the IASB on December 8, 2016, the interpretation of IAS 21 "Transactions in foreign currency" aims to clarify the date on which to use the exchange rate for the purpose of recording the non-monetary asset/liability relating to transactions in foreign currency. Specifically, the recognition of the advance asset/liability must be carried out at the exchange rate on the day of payment/collection of the advance and in the same terms the "derecognition" of the same, once the transaction is concluded with the recognition of the related sales revenues, will take place at the same exchange rate with which the non-monetary asset/liability was recorded. Ratification of this interpretation is expected in the first quarter of 2018.

- IFRIC 23 "Treatment of uncertainties of a fiscal nature": issued on June 7, 2017, the interpretation aims to define a method for dealing with fiscal uncertainties. The company, in recording the taxes for the year in the financial statements, must ask the question whether the tax treatment in question will be accepted by the tax authority; in case of negative assumption, the amount of taxes recorded in the financial statements will differ from that indicated in the tax declaration as it will reflect the uncertainty under analysis.

- On June 20, 2016, the IASB issued some amendments to IFRS 2 "Share-based payments" which deal with two main areas: the classification of a share-based payment transaction settled net of obligations for withholding tax; accounting if a change in the terms and conditions of a share-based payment transaction changes its classification from settled in cash to settled with equity instruments. The approval of this amendment is expected in the course of 2018, which, however, will not have any impact on the A2A Group as no share-based payments are envisaged.

- On October 12, 2017, the IASB published an amendment to IFRS 9 "Financial instruments" that allows valuing at amortized cost the expenses related early repayment of financial instruments that were previously measured at fair value through profit and loss.

- On September 11, 2014, the IASB published an amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Shareholdings in affiliates and joint ventures", in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet.

- IFRS 14 "Regulatory deferral accounts": the new transitional standard, issued by the IASB January 30, 2014, allows the entity that adopts for the first time the international accounting standards IAS/IFRS, to continue to apply the previous GAAP accounting policies for the evaluation (including impairment) and elimination of regulatory deferral accounts. This standard is still pending approval and will be applicable retroactively from January 1, 2016.

- Issued by the IASB respectively on December 8, 2016 and December 12, 2017, some amendments to the standards approved in the three-year period 2014 - 2016 and 2015 - 2017. In particular, the following standards issued between 2014 and 2016 are amended:

  i. IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;

  ii. the amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;

  iii. the amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as "Non-current assets held for sale" in accordance with IFRS 5;

  and the following standards approved between 2015 and 2017:

  i. IAS 12 (Income Taxes): it is specified that taxes related to the distribution of dividends must be recognized when the obligation to recognize the liability to pay the dividend arises;

  ii. IAS 23 (Financial expenses): the amendment aims to clarify the amount and timing within which it is allowed to capitalize the financial expenses related to financial liabilities entered into in order to acquire assets of lasting value;

  iii. IAS 28 (Investments in associates): further cases of investments in associates or joint ventures are specified which, although valued at equity, are subject to the provisions of IFRS 9 (including impairment valuations).

- On December 8, 2016, the IASB issued an amendment to IAS 40 "Property Investments", which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The approval by the European Union of the amendment to the standard in question is expected during the first quarter of 2018.

- IFRS 17 "Insurance contracts": issued by the IASB on May 18, 2017, will be applicable to companies that issue insurance contracts from the financial statements closed as of January 1, 2021. No impact expected on the A2A Group.

Accounting standards approved by the European Union but applicable in future years

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2017.

- IFRS 9 "Financial instruments": this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 "Financial instruments: recognition and measurement" and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories "loans and receivables", "available- for-sale financial assets" and "held-to-maturity investments" disappear. Classification within the two categories is carried out on the basis of an entity's business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity's business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.
  All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).
  An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from Equity to the income statement. Dividends on the other hand continue to be recognized in the income statement.
  IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity's business model. In this case the effects of the reclassification are applied prospectively.
  The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:
  i. the substantial revision of the "Hedge accounting", which will allow entities to better reflect their risk management activities in the financial statements;
  ii. enabling entities to change the accounting of liabilities measure at fair value: in particular the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;
  iii. the effective date of the standard is deferring, originally effective as of January 1, 2015.

  A partial amendment to the standard was issued in July 2014 on the subject of the valuation of financial instruments, with the introduction of the expected-loss impairment model for loans which replaces the impairment model based on realized losses.
  Said impairment model uses a "forward looking" information in order to obtain early recognition of losses on receivables with respect to the "incurred loss" model that defers the recognition of the loss until occurrence of the event with reference to financial assets measured at amortized cost, financial assets measured at fair value recorded in other items of the comprehensive income statement, receivables arising from lease contracts, as well as assets arising from contracts and certain loan commitments and financial guarantee contracts.

The amendment in question is applicable from January 1, 2018.
The A2A Group carried out an in-depth analysis of the financial instruments in the portfolio impacted by the application of IFRS 9 and the write-down of receivables from customers according to the new logic (expected losses). On the basis of the information currently available, which could be subject to changes as a result of further information that could become available to the Group in 2018, the analysis ended with the identification of non-significant impacts on the valuation of financial assets and liabilities and on the method used to calculate the provision for risks on receivables of the Group. The Group will adopt the new standard from the date of entry into force of the same and will not re-state the comparative data.

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

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

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

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

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

  IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.
  The provisions of IFRS 15, following the amendments made with the amendment issued respectively on September 11, 2015 and April 12, 2016, will be effective for years beginning on or after January 1, 2018; at the present state, the Group does not expect to exercise the option of early adoption granted by the standard. The standard includes mandatory retroactive application and the transition can take place in two possible ways: retroactively to each previous year presented in accordance with IAS 8 (full retrospective approach) or retroactively by accounting for the cumulative effect from the initial application date (modified retrospective approach), in opening equity at January 1, 2018. In case of choosing the second approach, IFRS 15 is only applied retroactively to contracts that are not concluded at the initial application date (January 1, 2018). The A2A Group will apply IFRS 15 following the second approach presented.
  For the purpose of implementing IFRS 15, the company completed the analyzes in 2017 and, following what has been identified, in the first few months of 2018 the information systems will be modified in order to record revenues for the year in compliance with the standard introduced.
  On the basis of the information currently available, which could be subject to changes as a result of further information that could become available to the Group in 2018, the analysis ended with the identification of non-significant impacts on the consolidated financial statements.

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

of IAS 16 (or alternative valuation method) and the discounting of the financial liability created during initial recognition using a discount rate defined in the leasing contract. Financial expenses and depreciation/amortization are recognized separately in the income statement.
At the end of the Balance Sheet, the "off-balance sheet obligations" no longer have to be indicated.
The new standard will be in force for the financial years closed from January 1, 2019, with early application permitted on condition that the new IFRS 15 is already adopted or is applied on the same date as the first application of the IFRS 16 in question.
The analyzes to identify impacts and changes to the economic and financial situation of the A2A Group will be carried out in 2018, in time to correctly adopt the standard in question starting from the financial statements closed from January 1, 2019.

- IFRS 4 "Insurance contracts": issued by the IASB on September 12, 2016 and published in the Official Journal of the European Union in November 2017, an amendment to this standard that allows companies that issue insurance contracts to defer the application of IFRS 9 for the accounting of financial investments aligning the date of first application with that of IFRS 17, expected in 2021 (deferral approach) and at the same time eliminating from the income statement some distorting effects deriving from the early application of IFRS 9 with respect to the application of IFRS 17 (overlay approach).

Scope of consolidation

The consolidated Annual Report at December 31, 2017 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. exercises either direct or indirect control, even if the holding is less than 50%. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

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

- due to the subscription by the Parent Company A2A S.p.A. of the share capital increase of the company Azienda Servizi Valtrompia S.p.A., A2A S.p.A. increased its shareholding from 49% to 74.8%. Therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- acquisition of 100% of Patavina Technologies S.r.l. by A2A Smart City S.p.A.;
- the Group rose to 92.7% of LumEnergia S.p.A., following the transaction that saw the subsidiary A2A Energia S.p.A., already holder of 33.33%, rise to 92.41% of LumEnergia S.p.A.. The company, which was previously consolidated using the equity method, has been fully consolidated starting from July 2017;
- incorporation and full consolidation of the consortium A2A Security S.c.p.a.;
- change in the consolidation method of the EPCG Group which, following the exercise of the put option on the entire shareholding held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, led to a change in the allocation of the investment held in EPCG from ongoing investment to investment held for sale according to the provisions of IFRS 5 with consequent change (starting from July 2017) of the consolidation criterion from full to equity. As a consequence of the above, the related income statement items for the first half of the year (previously fully consolidated) relating to revenues and operating costs and to financial management have been reclassified, in accordance with the provisions of IFRS 5, under "Result net of non-current assets held for sale", as well as the values (referred to the entire year) of the corresponding period of the previous year. The Consolidated Financial Statements include a statement of reconciliation between the values of the income statement at December 31, 2017 Reported considered for the purpose of analyzing the results presented in the Report on Operations and the values of the income statement that include the effects of the application of IFRS 5 analyzed in the comments of the Notes of the income statement;
- the company Bellisolina S.r.l. exited the scope of consolidation with effect from January 1, 2017. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 recognized under the item "Non-current assets held for sale", to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A;
- incorporated in July 2017, the company A2A Rinnovabili S.p.A. with sole shareholder A2A S.p.A. A2A Rinnovabili completed the acquisition of 13 project companies, fully consolidated in this annual report;
- incorporation and full consolidation of A2A Idro4 S.r.l..

For further details on the activities of the Purchase Price Allocation required by IFRS 3, reference is made to the paragraph "Other information" of this report.

Consolidation policies and procedures

Consolidation policies

Subsidiaries

Subsidiaries are those companies over which the parent company, A2A S.p.A., exercises control and has the power, as defined by IFRS 10, to determine financial and operating policy, either directly or indirectly, in order to obtain returns from their activities. Subsidiaries are consolidated from the date on which the Group effectively acquires control and cease to be consolidated on a line-by-line basis from the date on which control is transferred to a company outside the Group.

Associates, joint ventures and joint operations

Shareholdings in associates, namely those in which the A2A Group has a considerable interest and is able to exercise significant influence are accounted for using the equity method. Gains and losses attributable to the Group are recognized in the financial statements from the date on which significant influence or joint control commences.

In the event that the loss attributable to the Group exceeds the carrying amount of an investment, the carrying amount is reduced to zero and any excess loss is provided for to the extent that the Group has legal or constructive obligations to make good the associate's losses or in any case to make payments on its behalf.

With the adoption of IFRS 11, the Group must now classify investments in joint arrangements as either joint ventures (if the Group has rights to the net assets of the arrangement) or joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to the arrangement).

The A2A Group is not a party to any joint operations and accordingly the adoption of the new standard had no effect on the annual report at December 31, 2017.

Potential voting rights

If the A2A Group holds call options on shares or other equity instruments that represent capital (warrants) that are convertible into ordinary shares or similar instruments having the potential, if exercised or converted, to give the Group voting rights or reduce the voting rights of third parties ("potential voting rights"), such potential voting rights are taken into consideration when assessing whether or not the Group has the power to govern or influence another company's financial and operating policies.

Treatment of put options on the shares of subsidiaries

In general, paragraph 23 of IAS 32 states that a contract that contains an obligation for an entity to purchase shares for cash or another financial asset gives rise to a financial liability for the present value of the exercise price of the option.

As a result, therefore, if the Group does not have the unconditional right to avoid the delivery of cash or other financial instruments when a put option on the shares of subsidiaries is exercised, it must recognize a liability.

In the absence of specific instructions in the related accounting standards, the A2A Group: (i) considers the shares involving put options to have already been purchased, including in cases in which the risks and rewards connected with ownership of the shares remain with the minority shareholders and they remain exposed to equity risk; (ii) records a corresponding entry among equity reserves for the liability resulting from the obligation and any subsequent changes that are not related to the mere unwinding of the present value of the strike price; (iii) and recognises such changes through the income statement.

Effect on the consolidation procedures of certain agreements involving the shares or quotas of Group companies

a) Earn-out and earn-in clauses on the purchase price of the shares of LGH S.p.A.

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

The value of the transaction was 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

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

Based on the initial contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, would pay up to a maximum of 13.9 million euro included in the acquisition value of LGH S.p.A. of 112.8 million euro, regulated by specific and well-identified earn-out clauses.

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

In accordance with the provisions of paragraphs 65B, 65C and 65D of IFRS 3, the Group recorded the effects of the contractual earn-outs for 10.5 million euro under long-term payables, with the investment value as balancing entry, with respect to the disbursement it will pay to the minority shareholders of LGH S.p.A. upon the fulfilment of the conditions established in the contract, since said adjustments are still considered probable and reliably determined at the acquisition date.

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

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

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

As a result of the shareholders' agreement signed between Aprica S.p.A. and Ecoimmobiliare S.r.l., the latter shall have the right, but not the obligation, to sell (put option) to Aprica S.p.A. its shareholding in LA BI.CO DUE S.r.l., equal to 36%.

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

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

It is specified that this option has been valued based on the contractual conditions envisaged.

c) Adjustment of the purchase price of the portions of LA BI.CO DUE S.r.l.

The amount paid by Aprica S.p.A. for the acquisition of 64% of the portions of LA BI.CO DUE S.r.l. shall be subject to an adjustment clause, based both on the net debt and on the profitability of LA BI.CO DUE S.r.l., linked to the award and to the extension of some agreements in the municipalities of the Province of Brescia.

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

d) Earn-out on the purchase of the portions of LA BI.CO DUE S.r.l.

The contract for acquisition of 64% of the share capital of LA BI.CO DUE S.r.l. by Aprica S.p.A. envisages some earn-outs that Aprica S.p.A. will be required to pay in case of achievement of predetermined levels of profitability and the award and extension of some agreements in the municipalities of the Province of Brescia.

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

As a result of the agreements described, the annual report at December 31, 2017 shows a payable to Ecoimmobiliare S.r.l., for the possible exercise of the put options on portions of LA BI.CO DUE S.r.l., less than one million euro.

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

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

The price paid for the acquisition of the entire RI.ECO-RESMAL perimeter is subject to an adjustment clause, based on both the net debt and on the amount of investments, exceedance of the threshold of which was provided in the contract, made by the company subject of acquisition as an increase in productivity between 2015 and the transaction closing date.

The Group, in view of the fact that these adjustments on the purchase price are considered probable and reliably determined and in accordance with paragraphs 65B, 65C and 65D of IFRS 3, at December 31, 2016, had recognized a liability for a total of 1.8 million euro.

It is noted that the liability in question was fully paid in February 2017.

f) Earn-in of the purchase price of the RI.ECO-RESMAL Group

The contractual agreements that regulate the acquisition of the RI.ECO-RESMAL Group envisage, among other things, an earn-in clause in favour of A2A Ambiente S.p.A., linked both to an eventual non-renewal of the concession of the Cernusco plant for reasons not attributable to A2A Ambiente S.p.A., and to any disbursements and expenses incurred by RESMAL S.r.l. to obtain renewal of the concession. This clause will have an eventual effect from the third year and no later than the fifth year after the closing of the transaction.

In accordance with paragraphs 65B, 65C and 65D of IFRS 3, the Group considered the amount paid by way of earn-in as the investment value since said adjustments are not considered probable and reliably determined at the acquisition date.

g) Put options on the shares of Consul System S.p.A.

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company). The transaction was finalized by ESCo certified by the A2A Group, A2A Calore & Servizi S.r.l., for a total value of 15.1 million euro. A part of this amount, equal to 11.8 million euro, was settled through cash at closing. Subsequently, an integration was made on the purchase price of 3.3 million euro, as a price adjustment based on both the net debt of Consul System S.p.A. and on other well-identified contractual clauses. The integration in question was recognized as an increase in the value of the shareholding.

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

It was also established that, by the deadline for approval of the financial statements of Consul System at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

Therefore, in accordance with paragraph 23 of IAS 32, the Group has recognized as a liability the present value of the estimated outlay of 3.3 million euro which it will not be able to avoid if the option is exercised, with a counter-entry to equity attributable to the minority shareholder.

It is specified that this option has been valued based on the contractual conditions envisaged.

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

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

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

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

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

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

Consolidation procedures

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the A2A Group are prepared at the end of each reporting period using the same accounting policies as the parent. Any items recognized by using different accounting principles are adjusted during the consolidation process to bring them into line with Group accounting policies. All intra-group balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Report the assets, liabilities, income and expenses of the companies being consolidated are included in their entirety on a line-by-line basis, with the portion of equity and net income for the period attributable to minority interests being stated separately in the balance sheet and income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of its net equity, including any adjustments to fair value at the acquisition date; any differences arising are accounted for in accordance with IFRS 3.

Transactions with minority interests which do not lead to the loss of control in consolidated companies are accounted for using the economic entity view approach.

Adoption of international accounting standard IFRS 12 "Disclosure of Interests in Other Entities"

With effect from January 1, 2014, the A2A Group has among other things adopted international accounting standard IFRS 12 "Disclosure of Interests in Other Entities", issued by the IASB in 2011 and adopted by the European Commission on December 11, 2012.

On the basis of the requirements of paragraphs 7 and following of the standard the Group discloses information below about the significant judgements and assumptions it has made in determining:

i. that the parent company has control of another entity within the meaning of IFRS 10;

ii. the type of joint arrangement (joint operation or joint venture) when the arrangement has been structured through a separate vehicle, in compliance with IFRS 11;

iii. that the parent company has significant influence over another entity (shareholdings in associates).

Shareholdings in joint ventures (IFRS 11): Ergosud S.p.A. and PremiumGas S.p.A.

IFRS 11 identifies two types of arrangement, joint operations and joint ventures, on the basis of the rights and obligations of the parties, and governs the resulting accounting treatment to be adopted for the recognition of these arrangements in the financial statements.

The most significant effect of the new standard is the fact that a number of entities jointly controlled by A2A, which up until now have been recognized using the equity method, could fall under the definition of joint operations on the basis of the requirements of IFRS 11. The accounting treatment for this type of joint arrangement requires the assets/liabilities and revenue/expenses connected with the arrangement to be recognized on the basis of the rights/obligations due to/assumed by A2A, regardless of the interest held.

In the particular case of its shareholdings in two joint arrangements operating in the Generation and Trading Business Unit, Ergosud S.p.A. and PremiumGas S.p.A., the A2A Group considers that these fall under the category joint ventures as far as their legal form and the nature of the contractual agreements are concerned.

In particular, as regards the shareholding in PremiumGas S.p.A., the Group has rights exclusively linked to the results achieved by the company.

For the shareholding in Ergosud S.p.A., despite the existence of a tolling agreement the investee could dispatch energy autonomously, thereby ensuring business continuity also at the end of the agreement. In addition, the A2A Group does not appoint any of the company's key management.

On the basis of the above considerations, the A2A Group has accounted for the shareholdings using the equity method, continuing the treatment used in previous years.

Procedure for the consolidation of assets and liabilities held for sale (IFRS 5)

In the case of particularly large amounts and in connection with non-current assets and liabilities held for sale, and only in this case, in accordance with IFRS 5 the relative intra-group financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

Latest available summarized figures for joint ventures (consolidated at equity)

Key figures at December 31, 2017 *millions of euro*	Bergamo Pulita 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2016) (*)
INCOME STATEMENT			
Revenues	0.04	17.9	31.4
Gross operating income	**(0.07)**	**1.3**	**14.8**
% of net revenues	*n.s.*	*7.0%*	*47.2%*
Depreciation, amortization and write-downs	0.01	0.2	8.1
Net operating income	**(0.06)**	**1.1**	**6.7**
Result for the year	**(0.10)**	**0.8**	**4.1**
BALANCE SHEET			
Total assets	**2.65**	**7.3**	**175.0**
Net equity	**(0.52)**	**2.1**	**66.5**
Net (debt)	**(1.29)**	**(1.6)**	**(86.9)**

(*) Figures of the last financial statements available.

Key figures at December 31, 2016 *millions of euro*	Bergamo Pulita 50%	Metamer 50%	Ergosud 50% (figures at 12 31 2015) (*)
INCOME STATEMENT			
Revenues	0.3	12.8	29.0
Gross operating income	**(0.1)**	**1.2**	**16.5**
% of net revenues	*(200.0%)*	*9.0%*	*57.0%*
Depreciation, amortization and write-downs	0.3	(0.2)	(51.0)
Net operating income	**0.1**	**1.0**	**(34.5)**
Result for the year	**(1.1)**	**0.7**	**(25.5)**
BALANCE SHEET			
Total assets	**2.8**	**6.5**	**188.9**
Net equity	**1.6**	**2.0**	**62.7**
Net (debt)	**(0.5)**	**(2.5)**	**(95.8)**

(*) Figures of the last financial statements available.

Accounting standards and policies

Translation of foreign currency items

The consolidated financial statements of the A2A Group are presented in euro; this is also the functional currency of the economies in which the Group operates.

Transactions in other currencies are initially recognized at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rates at the balance sheet date.

Non-monetary items measured at historical cost in foreign currency are translated at the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rates at the date when the fair value was determined.

Tangible assets

Assets for business use are classified as tangible assets, while non-business assets are classified as investment property.

Tangible assets are measured at cost, including any additional charges directly attributable to bringing the asset into an operating condition (e.g. transport, customs duty, installation and testing costs, notary and land registry fees and any non-deductible VAT), increased when material and where there are obligations by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the asset. Borrowing costs, where directly attributable to the purchase or construction of an asset, are capitalized as part of the cost of the asset if the type of asset so warrants.

If important components of tangible assets have different useful lives, they are accounted for separately using the "component approach", assigning to each component its own useful life for the purpose of calculating depreciation (the component approach).

Land, whether occupied by residential or industrial buildings or devoid of construction, is not depreciated as it has an unlimited useful life, except for land used in production activities that is subject to deterioration over time (e.g. landfills, quarries).

Ordinary maintenance costs are fully expensed to the income statement in the year they are incurred. Costs for maintenance carried out at regular intervals are attributed to the assets to which they refer and are depreciated over the specific residual possibility of use of such.

Assets acquired under finance leases are accounted for on the basis of IAS 17 "Leases", which requires the leased asset to be recognized as a tangible asset together with a financial liability of the same amount. The liability is progressively reduced on the basis of the scheme for the repayment of the capital portion of the contractual lease instalments, while the carrying amount of the asset is systematically depreciated over its economic and technical life or over the shorter of the lease term and the asset's useful life, but only if there is reasonable certainty that the lessee will obtain ownership by the end of the lease term. During the reporting year, the useful lives of the CCGT plants were reviewed, as described in note "1) Tangible assets".

For assets acquired in leasing by Group companies, the guidance contained in IFRIC 4 "Determining whether an Arrangement contains a Lease" is applied. This interpretation provides guidance for arrangements which do not take the legal form of a finance lease but in substance transfer the risks and rewards of ownership of the assets included in the arrangement.

Applying the interpretation leads to the same accounting treatment as that required by IAS 17 "Leasing".

Tangible assets are stated net of accumulated depreciation and any write-downs. Depreciation is charged from the year in which the individual asset enters service on a straight-line basis over the estimated useful life of the asset for the business. The estimated realizable value which is deemed to be recoverable at the end of an asset's useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.

Landfills are depreciated on the basis of the percentage filled, which is calculated as the ratio between the volume occupied at the end of the period and the total volume authorized.

The main depreciation rates used, which are based on technical and economic considerations, are as follows:

- buildings ____ 1.0 % - 23.1 %
- production plants ____ 1.0 % - 50.0 %
- transport lines ____ 2.1 % - 7.4 %
- transformation stations ____ 2.5 % - 8.2 %
- distribution networks ____ 1.4 % - 50.5 %
- miscellaneous equipment ____ 4.0 % - 20.0 %
- mobile phones ____ 100.0 %
- furniture and fittings ____ 8.3 % - 25.0 %
- electric and electronic office machines ____ 10.0 % - 33.3 %
- vehicles ____ 10.0 % - 25.0 %
- leasehold improvements ____ 1.8 % - 50.0 %
- leased assets ____ 5.6 % - 7.7 %

Tangible assets are subjected to impairment testing if there is any indication that an asset may be impaired in accordance with the paragraph below "Impairment of assets"; write-downs may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

When an asset is disposed of or if future economic benefits are no longer expected from using an asset, it is removed from the balance sheet and any gain or loss (being the difference between the disposal proceeds and the carrying amount) is recognized in the income statement in the year of the derecognition.

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which are controlled by the enterprise and able to produce future economic benefits, and include goodwill when acquired for consideration.

The fact of being identifiable distinguishes an intangible asset that has been acquired from goodwill; this requirement is normally met when: (i) the intangible asset is attributable to a legal or contractual right, or (ii) the asset is separable, in other words it can be sold, transferred, rented or exchanged individually or as an integral part of other assets.

Control by the enterprise consists of the right to enjoy the future economic benefits flowing from the asset and to restrict the access of others to those benefits.

Intangible assets are stated at purchase or production cost, including ancillary charges, determined in the same way as for tangible assets. Intangible fixed assets produced internally are not capitalized but recognized in the income statement in the year in which the costs are incurred.

Intangible assets with a definite useful life are reported in the financial statements net of the related accumulated amortization and impairments in the same way as for tangible assets. Changes in the expected useful life or in the ways in which the future economic benefits of an intangible asset are achieved by the Company are accounted for by suitably adjusting the period or method of amortization, treating them as changes in accounting estimates. The amortization of intangible fixed assets with a definite useful life is charged to income statement in the cost category that reflects the function of the intangible asset concerned.

Intangible assets are subjected to impairment testing if there are specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets"; impairment losses may be reversed in subsequent periods if the reasons for which they were recognized no longer apply.

Intangible assets with an indefinite useful life and those that are not yet available for use are subjected to impairment testing on an annual basis, whether or not there are any specific indications that they may be impaired, in accordance with the paragraph below "Impairment of assets". Impairment losses recognized for goodwill are not reversed.

Gains or losses on the disposal of an intangible asset are calculated as the difference between the disposal proceeds and the carrying amount of the asset and recognized in the income statement at the time of the disposal.

The following amortization rates are applied to intangible assets with a definite useful life:

- industrial patents and intellectual property rights ____________________________ 20.5 % - 33.3 %
- concessions, licenses, trademarks and similar rights ___________________________ 2.0 % - 33.3 %
- other intangible assets ____ 1.3 % - 40.0 %

Service concession arrangements

IFRIC 12 states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognized as intangible assets if the operator has the right to receive a payment from the customer for the service provided, or as a financial asset if the operator has the right to receive payment from the public sector entity.

Impairment of tangible and intangible fixed assets

Tangible and intangible assets are subjected to impairment testing if there is any specific indication that there may be an impairment loss.

Goodwill, other intangible assets with an indefinite useful life and assets not available for use are tested for impairment at least annually or more frequently if there is any specific indication that they may be impaired.

Impairment testing consists of comparing the carrying amount of an asset with its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To determine an asset's value in use, the entity calculates the present value of the estimated future cash flows on the basis of business plans prepared by management, before tax, applying a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is lower than its carrying amount, a loss is recognized in the income statement. If a loss recognized for an asset other than goodwill no longer exists or is reduced, the carrying amount of the asset or cash-generating unit is increased to the new estimate of recoverable value, which may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. Reversals of impairment losses are immediately recognized in the income statement.

When the recoverable amount of the individual asset cannot be estimated, it is based on the cash generating unit (CGU) or group of CGUs that the asset belongs to and/or to which it may be reasonably allocated.

CGUs are identified on the basis of the company's organizational and business structure as homogeneous aggregations that generate independent cash inflows deriving from the continuous use of the assets allocated to them.

Emission quotas, Green Certificates and White Certificates

Different accounting policies are applied to quotas or certificates held for own use in the "Industrial Portfolio" and those held for trading purposes in the "Trading Portfolio".

Surplus quotas or certificates held for own use in the "Industrial Portfolio" which are in excess of the Group's requirements in relation to the obligations accruing at year end are recognized as other intangible assets at the actual cost incurred. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Given that they are assets for instant use, they are not amortized but subjected to impairment testing. The recoverable amount is the higher of value in use and market value. If, on the other hand, there is a deficit because the requirement exceeds the quotas or certificates in portfolio at the balance sheet date, a provision is recognized for the amount needed to meet the residual obligation, estimated on the basis of any purchase contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Quotas or certificates held for trading in the "Trading Portfolio" are recognized in inventories and measured at the lower of purchase cost and estimated realizable value based on market trends. Quotas or certificates assigned free of charge are recognized at a zero carrying amount. Market value is established on the basis of any sales contracts, spot or forward, already signed at the balance sheet date; otherwise on the basis of market prices.

Shareholdings in subsidiaries, associates and joint ventures

Subsidiaries are companies in which the parent company "is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee", as defined by IFRS 10. Control is generally assumed to exist when a company holds either directly or indirectly more than half of the exercisable voting rights at an ordinary shareholders' meeting, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments.

Subsidiaries are consolidated on a line-by-line basis.

Associates are companies in which the parent has a significant influence over strategic decisions, despite not having control, also considering potential voting rights, meaning voting rights deriving from convertible financial instruments; significant influence is assumed to exist when A2A S.p.A. holds, either directly or indirectly, more than 20% of voting rights exercisable at an ordinary shareholders' meeting.

A joint venture is a contractual agreement whereby two or more parties undertake an income generating activity subject to joint control.

Shareholdings in associates and joint ventures are accounted for in the consolidated financial statements using the equity method.

Long term construction contracts in progress

Construction contracts currently in progress are measured on the basis of the contractual fees that have accrued with reasonable certainty on the basis of the stage of completion, using the "cost to cost" method, so as to allocate the revenues and net result of the contract to the individual periods to which they belong in proportion to the progress being made on the project. Any difference, positive or negative, between the value of the contracts and advances received is recognized as an asset or a liability respectively.

In addition to the contractual fees, contract revenues include variants, price revisions and incentive awards to the extent that it is probable that they represent actual revenues that can be reliably determined. Ascertained losses are recognized independently of the stage of completion of contracts.

Inventories

Inventories of materials and fuel are measured at the lower of weighted average cost and market value at the balance sheet date. Weighted average cost is determined for the period of reference for each inventory code. Weighted average cost includes any additional costs (such as sea freight, customers charges, insurance and lay or demurrage days in the purchase of fuel). Inventories are constantly monitored and, where necessary, obsolete stocks are written down with a charge to the income statement.

Financial instruments

They include shareholdings (other than shareholdings in subsidiaries, joint ventures and associates) held for trading (so-called (trading shareholdings) or available for sale, non-current receivables and loans, trade and other receivables deriving from company operations and other current financial assets such as cash and cash equivalents. The latter consist of bank and postal deposits, readily negotiable securities used as temporary investments of surplus cash and financial receivables due within three months. Financial instruments also include financial payables (bank loans and bonds), trade payables, other payables and other financial liabilities and derivatives.

Financial assets and liabilities are recognized at the time that the contractual rights and obligations forming part of the instrument arise.

Financial assets and liabilities are accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Financial assets are initially recognized at fair value, increased by ancillary charges (purchase/issue costs) in the case of assets and liabilities not measured at fair value through the income statement.

Measurement subsequent to initial recognition depends on which of the following categories the financial instrument falls into:

- non-derivative financial assets and liabilities measured at fair value through the income statement regarding:
  - financial assets and liabilities held for trading (HFT), meaning with the intention of reselling or repurchasing them in the short term;
  - financial liabilities which, on initial recognition, have been designated as measured at fair value through the income statement;
- other non-derivative financial assets and liabilities which consist of:
  - loans and receivables (L&R);
  - investments held to maturity (HTM);
  - financial liabilities measured at amortized cost;
- available-for-sale financial assets (AFS);
- derivatives.

The following is a detailed explanation of the accounting policies applied in measuring each of the above categories after initial recognition:

- non-derivative financial assets and liabilities at fair value through the income statement are measured at fair value;
- other non-derivative financial assets and liabilities, other than investments with fixed or determinable payments, are measured at amortized cost. Any transaction costs incurred during the acquisition or sale are treated as direct adjustments to the nominal value of the asset or liability (e.g. issue premium or discount, loan acquisition costs, etc.). Interest income and expense is then remeasured on the basis of the effective interest method. Financial assets are assessed regularly to see if there is any indication that they are impaired. In the assessment of receivables in particular, account is taken of the solvency of debtors, as well as the characteristics of credit risk which is indicative of the ability of the individual debtors to pay. Any write-downs are recognized in the income statement for the period. This category includes investments held with the intent and ability to hold them to maturity, non-current loans and receivables, trade receivables and other receivables originated by the operations of the business, financial payables, trade payables, other payables and other financial liabilities;

- available-for-sale financial assets are non-derivative financial assets that are not classified as financial assets at fair value through the income statement or other financial assets, which therefore makes them a residual item. They are measured at fair value and any gains or losses generated are recognized directly in equity until the assets are written- down or realized, at which stage they are reclassified to the income statement. Losses recognized in equity are in any case reversed and recognized in the income statement, even if the financial asset has not been eliminated, if there is objective evidence that the asset is impaired. Unlisted investments with a fair value that cannot be reliably measured are measured at cost less any write-downs. Write-downs are reversed when the reasons originating the loss no longer exist, with the exception of write-downs on equity instruments. This category essentially includes the other investments (i.e. not subsidiaries, jointly controlled entities or associates), except for those held for trading (trading investments);
- derivative instruments, including embedded derivatives separate from the main agreement are measured at current value (fair value) and any changes are recognized in the income statement if they do not qualify as hedging instruments. Derivatives qualify as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high, this being checked periodically. When derivatives hedge the risk of fluctuation in the fair value of hedged items (fair value hedges), they are measured at fair value through the income statement; consistent with this, the hedged items are adjusted to reflect variations in the fair value associated with the hedged risk. When derivatives hedge the risk of changes in the cash flows of the instruments being hedged (cash flow hedges), the effective portion of changes in the fair value of the derivatives is recognized directly in equity, while the ineffective portion is recognized in the income statement. The amounts recognized directly in equity are then reflected in the income statement in line with the economic effects produced by the hedged item.

Changes in the fair value of derivatives that do not meet the conditions to qualify as hedging instruments are recognized in the income statement. In particular, changes in the fair value of derivatives which hedge interest rate risk or currency risk but do not qualify for hedge accounting are recognized in "Financial income/expense" in the income statement; on the other hand changes in the fair value of derivatives which hedge commodity risk but do not qualify for hedge accounting are recognized in "Other operating income" in the income statement.

A financial asset (or where applicable, part of a financial asset or parts of a group of similar financial assets) is derecognized when:

- contractual rights to the cash flows from the financial asset expire; in particular, the time frame for derecognition relates to the "value date";
- the company has retained the right to receive the future cash flows of the assets but has assumed a contractual obligation to pass them on to a third party without material delay;
- the company has transferred the right to receive the cash flows from the asset and (i) has transferred substantially all of the risks and rewards of ownership of the financial asset, or (ii) it has neither transferred nor retained substantially all of the risks and rewards of the asset but has transferred control of the asset.

In the cases in which the company has transferred the rights to receive financial flows from an asset and has neither transferred nor retained substantially all of the risks and rewards or has not lost control of the asset, it continues to recognize the asset to the extent of its continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset the extent of the continuing involvement is the lower of the initial carrying amount of the asset and the maximum amount that the company could be required to repay. Trade receivables considered definitively unrecoverable after all necessary recovery procedures have been completed are also removed from the balance sheet.

A financial liability is removed from the balance sheet when the underlying obligation is either discharged or cancelled or when it expires.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this exchange or modification is accounted for as a cancellation of the original financial liability and the recognition of a new financial liability. The difference in carrying amounts is recognized in the income statement.

The fair value of financial instruments that are listed in an active market is based on market prices at the balance sheet date. The fair value of instruments that are not listed on an active market is determined by using valuation techniques. In particular, in the absence of a forward market curve the measurement at fair value of financial derivatives for electricity has been estimated internally, using models based on industry best practice.

Non-current assets held for sale, disposal groups and discontinued operations – IFRS 5

Non-current assets held for sale, disposal groups and discontinued operations whose carrying amount will be recovered principally through sale rather than continuous use are measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is a group of assets to be disposed of together as a group in a single transaction together with the liabilities directly associated with those assets that will be transferred in that transaction. Discontinued operations on the other hand consist of a significant component of the Group such as a separate major line of business or a geographical area of operations or a subsidiary acquired exclusively with a view to resale.

In accordance with IFRSs, the figures for non-current assets held for sale, disposal groups and discontinued operations are shown on two specific lines in the balance sheet: non-current assets held for sale and liabilities directly associated with non-current assets held for sale.

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of carrying amount and fair value less costs to sell; any difference between carrying amount and fair value less costs to sell is recognized in profit or loss as a write-down.

The net economic results arising from discontinued operations, and only discontinued operations, pending the disposal process, any gains or losses on disposal and the corresponding comparative figures for the previous year or period are recognized in a specific line of the income statement: "Net result from discontinued operations". On the other hand any gains or losses recognized as the result of measuring non-current assets (or disposal groups), classified as held for sale within the meaning of IFRS 5, at fair value less costs to sell are presented in a specific line item of the income statement "Result from non-recurring transactions", as discussed further in the previous section "Format of financial statements".

Employee benefits

The employees' leaving entitlement (TFR) and pension provisions are determined using actuarial methods; the rights accrued by employees during the year are recognized in the income statement as "labour costs", whereas the figurative financial cost that the company would have to bear if it were to ask the market for a loan of the same amount as the TFR is recognized as part of the "financial balance". Actuarial gains and losses arising from changes in actuarial assumptions are recognized in income statement taking into account the residual average working life of the employees.

Following the introduction of Finance Law no. 296 of December 27, 2006, only the portion of accrued employees' leaving entitlement that remained in the company has been measured in accordance with IAS 19, as amounts are now paid over to a separate entity as they accrue (either to a supplementary pension scheme or to funds held by INPS). As a result of these payments the company no longer has any obligations in connection with the services employees may render in the future.

Guaranteed employee benefits paid on or after the termination of employment through defined benefit plans (energy discount, health care or other benefits) or long-term benefits (loyalty bonuses) are recognized in the period when the right vests.

The liability for defined benefit plans, net of any plan assets, is determined by independent actuaries on the basis of actuarial assumptions and recognized on an accrual basis in line with the work performed to obtain the benefits.

Gains and losses arising from actuarial calculations are recognized in a specific equity reserve.

Reverse factoring

The Group entered into factoring agreements, typically in the technical form of reverse factoring. On the basis of the contractual structures in place, the supplier has the possibility to sell at its discretion, the receivables from the company to a lending institution. In some cases, the payment terms indicated in the invoice are the subject of further deferments agreed between the supplier and the Group; these deferments can be both burdensome and not burdensome.

In case of deferments, a quantitative analysis is performed aimed at verifying the substantiality or otherwise of the change in the contractual terms, by providing the quantitative test in accordance with IAS 39 AG 62. In this context, the relations, for which the primary obligation is maintained with the supplier and the possible deferment, if granted, does not involve a substantial change in payment terms, retain their nature and are therefore classified as trading liabilities.

Provisions for risks, charges and liabilities for landfills

Provisions for risks and charges regard costs of a determinate nature and of certain or probable existence which at year-end are uncertain in terms of timing or amount. Provisions are recognized when there is a legal or constructive present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and it is possible to make a reasonable estimate of the obligation.

Provisions are recognized at the best estimate of the amount that the company would have to pay to settle the liability or to transfer it to third parties at the balance sheet date. If the effect of discounting is significant, provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money. If discounting is used the increase in the provision due to the passage of time is recognized as financial expense.

If the liability relates to tangible assets (such as the dismantling and reclamation of industrial sites), the initial provision is recognized as a counter-entry to the assets to which it refers; expense is then charged to income statement as the asset in question is depreciated.

Treasury shares

Treasury shares are accounted for as a deduction from equity. In particular, treasury shares are recognized as a negative equity reserve.

Grants

Grants, both from public entities and from third party private entities, are measured at fair value when there is the reasonable certainty that they will be received and that the Group will be able to comply with the terms and conditions for obtaining them.

Grants received to provide support for the cost of specific assets are recognized as a direct deduction from the assets concerned and credited to the income statement over the life of the depreciable asset to which they refer.

Revenue grants (given to provide the company with immediate financial support or as compensation for expenses or losses incurred in a previous accounting period) are recognized in their entirety in the income statement as soon as the conditions for recognizing the grants are met.

Revenues and costs

Revenues from sales and services are recognized to the extent that it is possible to establish their fair value on a reliable basis and it is probable that the related economic benefits will flow to the Group on the transfer of all significant risks and benefits normally deriving from ownership of the asset or on completion of the service. Depending on the type of transaction, revenues are recognized on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognized at the time that the energy is supplied or the service rendered, even if invoicing has not yet taken place, and are determined by adding estimates of consumption to amounts resulting from pre- established meter-reading schedules. Where applicable, these revenues are based on the tariffs and related tariff restrictions in force during the year prescribed by the law and the Italian Regulatory Authority for Energy Networks and Environment and similar foreign bodies;

- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in the income statement on collection and presented as “revenues from services”;
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group’s share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

Revenues are stated net of returns, discounts, allowances and rebates, as well as directly related taxes.

Expenses relate to goods or services sold or consumed during the year or as a result of systematic allocation; if no future use is envisaged they are recognized directly in the income statement.

Result from non-recurring transactions

The item “Non-recurring transactions” consists of the gains and losses arising from the measurement at fair value less costs to sell or from the sale or disposal of non-current assets (or disposal groups) classified as held for sale within the meaning of IFRS 5, the gains or losses arising on the disposal of shareholdings in unconsolidated subsidiaries and associates and other non-operating income and expense.

Financial income and expenses

Financial income is recognized when interest income arises using the effective interest method, i.e. at the rate that exactly discounts expected future cash flows over the expected life of the financial instrument.

Financial expense is recognized in the income statement on an accrual basis on the basis of the effective interest.

Dividends

Dividend income is recognized when it is established that the shareholders have a right to receive payment, and is recognized as financial income in the income statement.

Income taxes

Current taxes

Current income taxes are based on an estimate of taxable income in compliance with tax regulations in force or substantially approved at the balance sheet date, bearing in mind any exemptions or tax credits due. Account is also taken of the fact that the Group now files for tax on a consolidated basis.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases, with the exception of goodwill which is not deductible for tax purposes and any differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future. The tax rates used are those expected to apply to the period when the temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized. The measurement of deferred tax assets takes account of the period for which business plans are available.

When transactions are recognized directly in equity, any related current or deferred tax effects are also recognized directly in equity. Deferred taxes on the undistributed profits of Group companies are only provided for if there is the real intention to distribute such profits and, in any case, if the taxation is not offset as the result of filing a Group tax return.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Taxes are only offset when they are levied by the same tax authority, when there is the legal right of set-off and when settlement of the net balance is expected.

Use of estimates

Preparing the financial statements and notes requires the use of estimates and assumptions in determining certain assets and liabilities and measuring contingent assets and liabilities. The actual results after the event could differ from such estimates.

Estimates have been used in impairment testing, to determine certain sales revenues, in provisions for risks and charges, in provisions for receivables and other write-downs, amortization and depreciation, the valuation of derivatives, employee benefits and taxes. The underlying estimates and assumptions are regularly reviewed and the effect of any change is immediately recognized in the income statement.

The following are the key assumptions made by management as part of the process of making these accounting estimates. The inherently critical element of such estimates comes from using assumptions or professional opinions on matters that are by their very nature uncertain. Changes in the conditions underlying the assumptions and opinions used could have a material impact on subsequent results.

Impairment Test

The carrying amount of non-current assets (including goodwill and other intangible assets) and of assets held for sale is reviewed periodically and whenever circumstances or events require a more frequent assessment. If it is considered that the book value of a group of fixed assets has had an impairment loss, it is subject to the application of professional judgement by management and is based on assumptions that include: the identification of the Cash Generating Units, the estimate of the future operating cash flows associated with these CGUs during the reference period of the 2018 - 2022 business plan, the estimate of the cash flows subsequent to this time horizon, the cash flow deriving from the disposal at the end of useful life of the assets, discount rates used ("Wacc"). These assumptions are complex due to their nature and imply recourse to the opinion of the directors, who are also sensitive to future trends in energy markets, macroeconomic scenarios, and the resolutions of ARERA.

For the purpose of preparing the impairment test, the company avails itself of the support of an independent expert, external to the A2A Group.

In the hypothesis in which the recoverable value is lower than the carrying amount, the latter is written down to the extent applicable. Management is of the opinion that the estimates of such recoverable amounts are reasonable, albeit subject to changes in the factors underlying the estimates on which these recoverable amounts have been calculated could produce different measurements. For further details on the way in which impairment testing was carried out and the results of such testing, reference is made to the specific paragraph below.

Revenue recognition

Revenues from sales to retail and wholesale customers are recognized on an accrual basis. Revenues from sales include the estimate of accrued revenues related to gas and electricity consumed by customers and not yet subject to periodic reading at December 31, 2017 and the estimate of revenues accrued for gas and electricity consumed by customers and not yet billed at December 31, 2017, in addition to the revenues already billed to customers based on the periodic consumption readings made during the year. The processes and methods for evaluating and determining these estimates are based on sometimes complex assumptions that by their nature imply recourse to the opinion of the directors, in particular with regard to recognition of accrued revenues, as the methods used by the A2A Group to estimate the quantities of consumption between the date of the last reading and December 31, and therefore to value the revenues accrued during the year, are based on assumptions and complex calculation algorithms that concern various information systems. Furthermore, the estimate of consumption not subject to periodic reading is made by taking as reference the historical profile of each user, adjusted on the basis of climatic correction factors provided by the Regulatory Authority for Energy Networks and the Environment (also "ARERA"), to incorporate other variables that can have an impact on consumption.

Provisions for risks and charges

In certain circumstances it is not easy to identify whether a legal or constructive present obligation exists. The directors assess these situations case by case, together with an estimate of the economic resources required to settle the obligation. Estimating such provisions is the result of a complex process that involves subjective judgements on the part of company management. When the directors are of the opinion that it is only possible that a liability could arise, the risks are disclosed in the section on commitments and contingent liabilities without making any provision.

Liabilities for landfills

The liabilities for landfills provision represents the amount set aside to meet the costs which will be incurred for the management of the period of closure and post-closure of landfills currently in use. The future outlays, calculated for each landfill by a specific appraisal updated annually, were discounted in accordance with the provisions of IAS 37.

Bad debts provision

The provision for bad debts reflects the estimated losses in the company's receivables portfolio. Provisions have been made to cover specific cases of insolvency as well as estimated losses expected on the basis of past experience with balances of similar credit risk.

Although the provision is considered adequate, the use of different assumptions or changes in prevailing economic conditions, even more so in this period of recession, could give rise to adjustments to the bad debts provision.

Depreciation

Depreciation and amortization charges are a significant cost for the company. Non-current assets are depreciated or amortized on a straight-line basis over the useful lives of the assets. The useful lives of the company's non-current assets are established by the directors, with the assistance of expert appraisers, when they are purchased. The company periodically reviews technological and sector changes, dismantling/closure charges and the recovery amount of assets to update their residual useful lives. This periodic update could lead to a change in the period of depreciation or amortization and hence also in the depreciation or amortization charge in future years.

Measurement of derivative instruments

The derivatives used are measured at fair value based on the forward market curve at the balance sheet date, if the underlying of the derivative is traded on markets that provide official, liquid forward prices. If the market does not provide forward prices, forecast price curves are used based on simulation models developed by Group companies internally. However, the actual results of derivatives could differ from the measurements made.

The serious turbulence on markets for the energy commodities traded by the company, as well the fluctuations in exchange and interest rates, could lead to greater volatility in cash flows and in expected results.

Employee benefits

The calculations of expenses and the related liabilities are based on actuarial assumptions. The full effects of any changes in these actuarial assumptions are recognized in a specific equity reserve.

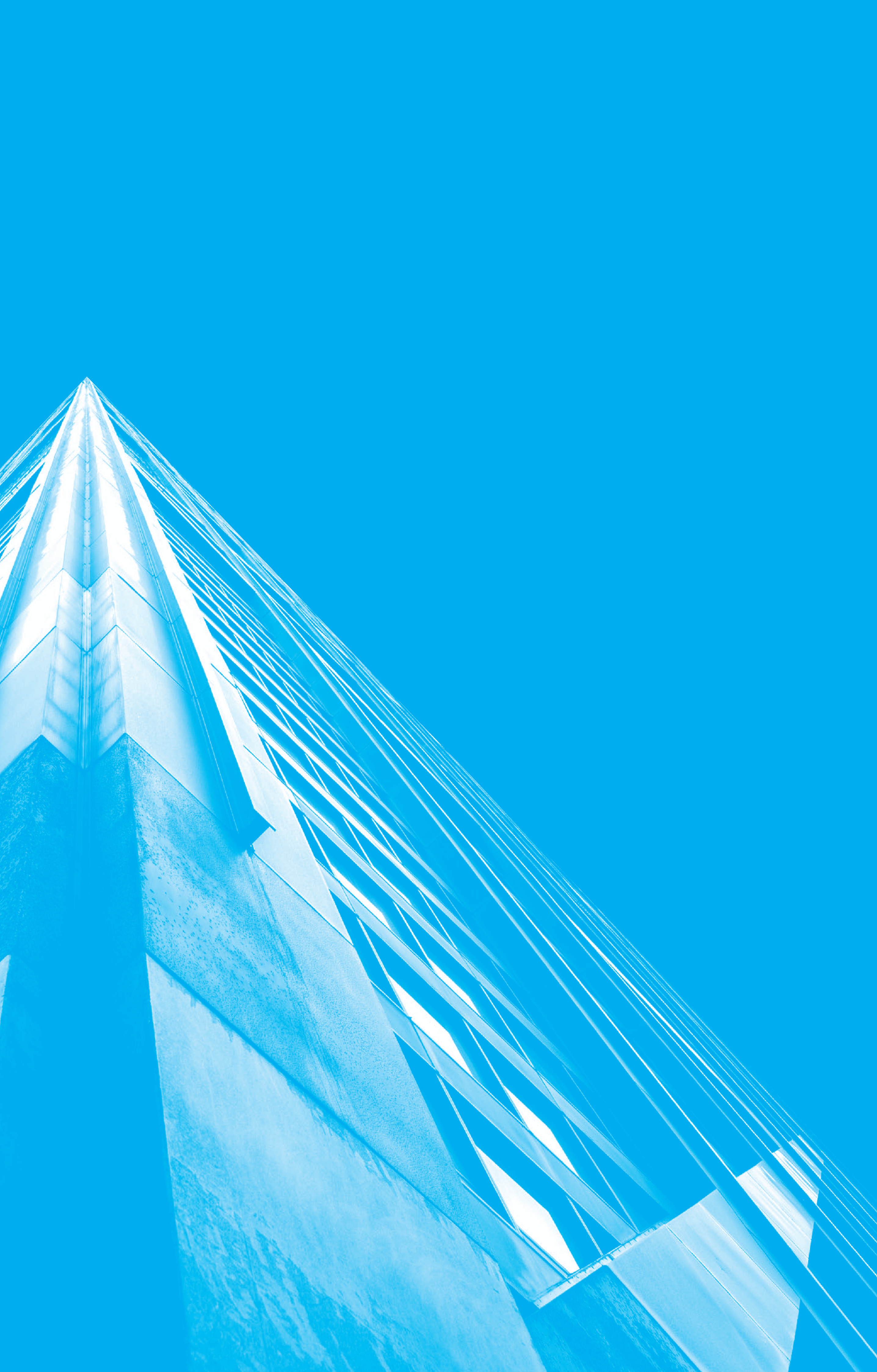
Business combination

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. A2A S.p.A. bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Current taxes and future recovery of deferred tax assets

The uncertainties that exist regarding the way of applying certain tax regulations have led the company to taking an interpretative stance when providing for current taxes in the financial statements; such interpretations could be overturned by official clarifications on the part of the tax authorities.

Deferred tax assets are accounted for on the basis of the taxable profit expected to be available in future years. Assessing the expected taxable profit for the purpose of accounting for deferred taxation depends on factors that can vary over time, and may lead to significant effects on the measurement of deferred tax assets.



Business Units

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

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

Generation and Trading

- Thermoelectric and hydroelectric plants
- Energy Management

Networks and Heat

- Electricity networks
- Gas networks
- Integrated water cycle
- Public lighting and other services
- District Heating services
- Heat management services

Foreign

- Electricity generation and commercial
- Electricity networks

Commercial

- Sale of Electricity and Gas

A2A Smart City

- Telecommunication services

Environment

- Collection and street sweeping
- Treatment
- Disposal and energy recovery

Corporate

- Corporate services

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

Results sector by sector

millions of euro	GENERATION AND TRADING		COMMERCIAL		ENVIRONMENT		NETWORKS AND HEAT	
	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)
Revenues	**3,262**	**2,736**	**1,572**	**1,433**	**980**	**852**	**1,117**	**954**
- of which inter-sector	*724*	*703*	*57*	*48*	*83*	*90*	*299*	*296*
Labour costs	**89**	**91**	**32**	**27**	**298**	**267**	**105**	**112**
Gross operating income - EBITDA	**356**	**404**	**159**	**144**	**261**	**240**	**448**	**397**
% of revenues	*10.9%*	*14.8%*	*10.1%*	*10.0%*	*26.6%*	*28.2%*	*40.1%*	*41.6%*
Depreciation, amortization, provisions and write-downs	**(161)**	**(431)**	**(25)**	**(24)**	**(99)**	**(67)**	**(183)**	**(170)**
Net operating income - EBIT	**195**	**(27)**	**134**	**120**	**162**	**173**	**265**	**227**
% of revenues	*6.0%*	*(1.0%)*	*8.5%*	*8.4%*	*16.5%*	*20.3%*	*23.7%*	*23.8%*
Result from non-recurring transactions								
Financial balance								
Result before taxes								
Losses for income taxes								
Result after taxes from operating activities								
Net result from discontinued operations								
Minorities								
Group result of the year								
Gross investments (1)	**64**	**36**	**9**	**8**	**107**	**79**	**231**	**213**

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

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

	A2A SMART CITY		CORPORATE		ELIMINATIONS		IFRS5 INCOME STATEMENT		FOREIGN		INCOME STATEMENT REPORTED	
	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)
	30	**26**	**204**	**182**	**(1,369)**	**(1,323)**	**5,796**	**4,860**	**114**	**233**	**5,910**	**5,093**
	24	*22*	*182*	*164*	*(1,369)*	*(1,323)*			*-*	*-*		
	5	**4**	**106**	**95**	**-**	**-**	**635**	**596**	**21**	**45**	**656**	**641**
	7	**6**	**(32)**	**(29)**	**-**	**-**	**1,199**	**1,162**	**12**	**69**	**1,211**	**1,231**
	23.3%	*23.1%*	*(15.7%)*	*(15.9%)*			*20.7%*	*23.9%*	*10.5%*	*29.6%*	*20.5%*	*24.2%*
	(2)	**(1)**	**(19)**	**(26)**	**-**	**-**	**(489)**	**(719)**	**(16)**	**(39)**	**(505)**	**(758)**
	5	**5**	**(51)**	**(55)**	**-**	**-**	**710**	**443**	**(4)**	**30**	**706**	**473**
	16.7%	*19.2%*	*(25.0%)*	*(30.2%)*			*12.2%*	*9.1%*	*(3.5%)*	*12.9%*	*11.9%*	*9.3%*
							-	**52**	**1**	**4**	**1**	**56**
							(134)	**(161)**	**(84)**	**4**	**(218)**	**(157)**
							576	**334**	**(87)**	**38**	**489**	**372**
							(192)	**(122)**	**-**	**2**	**(192)**	**(120)**
							384	**212**	**(87)**	**40**	**297**	**252**
							(85)	**19**			**1**	**2**
							(6)	**1**	**1**	**(23)**	**(5)**	**(22)**
							293	**232**	**(86)**	**17**	**293**	**232**
	10	**6**	**29**	**17**					**4**	**27**	**454**	**386**

millions of euro	GENERATION AND TRADING		COMMERCIAL		ENVIRONMENT	
	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)
Tangible assets	2,080	2,090	4	4	670	639
Intangible assets	86	82	113	116	51	50
Trade receivables and current financial assets	673	709	537	557	358	373
Trade payables and current financial liabilities	792	752	285	302	319	296

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

	NETWORKS AND HEAT		FOREIGN		A2A SMART CITY		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)
	1,724	1,716	-	568	22	16	184	179	(78)	(83)	**4,606**	**5,129**
	1,611	1,547	-	2	1	-	93	86	(92)	(179)	**1,863**	**1,704**
	423	436	-	262	17	12	148	151	(477)	(461)	**1,679**	**2,039**
	351	374	-	41	12	12	534	434	(475)	(468)	**1,818**	**1,743**

Notes to the balance sheet

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

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

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

As a result of the Group's exercise of the EPCG sale put option, as further described in the paragraph "Significant events in the year" of the Report on Operations, the shareholding was measured at fair value. This involved a charge of a total of 86 million euro, of which 60 million euro as write-down of the shareholding and 26 million euro as discounting charge, as further described in note 36 "Net result from operating assets sold/held for sale".

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

- subscription by the Parent Company A2A S.p.A. of the capital increase of the company Azienda Servizi Valtrompia S.p.A.. A2A S.p.A. increased its shareholding portion from 49% to 74.8%; therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 Restated was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- the Group rose to 92.7% of LumEnergia S.p.A., following the transaction that saw the subsidiary A2A Energia S.p.A., already holder of 33.33%, rise to 92.41% of LumEnergia S.p.A.. The company, which was previously consolidated using the equity method, has been fully consolidated starting from July 2017;
- due to the exercise of the put option on the entire shareholding held by A2A S.p.A. in EPCG, the effectiveness of which was finalized on July 3, 2017, the shareholding in the Montenegro company was valued according to the provisions of IFRS 5. Previously, the shareholding was fully consolidated;
- exit from the scope of consolidation, with effect from January 1, 2017 of the company Bellisolina S.r.l.. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 Restated recognized under the item Non-current assets held for sale, to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A;
- on June 1, 2017, A2A, through the subsidiary A2A Smart City S.p.A., acquired 100% of Patavina Technologies S.r.l., active in the design of software and TLC systems that will favor further impetus to innovation related to Smart Cities in addition to automation of network management and control processes;
- on July 25, 2017, the company A2A Rinnovabili S.p.A. was incorporated with sole shareholder A2A S.p.A.. A2A Rinnovabili completed the acquisition of 13 project companies, fully consolidated in this annual financial report, of which 5 project companies transferred from the Re Energy fund for an installed capacity of 17 MW and an annual production of 22.6 GW and 8 project companies acquired in October 2017 by Novapower S.p.A. (Merloni Group) that bring the photovoltaic portfolio held to a total of 38.4 MW;
- incorporation and full consolidation of the consortium A2A Security S.c.p.a.;
- incorporation and full consolidation of A2A IDRO4 S.r.l..

ASSETS

NON-CURRENT ASSETS

1) Tangible assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year						Balance at 12 31 2017
				Invest.	Other changes	Disposals and sales	Write-downs	Amort.	Total changes	
Land	235		(124)	2	2	(1)		(1)	2	113
Buildings	821	1	(194)	9	2	(2)		(31)	(22)	606
Plant and machinery	3,703	36	(207)	111	77	(3)		(258)	(73)	3,459
Industrial and commercial equipment	33		(4)	9	6			(8)	7	36
Other assets	72		(1)	26	22			(21)	27	98
Landfills	73							(7)	(7)	66
Construction in progress and advances	101		(29)	135	(112)				23	95
Leasehold improvements	82			13	(2)	(1)		(9)	1	83
Leased assets	9	43		1				(3)	(2)	50
Total	**5,129**	**80**	**(559)**	**306**	**(5)**	**(7)**	**-**	**(338)**	**(44)**	**4,606**
of which:										
Historical cost	10,421	116	(754)	306	3	(22)			287	10,070
Accumulated depreciation	(4,553)	(36)	195		(8)	15		(338)	(331)	(4,725)
Write-downs	(739)								-	(739)

"Tangible assets" at December 31, 2017 amounted to 4,606 million euro (5,129 million euro at December 31, 2016 Restated) and include the first-time consolidation effect relating to 2017 acquisitions amounting to 80 million euro, as well as the decrease following the change in the consolidation method of EPCG equal to 559 million euro.

The changes for the year, net of the above effect, recorded a decrease of 44 million euro as follows:

- increase of 306 million euro for investments made in the year as further described below;
- net decrease of 5 million euro for other changes due to: the increase in the decommissioning provision for 13 million euro following the update of the estimate appraisals and discount rates used for the estimates of future disposal and recovery costs, as well as the decrease of 13 million euro relating mainly to the portion of amortization and depreciation resulting from the change in the consolidation method of companies previously fully consolidated, as well as other negative changes for 5 million euro;
- decrease of 7 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 338 million euro for the amortization charge for the year.

Investments may be analyzed as follows:

- for the Networks and Heat Business Unit, investments totalled 116 million euro and concerned: 62 million euro for the development and maintenance of electricity distribution plants, the extension and reconstruction of the medium and low-voltage network, the installation of new electronic meters and the efficiency plan for public lighting in Milan, Bergamo, and Pavia; 34 million euro for the development of the district heating networks in the areas of Milan, Brescia, Bergamo and Varese, 20 million euro for investments of the LGH Group;

- for the Environment Business Unit, investments of 103 million euro refer to: 57 million euro mainly for work on the plants of Silla 2, Acerra, Corteolona, Asti, Brescia, Bergamo, Giussago, Cavaglià, Bedizzole, Filago, Varese, Milano, Lacchiarella, Robassomero, Caivano e Villafalletto; 23 million euro for the acquisition of mobile means for waste collection and 5 million euro for the acquisition of collection facilities, 14 million euro of investments of the LGH Group, 1 million euro for investments of LA BI.CO DUE S.r.l. and 3 million euro for investments of the RI.ECO-RESMAL Group;
- for the Generation and Trading Business Unit, the increase was 61 million euro and concerned: 13 million euro for investments made on the hydroelectric plants, 48 million euro for works on the thermoelectric plants;
- for the Foreign Business Unit, the increase was 4 million euro;
- for A2A Smart City S.p.A., investments of 9 million euro concerned work on the fibre optic networks;
- for the Other Services and Corporate Business Unit investments amounting to 13 million euro regarded 8 million euro in the New Data Center, 3 million euro in works on buildings in the areas of Brescia and Milan and 2 million euro in investments by the LGH Group.

Tangible assets include "Leased assets" totalling 50 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at December 31, 2017 amounted to 45 million euro.

2) Intangible assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year						Balance at 12 31 2017
				Invest.	Recl./ Other changes	Disposals/ Sales	Write-downs	Amort.	Total changes	
Industrial patents and industrial property rights	21			9	2			(13)	(2)	19
Concessions, licences, trademarks and similar rights	1,046	19	(1)	90	27	(2)		(49)	66	1,130
Goodwill	500				(9)		(34)		(43)	457
Assets in progress	26	1	(1)	48	(34)				14	40
Other intangible assets	111	9		1	106			(10)	97	217
Total	**1,704**	**29**	**(2)**	**148**	**92**	**(2)**	**(34)**	**(72)**	**132**	**1,863**

"Intangible assets" at December 31, 2017 amounted to 1,863 million euro (1,704 million euro at December 31, 2016 Restated) and include the first-time consolidation effect relating to 2017 acquisitions amounting to 29 million euro, as well as the decrease following the change in the consolidation method of EPCG equal to 2 million euro.

Applying IFRIC 12, from 2010 intangible assets also include assets in concession relating to gas distribution, the integrated water cycle and district heating plants of Varese Risorse S.p.A..

The Group has environmental certificates that it received free of charge, as further specified in the section "Evolution of the regulation and impacts on the A2A Group Business Units" in the paragraphs "Incentives to production from renewable sources and conversion of the Green Certificate into tariffs" (Generation and Trading Business Unit) and "White Certificates and incentives for district heating" (Networks and Heat Business Unit).

The changes for the year, net of the above effect, recorded an overall increase of 132 million euro as follows:

- increase of 148 million euro for investments made in the year as further described below;
- an overall increase of 50 million for other changes due to: the increase in environmental certificates of the industrial portfolio (54 million euro) partly offset by negative reclassifications to other financial statements items (4 million euro);

- an increase in other intangible assets for 51 million euro following the completion of the PPA relating to the acquisitions of Consul System S.p.A. (16 million euro), and the companies acquired by A2A Rinnovabili S.p.A. (35 million euro);
- a decrease of 9 million euro in goodwill following the conclusion of the PPA process of Consul System S.p.A.;
- decrease of 2 million euro arising from disposals in the year, net of accumulated depreciation;
- decrease of 34 million euro for write-downs on the goodwill referred to the "A2A Reti Elettriche" Cash Generating Unit following the impairment test as further described below;
- decrease of 72 million euro for the amortization charge for the year.

More specifically, investments relate to the following:

- for the Networks and Heat Business Unit, investments of 115 million euro are: for development and maintenance work on the plants of the gas distribution segment and the replacement of low and medium pressure underground piping for 62 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 28 million euro and the implementation of IT systems for 10 million euro; for investments of the LGH Group for 15 million euro;
- increase of 9 million euro in the Commercial Business Unit mainly relates to the implementation of IT systems;
- for the Environment Business Unit, the increase amounted to 4 million euro, involving 3 million euro for the implementation of information systems, as well as 1 million euro for investments of the LGH Group;
- for A2A Smart City S.p.A., investments of 1 million euro concerned the implementation of information systems and other expenses for concessions on the fibre optic networks;
- for the Other Services and Corporate Business Unit, the increase was of 16 million euro due to software implementation;
- for the Generation and Trading Business Unit, the increase was of 3 million euro mainly due to software implementation.

"Other intangible assets" include customer lists arising on the acquisition of customer portfolios by Group companies. These balances are amortized on the basis of the estimated benefits expected to be obtained in future years. In particular, the amount reported in the financial statements, amounting to 70 million euro, is attributable for 45 million euro to the Customer lists of the LGH Group, for 22 million euro to the Customer lists of the RI.ECO-RESMAL Groups and the company LA BI. CO DUE S.r.l, for 2 million euro to the Customer Lists of the company LumEnergia S.p.A., as well as for 1 million euro to the amount paid in previous years by subsidiaries regarding a portion of the networks and customers of the province of Brescia and the valorization of the customer portfolio of the subsidiary Aspem Energia S.r.l..

Impairment testing in accordance with IAS 36 on the carrying amount of goodwill and tangible and intangible fixed assets

The objective of the impairment testing required by international accounting standard IAS 36 is to ensure that the carrying amount of assets does not exceed their recoverable amount.

Impairment testing is carried out whenever there is an indication that an asset may be impaired, while goodwill, which is not amortized on a systematic basis, must be tested for impairment at least on an annual basis, regardless of whether there is any indication of impairment.

A cash generating unit (CGU) is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The definition of a CGU depends essentially on the type of activity carried out by the CGU, the business sector in which it operates and a company's organizational structure.

Impairment testing consists of comparing the carrying amount of an asset/cash generating unit (or group of cash generating units) with an estimate of the recoverable amount of that asset/cash generating unit (or group of cash generating units). The recoverable amount of an asset/Cash Generating Unit (or group of cash generating units) is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell of an asset/cash generating unit (or group of cash generating units) is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The value in use of an asset/Cash Generating Unit (or group of Cash Generating Units) is the present value of the future cash flows expected to be derived from the continuing use of an asset or Cash Generating Unit and from its ultimate disposal. Value in use has been calculated using the discounted cash flow method, which is based on estimating future cash flows and discounting these by applying the appropriate discount rate.

Management made a projection of the future cash flows deriving from each asset/cash generating unit (or group of cash generating units) on the basis of reasonable and supportable assumptions which reflect the value of the asset/cash generating unit (or group of cash generating units) in its present condition and with a view to maintaining the normal conditions of business activities.

More specifically, the following were considered in calculating value in use:

- the future operating cash flows, based on the 2018-2022 medium-term business plan aimed at the impairment test as approved by the A2A S.p.A. Board of Directors. Said forecasts reflect the management's best estimates in relation to the main assumptions concerning the Company performance (macro-economic and pricing trends and commodity prices, hypothesis of operation of production assets and business development);
- future operating cash flows for a period not exceeding five years, estimated by management on the basis of the most recent forecasts so as to represent the most reasonable estimate of the range of economic conditions expected over the remaining useful life of the asset;
- cash flows following this time horizon, estimated by extrapolating the explicit time horizon projections, suitably modified to normalize the results and using a nominal growth rate less than the average rate of nominal growth in the long term;
- the cash flow from disposal at the end of the useful life of an asset/Cash Generating Unit (or group of Cash Generating Units) (terminal value). Depending on the different cases analyzed, this value has prudently been forecast to be zero, to be the sum of the estimate of the future value of the assets, net working capital and provisions or else to be the present value of operating cash flows;
- the discount rate used to reflect current market assessments of the time value of money and the risks specific to the asset was estimated, consistent with the cash flows considered, by calculating the weighted average cost of capital (WACC).

An independent expert was engaged to carry out the impairment testing; among other things, the expert analyzed the components and key assumptions included in the economic and financial projections prepared by the Group's management, performed comparisons and tests as to the correctness of the sources and assumptions used and developed the assumptions about the growth rate beyond the plan's horizon to be used for calculating normalized flows through to the end of the useful lives of the plants.

The discount rate of unlevered cash flows was estimated as the Weighted Average Cost of Capital (WACC), representing the expected return from the company's lenders and shareholders for use of own capital.

In crisis situations, as highlighted by the Italian Rating Board (OIV), various structures of the Capital Asset Pricing Model are suggested in order to properly reflect the country risk in the discount rate. In this context, various methodologies are referred to, among which the conditional and unconditional methodologies, which differ according to the classification of the country risk (in the Market Risk Premium, in the first case and in the Risk-free in the second).

In view of the current macro-economic context and the indications emerging from most accepted practices and national and international doctrine, it was considered necessary to apply the correction factors for the determination of the discount rates.

In particular, for the assessment, it was considered necessary to use the formulation "unconditional adjusted" of WACC rates. The unconditional adjusted WACC methodology involves the use of a risk-free rate that incorporates country risk normalized by the monetary policies implemented by the Central Banks. In particular, such an adjustment is necessary in order to mitigate the effects of short-term monetary policy that has recently characterized the money markets in the Eurozone. Therefore, the risk-free rate for Italy was determined by calculating the rate of return of the securities of a benchmark country with AAA rating, to which was added the differential between the Credit Default Swaps of Italy and the Credit Default Swaps of the benchmark country.

Goodwill

At December 31, 2017, goodwill amounted to 457 million euro:

CGU *millions of euro*	Balance at 12 31 2016 Restated	Changes during the year				Balance at 12 31 2017
		First-time consolid. acquis. 2017	PPA Effect	Write-downs	Total changes	
A2A Reti Elettriche	163			(34)	(34)	129
A2A Ambiente	262				-	262
A2A Reti Gas	38				-	38
A2A Gas	7				-	7
A2A Calore	21				-	21
Total	**491**	**-**	**-**	**(34)**	**(34)**	**457**
First-time Consolidation Effects						
Consul System	9		(9)		(9)	-
Total	**9**	**-**	**(9)**	**-**	**(9)**	**-**
Total Goodwill	**500**	**-**	**(9)**	**(34)**	**(43)**	**457**

It is noted that the values of goodwill recognized in the financial statements published at December 31, 2016 were re-determined following the conclusion of the PPA process for the acquisition of 51% of the LGH Group, which resulted in the allocation to the asset and liability items of the Balance Sheet and the residual recognition of goodwill for 30 million euro in the “A2A Ambiente” Cash Generating Unit, as a result of this process, the data published at December 31, 2016 was restated.

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

The effects of the changes on the value of goodwill with respect to the financial statements published at December 31, 2016 are detailed below:

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

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

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

For further details of the transaction and the consequent financial and economic effects on the figures restated at December 31, 2016 Restated, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph "Other Information" of these Consolidated Financial Statements.

The operational organization and reporting structure used by management to assess the A2A Group's performance were taken into consideration in identifying Cash Generating Units.

Since goodwill does not generate independent cash flows and cannot be sold separately, the impairment testing of recognized goodwill is carried out in a residual manner by referring to the Cash Generating Unit (or group of Cash Generating Units) to which it may be reasonably allocated.

The following table sets out the goodwill allocated to each individual Cash Generating Unit, specifying for each the recoverable amount and the discount and growth rates used with comparative figures of the previous year.

CGU with Goodwill	Value in millions of euro at 12 31 2017	Recoverable Value	Post-tax WACC 2017 (1)	Growth rate g 2017	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	129	Use value	4.70%	0.00%	4.46%	0.00%
A2A Ambiente	262	Use value	6.10%	1.00%	17.19%	1.00%
A2A Reti gas	38	Use value	5.00%	0.00%	6.16%	0.00%
A2A Gas	7	Use value	7.30%	0.00%	111.26%	0.00%
A2A Calore	21	Use value	5.90%	1.00%	6.12%	1.00%
Total	**457**					

(1) Nominal post-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

CGU with Goodwill	Value in millions of euro at 12 31 2016 Restated	Recoverable Value	Pre-tax WACC 2016 (1)(*)	Growth rate g 2016	Balance scenario (2)	
					WACC of reference (3)	Growth rate g
A2A Reti Elettriche	163	Use value	6.80%	0.00%	6.60%	0.00%
A2A Ambiente	262	Use value	8.80%	1.00%	37.48%	1.00%
A2A Reti gas	38	Use value	7.28%	0.00%	13.10%	0.00%
A2A Gas	7	Use value	10.23%	0.00%	298.57%	0.00%
A2A Calore	21	Use value	8.40%	1.00%	9.01%	1.00%
Total	**491**					
First-time Consolidation Effects						
Consul System	9					
Total	**9**					
	500					

(*) The effects of the first-time consolidation were not subject to Impairment Test.
(1) Nominal pre-tax discount rate applied to future cash flows.
(2) Rates resulting from the sensitivity assessment made by the expert in order to achieve balance between the use values and carrying amounts subjected to impairment testing.
(3) The simulation was performed on the WACC rate of reference, with the simultaneous adjustment of the terminal flow rate (if applicable).

The change in the methodology adopted from WACC pre-tax of 2016 to WACC post tax of 2017 did not entail, and would not have entailed the previous year, significant changes.

With reference to the CGU already included in the scope of consolidation of the A2A Group at December 31, 2016, and precisely "A2A Calore" CGU, "A2A Reti Gas" CGU, "A2A Reti Elettriche" CGU and "A2A Ambiente" CGU, the analysis conducted allowed achieving the estimated recoverable value at December 31, 2017 calculated using the financial method. In particular, the analysis regarding the maintenance of the value of the "A2A Calore", "A2A Reti Gas", and "A2A Reti Elettriche" CGUs was conducted by comparing the recoverable value determined as fair-weighted average of the values in use of the definite useful life scenario (consistent with the average duration of the concessions in place) and the indefinite useful life scenario. Compared to the results obtained and only for the CGUs that did not show impairment, a sensitivity analysis was conducted considering only the definite useful life scenario; said sensitivity analysis did not reveal any criticality on the recoverability of the value of the impairment test.

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, which showed no particular criticality for all the CGUs subject to impairment testing.

"A2A Reti Elettriche" Cash Generating Unit

This goodwill, arising on the acquisition of the businesses of Enel Distribuzione S.p.A. by A2A Reti Elettriche S.p.A., amounted to 129 million euro, while it amounted to 163 million at December 31, 2016. In the "Reti Elettriche" Cash Generating Unit, goodwill relating to the agreements for the activities on the public lighting systems of the Municipality of Bergamo was also allocated, for a value of 4 million euro, which derives from the portion of goodwill recorded following the merger between BAS S.p.A. and A2A S.p.A..

During the impairment test, an impairment loss of 34 million euro was found.

"A2A Ambiente" Cash Generating Unit

The "Ambiente" CGU carries out collection and street sweeping and is involved in the treatment and disposal of waste and the waste-to-energy process and it also builds treatment plants for third parties.

The "Ambiente" CGU operates in the solid urban waste segment and in the special and hazardous waste segment, performs collection and street sweeping activities in the municipalities of Milan, Brescia, Bergamo and Como and in a number of municipalities of the relative provinces, is the owner of 5 waste-to-energy plants (in the municipalities of Milan, Brescia, Bergamo, Filago and Corteolona) and manages the Acerra waste-to-energy plant. It also has several waste treatment plants and a number of landfills.

The A2A Group's consolidated financial statements at December 31, 2017 include goodwill of 262 million euro associated with this CGU, which has been impairment tested as required by IAS 36. Of this goodwill, 227 million euro arises from the acquisition of the Ecodeco Group which took place between 2005 and 2008 (the former Ecodeco Cash Generating Unit) and 5 million euro from the merger between ASM Brescia S.p.A. (subsequently incorporated into AEM S.p.A., with simultaneous change of its name into A2A S.p.A.) and BAS S.p.A. and 30 million euro as the residual value of the goodwill of the LGH Group at the end of the PPA process for the acquisition of 51% of the Group.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Reti Gas" Cash Generating Unit

The goodwill of 38 million euro arises from various acquisitions made by A2A Reti Gas S.p.A. (now Unareti S.p.A.) over the past years regarding companies operating as gas distributors in around 200 different Italian municipalities. Activities are mainly concentrated in Lombardy and Piedmont.

The recoverable value of goodwill attributed to the "A2A Reti Gas" Cash Generating Unit was calculated by referring to its value in use.

In calculating the value in use, for reasons of prudence a time horizon has been taken for the majority of the outstanding concessions, which corresponds to a shorter term than that envisaged by current legislation.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

"A2A Gas" Cash Generating Unit

The goodwill arising from the consolidation of the Gas Business Unit, amounting to 7 million euro, refers to the area involved in selling gas to end customers (residential and business) and wholesalers and was impairment tested. It is specified that the "A2A Gas" Cash Generating Unit includes the portion of the goodwill arising on the merger between BAS S.p.A. and A2A S.p.A..

"A2A Calore" Cash Generating Unit

The goodwill arising from the consolidation of the Heat Business Unit, amounting to 21 million euro, is held by a number of companies of the A2A Group active in the production, distribution and sale of district heating. In particular, this Cash Generating Unit contains an amount of 18 million euro representing part of the goodwill arising from the merger between BAS S.p.A. and A2A S.p.A.. The recoverable value of goodwill allocated to the "Calore" Cash Generating Unit, in the impairment test, was calculated with reference to the value in use using a time horizon of 30 years.

No loss of value was noted during the impairment testing as the recoverable amount exceeds the net capital employed including the value of goodwill recorded.

Assets other than goodwill

Impairment testing of the "Energia Elettrica" Cash Generating Unit

The "Energia Elettrica" Cash Generating Unit belongs to the Generation and Trading Business Unit and Commercial Business Unit of A2A, whose activities are the generation of electricity and its sale on the wholesale and retail markets. Support for the marketing areas is assured by activities involving fuel provisioning, programming and dispatch of electricity generating plants and optimizing business portfolio management.

More specifically, the activities carried out by the "Energia Elettrica" Cash Generating Unit consist of the following:

- electricity generation: power plant management through a generation pool of hydroelectric and thermoelectric plants with installed power of about 10.5 GW;
- energy management: the purchase and sale of electricity, gas and non-gas fuels on national and international wholesale markets; the provisioning of the fuel needed, and the management of the environmental certificates, to cover the needs of thermoelectric plants and customers; planning, programming and dispatch of electricity generating plants;
- sale of electricity: sale of electricity on the market of suitable customers.

In addition to the activities conducted directly by A2A S.p.A., the operations of the following companies also come under the "Energia Elettrica" Cash Generating Unit:

- A2A gencogas S.p.A., A2A Energiefuture S.p.A. and Ergosud S.p.A., electricity producers operating in Italy;
- A2A Energia S.p.A., providing marketing activities.

The impairment testing of the "Energia Elettrica" Cash Generating Unit solely regarded activities concerning electricity, thus excluding those relating to the "Gas" Cash Generating Unit, for which specific impairment testing was carried out as described above.

The perimeter of the "Energia Elettrica" Cash Generating Unit does not include the following:

- the San Filippo del Mela power plant, owned by A2A Energiefuture S.p.A. and operating as an Essential Unit, which constitutes autonomous CGU;
- Protected category services[(*)], delivered by A2A Energia S.p.A.;
- trading carried out by A2A S.p.A..

The value of the "Energia Elettrica" Cash Generating Unit in the impairment test amounted to 2,009 million euro.

The scenario of the A2A Group Plan was prepared with reference to, for 2018, the forward curves (market prices as at December 7, 2017). For the subsequent years, and thus, from 2019 to 2022 the estimation of various parameters (PUN, gas, oil price, spark and dark spread, etc.) was determined using a proprietary model based on the trend of demand and supply fundamentals and the main reference commodities, as well as on the analyzes of the main market operators and research institutions. The scenario thus created led to values that increased over the period of analysis, in line with respect to as developed in the previous Plan 2017-2021. In particular, in 2022 (last year of explicit planning), the main reference values are as follows:

- Oil price: 72.9 $/bbl;
- PUN base load: 48.4 €/MWh;
- PUN peak load: 54.4 €/MWh;
- Gas to the PSV (spot market of reference for gas in Italy): 17.6 €/MWh.

(*) Protected category services apply to customers with low-voltage domestic utilities, utilities for other non-domestic uses and public lighting (in other words, small businesses connected to a low voltage supply, with less than 50 employees and annual turnover < 10 million euro. This category includes all users who selected the so-called Free Market and ended up without a supplier. The Protected Category service guarantees the supply of electricity at prices established by ARERA (Regulatory Authority for Energy Networks and Environment).

The price of energy is estimated to increase according to both the price of oil and the price of gas.

The 2018-2022 Plan also provides for the launch of the Capacity Market that will remunerate the eligible capacity for a given amount of €/MW in ways currently being discussed between the Italian Government and the European Commission, which resulted in the consultation documents published by Terna and ARERA between the fourth quarter of 2016 and the first half of 2017. Said remuneration, higher than the one currently in force, but less than that as envisaged in the 2017-2021 Plan, is estimated as of the second half of 2018.

Consistent with the aforementioned flows, discount rates were estimated by determining the weighted average cost of capital as described above.

For the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

Consistent with the aforementioned flows, discount rates were estimated by determining the weighted average cost of capital as described above.

The impairment test conducted did not entail value adjustments.

The table below shows net invested capital at December 31, 2017, the discount rate used, the growth rates beyond the explicit time horizon, the recoverable value obtained and the related write-down.

CGU without Goodwill Electricity	Net capital employed in millions of euro at 12 31 2017	Post-tax WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2017	1,995	6.6%	between 0%-1%	2,009	-

CGU without Goodwill Electricity	Net capital employed in millions of euro at 12 31 2016 Restated	Pre-tax WACC	Growth rate g	Recoverable Value (use value)	Write-down
12 31 2016	1,836	9.9%	1.0%	1,768	(68)

Further analyzes and sensitivity analyzes were conducted considering the potential effects of the changes in the reference parameters of the growth rate and WACC, as well as the assumptions developed in the terms of capacity payment. Additionally, in support of the impairment assessments, sensitivity analyzes were carried out on the 2018-2022 Plan, in particular to determine the effect on the revenues and costs envisaged in the Plan of some changes in electricity demand. Said sensitivity analysis was set on the basis of the assumption that any peaks in demand, both positive and negative, are met by the CCGT plants as the most suitable to meet sudden demands.

The impact on the EBITDA of the "Energia Elettrica" CGU of a 1% change in electricity demand, both positive ("Increase Scenario") and negative ("Decrease Scenario") was then estimated based on the clean spark spread of the Plan. For the purposes of the sensitivity analysis, a probability of 60% was attributed to the Decrease Scenario and 40% to the Increase Scenario.

With reference to the sensitivity analyzes of WACC and growth rate g, it is noted that a plus/minus 0.1% change in WACC results in a change in the value in use of plus/minus 25 million euro, while a plus/minus 0.1% change in the growth rate g results in a change in the value in use of plus/minus 19 million euro.

"EPCG" Cash Generating Unit

At December 31, 2016, the consolidated financial statements included the "EPCG" Cash Generating Unit. This CGU is no longer present in the consolidated financial statements at December 31, 2017, due to the change in the consolidation method of the EPCG Group which, following the exercise of the put option on the entire shareholding held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, led to a change in the allocation of the investment held in EPCG from ongoing investment to investment held for sale according to the provisions of IFRS 5 with consequent change (starting from July 2017) of the consolidation criterion from full to equity.

"San Filippo del Mela" Cash Generating Unit

The power plant in San Filippo del Mela includes two plants: SFM 150 kV (group 1) and SFM 220 kV (groups 2, 5 and 6).

The impairment tests carried out in previous years assumed to be able to keep the essence regime of the plants of the power plant in San Filippo del Mela until the end of 2016.

With Resolution no. 803/2016 of December 28, 2016, the Authority recognized the San Filippo del Mela plant as one of the essential plants eligible for the reintegration of costs for the period of contracting with Terna, which will concern the five-year period 2017-2021; from the point of view of plants, the Group's request for admission to reintegration concerned only the 220 kV plant (UP SF2, UP SF5, UP SF6) with the provision of the 150 kV (UP SF1) plant as reserve of UP SF2.

In 2016, considering the improvement scenario with respect to as assumed for the impairment tests performed in previous years, it was deemed appropriate to subject the "San Filippo del Mela" CGU to impairment testing to verify whether the assessment of the independent expert of 2014 and 2015 is still valid in light of the profitability prospects of Resolution no. 803/2016, which recognizes the essentiality of the plants for the five-year period 2017-2021. In determining the value in use of the "San Filippo del Mela" CGU, the 2017-2021 Plan had been used. The estimated value in use is based on a definite useful life scenario until 2021.

The result of the impairment test carried out on the CGU in 2016 led to a reversal of 51 million euro.

For the "San Filippo del Mela" CGU, there were no specific assumptions on the performance of revenues from capacity payments in view of the incompatibility between the current mechanism of cost reinstatement and potential mechanism of capacity market.

In 2017, an impairment test was carried out to verify the value in use recorded in the previous year; the result of the impairment test confirmed the value in use recorded.

It is noted that, for the purposes of discounting the cash flows, the mid-year temporal logic was followed, thus assuming the generation of flows at mid-year, rather than at year-end.

CGU - Thermoelectric plant San Filippo del Mela	Values in millions of euro at 12 31 2017	Post-tax WACC	Growth rate g	Recoverable Value (use value)	Difference between carrying value and value in use
12 31 2017	108	6.6%	0.5%	108	-

CGU - Thermoelectric plant San Filippo del Mela	Values in millions of euro at 12 31 2016 Restated	Pre-tax WACC	Growth rate g	Recoverable Value (use value)	Reversal
12 31 2016	-	9.9%	0.0%	51	51

The result of the impairment test carried out on the CGU in 2017 did not entail any value adjustment.

3) Shareholdings and other non-current financial assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Shareholdings carried according to equity method	67			(4)	63	-	-
Other non-current financial assets	69		(32)	7	44	*56*	*36*
Total shareholdings and other non-current financial assets	**136**	**-**	**(32)**	**3**	**107**	***56***	***36***

The following table sets out details of the changes:

Shareholdings carried according to equity method *millions of euro*	TOTAL
Balance at December 31, 2016 Restated	**67**
Changes during the year:	
- acquisitions and capital increases	
- valuations at equity	5
- write-downs	
- dividends received from shareholdings in companies carried at equity	(2)
- sales	
- other changes	
- reclassifications	(7)
Total changes for the year	**(4)**
Balance at December 31, 2017	**63**

The change in "Shareholdings carried according to equity method" mainly refers to the positive valuation for 5 million euro of the shareholdings in ACSM-AGAM S.p.A. and other minor shareholdings, net of the reclassification, for 7 million euro, of the shareholding in Azienda Servizi Valtrompia S.p.A., following the acquisition of an additional portion of the shareholding in the company which, from March 1, 2017 is fully consolidated, as well as the negative change for 2 million euro deriving from the collection of dividends and other changes.

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

"Other non-current financial assets" had a balance of 44 million euro at December 31, 2017 (69 million euro at December 31, 2016 Restated). The effect of the change in the consolidation method of EPCG led to a decrease of 32 million euro, while changes in the year amounted to 7 million euro.

At December 31, 2017, "Other non-current financial assets" mainly refer for 36 million euro to medium/long-term financial receivables of which 18 million euro related to the LGH Group, consisting mainly of the non-current portion of financial receivables from minority shareholders and third parties, and 5 million euro related to the subsidiary A2A Illuminazione Pubblica with respect to the Municipality of Brescia, concerning the management of public lighting in application of IFRIC 12, as well as 8 million euro of investments in other companies; for details, reference is made to annex no. 5 "List of available-for-sale financial assets".

4) Deferred tax assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Balance at 12 31 2017
Deferred tax assets	**341**	**6**	**31**	**(77)**	**301**

"Deferred tax assets" amounted to 301 million euro (341 million euro at December 31, 2016 Restated) and, excluding the positive change related to the first-time consolidation effect of 2017 acquisitions for 6 million euro and the change of the EPCG consolidation method for 31 million euro, showed a decrease of 77 million euro. This item consists of the net balance of IRES and IRAP deferred tax assets and liabilities arising from changes and accruals made solely for fiscal purposes. The recoverability of "Deferred tax assets" recorded in the financial statements is considered likely, as the future plans envisage taxable income sufficient to use the deferred tax assets.

At December 31, 2017, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net ("offsetting") as per IAS 12 standards.

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

millions of euro	Consoli-dated financial statements at 12 31 2016 Restated	First-time consolid. effect acquisit. 2017	Change in consolid. method EPCG	Accruals (A)	Utilizations (B)	Total (A+B)	IAS 39 at Equity Net	IAS 19 Revised at Equity Net	Other changes/ Reclass.	Consoli-dated financial statements at 12 31 2017
Detail of deferred tax assets and liabilities										
Deferred tax liabilities										
Measurement differences for tangible assets	649	-	-	10	(24)	(14)	-	-	(2)	633
Application of the leasing standard (IAS 17)	6	-	-	-	-	-	-	-	-	6
Application of the financial instrument standard (IAS 39)	-	-	-	-	-	-	-	-	-	-
Measurement differences for intangible assets	9	-	-	-	(1)	(1)	-	-	14	22
Deferred capital gains	-	-	-	-	-	-	-	-	-	-
Employee leaving entitlement (TFR)	4	-	-	-	-	-	-	-	-	4
Goodwill	41	-	-	-	-	-	-	-	-	41
Other deferred tax liabilities	3	-	(31)	-	(13)	(13)	-	-	-	(41)
Total deferred tax liabilities (A)	**712**	**-**	**(31)**	**10**	**(38)**	**(28)**	**-**	**-**	**12**	**665**
Deferred tax assets										
Taxed risk provisions	127	-	-	20	(20)	-	-	(5)	(26)	96
Measurement differences for tangible assets	622	-	-	10	(32)	(22)	-	-	28	628
Application of the financial instrument standard (IAS 39)	26	-	-	-	-	-	4	-	(25)	5
Bad debts provision	12	-	-	8	(7)	1	-	-	-	13
Measurement differences for intangible assets	5	-	-	-	-	-	-	-	-	5
Grants	19	-	-	1	-	1	-	-	-	20
Goodwill	214	-	-	1	(35)	(34)	-	-	3	183
Other deferred tax assets	28	4	-	9	(43)	(34)	-	-	18	16
Total deferred tax assets (B)	**1,053**	**4**	**-**	**49**	**(137)**	**(88)**	**4**	**(5)**	**(2)**	**966**
NET EFFECT DEFERRED TAX ASSETS/LIABILITIES (B-A)	**341**	**4**	**31**	**39**	**(99)**	**(60)**	**4**	**(5)**	**(14)**	**301**

5) Other non-current assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Non-current derivatives	4			(4)	-	4	-
Other non-current assets	8			-	8	-	-
Total other non-current assets	**12**	**-**	**-**	**(4)**	**8**	**4**	**-**

At December 31, 2017, this item decreased by 4 million euro compared to the balance at the end of the previous year.

"Non-current derivative instruments" had no value at December 31, 2017, whereas at the end of the previous year, they amounted to 4 million euro and referred to the fair value measurement of a financial instrument.

"Other non-current assets" amounted to 8 million euro (unchanged over December 31, 2016 Restated) and essentially consist of security deposits and costs already incurred, however pertaining to future years.

CURRENT ASSETS

6) Inventories

millions of euro	Balance at 12 31 2016 Restated	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Balance at 12 31 2017
- Materials	*96*		*(20)*	*(5)*	*71*
- Material obsolescence provision	*(30)*		*5*	*5*	*(20)*
Total materials	66	-	(15)	-	51
- Fuel	77		(1)	15	91
- Others	9			(8)	1
Raw and ancillary materials and consumables	**152**	**-**	**(16)**	**7**	**143**
Third-party fuel	**7**			**(3)**	**4**
Total inventory	**159**	**-**	**(16)**	**4**	**147**

The "Inventories" amounted to 147 million euro (159 million euro at December 31, 2016 Restated), net of the relative obsolescence provision for 20 million euro (30 million euro at December 31, 2016 Restated). The decrease in the provision for obsolescence refers both to the change in the EPCG consolidation method for 5 million euro, and to the decrease in the obsolescence provision for materials mainly relating to the San Filippo del Mela plant for 5 million euro.

Inventories, net of the 16 million euro decrease in the change in the consolidation method of EPCG, increased by 4 million euro as follows:

- 15 million euro related to the increase in fuel stocks, which at December 31, 2017 totalled 91 million euro;
- 3 million euro related to the decrease in fuel at third parties, which amounted to 4 million euro at December 31, 2017 and 7 million euro at the end of the previous year;
- 8 million euro relating to the decrease in other inventories related to environmental certificates.

Inventories of materials of 51 million euro were unchanged compared to December 31, 2016 Restated, excluding the effect of the change in the consolidation method of EPCG.

7) Trade receivables

millions of euro	Balance at 12 31 2016 Restated	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Balance at 12 31 2017
Trade receivables invoices issued	1,054	8	(262)	129	929
Trade receivables invoices to be issued	1,120	13		(236)	897
(Bad debts provision)	(353)	(3)	202	(1)	(155)
Total trade receivables	**1,821**	**18**	**(60)**	**(108)**	**1,671**

At December 31, 2017, "Trade receivables" amounted to 1,671 million euro (1,821 million euro at December 31, 2016 Restated), with a decrease of 108 million euro, excluding the first-time consolidation effect of 2017 acquisitions, positive for 18 million euro and the decrease of the EPCG consolidation method for 60 million euro. In detail, the changes were as follows:

- for 109 million euro, the decrease in receivables from customers, which at December 31, 2017 showed a balance of 1,575 million euro;
- for 4 million euro, the increase in receivables from the Municipalities of Milan and Brescia; this item had an overall balance of 83 million euro (79 million euro in the previous year);
- for 1 million euro, the decrease in receivables from associates, which had a balance of 11 million euro at December 31, 2017 compared to 12 million euro at the previous year-end;
- for 2 million euro, the decrease in contracts in progress, which amounted to 2 million euro compared to 4 million euro at December 31, 2016 Restated.

The Group makes spot sales of receivables on a non-recourse basis. At December 31, 2017, the receivables which had not yet fallen due, sold by the Group on a definitive basis and derecognized in accordance with the requirements of IAS 39, amounted to 33 million euro in total (43 million euro at December 31, 2016 Restated). At the date of publication of the Consolidated Financial Statements, these receivables amounted to 10 million euro (13 million euro at December 31, 2016 Restated). The sale is related to trade receivables. The Group has no rotating factoring programs.

The "Bad debts provision" amounted to 155 million euro and, excluding the first-time consolidation effect of 2017 acquisitions for 3 million euro and the decrease of the EPCG consolidation method for 202 million euro, a net increase of 1 million euro compared to December 31, 2016 Restated. This provision is considered adequate to cover the risks to which it relates.

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

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Accruals	Utilizations	Other changes	Balance at 12 31 2017
Bad debts provision	**353**	**3**	**(202)**	**35**	**(33)**	**(1)**	**155**

The following is the aging of trade receivables:

millions of euro	12 31 2017	12 31 2016 Restated
Trade receivables of which:	**1,671**	**1,821**
Current	**615**	**456**
Past due of which:	**314**	**598**
- Past due up to 30 days	56	94
- Past due from 31 to 180 days	67	72
- Past due from 181 to 365 days	37	45
- Past due over 365 days	154	387
Invoices to be issued	**897**	**1,120**
Bad debts provision	**(155)**	**(353)**

8) Other current assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Current derivatives	**265**			**(169)**	**96**	**-**	**-**
Other current assets of which:	**124**	**4**	**(24)**	**16**	**120**	**-**	**-**
- receivables from Cassa per i Servizi Energetici e Ambientali	40			9	49		
- advances to suppliers	11		(7)	21	25		
- receivables from employees	1			-	1		
- tax receivables	12	2		(8)	6		
- receivables related to future years/periods	14		(4)	4	14		
- receivables from Ergosud	9			(7)	2		
- receivables from social security entities	3			-	3		
- Stamp office	-			1	1		
- receivables for damage compensation	1			-	1		
- receivables for COSAP advances	5			(2)	3		
- sundry receivables EPCG	13		(13)	-	-		
- receivables for security deposits	1			-	1		
- receivables for RAI fee	3			-	3		
- sundry receivables for hedging	3			(3)	-		
- other sundry receivables	8	2		1	11		
Total other current assets	**389**	**4**	**(24)**	**(153)**	**216**	**-**	**-**

"Other current assets" amounted to 216 million euro compared to 389 million euro at December 31, 2016 Restated, a decrease of 153 million euro, excluding the first-time consolidation effect of 2017 acquisitions, positive for 4 million euro and the decrease of the EPCG consolidation method for 24 million euro.

"Current derivatives" show a decrease of 169 million euro related to the decrease in commodity derivatives due to both the change in the fair value measurement at the end of the reporting year and the change in quantities covered.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 49 million euro (40 million euro at December 31, 2016 Restated), mainly refer to receivables for equalizations pertaining to both 2017 and to outstanding receivables for equalizations pertaining to previous years, net of collections made in the current year.

Tax receivables, amounting to 6 million euro, mainly relate to tax receivables from the tax authorities for excise and withholding taxes.

Receivables from Ergosud, amounting to 2 million euro (9 million euro at December 31, 2016 Restated) refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by ARERA Resolutions no. ARG/elt 194/10 and no. 117/10.

9) Current financial assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Other financial assets	206		(197)	(2)	7	*206*	7
Financial assets from related parties	10			(9)	1	*10*	*1*
Financial assets from assets held for sale	2			(2)	-	*2*	-
Total current financial assets	**218**	**-**	**(197)**	**(13)**	**8**	***218***	***8***

"Current financial assets" amounted to 8 million euro (218 million euro at December 31, 2016 Restated). Excluding the change in the consolidation method of EPCG, which led to a decrease of 197 million euro, the item showed a total decrease of 13 million euro. This item mainly refers to financial receivables of the LGH Group from minority shareholders and third parties.

10) Current tax assets

millions of euro	Balance at 12 31 2016 Restated	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Balance at 12 31 2017
Current tax assets	**70**	**2**	**-**	**35**	**107**

"Current tax assets" amounted to 107 million euro (70 million euro at December 31, 2016 Restated) and consist of receivables from the tax authorities for IRES (70 million euro) mainly relating to requests for reimbursement as a result of IRAP deductibility for IRES, IRAP (18 million euro) mainly relating to the requests for reimbursement as a result of the recognition of the status of industrial holding for A2A S.p.A. in 2015 and for Robin Tax (19 million euro) relating to the credit requests for reimbursement/compensation.

11) Cash and cash equivalents

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Cash and cash equivalents	402	7	(55)	337	691	*402*	*691*

“Cash and cash equivalents” at December 31, 2017 represent the sum of the Group’s active bank and postal balances; the positive change related to the first-time consolidation effect of 2017 acquisitions was equal to 7 million euro, while the effect of the change in the consolidation method of EPCG was negative for 55 million euro.

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

12) Non-current assets held for sale

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Non-current assets held for sale	6	-	(1)	219	224	*1*	*-*

At December 31, 2017, “Non-current assets held for sale” amounted to 224 million euro and refer to the fair value of the investment in EPCG, held 41.75% by A2A S.p.A., which was reclassified as a discontinued operation in compliance with the provisions of IFRS 5, following the decision of July 3, 2017 of the management to exercise the sale put option on the entire shareholding package. The investment was written down and discounted for a total of 86 million euro to adjust the value to fair value.

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

EQUITY AND LIABILITIES

EQUITY

"Equity", which amounted to 3,013 million euro at December 31, 2017 (3,279 million euro at December 31, 2016 Restated), is set out in the following table:

millions of euro	Balance at 12 31 2016 Restated	Changes during the year	Balance at 12 31 2017
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(54)	-	(54)
Reserves	919	91	1,010
Group result of the year	232	61	293
Total equity pertaining to the Group	**2,726**	**152**	**2,878**
Minority interests	553	(418)	135
Total equity	**3,279**	**(266)**	**3,013**

The overall changes in shareholders' equity was negative for a total of 266 million euro. The result of the year had a positive effect of 293 million euro offset by the dividend distribution for 153 million euro, the net decrease in minority interests of 418 million euro, of which 420 million deriving from the change in the consolidation method of EPCG, and valuations in accordance with IAS 32 and 39 of the Cash flow hedge derivatives.

13) Share capital

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

14) Treasury shares

"Treasury shares", which amounted to 54 million euro, unchanged over December 31, 2016 Restated, consist of 23,721,421 own shares held by the parent company A2A S.p.A..

15) Reserves

millions of euro	Balance at 12 31 2016 Restated	Changes during the year	Balance at 12 31 2017
Reserves	**919**	**91**	**1,010**
of which:			
Change in the fair value of cash flow hedge derivatives and fair value Bond	(2)	(25)	(27)
Tax effect	-	7	7
Cash flow hedge reserves	**(2)**	**(18)**	**(20)**
Change in the IAS 19 Revised reserve - Employee Benefits	(91)	19	(72)
Tax effect	26	(7)	19
IAS 19 Revised reserve - Employee Benefits	**(65)**	**12**	**(53)**

"Reserves", which amounted to 1,010 million euro (919 million euro at December 31, 2016 Restated), consist of the legal reserve, extraordinary reserves, and the retained earnings of subsidiaries.

This item also includes the cash flow hedge reserve, negative for 20 million euro, which refers to the year-end measurement of derivatives qualifying for hedge accounting, and the fair value measurement of the Bonds in foreign currency net of the tax effect.

The balance also includes negative reserves of 53 million euro arising from the adoption of IAS 19 Revised "Employee Benefits" which requires actuarial profits and losses to be recognized directly in an equity reserve.

Reconciliation between the result of the year of A2A S.p.A. and the Group result of the year

millions of euro	2017	2016 Restated
Result of the year of A2A S.p.A.	**268**	**274**
Intra-group dividends eliminated from the consolidated financial statements	(379)	(477)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	405	370
Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	2	55
Other consolidation adjustments	(3)	10
Group result of the year	**293**	**232**

Reconciliation between the equity of A2A S.p.A. and equity pertaining to the Group

millions of euro	12 31 2017	12 31 2016 Restated
Equity pertaining to A2A S.p.A.	**2,430**	**2,316**
- Elimination of the portion of the equity reserve resulting from profit on intra-group operations for the transfer of business units	(402)	(406)
- Retained earnings/(accumulated losses)	827	910
- Intra-group dividends eliminated from the consolidated financial statements	(379)	(477)
- Result of subsidiaries not included in the financial statements of A2A S.p.A.	405	370
- Subsidiary shareholdings written down in the financial statements of A2A S.p.A.	2	55
- Other consolidation adjustments	(5)	(42)
Equity pertaining to the Group	**2,878**	**2,726**

16) Result of the year

This item consists of a profit of 293 million euro, representing the result for the year.

17) Minority interests

millions of euro	Balance at 12 31 2016 Restated	Changes during the year	Balance at 12 31 2017
Minority interests	**553**	**(418)**	**135**

"Minority interests" amounted to 135 million euro (553 million euro at December 31, 2016 Restated) and mainly represent the portion of capital, reserves and result pertaining to minority shareholders related to minority shareholders of the LGH Group.

The net decrease of 418 million euro for the year is essentially due to the change in the EPCG consolidation method, which had a negative effect of 420 million euro.

LIABILITIES

NON-CURRENT LIABILITIES

18) Non-current financial liabilities

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Non-convertible bonds	2,480	-	-	170	2,650	*2,480*	*2,650*
Payables to banks	946	37	(61)	(115)	807	*946*	*807*
Finance lease payables	5	40	-	(5)	40	*5*	*40*
Payables to other lenders	5	9	-	(10)	4	*5*	*4*
Total non-current financial liabilities	**3,436**	**86**	**(61)**	**40**	**3,501**	***3,436***	***3,501***

"Non-current financial liabilities" amounted to 3,501 million euro (3,436 million euro at December 31, 2016 Restated) show an increase of 40 million euro, excluding the first-time consolidation effect of acquisitions in 2017 equal to 86 million euro and the decrease due to the change in the consolidation method of the EPCG Group for 61 million euro.

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

- 509 million euro, maturing in November 2019 and a coupon of 4.50%, the nominal value of which at December 31, 2017, net of the partial repurchase in October 2017 for 57 million euro nominal, is equal to 511 million euro;
- 350 million euro, maturing in January 2021 and a coupon of 4.375%, the nominal value of which at December 31, 2017, net of the partial repurchase in October 2017 for 79 million euro nominal, is equal to 351 million euro;
- 498 million euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500 million euro;
- 299 million euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300 million euro;
- 297 million euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300 million euro;
- 299 million euro, Private Placement maturing in December 2024 and coupon of 1.25%, the nominal value of which is equal to 300 million euro;
- 295 million euro, maturing in December 2027 and coupon of 1.625%, the nominal value of which is equal to 300 million euro;
- 103 million euro, Private Placement in yen maturing in August 2036 and fixed rate of 5.405%, the nominal value of which is equal to 14 billion yen.

The net increase in the non-current component of "Non-convertible bonds", equal to 170 million euro compared to December 31, 2016 Restated, is due to new issues, offset by partial repurchases during the year and the reclassification to current liabilities of the LGH Bond.

Non-current "Payables to banks" amounted to 807 million euro, a decrease of 115 million euro compared to the end of the previous year, excluding the first-time consolidation effect of 2017 acquisitions of 37 million euro and the decrease due to the change in the EPCG Group consolidation method for 61 million euro, mainly deriving from the early repayment of some LGH loans and the reclassification under current liabilities of the portions of capital maturing within the following year.

"Payables for finance leases" amounted to 40 million euro, a decrease of 5 million euro compared to the previous year-end, excluding the first-time consolidation effect of acquisitions in 2017 equal to 40 million euro.

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

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

millions of euro	Nominal value	Book value	Current portion	Non-current portion	Fair Value
Bonds	2,965	2,995	345	2,650	3,225
Bank loans and other lenders	894	892	82	810	886
Total	**3,859**	**3,887**	**427**	**3,460**	**4,111**

19) Employee benefits

The balance on this item amounted to 319 million euro (365 million euro at December 31, 2016 Restated) with changes as follows during the period:

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Provisions	Utilizations	Other changes	Balance at 12 31 2017
Employee leaving entitlement (TFR)	176	1	-	29	(13)	(25)	168
Employee benefits	189	-	(13)	-	(9)	(16)	151
Total employee benefits	**365**	**1**	**(13)**	**29**	**(22)**	**(41)**	**319**

The change in the year is attributable to the decrease for 22 million euro due to the net disbursements of the year, to the decrease of 13 million euro relating to the change in the consolidation method of EPCG and to the net decrease of 11 million euro mainly related to actuarial valuations for the year, which include the increase deriving from the service cost for 1 million euro, the increase deriving from the interest cost for 4 million euro and the decrease deriving from actuarial gains/losses for 19 million euro.

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

	2017	2016
Discount rate	from 0.0% to 1.3%	from 0.0% to 1.3%
Annual inflation rate	1.5%	1.5%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	2.6%	2.6%
Average annual increase rate of supplementary pensions	1.1%	1.1%
Annual turnover frequencies	from 4.0% to 5.0%	from 2.0% to 5.0%
Annual TFR advance frequencies	from 2.0% to 2.5%	from 2.0% to 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the curve relative to the inflation rate under the current economic situation, which has particular volatility of the majority of economic indicators, was changed as shown in the table. This hypothesis was derived from the "Document of Economics and Finance 2015 - Update September 2015 Sect. II-Tab II.2" issued by the MEF and "The medium/long-term trends in the pension and social-health system - Report no. 16" published by the State General Accounting Office;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;
- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;
- for the demographic technical bases, it is noted that:
  - for "death", the tables TG62 (Premungas, Electricity and gas discount) and RG48 (other plans) were used;
  - for "inability", the INPS tables divided by age and gender were used;
  - for "retirement", the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance);
  - for the "probability of leaving the family", the table in the INPS model was used for projections to 2010;
  - for the "frequency of the various structures of surviving nuclei and average age of members", the table in the INPS model was used for projections to 2010.

20) Provisions for risks, charges and liabilities for landfills

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Provisions	Releases	Utilizations	Other changes	Balance at 12 31 2017
Decommissioning provisions	210	-	-	6	-	(5)	15	226
Landfill closing and post-closing expense provisions	188	-	-	3	-	(4)	1	188
Tax provisions	48	1	-	4	(3)	-	-	50
Personnel lawsuits and disputes provisions	111	-	-	7	(13)	(43)	(1)	61
Other risk provisions	114	-	(18)	12	(6)	(7)	5	100
Provisions for risks, charges and liabilities for landfills	**671**	**1**	**(18)**	**32**	**(22)**	**(59)**	**20**	**625**

"Decommissioning provisions", which amounted to 226 million euro, include charges for costs of dismantling and recovery of production sites mainly related to thermoelectric plants and waste-to-energy plants. The changes for the year concerned allocations for 6 million euro related to the effects of updating the appraisal for the Brindisi Plant, uses for 5 million euro, to cover the expenses incurred during the reporting year and other increases for 15 million euro, which refer mainly to the effects of the update of the appraisal for the Monfalcone plant and of the discount rates used to estimate the future costs of dismantling and restoration of the sites having "Tangible assets" as balancing entry.

The "Landfill closing and post-closing expense provisions", which amounted to 188 million euro, refer to all the costs that will have to be incurred in the future for the sealing of the landfills in cultivation at the reporting date and for the subsequent post-operative management, thirty-year and fifty-year, provided by the AIA (Integrated Environmental Authorization). The changes for the year concerned provisions of 3 million euro related to the effects of the updates of some appraisals, uses for 4 million euro, which represent the actual disbursements in the year, and other increases of 1 million euro, mainly relating to the effects of the updates of the discount rates of assets not fully depreciated and that have "Tangible assets" as balancing entry.

"Tax Provisions", which amounted to 50 million euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for direct and indirect taxes, levies and excises. This item increased by 1 million euro due to the first-time consolidation effect of 2017 acquisitions. Provisions for the year, for 4 million euro, were mainly related to the ICI/IMU and COSAP dispute with territorial entities as well as new tax audits opened in the year under review. Releases, for 3 million euro, mainly refer to the conclusion of some ICI/IMU disputes.

The "Personnel lawsuits and disputes provisions" amounted to 61 million euro and mainly refer to lawsuits pending with social security institutions, for 15 million euro, related to social security contributions that the Group believes it is not required to pay and for which specific disputes are pending, to lawsuits with third parties, for 42 million euro, and with employees, for 4 million euro, for the liabilities that could arise from litigations in progress. Provisions for the year for 7 million euro refer to provisions relating to litigation with third parties, while releases for the year for 13 million euro mainly refer to current litigation with Social Security Institutions and with third parties. Uses for 43 million euro refer to the litigation with Social Security Institutions and the conclusion of current litigation by the subsidiary A.S.R.A.B. S.p.A., which did not involve financial expenses for the Group. Other changes, negative for 1 million euro, mainly refer to lawsuits with third parties.

"Other provisions", which amounted to 100 million euro, refer to provisions relating to public water derivation fees for 36 million euro, to the mobility provision for the costs arising from the corporate restructuring plan, for 2 million euro, to the provision for extraordinary maintenance of the waste-to-energy plant in Acerra, for 16 million euro, as well as other provisions for 46 million euro. The item under review decreased by 18 million euro due to the change in the EPCG consolidation method. Provisions for the year amounted to 12 million euro and mainly concerned the provision for public water derivation fees. Utilizations amounted to 7 million euro and mainly refer to disbursements for the year for onerous contracts, while releases amounted to 6 million euro. Other changes were positive for 5 million euro.

21) Other non-current liabilities

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Other non-current liabilities	90	4	(4)	35	125	-	-
Non-current derivatives	19	5	-	(1)	23	*19*	*23*
Total other non-current liabilities	**109**	**9**	**(4)**	**34**	**148**	***19***	***23***

At December 31, 2017, this item showed an increase of 34 million euro compared to the previous year, excluding the first-time consolidation effects of 2017 acquisitions for 9 million euro and the decrease due to the change in the consolidation method of the EPCG Group for 4 million euro.

"Other non-current liabilities", which showed a balance of 125 million euro, refer to security deposits from customers, for 60 million euro, to liabilities pertaining to future years for 7 million euro, to medium/long-term payables to suppliers for 3 million euro, as well as other non-current liabilities for 55 million euro, which mainly include the effect of entry of earn-out clauses envisaged in the contracts signed for the acquisitions of new investments in 2016 and 2017.

"Non-current derivative instruments" amounted to 23 million euro and, net of the 5 million euro increase deriving from the first-time consolidation effect of 2017 acquisitions, a decrease of 1 million euro deriving from the fair value measurement of financial instruments at the end of the year.

CURRENT LIABILITIES

22) Trade payables and other current liabilities

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Advances	3		(1)	-	2		
Payables to suppliers	1,381	10	(17)	5	1,379		
Total trade payables	**1,384**	**10**	**(18)**	**5**	**1,381**	**-**	**-**
Payables to social security institutions	39		(1)	-	38	-	-
Current derivatives	253			(167)	86		
Other current liabilities of which:	452	7	(37)	(25)	397		
- Payables to personnel	81		(5)	(7)	69		
- Payables to Cassa per i Servizi Energetici e Ambientali	72	1		12	85		
- Tax payables	58	4	(5)	23	80		
- Payables for tax transparency	7			-	7		
- Payables for energy tariff components	115			(30)	85		
- Payables to third-party shareholders EPCG	20			(20)	-		
- Payables to third-party shareholders LGH	5			(5)	-		
- Payables for A.T.O.	6			1	7		
- Payables to customers for work to be performed	12			(1)	11		
- Payables to customers for interest on security deposits	3			-	3		
- Payables for liabilities of competence of following years/periods	25		(27)	2	-		
- Payables for auxiliary services	1			-	1		
- Payables for collections to be allocated	9			(1)	8		
- Payables to insurance companies	3			1	4		
- Payables for excise compensation	6			-	6		
- Payables for environmental compensation	2			-	2		
- Payables for RAI fee	6			-	6		
- Sundry payables	21	2		-	23		
Total other current liabilities	**744**	**7**	**(38)**	**(192)**	**521**	**-**	**-**
Total trade payables and other current liabilities	**2,128**	**17**	**(56)**	**(187)**	**1,902**	**-**	**-**

"Trade payables and other current liabilities" amounted to 1,902 million euro (2,128 million euro at December 31, 2016 Restated), with a decrease of 187 million euro, excluding the first-time consolidation effect of 2017 acquisitions equal to 17 million euro and the decrease due to the change in the consolidation method of the EPCG Group for 56 million euro.

"Trade payables" amounted to 1,381 million euro and showed, compared to the previous year-end, an increase of 5 million euro, excluding the first-time consolidation effect of 2017 acquisitions equal to 10 million euro and the decrease due to the change in the consolidation method of EPCG for 18 million euro.

"Payables to social security institutions" amounted to 38 million euro (39 million euro at December 31, 2016 Restated) and relate to the Group's debt position with social security and pension institutions, related to contributions of the month of December 2017 not yet paid.

"Current derivative instruments" amounted to 86 million euro (253 million euro at December 31, 2016 Restated) and refer to the fair value valuation of commodity derivatives. The decrease is due both to the decrease in the fair value valuation of the year and to the change in the amounts covered.

"Other current liabilities" mainly refer to:

- payables to employees for 69 million euro (81 million euro at December 31, 2016 Restated), relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2017;
- payables to the CSEA - Cassa per i Servizi Energetici e Ambientali for 85 million euro (72 million euro at December 31, 2016 Restated) regarding the payable for the tariff components, invoiced and not yet paid, as well as the payable for equalization liabilities related both to prior years and the year under review;
- tax liabilities for 80 million euro (58 million euro at December 31, 2016 Restated) and mainly refer to payables to the tax authorities for excise, withholding taxes and VAT;
- payables for fiscal transparency for 7 million euro to the associate Ergosud S.p.A., unchanged compared to December 31, 2016 Restated;
- payables for electricity tariff components for 85 million euro (115 million euro at December 31, 2016 Restated);
- payables for A.T.O. for 7 million euro (6 million euro at December 31, 2016 Restated) relating to the payment of the fee for concessions regarding the management of the water service;
- payables to customers for work to be performed for 11 million euro (12 million euro at December 31, 2016 Restated) related to estimates already collected from customers for work that has not been completed yet;
- payables to customers for interest on security deposits accrued but not yet paid for 3 million euro, unchanged compared to December 31, 2016 Restated;
- payables for ancillary services, amounting to 1 million euro, unchanged over the previous year, relating to the remaining debt on the dispute with the CSEA for ancillary services on the waste-to-energy plant in Filago.

23) Current financial liabilities

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Non-convertible bonds	47	-	-	298	345	*47*	*345*
Payables to banks	303	3	(13)	(211)	82	*303*	*82*
Finance lease payables	2	-	-	3	5	*2*	*5*
Financial payables to related parties	2	-	-	(1)	1	*2*	*1*
Payables to other lenders	5	-	-	(1)	4	*5*	*4*
Total current financial liabilities	**359**	**3**	**(13)**	**88**	**437**	***359***	***437***

“Current financial liabilities” amounted to 437 million euro compared to 359 million euro at December 31, 2016 Restated and showed an increase of 88 million euro, excluding the first-time consolidation effect of 2017 acquisitions equal to 3 million euro and the decrease due to the change in the consolidation method of EPCG for 13 million euro.

“Non-convertible bonds” showed an increase of 298 million euro due to the reclassification of the non-current payable of the LGH bond.

Current “Payables to banks” amounted to 82 million euro and showed, excluding the first-time consolidation effect of 2017 acquisitions of 3 million euro and the decrease due to the change in the EPCG consolidation method for 13 million euro, a decrease of 211 million euro, mainly due to repayment of credit lines and loan instalments.

“Payables for finance leases” amounted to 5 million euro, an increase of 3 million euro.

Lastly, “Payables to other lenders” amounted to 4 million euro and showed a decrease of 1 million euro.

24) Tax liabilities

millions of euro	Balance at 12 31 2016 Restated	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	Changes during the year	Balance at 12 31 2017
Tax liabilities	**33**	**-**	**-**	**(29)**	**4**

“Tax liabilities” amounted to 4 million euro (33 million euro at December 31, 2016 Restated), a decrease of 29 million euro over the previous year-end.

25) Liabilities directly associated with non-current assets held for sale

millions of euro	Balance at 12 31 2016 Restated	First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Changes during the year	Balance at 12 31 2017	*of which included in the NFP*	
						12 31 2016 Restated	*12 31 2017*
Liabilities directly associated with non-current assets held for sale	**7**	**-**	**-**	**(7)**	**-**	**3**	**-**

At December 31, 2017, this item was equal to zero while at December 31, 2016 Restated, it amounted to 7 million euro and referred to the “Liabilities directly associated with non-current assets held for sale” of the company Bellisolina S.r.l. and the LGH Group concerning the business unit for municipal sanitation activities of the Lodi area.

Net debt

26) Net debt (pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006 and ESMA/2013/319)

The following table provides details of net debt:

millions of euro	Notes	12 31 2017	First-time consolidation effect acquisitions 2017	Change in consolidation method EPCG	12 31 2016 Restated
Bonds - non-current portion	18	2,650	-	-	2,480
Bank loans - non-current portion	18	807	37	(61)	946
Finance leases - non-current portion	18	40	40	-	5
Non-current amounts due to other providers of finance	18	4	9	-	5
Other non-current liabilities	21	23	5	-	19
Total medium/long-term debt		**3,524**	**91**	**(61)**	**3,455**
Non-current financial assets - related parties	3	(8)	-	-	(7)
Non-current financial assets	3	(28)	-	28	(48)
Financial receivables due from companies held for sale	3	-	-	-	(1)
Other non-current assets	5	-	-	-	(4)
Total medium/long-term financial receivables		**(36)**	**-**	**28**	**(60)**
Total non-current net debt		**3,488**	**91**	**(33)**	**3,395**
Bonds - current portion	23	345	-	-	47
Bank loans - current portion	23	82	3	(13)	303
Finance leases - current portion	23	5	-	-	2
Current amounts due to other providers of finance	23	4	-	-	5
Current financial liabilities - related parties	23	1	-	-	2
Financial payables in liabilities held for sale	25	-	-	-	3
Total short-term debt		**437**	**3**	**(13)**	**362**
Other current financial assets	9	(7)	-	197	(206)
Current financial assets - related parties	9	(1)	-	-	(10)
Financial receivables due from companies held for sale	9	-	-	-	(2)
Total short-term financial receivables		**(8)**	**-**	**197**	**(218)**
Cash and cash equivalents	11	(691)	(7)	55	(402)
Cash and cash equivalents included in assets held for sale	12	-	-	-	(1)
Total current net debt		**(262)**	**(4)**	**239**	**(259)**
Net debt		**3,226**	**87**	**206**	**3,136**

The Group's net financial position includes the first-time consolidation effect of 2017 acquisitions for 87 million euro, as well as the effect of the change in the consolidation method of the EPCG Group, whose net financial position was positive for 206 million euro (201 million euro at December 31, 2016).

Changes in financial assets and liabilities pursuant to IAS 7 "Cash Flow Statement" are set out in the table below:

millions of euro	12 31 2016	Cash flow	Non-cash flow				12 31 2017
			First-time consolid. effect acquisitions 2017	Change in consolid. method EPCG	Change in fair value	Other changes	
Bonds	2,527	464	-	-	6	(2)	2,995
Financial payables	1,271	(342)	89	(74)	-	(1)	943
Other liabilities	19	-	5	-	(1)	-	23
Financial assets	(274)	-	-	225	-	5	(44)
Other assets	(4)	-	-	-	4	-	-
Net liabilities deriving from financing activities	**3,539**	**122**	**94**	**151**	**9**	**2**	**3,917**
Cash and cash equivalents	(403)	(337)	(7)	55	-	1	(691)
Net debt	**3,136**	**(215)**	**87**	**206**	**9**	**3**	**3,226**

Notes to the income statement

It is noted that the economic data at December 31, 2017 includes the full consolidation of the entire year of the LGH Group, the RI.ECO-RESMAL Group and the company Consul System S.p.A., which were consolidated in the second half in 2016.

As a result of the PPA of the LGH Group and the reclassification for the purposes of IFRS 5 of the income statement items of the EPCG Group, the figures at December 31, 2016 have been restated:

- change in the consolidation method of the EPCG Group which, following the exercise of the put option on the entire shareholding held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, led to a change in the allocation of the investment held in EPCG from ongoing investment to investment held for sale according to the provisions of IFRS 5 with consequent change (starting from July 2017) of the consolidation criterion from full to equity. As a consequence of the above, the related income statement items for the first half of the year (previously fully consolidated) relating to revenues and operating costs and to financial management have been reclassified, in accordance with the provisions of IFRS 5, under "Result net of non-current assets held for sale", as well as the values (referred to the entire year) of the corresponding period of the previous year. The Consolidated Financial Statements include a statement of reconciliation between the values of the Income Statement at December 31, 2017 Reported considered for the purpose of analyzing the results presented in the Report on Operations and the values of the Income Statement that include the effects of the application of IFRS 5 analyzed in the comments of these Notes of the Income Statement;
- subscription by the Parent Company A2A S.p.A. of the capital increase of the company Azienda Servizi Valtrompia S.p.A.. A2A S.p.A. increased its shareholding portion from 49% to 74.8%; therefore, Azienda Servizi Valtrompia S.p.A., which at December 31, 2016 was consolidated using the equity method, is fully consolidated as of March 1, 2017;
- increase to 92.7% of the shareholding held in LumEnergia S.p.A., following the transaction that saw the subsidiary A2A Energia S.p.A., already holder of 33.33%, rise to 92.41% of LumEnergia S.p.A.. The company, which was previously consolidated using the equity method, has been fully consolidated starting from July 2017;
- incorporation, in July 2017 of the company A2A Rinnovabili S.p.A., which progressively acquired a portfolio of 13 companies (special purpose vehicles) that own photovoltaic plants;
- acquisition of 100% of Patavina Technologies S.r.l. by A2A Smart City S.p.A.;
- incorporation and full consolidation of the consortium A2A Security S.c.p.a.;
- incorporation and full consolidation of the company A2A Energy Solutions S.r.l.;
- incorporation and full consolidation of the company A2A Idro4 S.r.l.;
- exit from the scope of consolidation, with effect from January 1, 2017 of the company Bellisolina S.r.l.. The sale of 100% of the shareholding, previously held by A2A Ambiente S.p.A. and at December 31, 2016 recognized under the item "Non-current assets held for sale", to Ladurner Ambiente S.p.A. became necessary to comply with one of the requirements of the Competition and Market Protection Authority following the purchase of 51% of the share capital of the LGH Group by A2A S.p.A..

27) Revenues

Revenues for the year amounted to 5,796 million euro (4,860 million euro at December 31, 2016 Restated) and therefore show an increase of 936 million euro (+19.3%), of which 287 million euro referring to the LGH Group and 31 million euro relating to the first consolidations of the companies acquired in the year.

Details of the more significant items are as follows:

Revenues *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Revenues from the sale of goods	4,633	3,734	899	24.1%
Revenues from services	957	842	115	13.7%
Revenues from long-term contracts	-	5	(5)	(100.0%)
Total revenues from the sale of goods and services	**5,590**	**4,581**	**1,009**	**22.0%**
Other operating revenues	**206**	**279**	**(73)**	**(26.2%)**
Total revenues	**5,796**	**4,860**	**936**	**19.3%**

Net of the contribution of the LGH Group and other changes in perimeter, the increase in revenues is mainly attributable to higher revenues from the sale of electricity and gas on the wholesale markets and higher sales of electricity on Ipex, following the higher volumes brokered and the rising prices recorded in the current year compared to 2016.

Further details of the main items are as follows:

millions of euro	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Sale and distribution of electricity	2,806	2,407	399	16.6%
Sale and distribution of gas	1,300	958	342	35.7%
Sale of heat	161	138	23	16.7%
Sale of materials	45	24	21	87.5%
Sale of water	58	100	(42)	(42.0%)
Sales of environmental certificates	235	77	158	n.s.
Connection contributions	28	30	(2)	(6.7%)
Total revenues from the sale of goods	**4,633**	**3,734**	**899**	**24.1%**
Services to customers	957	842	115	13.7%
Total revenues from services	**957**	**842**	**115**	**13.7%**
Revenues from long-term contracts	**-**	**5**	**(5)**	**(100.0%)**
Total revenues from the sale of goods and services	**5,590**	**4,581**	**1,009**	**22.0%**
Reintegration of costs plant S. Filippo del Mela (plant essential Unit)	66	60	6	10.0%
Damage compensation	6	10	(4)	(40.0%)
Contributions - Cassa Servizi Energetici ed Ambientali	9	20	(11)	(55.0%)
Rents receivable	1	2	(1)	(50.0%)
Contingent assets	59	42	17	40.5%
Incentives for production from renewable sources (feed-in tariff)	42	101	(59)	(58.4%)
Other revenues	23	44	(21)	(47.7%)
Other operating revenues	**206**	**279**	**(73)**	**(26.2%)**
Total revenues	**5,796**	**4,860**	**936**	**19.3%**

Revenues from water sales decreased by 42 million euro, since at December 31, 2016 Restated, the item in question included the recognition, to the subsidiary A2A Ciclo Idrico S.p.A., as per Resolution no. 16/2016, by the Ambit Government Entity for Brescia of previous tariff items relating to the financial years 2007 - 2011 under the Resolution of the Regulatory Authority for Energy Networks and Environment no. 643/2013/R/idr. This 2016 revenue was non-recurring.

Revenues from environmental certificates (green certificates and white certificates) increased by 158 million euro, compared to December 31, 2016 Restated, mainly as a result of the contribution of the companies acquired in the second half of 2016, the increase in the tariff contribution recognized with respect to the previous year and to the higher quantities of certificates recognized.

"Revenues for services" amounted to 957 million euro, representing an increase of 115 million euro over the previous year.

The item "Other operating revenues" decreased by 73 million euro mainly due to the recognition, at December 31, 2017, of lower revenues from incentives on net production from renewable sources due to the end of the incentive period, starting from July 1, 2016, of some plants of the Valtellina hydroelectric plant.

Further details on the reasons for the performance of revenues relating to the various Business Units can be found in the paragraph "Result by sector".

28) Operating expenses

"Operating expenses" amounted to 3,962 million euro (3,102 million euro at December 31, 2016 Restated), therefore representing an increase of 860 million euro.

The main components of this item are as follows:

Operating expenses *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Raw materials and consumables	2,831	2,101	730	34.7%
Service costs	850	758	92	12.1%
Total expenses for raw materials and services	**3,681**	**2,859**	**822**	**28.8%**
Other operating expenses	**281**	**243**	**38**	**15.6%**
Total operating expenses	**3,962**	**3,102**	**860**	**27.7%**

"Expenses for raw materials and services" amounted to 3,681 million euro (2,859 million euro at December 31, 2016 Restated) and show an increase of 822 million euro, of which 129 million euro referring to the LGH Group and 22 million euro relating to the first consolidations of the companies acquired in the year.

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

- the increase of 772 million euro in the purchase of raw materials and consumables, mainly due to the increase of 641 million euro in costs for the purchase of power and fuel, the increase of 7 million euro for the purchase of materials and the increase of 99 million euro in costs relating to the purchase of environmental certificates;
- an increase of 92 million euro in costs for delivery, subcontracted work and services;
- the decrease in inventories of fuel and materials for 42 million euro.

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

millions of euro	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Purchases of power and fuel	2,571	1,916	655	34.2%
Purchases of materials	85	75	10	13.3%
Purchases of water	2	2	-	0.0%
Hedging losses on operating derivatives	7	4	3	75.0%
Hedging gains on operating derivatives	(14)	(19)	5	(26.3%)
Purchases of emission certificates and allowances	196	97	99	n.s.
Total expenses for raw materials and consumables	**2,847**	**2,075**	**772**	**37.2%**
Delivery and transmission costs	364	322	42	13.0%
Maintenance and repairs	159	148	11	7.4%
Services from associates	1	1	-	0.0%
Other services	326	287	39	13.6%
Total service costs	**850**	**758**	**92**	**12.1%**
Change in inventories of fuel and materials	(16)	26	(42)	n.s.
Total expenses for raw materials and services	**3,681**	**2,859**	**822**	**28.8%**
Leasehold improvements	105	108	(3)	(2.8%)
Concession fees distribution networks Municipality of Milan and Brescia	11	11	-	0.0%
Water derivation concession fees	65	54	11	20.4%
Contributions to territorial entities, consortia and ARERA	6	6	-	0.0%
Taxes and duties	33	31	2	6.5%
Damages and penalties	2	3	(1)	(33.3%)
Contingent liabilities	35	13	22	n.s.
Other costs	24	17	7	41.2%
Other operating expenses	**281**	**243**	**38**	**15.6%**
Total operating expenses	**3,962**	**3,102**	**860**	**27.7%**

Trading margin

The following table sets out the results arising from the trading portfolio; these figures relate to trading in electricity, gas and environmental certificates.

Trading margin *millions of euro*	NOTES	12 31 2017	12 31 2016 Restated	CHANGE
Revenues	27	1,527	1,180	347
Operating expenses	28	(1,525)	(1,193)	(332)
Total trading margin		**2**	**(13)**	**15**

The "Trading margin" was up by 15 million euro compared to December 31, 2016 Restated. The increase in the volatility of the energy markets allowed highlighting a positive result of the more systematic activities of the trading desk as, in particular, those of value trading, liquidity provider and statistical arbitrage. This positive performance made it possible to offset the depreciation trend in the value of interconnection capacity with foreign countries, which had affected the results in the first half.

29) Labour costs

Net of capitalized expenses, labour costs at December 31, 2017 amounted to 635 million euro (596 million euro at December 31, 2016 Restated).

"Labour costs" may be analyzed as follows:

Labour costs *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Wages and salaries	471	433	38	8.8%
Social security charges	160	146	14	9.6%
Employee leaving entitlement (TFR)	29	26	3	11.5%
Other costs	27	36	(9)	(25.0%)
Total labour costs before capitalizations	**687**	**641**	**46**	**7.2%**
Capitalized labour costs	(52)	(45)	(7)	15.6%
Total labour costs	**635**	**596**	**39**	**6.5%**

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

	12 31 2017	12 31 2016 Restated	CHANGE
Managers	174	172	2
Supervisors	584	551	33
White-collar workers	4,661	4,627	34
Blue-collar workers	5,861	5,736	125
Total	**11,280**	**11,086**	**194**

The average labour cost per capita at December 31, 2017 amounted to 56.29 thousand euro (53.76 thousand euro at December 31, 2016 Restated).

At December 31, 2017, the Group had 11,436 employees, of whom 1,200 related to the consolidation of the LGH Group. At December 31, 2016, the Group had 11,193 employees.

The item "Other labour costs" includes early retirement incentives for 1 million euro (6 million euro at December 31, 2016 Restated).

30) Gross operating income

As a result of the above changes, consolidated "Gross operating income" at December 31, 2017 amounted to 1,199 million euro (1,162 million euro at December 31, 2016 Restated).

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

31) Depreciation, amortization, provisions and write-downs

"Depreciation, amortization, provisions and write-downs" totalled 489 million euro (719 million euro at December 31, 2016 Restated), representing a decrease of 230 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Amortization of intangible assets	72	55	17	30.9%
Depreciation of tangible assets	338	348	(10)	(2.9%)
Net write-downs of fixed assets	34	245	(211)	(86.1%)
Total amortization, depreciation and write-downs	**444**	**648**	**(204)**	**(31.5%)**
Provisions for risks	10	50	(40)	(80.0%)
Bad debts provision on receivables recognized as current assets	35	21	14	66.7%
Total depreciation, amortization, provisions and write-downs	**489**	**719**	**(230)**	**(32.0%)**

"Depreciation, amortization and write-downs" amounted to 444 million euro (648 million euro at December 31, 2016 Restated), representing an overall decrease of 204 million euro.

Amortization of intangible assets amounted to 72 million euro (55 million euro at December 31, 2016 Restated). The item recorded higher amortization of 17 million euro, of which 11 million euro relating to the consolidation of the companies acquired in the second half of 2016 and in 2017, 2 million euro relating to the gas and water distribution network and 4 million euro relating to the implementation of information systems.

Depreciation of tangible assets show a decrease of 10 million euro compared to December 31, 2016 Restated and includes:

- higher depreciation resulting from the consolidation of the companies acquired in the second half of 2016 and in 2017 for 22 million euro;
- higher depreciation of 7 million euro, mainly relating to the investments which went into production after December 31, 2016;
- lower depreciation of 26 million euro, resulting in write-downs of assets at December 31, 2016;
- lower depreciation of 13 million euro, resulting in the extension of the residual useful life of the San Filippo del Mela plant, related to the stipulation of a contract under must-run regime with Terna.

Write-downs in the year amounted to 34 million euro and refer to the write-down of goodwill relating to the "A2A Reti Elettriche" CGU. The write-down was made as a result of the findings of the Impairment Test process performed by an independent external expert; for further clarifications relating to the impairment activities, reference is made to note 2 of these Notes.

Regarding the transposition of the "Growth Decree" which lays down procedures for calculating the surrender value of the water system works used to supply water under concession to hydroelectric power plants (the "wet works"), the calculation criteria (revaluation coefficients and useful lives) needed to quantify the surrender value at the end of the relative concessions have not been set yet by the relevant authorities. In the absence of a regulatory framework, the A2A Group carried out a series of simulations estimating the revaluations using ISTAT coefficients, which were found to be the only possible data objectively usable, and made its own estimates of the economic and technical lives of the assets. The results of these simulations led to a very wide variability range, confirming that it is currently impossible to make a reliable estimate of the surrender values at the end of the concessions. Nevertheless, for concessions close to expiry the net carrying amount of the wet works was significantly lower than the range of results obtained. As a result, therefore, as of June 30, 2012, depreciation and amortization is no longer charged only for those concessions nearing expiry (Hydroelectric plant in Valtellina), while the same valuation methods continue to be applied to the remaining concessions.

The balance of "Provisions for risks" shows a net effect of 10 million euro (50 million euro at December 31, 2016 Restated) due to allocations in the year of 32 million euro, offset by the surpluses of 22 million euro since some ongoing disputes have ceased to exist.

Provisions for the year concerned 12 million euro for the provision for public water derivation fees, 6 million euro for provisions relating to the effect of updating he appraisal for the Brindisi Plant, 7 million euro for provisions for funds for personnel lawsuits and disputes, 4 million euro for provisions for tax funds and 3 million euro for provisions for expenses funds for closure and post-closure of landfills. Surpluses of risks provisions amounted to 22 million euro.

For further information, reference is made to Note 20 "Provisions for risks, charges and liabilities for landfills".

The "Bad debts provision" amounted to 35 million euro (21 million euro at December 31, 2016 Restated), consisting of the accrual for the year, of which 9 million euro relating to a specific distribution client.

32) Net operating income

"Net operating income" amounted to 710 million euro (443 million euro at December 31, 2016 Restated).

33) Result from non-recurring transactions

The "Result from non-recurring transactions" had no value at December 31, 2017 while at December 31, 2016 Restated, it was positive for 52 million euro and was related to the demerger of the "Cellina Unit" of Edipower S.p.A. in favour of Cellina Energy S.r.l., effective January 1, 2016 following the demerger deed stipulated between the parties on December 28, 2015.

34) Financial balance

The "Financial balance" closed with net expense of 134 million euro (net expense of 161 million euro at December 31, 2016 Restated).

Details of the more significant items are as follows:

Financial balance *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Financial income	19	34	(15)	(44.1%)
Financial expense	(158)	(192)	34	(17.7%)
Affiliates	5	(3)	8	n.s.
Total financial balance	**(134)**	**(161)**	**27**	**(16.8%)**

“Financial income” amounted to 19 million euro (34 million euro at December 31, 2016 Restated) and may be analyzed as follows:

Financial income *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Bank income	-	1	(1)	(100.0%)
Fair value of financial derivatives	-	8	(8)	(100.0%)
Realized on financial derivatives	-	8	(8)	(100.0%)
Income from dividends in other companies	4	1	3	n.s.
Gains from disposal Financial assets	1	-	1	n.s.
Other financial income of which:	14	16	(2)	(12.5%)
- Financial income from the Municipality of Brescia (IFRIC 12)	*6*	*6*	*-*	*0.0%*
- Foreign exchange gains	*1*	*2*	*(1)*	*(50.0%)*
- Other income	*7*	*8*	*(1)*	*(12.5%)*
Total financial income	**19**	**34**	**(15)**	**(44.1%)**

“Financial expenses”, which amounted to 158 million euro, decreased by 34 million euro over the balance at December 31, 2016 Restated, and may be analyzed as follows:

Financial expenses *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE	% 2017/2016
Interest on bond loans	104	125	(21)	(16.8%)
Interest charged by banks	9	9	-	0.0%
Fair value of financial derivatives	-	-	-	-
Realized on financial derivatives	8	6	2	33.3%
Decommissioning costs	2	1	1	100.0%
Other financial expenses of which:	35	51	(16)	(31.4%)
- Discounting charges	*6*	*9*	*(3)*	*(33.3%)*
- Financial expenses (IFRIC 12)	*3*	*3*	*-*	*0.0%*
- Foreign exchange losses	*1*	*1*	*-*	*0.0%*
- Other expenses	*25*	*38*	*(13)*	*(34.2%)*
Total financial expenses before capitalizations	**158**	**192**	**(34)**	**(17.7%)**
Capitalized financial expenses	-	-	-	-
Total financial expenses	**158**	**192**	**(34)**	**(17.7%)**

“Other expenses” amounting to 25 million euro include, for 17 million euro, the expense incurred by A2A S.p.A. for the partial buyback of bonds maturing in 2019 and 2021 for an amount respectively of 57 million euro and 79 million euro. This expense is determined by the difference between the buyback price and the carrying value in the financial statements of the related bonds.

The equity method valuation of shareholdings was positive for 5 million euro (negative for 3 million euro at December 31, 2016 Restated), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

35) Income taxes

Income taxes *millions of euro*	12 31 2017	12 31 2016 Restated	CHANGE
Current IRES	107	138	(31)
Current IRAP	26	25	1
Effect of differences - taxes of previous years	(1)	4	(5)
Total current taxes	**132**	**167**	**(35)**
Deferred tax assets	88	44	44
Deferred tax liabilities	(28)	(89)	61
Total losses/gains for income taxes	**192**	**122**	**70**

"Income taxes" for the year amounted to 192 million euro (122 million euro at December 31, 2016 Restated).

It is noted that the Parent Company A2A determines IRAP taxes for the year according to art. 6, paragraph 9, of Legislative Decree December 15, 1997, no. 446 ("industrial holding" method), under which the taxable amount is determined by taking into account also financial income and expenses (excluding those related to shareholdings).

The reconciliation between the tax burden posted in the Consolidated Financial Statements and theoretical tax liabilities, calculated on the basis of theoretical rates applicable in Italy, is as follows:

millions of euro	2017	2016 Restated
Pre-tax result	**576**	**334**
Write-downs of assets	34	245
Pre-tax result adjusted by write-downs and the result of assets held for sale	**610**	**579**
Theoretical rates based on applicable tax rates (1)	146	159
Tax effect of write-downs	(8)	(67)
Permanent differences	28	3
Differences between international tax rates and theoretical Italian rates	-	2
Total taxes charged to income statement (excluding IRAP)	**166**	**97**
Current IRAP	26	25
Total taxes charged to income statement	**192**	**122**

(1) Taxes were calculated using a theoretical IRES rate of 24% for 2017 and 27.5% for 2016.

36) Net result from discontinued operations

The "Net result from discontinued operations" was negative and equal to 85 million euro (positive for 19 million euro at December 31, 2016 Restated). The item in question includes the net result, less than 1 million euro and relating to the first six months of 2017 of EPCG, in addition to the write-down of 60 million euro and the discounting charge of 26 million euro to adjust the value of the shareholding to fair value. In addition, the item in question includes, for 1 million euro, the gain deriving from the sale of the company Bellisolina S.r.l..

37) Result of minorities

The "Result of minorities" is negative for the Group for 6 million euro and mainly includes the portion attributable to minority interests of the LGH Group. In the previous year, the item showed a positive balance for the Group for 1 million euro.

38) Group result of the year

The "Group result of the year" was positive for 293 million euro (positive for 232 million euro at December 31, 2016 Restated).

Earnings per share

39) Earnings per share

	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated
Earnings (loss) per share (in euro)		
- basic	0.0944	0.0745
- basic from continuing operations	0.1215	0.0684
- basic from assets held for sale	(0.0271)	0.0062
- diluted	0.0944	0.0745
- diluted from continuing operations	0.1215	0.0684
- diluted from assets held for sale	(0.0271)	0.0062
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
- basic	3,109,183,856	3,109,183,856
- diluted	3,109,183,856	3,109,183,856

Note on related party transactions

40) Note on related party transactions

"Related parties" are those indicated by the international accounting standard that concerns Related Party Disclosures (IAS 24 revised).

Relationships with parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a Shareholders' Agreement to regulate the ownership structure of A2A S.p.A.; this gave the Municipalities joint control over the company.

Specifically, the merger effective January 1, 2008, regardless of the legal structure established, was considered a joint venture, whose joint control was exercised by the Municipalities of Milan and Brescia, each of which owned a share equal to 27.5%.

On June 13, 2014, the Shareholders' Meeting modified the company's governance system, passing from the original two-tier system, adopted in 2007, to a "traditional" system of management and control through the appointment of the Board of Directors.

In December 2014, the Municipalities of Milan and Brescia sold a total shareholding of 0.51% of A2A S.p.A., while in the first two months of 2015, the Municipalities of Milan and Brescia sold an additional shareholding of 4.5% of A2A S.p.A..

On October 4, 2016, the Municipalities of Milan and Brescia renewed for another three years, with effect from January 1, 2017, the Shareholders' Agreement signed on December 30, 2013, concerning 1,566,452,642 ordinary shares representing 50% plus two shares of the share capital of A2A S.p.A.. On May 20, 2016, the two Municipalities had proceeded to sign an appendix to the Agreement, which envisaged reducing from six months to three months the term of the agreement, during which it is possible to terminate the same.

On October 26, 2016, the Municipality of Milan received from the Municipality of Brescia the proposal, approved by the Council of said Municipality on October 25, 2016, to partially amend the shareholders' agreement relating to A2A S.p.A. existing between the two Municipalities. In particular, said proposal requires the commitment of the two Municipalities to maintain syndicated and bound, in the new agreement, a number of shares held by them in equal measure, equal to 42% of the share capital of A2A S.p.A.. On November 4, 2016, the Council of the Municipality of Milan, after having favourably examined the proposal of the Municipality of Brescia of a partial amendment to the shareholders' agreement, submitted to the Municipal Council the proposal of the new shareholders' agreement for the final determinations of competence.

On January 23, 2017, the Milan City Council approved the new Shareholders' Agreement between the Municipality of Milan and the Municipality of Brescia regarding the shareholding in A2A S.p.A. and has undertaken the commitment not to proceed with the disposal of any shares owned by the Municipality of Milan.

At the date of approval of these consolidated financial statements at December 31, 2017, the two shareholders held a shareholding of 50% plus two shares that enables the two municipalities to maintain control over the company.

The A2A Group companies and the Municipalities of Milan and Brescia routinely entertain commercial relationships related to the supply of electricity, gas, heat, and potable water, management of public lighting systems and street lights, management of water purification and sewers, garbage collection and street sweeping and video surveillance.

Similarly, the A2A Group companies entertain commercial relationships with the companies controlled by the Municipalities of Milan and Brescia, for example, Metropolitana Milanese S.p.A., ATM S.p.A., Brescia Mobilità S.p.A., Brescia Trasporti S.p.A. and Centrale del Latte di Brescia S.p.A., supplying them with electrical energy, gas, heat, water purification and sewer service at market rates appropriate to the supply conditions and providing the services required. Note that these companies are considered related parties in the preparation of the financial statement schedules pursuant to Consob Resolution 17221 of March 12, 2010.

The relationships between the Municipalities of Milan and Brescia and the A2A Group, in relation to granting the services associated with public lighting, street lights, management and supply of electricity, gas, heat, and water purification and sewer service are regulated by special conventions and specific contracts.

The relationships between the companies controlled by the Municipalities of Milan and Brescia, which refer to the supply of electricity, are at arm's length conditions.

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

Relationships with subsidiaries and affiliates

The parent company A2A S.p.A., operates like a centralized treasury for the majority of the subsidiaries.

Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies. For the financial year 2017, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

Note that for IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of Presidential Decree 917/86. To this end, with each of the subsidiaries joining, a special contract was drawn up to regulate the tax advantages/disadvantages transferred, with specific reference to the current entries. These contracts also govern the transfer of any excess of ROL as set forth by prevailing legislation.

The parent company provides the subsidiaries and affiliates with administrative, fiscal, legal, management and technical services in order to optimize the resources available in the company and to use the existing expertise in terms of economic convenience. These services are governed by specific service contracts stipulated annually. A2A S.p.A. also makes office space and operating areas at its own premises available to subsidiaries and associates, as well as associated services.These are provided at market conditions.

The companies A2A gencogas S.p.A. and A2A Energiefuture S.p.A., for a monthly fee related to the actual availability of the thermoelectric plants, provide to the Parent Company the power generation service.

Telecommunication services are provided by the subsidiary A2A Smart City S.p.A..

Finally, note that pursuant to the Consob communication issued on September 24, 2010, bearing the provisions regarding related party transactions in accordance with Consob Resolution no. 17221 of March 12, 2010, as amended, on November 11, 2010, the Group had approved the procedure for related party transactions which took effect on January 1, 2011, and which aims to ensure the transparency and substantial fairness of the related party transactions executed by A2A S.p.A. directly, or through subsidiaries, identified in accordance with the IAS 24 revised accounting standard. The Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure "Regulation of transactions with Related Parties". The review of the Procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure.

Below are the tables with detail of the related party transactions, in accordance with the Consob Resolution no. 17221 of March 12, 2010:

Balance sheet *millions of euro*	Total 12 31 2017	Of which with related parties								
		Associa-ted compa-nies	Related compa-nies	Municipa-lity of Milan	Subsidia-ries Muni-cipality of Milan	Munici-pality of Brescia	Subsidia-ries Muni-cipality of Brescia	Related parties indivi-duals	Total related parties	% effect on the balance sheet item
TOTAL ASSETS OF WHICH:	**9,949**	**286**	**19**	**72**	**3**	**16**	**1**	**-**	**397**	**4.0%**
Non-current assets	*2,840*	*53*	*13*	*-*	*-*	*5*	*-*	*-*	*71*	*2.5%*
Shareholdings	63	53	10	-	-	-	-	-	63	100.0%
Other non-current financial assets	44	-	3	-	-	5	-	-	8	18.2%
Current assets	*2,840*	*9*	*6*	*72*	*3*	*11*	*1*	*-*	*102*	*3.6%*
Trade receivables	1,671	9	6	72	3	11	1	-	102	6.1%
Other current assets	216	-	-	-	-	-	-	-	-	0.0%
Current financial assets	8	-	-	-	-	-	-	-	-	0.0%
Non-current assets held for sale	*224*	*224*	*-*	*-*	*-*	*-*	*-*	*-*	*224*	*100.0%*
TOTAL LIABILITIES OF WHICH:	**6,936**	**21**	**4**	**6**	**2**	**9**	**-**	**-**	**42**	**0.6%**
Non-current liabilities	*4,593*	*1*	*1*	*-*	*-*	*-*	*-*	*-*	*2*	*0.0%*
Provisions for risks and charges	625	1	1	-	-	-	-	-	2	0.3%
Current liabilities	*2,343*	*20*	*3*	*6*	*2*	*9*	*-*	*-*	*40*	*1.7%*
Trade payables	1,381	12	3	6	2	9	-	-	32	2.3%
Other current liabilities	521	7	-	-	-	-	-	-	7	1.3%
Current financial liabilities	437	1	-	-	-	-	-	-	1	0.2%

Income statement *millions of euro*	Total 12 31 2017	Of which with related parties								
		Associa-ted compa-nies	Related compa-nies	Municipa-lity of Milan	Subsidia-ries Muni-cipality of Milan	Munici-pality of Brescia	Subsidia-ries Muni-cipality of Brescia	Related parties indivi-duals	Total related parties	% effect on the balance sheet item
REVENUES	**5,796**	**3**	**33**	**319**	**5**	**36**	**1**	**-**	**397**	**6.8%**
Revenues from the sale of goods and services	5,590	3	33	318	5	36	1	-	396	7.1%
Other operating revenues	206	-	-	1	-	-	-	-	1	0.5%
OPERATING COSTS	**3,962**	**39**	**2**	**2**	**4**	**9**	**-**	**-**	**56**	**1.4%**
Expenses for raw materials and services	3,681	17	2	-	4	-	-	-	23	0.6%
Other operating costs	281	22	-	2	-	9	-	-	33	11.7%
LABOUR COSTS	**635**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**	**0.3%**
AMORTIZATION, DEPRECIATION, PROVISIONS AND WRITE-DOWNS	**489**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.0%**
FINANCIAL BALANCE	**(134)**	**4**	**1**	**-**	**-**	**6**	**-**	**-**	**11**	**(8.2%)**
Financial expenses	158	-	-	-	-	-	-	-	-	0.0%
Financial income	19	-	-	-	-	6	-	-	6	31.6%
Affiliates	5	4	1	-	-	-	-	-	5	100.0%
NET RESULT FROM DISCONTINUED OPERATIONS	**(85)**	**(86)**	**-**	**-**	**-**	**-**	**-**	**-**	**(86)**	**n.s.**

The complete financial statements are included in the section "Consolidated financial statements" of this report pursuant to Consob Resolution no. 17221 of March 12, 2010.

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

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

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

In 2017, the A2A Group completed the Purchase Price Allocation (hereinafter "PPA") following the acquisition of 51% of the LGH Group. Following the completion of the PPA (at the acquisition date), the Group restated the figures at December 31, 2016. For further details of the transaction and the consequent financial and economic effects on the figures restated at December 31, 2016, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph "Other Information" of these Consolidated Financial Statements.

As a result of the Group's exercise of the put option for the sale of EPCG, as further described in the paragraph "Significant events during the year" of the Report on Operations, the investment in the subsidiary of Montenegro has been valued according to the provisions of IFRS 5, whereas previously the investment was fully consolidated. The investment was written down for 86 million euro in order to adjust the value to fair value.

Guarantees and commitments with third parties

millions of euro	12 31 2017	12 31 2016
Guarantees received	670	654
Guarantees provided	1,152	1,113

Guarantees received

Guarantees received amounted to 670 million euro (654 million euro at December 31, 2016) and include 274 million euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 396 million euro for sureties and security deposits received from customers to guarantee the regularity of payments.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 1,152 million euro (1,113 million euro at December 31, 2016), of which for obligations undertaken in the loan agreements of 134 million euro. These guarantees have been issued by banks for 582 million euro, insurance companies for 148 million euro and the parent company A2A S.p.A., as parent company guarantee, for 422 million euro.

* * *

Group companies hold third party assets under concession, relating mainly to the integrated water cycle, amounting to 66 million euro.

Other information

1) Significant events for the Group after December 31, 2017

For a description, reference is made to the paragraph "Significant events after December 31, 2017" of the Report on operations.

2) Information on treasury shares

At December 31, 2017, A2A S.p.A. held 23,721,421 treasury shares, equal to 0.757% of the share capital consisting of 3,132,905,277 shares, unchanged compared to December 31, 2016.

At December 31, 2017, no treasury shares were held through subsidiaries, finance companies or nominees.

3) Transactions as per IFRS 3 revised

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

- in August, A2A S.p.A. acquired 51% of the Lombardy multi-utility LGH S.p.A.;
- in October, A2A Calore & Servizi S.r.l. acquired 75% of Consul System S.p.A., main independent Italian ESCo (Energy Service Company).

The transactions summarized above are classified as business combinations in accordance with international standard IFRS 3 "Business Combinations"; the Group fully consolidated the companies through the application of the acquisition method prescribed by IFRS 3, by virtue of the control obtained on the entities acquired.

IFRS 3 requires all business combinations to be accounted for using the acquisition method within twelve months from acquisition. The acquirer must therefore recognize all the identifiable assets, liabilities and contingent liabilities relating to the acquisition at their fair values at the acquisition date and highlight the eventual recognition of goodwill.

Business combination transactions are recognized using the acquisition method. The fee transferred in a business combination is determined at the date of acquisition of control and is equal to the fair value of assets transferred, liabilities incurred, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are recognized in the income statement when incurred. At the date of acquisition of control, the net equity of the investee companies is determined by attributing to individual assets and liabilities their fair value, except in cases where the IFRS provisions provide a different valuation criterion. Any residual difference with respect to the purchase cost, if positive, is recognized under the item "Goodwill" (hereinafter also goodwill); if negative, it is recognized in the income statement. In the case of acquisition of non-totalitarian control, the portion of equity of minority interests is determined according to the portion of the fair values attributed assets and liabilities at the date of acquisition of control, excluding any related goodwill (so-called partial goodwill method).

Business combination LGH

The acquisition of 51% of the share capital of LGH S.p.A. by A2A S.p.A. was finalized on August 4, 2016 for a counter value of 98.9 million euro, paid for 51.7 million euro in cash and in treasury shares of A2A S.p.A. for a counter value of 47.2 million euro, of which 37.2 million euro related to shares purchased in the first half of 2016 and 10 million euro relating to treasury shares already held in portfolio at December 31, 2015.

The transaction value included 9.6 million euro, paid by A2A S.p.A. to the minority shareholders of LGH S.p.A., linked to specific earn-in clauses established during transaction closing.

Based on the contractual agreements signed by A2A S.p.A. with the minority shareholders of LGH S.p.A., it was agreed that A2A S.p.A., within the third year from the transaction closing date, upon the fulfilment of certain conditions, paid up to a maximum of 13.9 million euro included in the provisional acquisition value of LGH S.p.A. of 112.8 million euro recorded at December 31, 2016 and regulated by specific and well-identified earn-out clauses.

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

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

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

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

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

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

Operating assets were valued using:

i) income method (defined useful life of assets);

ii) Unlevered Discounted Cash Flow, used for waste-to-energy plants and landfills, which is based on future cash flows, discount rate (WACC) and useful life;

iii) market value.

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

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

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

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

a) revaluation of tangible and intangible assets for 83.2 million euro (net of the portions due to third-party shareholders);

b) reduction of financial assets for 0.6 million euro;

c) reduction of net working capital for 2.5 million euro;

d) reduction of provisions for 2.1 million euro (net of the portions due to third-party shareholders);

e) reduction of deferred tax liabilities for 22.5 million euro (net of the portions due to third-party shareholders).

Lastly, residual goodwill of 30 million euro was recognized.

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

millions of euro	
Price paid	89.8
Earn-in Earn-out price Adj (NFP Adj)	22.9
Price at closing	**112.8**
Earn-in Adj	(0.5)
Earn-out Adj	(3.4)
Total price Adj	**108.9**
Fair value Minority interests	86
Price due for 100%	**194.9**
PPA Allocation	
Price at 100%	194.9
Equity net Goodwill	109.2
Difference to be allocated	**85.7**
Adjustment tangible assets (*)	27.4
Adjustment intangible assets (*)	55.8
Adjustment financial assets	(0.6)
Adjustment NWC	(2.5)
Adjustment provisions (*)	(2.1)
Greater value allocated	**78.0**
Net deferred taxes	22.5
Total	**55.5**
Goodwill	30.0

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

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

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

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

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

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

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

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

Business combination Consul System S.p.A

On October 20, 2016, the acquisition was finalized of 75% of the share capital of Consul System S.p.A., the main independent Italian ESCo (Energy Service Company), with the aim of creating operational synergies and developing new products and services. The transaction was finalized by ESCo certified by the A2A Group (A2A Calore & Servizi S.r.l.), for a value of approximately 21 million euro (enterprise value for 100%).

It was also established that, by the deadline for approval of the financial statements of Consul System S.p.A. at December 31, 2020, upon the fulfilment of certain conditions, A2A Calore & Servizi S.r.l. may exercise the option to purchase the remaining 25% of the share capital of Consul System S.p.A..

As mentioned in the note “Scope of consolidation”, the Group completed the purchase price allocation (PPA) process related to Consul System S.p.A., in accordance with the timing established by IFRS 3.

The PPA process determined the reallocation of the goodwill recorded by Consul System S.p.A. at the date of acquisition, allocating 16 million euro to Other intangible assets with simultaneous recognition of the related deferred taxes for 4 million euro. The transaction resulted in a total adjusted equity of 20 million euro.

Business combination Rinnovabili Group

In the second half of 2017, the NewCo A2A Rinnovabili S.p.A. completed the acquisition of 100% of 13 Special Purpose Vehicles (SPV) of which 5 SPV acquired from the funds Re Energy and TFV and 8 SPV acquired from Novapower S.p.A..

The first transaction was concluded for a value of 16.9 million euro, of which 7.7 million euro for the purchase of shareholdings and 9.2 million euro for the settlement of the loan of the former shareholders. Contractually, the payment of 50% of the shareholding purchase portion occurred at closing, on September 24, 2017, and the remaining 50% of the purchase portion is expected by September 30, 2019.

The second transaction was concluded for a value of 33.5 million euro, of which 25.6 million euro for the purchase of shareholdings and 7.7 million euro for the settlement of the loan of the former shareholders.

Contractually, the payment of 8% of the contract price occurred at closing of the transaction for 2.6 million euro, while the remaining 92% will take place by December 31, 2022.

The contract price was increased by 1 million euro following the achievement of the clause related to the "net financial position/net working capital" ratio included at the closing of the transaction.

As mentioned in the note "Scope of consolidation", the Group completed, by December 31, 2017, the Purchase Price Allocation (PPA) process relating to both transactions described above.

The PPA process determined the allocation of the highest amount paid, recognized by A2A Rinnovabili S.p.A. at the date of acquisition, under Other intangible assets for 35 million euro and the related deferred taxes for 9 million euro.

4) information on non-current assets held for sale and discontinued operations (IFRS 5)

The item "Non-current assets held for sale" at December 31, 2017 refers to the reclassification of the shareholding in EPCG, held 41.75% by A2A S.p.A., following management's decision on July 3, 2017 to exercise the sale put option on the entire shareholding as it is a discontinued operation in compliance with the provisions of IFRS 5. The investment was reclassified and the carrying amount was adjusted to fair value.

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

Summarized figures relating to these assets and liabilities are as follows.

Figures at December 31, 2017 *millions of euro*	**EPCG Group**
ASSETS AND LIABILITIES HELD FOR SALE	
Non-current assets	224
Current assets	-
Total assets	**224**
Non-current liabilities	-
Current liabilities	-
Total liabilities	**-**

5) Financial risk management

The A2A Group operates in the electricity, natural gas and district heating industry and is exposed to various financial risks in performing its activity:

a) commodity risk;

b) interest rate risk;

c) exchange rate risk not related to commodities;

d) liquidity risk;

e) credit risk;

f) equity risk;

g) default and covenant non-compliance risk.

The commodity price risk, related to the volatility of energy commodity prices (gas, electricity, fuel oil, coal, etc.) and prices of environmental securities (EUA/ETS emission rights, white certificates, etc.), consists of the possible negative effects that a change in the market price of one or more commodities may have on the cash flows and income prospects of the company, including the exchange rate risk related to the same commodities.

Interest rate risk is the risk of additional financial costs as the result of an unfavourable change in interest rates.

Currency risk not related to commodities is the risk of higher costs or lower revenues because of an unfavourable change in exchange rates between currencies.

Liquidity risk is the risk that financial resources will not be sufficient to meet established financial and business obligations in a timely manner.

Credit risk is the exposure to potential losses deriving from non-performance of commitments by commercial, trading and financial counterparties.

Equity risk is the possibility of incurring losses due to an unfavourable change in the price of shares.

Default and covenant non-compliance risk represent the possibility that loan agreements or bond regulations to which one or more Group companies are party contain provisions allowing the counterparties, banks or bondholders, to ask the debtor for immediate reimbursement of the amounts lent if certain events take place.

Details on the risks to which the A2A Group is exposed are provided below.

a. Commodity risk

a.1) Commodity price risk and exchange rate risk involved in commodity activities

The Group is exposed to price risk, including the related currency risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil and environmental certificates; the results of production, purchases and sales are similarly affected by fluctuations in the prices of such energy commodities. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

To stabilize cash flows and to assure the Group's economic and financial stability, A2A S.p.A. has an Energy Risk Policy that sets out clear guidelines to manage and control the above risks, based on guidance by the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and the Group on Risk Management of Euroelectric. Reference was also made to the Accords of the Basel Committee on bank supervision and the requirements laid down in international accounting standards on how to recognize the volatility of commodity price and financial derivatives in the income statement and balance sheet.

In the A2A Group, assessment of this kind of risk is centralized at the holding company, which has established a Group Risk Management Organizational Unit as part of the Planning, Finance and Control Organizational Unit. This unit has the task to manage and monitor market and commodity risks, to create and evaluate structured products, to propose financial energy risk hedging strategies, and to support senior management in defining the Group's energy risk management policies.

Each year, the Board of Directors of A2A S.p.A. sets the Group's commodity risk limits approving the PaR and VaR proposed (prepared in the Risk Committee) in conjunction with approval of the Budget/ Business Plan; Group Risk Management supervises the situation to ensure compliance with these limits and proposes to senior management the hedging strategies designed to bring risk within the set limits, if exceeded.

The activities that are subject to risk management include all of the positions on the physical market for energy products, both purchasing/production and sales, and all of the positions in the energy derivatives market taken by Group companies.

For the purpose of monitoring risks, industrial and trading portfolios have been separated and are managed in different ways. The industrial portfolio consists of the physical and financial contracts directly relating to the Group's industrial operations, namely where the objective is to enhance production capacity also through the wholesaling and retailing of gas, electricity and heat.

The trading portfolio comprises all contracts, both physical and financial, entered into to supplement the profits made from the industrial activities, i.e. all contracts that are ancillary though not strictly necessary to the industrial activity.

In order to identify trading activity, the A2A Group follows the Capital Adequacy Directive and the definition of assets held for trading provided by International Accounting Standard (IAS) 39: namely assets held for the purpose of short-term profit taking on market prices or margins, without being for hedging purposes, and designed to create a high-turnover portfolio.

Given that they exist for different purposes, the two portfolios have been segregated and are monitored separately with specific tools and limits. More specifically, the trading portfolio is subject to particular risk control and management procedures as laid down in Deal Life Cycle documents.

Senior management is systematically updated on changes in the Group's commodity risk by the Group Risk Management Unit, which controls the Group's net exposure. This is calculated centrally on the entire asset and contract portfolio and monitors the overall level of economic risk assumed by the industrial and trading portfolios (Profit at Risk - PaR, Value at Risk - VaR, Stop Loss).

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

The hedging of price risk by means of derivatives focuses on protecting against the volatility of energy prices on the power exchange (IPEX-EEX), stabilizing electricity price margins on the wholesale market with particular attention being paid to fixed price energy sales and purchases and stabilizing price differences deriving from various indexing mechanisms for the pricing of gas and electricity. To that end, hedging contracts were executed during the year on electricity purchase and sale agreements and on contracts to hedge the fee for the use of electricity transport capacity between the areas of the IPEX market (CCC contracts); hedging contracts were concluded with leading banks on contracts for the purchase of coal so as to protect sales margins and at the same time keep the risk profile to within the limits set by the Group's energy risk policy.

As part of the optimization of the portfolio of greenhouse gas emission allowances (see Directive 2003/87/EC), the A2A Group has stipulated Future contracts on the ICE ECX (European Climate Exchange) price. These are considered hedging transactions from an accounting point of view in the event of demonstrable surplus/deficit quotas.

The fair value at December 31, 2017 was 1.4 million euro (8.1 million euro at December 31, 2016).

Derivatives of the industrial portfolio not considered hedges

Also as part of its optimization of the industrial portfolio, contracts have been entered to hedge the fee for the use of electricity transport capacity within the areas of the IPEX market (CCC contracts). These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at December 31, 2017 was -0.1 million euro (-0.2 million euro at December 31, 2016).

Derivatives of the Trading Portfolio

As part of its trading activity, the A2A Group has taken out Future contracts on major European energy stock exchanges (EEX, Powernext) and forward contracts on the price of electricity with delivery in Italy and neighboring countries such as France, Germany and Switzerland. The Group has also signed interconnection contracts with operators in neighboring countries, which are considered purchases of options. Also as part of trading activities, both Future and Forward contracts were also stipulated for the market price of gas (ICE-Endex CEGH).

The fair value at December 31, 2017 was 8.4 million euro (4.8 million euro at December 31, 2016).

a.3) Energy Derivatives, risk assessment of Industrial Portfolio derivatives

PaR[1] or Profit at Risk, is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. It is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this methodology, over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at December 31, 2017 was 28.839 million euro (10.851 million euro at December 31, 2016).

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

millions of euro	12 31 2017		12 31 2016	
Profit at Risk (PaR)	*Worst case*	*Best case*	*Worst case*	*Best case*
Confidence level 99%	**(28.839)**	**35.046**	**(10.851)**	**13.759**

The A2A Group therefore expects, with a 99% probability, not to have changes compared to the fair value at December 31, 2017 exceeding 28.839 million euro of its entire portfolio of financial instruments due to commodity price fluctuations in the twelve months following.

If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

a.4) Energy Derivatives, risk assessment of Trading Portfolio derivatives

VaR (Value at Risk)[2] is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 3 days and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as stress test analysis.

Under this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 3 days, the maximum estimated loss on the derivatives in question was 0.314 million euro at December 31, 2017 (3.108 million at December 31, 2016). In order to ensure closer monitoring of activities, VaR and Stop Loss limits are also set, understood as the sum of VaR, P&L Realized and P&L Unrealized.

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

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

The following are the results of the assessments:

millions of euro	12 31 2017		12 31 2016 Restated	
Value at Risk (VaR)	*VaR*	*Stop loss*	*VaR*	*Stop loss*
Confidence level 99%, holding period 3 days	**(0.314)**	**(0.314)**	**(3.108)**	**(13.215)**

b. Interest rate risk

The volatility of financial expenses associated to the performance of interest rates is monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

At December 31, 2017, the structure of gross debt is as follows:

millions of euro	DECEMBER 31, 2017			DECEMBER 31, 2016		
	Before hedging	After hedging	% after hedging	Before hedging	After hedging	% after hedging
Fixed rate	3,076	3,236	82%	2,643	2,800	74%
Floating rate	862	702	18%	1,152	995	26%
Total	**3,938**	**3,938**		**3,795**	**3,795**	

At December 31, 2017, the following are the hedging instruments for interest rate risk:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	DECEMBER 31, 2017		DECEMBER 31, 2016	
		Fair value	Notional	Fair value	Notional
IRS	Floating rate loan	(0.9)	19.4	(4.6)	60.7
IRS	Floating rate lease	(4.1)	26.2	-	-
Collar	Floating rate loan	(10.6)	114.3	(14.8)	133.3
Total		**(15.6)**	**159.9**	**(19.4)**	**194.0**

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

millions of euro

ACCOUNTING TREATMENT	DERIVATIVES	NOTIONAL		FAIR VALUE ASSETS		NOTIONAL		FAIR VALUE LIABILITIES	
		at 12/31/2017	at 12/31/2016	at 12/31/2017	at 12/31/2016	at 12/31/2017	at 12/31/2016	at 12/31/2017	at 12/31/2016
Cash flow hedge	Collar	-	-	-	-	114.3	133.3	(10.6)	(14.8)
Cash flow hedge	IRS	-	-	-	-	43.7	60.7	(5.0)	(4.6)
Fair Value	IRS	-	-	-	-	1.9	-	-	-
Total				**-**	**-**			**(15.6)**	**(19.4)**

Derivatives on interest rates at December 31, 2017 in cash flow hedge refer to the following loans:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2017 amounting to 114.3 million euro, at floating rate interest.	Collar to fully hedge the loan and maturity, with floor on Euribor rate 2.99% and cap 4.65%. At December 31, 2017, the fair value was negative for 10.6 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.
Linea Energia loan with Unicredit: maturity May 2021, residual balance at December 31, 2017 amounting to 17.7 million euro, at floating rate.	IRS on 100% of the amount of the loan until maturity thereof. At December 31, 2017, the fair value was negative for 0.7 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
LD Reti loans with UBI and CDDPP: maturity December 2020 and December 2022, residual balance at December 31, 2017 amounting to 3.6 million euro, at floating rate.	IRS on 46% of the amount of the loan until maturity thereof. At December 31, 2017, the fair value was negative for 0.2 million euro.	The loan is measured at amortized cost. The IRS is a cash flow hedge, with 100% recognized in a specific equity reserve.
11 Leases of A2A Rinnovabili with various credit institutions and maturities, total debt at December 31, 2017 of 27.5 million euro, at variable rate.	IRS on 88% of the lease amount. At December 31, 2017, the fair value was negative for 4.1 million euro.	The IRS are in cash flow hedge, with 100% recognized in a specific equity reserve.

In order to allow a broader understanding of the risks of changes in the interest rates to which the Group is subject, a sensitivity analysis of financial expenses was conducted as interest rates varied, applying to financial indebtedness and derivative financial contracts (excluding leasing contracts and related derivatives) a theoretical variation upwards and downwards of 50 basis points of the reference Euribor interest rates. The following table shows the results of this sensitivity analysis:

millions of euro	YEAR 2017	
	-50 bps	+50 bps
Increase (decrease) in net financial expenses	**(1.9)**	**2.0**

A sensitivity analysis is provided relating to possible changes in the fair value of derivatives (excluding cross currency swaps) on shifting the forward rate curve by +50 bps and -50 bps:

millions of euro	12 31 2017 (*base case*: -15.6)		12 31 2016 (*base case*: -19.4)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	**(2.8)**	**2.7**	**(3.6)**	**3.3**

This sensitivity analysis is calculated to determine the effect of the change of the forward interest rate curve of the fair value of derivatives ignoring any impact of the adjustment due to counterparty risk – “Bilateral Credit Value Adjustment” (bCVA) – introduced in the calculation of fair value in accordance with international accounting standard IFRS13.

c. Exchange rate risk not related to commodities

In relation to exchange rate risk other than that included in the price of commodities, the hedging instruments at December 31, 2017 are as follows:

millions of euro

HEDGING INSTRUMENT	HEDGED ASSET	DECEMBER 31, 2017		DECEMBER 31, 2016	
		Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	(7.9)	103.7 (*)	3.9	98.0
Currency Forward	Future purchases in foreign currency	-	-	0.1	0.8
Total		**(7.9)**	**103.7**	**4.0**	**98.8**

(*) at December 31, 2017, the notional of the CCS was valued at the year-end ECB exchange rate.

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

In particular:

1) Cross Currency IRS

The underlying of the derivative refers to the bond at fixed rate of 14 billion yen with maturity 2036 bullet issued in 2006.

A cross currency swap contract was stipulated for the entire duration of this loan, which converts the principal and interest payments from yen into euro.

At December 31, 2017, the fair value of the hedge was negative for 7.9 million euro. This fair value would improve by 18.1 million euro in the event of a 10% decline in the forward curve of the euro/yen exchange rate (appreciation of the yen) and would worsen by 14.8 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

2) Currency Forward

The underlying of the derivative refers to payments of invoices in foreign currency, denominated in USD, in relation to the maintenance contract of the Sermide plant.

d. Liquidity risk

Liquidity risk is the risk that the Group, despite being solvent, is unable to meet its obligations in a timely manner or that it is able to do so under unfavourable economic conditions.

The profile of the Group's gross debt maturities is as follows:

millions of euro	Accounting balance 12 31 2017	Portions maturing within 12 months	Portions maturing after 12 months	Portions maturing by				
				12 31 2019	12 31 2020	12 31 2021	12 31 2022	After
Bonds	2,995	345	2,650	509	-	350	498	1,293
Finance lease payables	45	5	40	4	4	4	4	24
Financial payables to related parties	1	1	-	-	-	-	-	-
Bank loans	897	86	811	86	134	85	82	424
TOTAL	**3,938**	**437**	**3,501**	**599**	**138**	**439**	**584**	**1,741**

The risk management policy is realized through (i) a debt management strategy diversified by funding sources and maturities, and (ii) maintenance of financial resources sufficient to meet scheduled and unexpected commitments over a given time horizon.

At December 31, 2017, the Group had a total of 1,411 million euro, as follows:
(i) revolving committed credit lines for 600 million euro maturing in 2019, unused; (ii) unused long-term financing for a total of 120 million euro; (iii) cash and cash equivalents totalling 691 million euro, 614 million euro of which held by the parent company.

The Group also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which nominal 1,438 million euro still available.

The following table analyses the worst case for financial liabilities (including trade payables) in which all of the flows shown are undiscounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest (excluding EPCG, for which interest is not included); they also include the undiscounted nominal flows of derivative contracts on interest rates.

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

12 31 2016 *millions of euro*	1-3 MONTHS	4-12 MONTHS	AFTER 12 MONTHS
Bonds	45	52	2,938
Payables and other financial liabilities	107	213	1,028
Total financial flows	**152**	**265**	**3,966**
Payables to suppliers	515	99	6
Total trade payables	**515**	**99**	**6**

e. Credit risk

Credit risk relates to the possibility that a counterparty, commercial or trading, may be in default, or fail to respect its commitment in the manner and timing provided by contract. This type of risk is managed by the Group through specific procedures (Credit Policy, Energy Risk Management procedure) and appropriate mitigation actions.

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities. Risk mitigation is through the prior assessment of the creditworthiness of the counterparty and the constant verification of compliance with exposure limit as well as through the request for adequate guarantees.

The credit terms granted to customers as a whole have a variety of deadlines, in accordance with applicable law and market practice. In cases of delayed payment, default interest is charged as explicitly prescribed by the underlying supply contracts or by current law (application of the default rate as per Legislative Decree 231/2002).

Trade receivables are stated in the balance sheet net of any write-downs; the amount shown is considered to be a correct reflection of the realizable value of the receivables portfolio. For the aging of trade receivables, reference is made to note “Trade receivables”.

f. Equity risk

The A2A Group is exposed to equity risk limited to the holding of treasury shares held by A2A S.p.A., which at December 31, 2017 amounted to 23,721,421 shares corresponding to 0.757% of the share capital, which is made up of 3,132,905,277 shares.

From an accounting standpoint, as provided by IAS/IFRS, the purchase cost of treasury shares is recorded as decrease in shareholders' equity and not even if transferred will the eventual positive or negative difference, with respect to the purchase cost, have effects on the income statement. The purchase of treasury shares has been made to pursue development objectives such as transactions related to business projects consistent with the strategies that the company intends to pursue, in relation to which there is the opportunity of stock exchanges.

g. Covenants compliance risk

Bonds (book value at December 31, 2017 equal to 2,995 million euro), loans (book value at December 31, 2017 equal to 897 million euro) and revolving committed bank lines present Terms and Conditions in line with the market for each type of instrument. In particular, they envisage: (i) negative pledge clauses under which the parent company undertakes not to pledge, with exceptions, guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross- default/ acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain Group companies.

Bonds include (i) 2,590 million euro (book value) issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in the following 180 days (if within said 180 days, the company's rating should return to investment grade, the option may not be exercised); (ii) 105 million euro relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade); (iii) 299 million euro related to the LGH Eurobond with maturity 2018 with a Change of Control Put clause in the event of a change in control of the company. The bond existing between LGH and a pool of institutional investors also envisages, if the ratio of consolidated EBITDA and total financial expenses falls below the value of 2.50, the prohibition to stipulate new debt and the prohibition to distribute dividends.

The loans stipulated with the European Investment Bank, with book value of 768 million euro, contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), of which 654 million euro - due after 2024 - also include a change of control clause of the parent company, with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

Lastly, the loan signed by the parent company with UniCredit, brokered by the EIB, for a book value of 4 million euro and falling due in June 2018, contains a credit-rating clause that provides for a commitment by the company to maintain an investment grade rating for the whole loan term. In the event of non-compliance there are a number of annual financial covenants to be respected based on the ratios of debt to equity, debt to gross operating income and gross operating income to interest expense.

With regard to loans of the subsidiaries, the loan of A2A gencogas S.p.A. for a book value of 30 million euro is backed by a secured guarantee (mortgage) for a maximum of 120 million euro and contains two financial covenants, NFP/Shareholders' funds and NFP/Gross operating income.

The loan of 18 million euro in place between Linea Energia and Unicredit is secured by collateral on the company's properties and plants and envisages for the year 2017 that the ratio between the amount of principal of the loan disbursed and not yet repaid and equity is less than 1.90.

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

At December 31, 2017, there was no situation of non-compliance with the covenants of the A2A

A2A Group - Financial covenants at December 31, 2017

COMPANY	BANK	LEVEL OF REFERENCE	LEVEL RECOGNIZED	DATE OF RECOGNITION
A2A	Pool RCF	NFP/EBITDA <=4.0	2.7	12/31/2017
A2A gencogas	IntesaSanpaolo	NFP/Equity <=2 NFP/EBITDA<=6	0.1 0.3	12/31/2017 12/31/2017
LGH	Bondholders	Consolidated Interest Coverage Ratio > 2.50	4.17	12/31/2017
Linea Energia	Unicredit	Residual debt/Equity< 1.90	0.9	12/31/2017

Analysis of forward transactions and derivatives

Tests were performed to determine whether these transactions qualify for hedge accounting in accordance with International Accounting Standard IAS 39.

In particular:

1) transactions qualifying for hedge accounting under IAS 39: can be analyzed between transactions to hedge cash flows (cash flow hedges) and transactions to hedge fair value of assets and liabilities (fair value hedges). For the cash flow hedges, the accrued result is included in gross operating income when realized on commodity derivatives and in the financial balance for interest rate and currency derivatives, whereas the future value is shown in equity. For fair value hedge transactions, the impacts in the Income Statement are recorded within the same line of the financial statements;

2) transactions not considered as hedges for the purposes of IAS 39, can be:

   a. margin hedges: for all hedging transactions of cash flows or the market value in line with internal risk policies, the accrued result and future value are included in gross operating income for commodity derivatives and in the financial balance for interest rate and currency derivatives;

   b. trading transactions: the accrued result and future value are recognized above gross operating income for commodities transactions and in financial income and expense for interest rate and currency transactions.

The use of derivatives in the A2A Group is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on industry best practices and designed to limit the risk of the Group being exposed to commodity price fluctuations, based on a cash flow hedging strategy.

The derivatives are measured at fair value based on the forward market curve at the balance sheet date, if the asset underlying the derivative is traded on markets with a forward pricing structure. In the absence of a forward market curve, fair value is measured on the basis of internal estimates using models that refer to industry best practices.

The A2A Group uses "continuous-time" discounting to measure fair value. As a discount factor, it uses the interest rate for risk-free assets, identified in the Euro Overnight Index Average (EONIA) rate and represented in its forward structure by the Overnight Index Swap (OIS) curve. The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IAS 39.

In compliance with the provisions of IFRS 13, the fair value of an over-the-counter (OTC) financial instrument is determined taking into account the non-performance risk. To quantify the fair value adjustment attributable to this risk, A2A has, in line with best market practices, developed a proprietary model called the "bilateral Credit Value Adjustment" (bCVA), which takes into account changes in the creditworthiness of the counterpart as well as the changes in its own creditworthiness.

The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA):

- the CVA is a negative component and contemplates the probability that the counterparty will default and at the same time that A2A has a receivable due from the counterparty;
- the DVA is a positive component and contemplates the probability that A2A will default and at the same time that the counterparty has a receivable due from A2A.

The bCVA is therefore calculated with reference to the exposure, measured on the basis of the market value of the derivative at the time of the default, the probability of default (PD) and the loss given default (LGD). This latter item, which represents the non- recoverable portion of the receivable in the case of default, is measured on the basis of the IRB Foundation Methodology as stated in the Basel 2 accords, whereas the PD is measured on the basis of the rating of the counterparties (internal rating based where not available) and the historic probability of default associated with this and published annually by Standard & Poor's.

Applying the above method did not result in significant changes in fair value measurements.

Instruments outstanding at December 31, 2017

A) On interest and exchange rates

millions of euro	Notional value (a) expiring within 1 year		Notional value (a) expiring within 1 and 5 years		Notional value (a) expiring over 5 years	Balance sheet value (b)	Progressive effect to income statement at 12 31 2017 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IAS 39		26		101	31	(16)	
- not considered hedges as per IAS 39		2					
Total derivatives on interest rates	**-**	**28**	**-**	**101**	**31**	**(16)**	**-**
Exchange rate risk management							
- considered hedges as per IAS 39 on commercial transactions on financial transactions				104	(8)		
- not considered hedges as per IAS 39 on commercial transactions on financial transactions							
Total exchange rate derivatives	**-**	**-**	**-**	**104**	**(8)**	**-**	**-**

(a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.

(b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(c) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from the stipulation of the contract to the present day.

B) On commodities

The following is an analysis of the commodity derivative contracts outstanding at the balance sheet date set up for the purpose of managing the risk of the fluctuations in the market prices of commodities.

	Notional value millions of euro	Unit of measurement of the notional value	Notional value expiring within 1 year	Notional value expiring within 2 years	Notional value expiring within 5 years	Balance sheet value (*) millions of euro	Progressive effect to income statement (**) millions of euro
Energy product price risk management							
A. Cash flow hedges as per IAS 39, including:						**1.4**	**-**
- Electricity	44.1	TWh	4.8	0.1		0.1	
- Oil		Bbl					
- Coal	12.9	Tons	143,500			(0.2)	
- Natural Gas	0.7	TWh	0.035				
- Natural Gas	8.1	Millions of cubic metres	39.565				
- Exchange rate		Millions of dollars					
- CO_2 Emission rights	14.0	Tons	1,884,000	12,000		1.5	
B. Considered fair value hedges as per IAS 39						**-**	**-**
C. Not considered hedges as per IAS 39 of which:						**8.3**	**3.8**
C.1 Hedge margin						**(0.1)**	**0.2**
- Electricity	1.0	TWh	0.1			(0.1)	(0.1)
- Oil		Bbl					
- Natural Gas		MWh					
- Natural Gas		Millions of cubic metres					
- CO_2 Emission rights		Tons					0.3
- Exchange rate		Millions of dollars					
C.2 Trading transactions						**8.4**	**3.6**
- Electricity	1,007.2	TWh	24.6	0.8		7.8	3.5
- Natural Gas	688.2	TWh	36.0	1.2		0.6	0.1
- CO_2 Emission rights	0.9	Tons					
- Environmental Certificates		MWh					
- Environmental Certificates		Tep					
Total						**9.7**	**3.8**

(*) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.

(**) Represents the adjustment of derivatives to fair value recognized progressively over time in the Income statement from stipulation of the contract until the current date.

Financial and operating results for derivative transactions at December 31, 2017

The following table shows the balance sheet figures at December 31, 2017, for derivative transactions.

Effects on the balance sheet

millions of euro	NOTES	TOTAL
ASSETS		
NON-CURRENT ASSETS		**-**
Other non-current assets - Derivatives	5	-
CURRENT ASSETS		**96**
Other current assets - Derivatives	8	96
TOTAL ASSETS		**96**
LIABILITIES		
NON-CURRENT LIABILITIES		**23**
Other non-current liabilities - Derivatives	21	23
CURRENT LIABILITIES		**86**
Trade payables and other current liabilities - Derivatives	22	86
TOTAL LIABILITIES		**109**

Effect on the income statement

The following table sets out the income statement figures at December 31, 2017 arising from the management of derivatives.

millions of euro	Notes	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	27			
Revenues from the sale of goods				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IAS 39		9	-	9
- not considered hedges as per IAS 39		41	173	214
Total revenues from the sale of goods		**50**	**173**	**223**
OPERATING EXPENSES	28			
Expenses for raw materials and services				
Energy product price risk management and exchange rate risk management on commodities				
- considered hedges as per IAS 39		7	-	7
- not considered hedges as per IAS 39		(13)	(169)	(182)
Total costs for raw materials and services		**(6)**	**(169)**	**(175)**
Total recognized in gross operating income (*)		**44**	**4**	**48**
FINANCIAL BALANCE	34			
Financial income				
Interest rate risk management and equity risk management				
Income on derivatives				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		-	-	-
Total		**-**	**-**	**-**
Total financial income		**-**	**-**	**-**
Financial expenses				
Interest rate risk management and equity risk management				
Expenses on derivatives				
- considered hedges as per IAS 39		(8)	-	(8)
- not considered hedges as per IAS 39		-	-	-
Total		**(8)**	**-**	**(8)**
Total financial expenses		**(8)**	**-**	**(8)**
TOTAL RECOGNIZED IN FINANCIAL BALANCE		**(8)**	**-**	**(8)**

(*) These figures do not include the effect of the net presentation of the trading margin.

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity). The last column of the table shows the fair value of the instrument at December 31, 2017, where applicable.

millions of euro

	Notes	Criteria to measure the reported amount of financial instruments: Financial instruments measured at fair value with changes recognized in: Income statement	Equity		Financial instruments measured at amortized cost	Shareholdings / Securities convertible into unlisted shareholdings measured at cost	Amount as stated in the consolidated balance sheet at 12 31 2017	Fair value at 12 31 2017 (*)
		(1)	(2)	(3)	(4)	(5)		
ASSETS								
Other non-current financial assets								
Shareholdings / Securities convertible into shareholdings available for sale of which:								
- unlisted				8			8	n.a.
- listed							-	-
Financial assets held to maturity							-	-
Other non-current financial assets					36		36	36
Total other non-current financial assets	3						**44**	
Other non-current assets	5				8		8	8
Trade receivables	7				1,671		1,671	1,671
Other current assets	8	94	2		120		216	216
Current financial assets	9				8		8	8
Cash and cash equivalents	11				691		691	691
Assets held for sale	12	224					224	224
LIABILITIES								
Financial liabilities								
Non-current and current bonds	18 and 23		103		2,892		2,995	2,995
Other non-current and current financial liabilities	18 and 23				943		943	943
Other non-current liabilities	21		23		125		148	148
Trade payables	22				1,381		1,381	1,381
Other current liabilities	22	85	1		435		521	521

(*) The fair value has not been calculated for receivables and payables not related to derivative contracts and loans as the corresponding carrying amount is a good approximation to this.

(1) Financial assets and liabilities measured at fair value with the changes in fair value recognized in the income statement.

(2) Cash flow hedges.

(3) Financial assets available for sale measured at fair value with profit/loss recognized in equity.

(4) Loans and receivables and financial liabilities measured at amortized cost.

(5) Available-for-sale financial assets, including unlisted shareholdings whose fair value cannot be measured reliably, are carried at the lower of costs, which may be reduced due to impairment.

Fair value hierarchy

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

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

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

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

millions of euro	NOTES	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Available-for-sale assets measured at fair value	3		8		8
Other current assets	8	96			96
TOTAL ASSETS		**96**	**8**	**-**	**104**
Non-current financial liabilities	18	103			103
Other non-current liabilities	21		23		23
Other current liabilities	22	85		1	86
TOTAL LIABILITIES		**188**	**23**	**1**	**212**

Sensitivity analysis for financial instruments included in level 3

As required by IFRS 13, the following table sets out the effects arising from changes in the unobservable parameters used in calculating fair value for financial instruments included in level 3 of the hierarchy.

FINANCIAL INSTRUMENT	PARAMETER	PARAMETER CHANGE	SENSITIVITY (MILLIONS OF EURO)
Commodity Derivatives	Probability of Default (PD)	1%	0.00
Commodity Derivatives	Loss Given Default (LGD)	25%	0.00
Commodity Derivatives	Volatility underlying interconnection capacity abroad	1%	0.00
Commodity Derivatives	Correlation underlying interconnection capacity abroad	1%	(0.00)
Commodity Derivatives	Underlying interconnection capacity zonal Italy	1%	0.01

6) Concessions

The following table sets out the main concessions obtained by the A2A Group:

Hydroelectric concessions

		HYDROELECTRIC PLANTS	CONCESSION EXPIRY	CONCESSIONAIRE
GENERATION AND TRADING	Valtellina	Premadio II	12/31/2043	Region/Province
		Premadio I(1)	12/31/2020	
		Braulio(1)	12/31/2020	
		San Giacomo(1)	12/31/2020	
		Nuovo Canale Viola(1)	12/31/2020	
		Grosio(1)	12/31/2020	
		Lovero(1)	12/31/2020	
		Stazzona(1)	12/31/2020	
		Grosotto(1)	12/31/2020	
		Sernio(1)	12/31/2020	
		Boscaccia	01/30/2037	
	Province of Brescia	Lozio	08/03/2024	
		Darfo	07/10/2032	
		Mazzunno	08/26/2037	
		Resio(1)	12/31/2020	
		Corna	09/29/2041	
		Calabria Unit (9 concessions)	12/31/2029	
		Mese Unit (16 concessions)	03/31/2029	
		Udine Unit (3 concessions)	03/31/2029	

(1) Extension of the temporary continuation regime until 12/31/2020 pursuant to Regional Council Resolution DGR no. X/7693 of 01/12/18.

Other concessions

		HYDROELECTRIC PLANTS	CONCESSION EXPIRY	CONCESSIONAIRE
GENERATION AND TRADING	Mese plant	3 concessions water for sanitary and related use	12/31/2027	Lombardy Region
		2 concessions State Area	03/31/2029	Authorities of Bacino lacuali
	Valtellina	1 concession water for industrial use	renewal process underway	Lombardy Region
		THERMOELECTRIC PLANTS	CONCESSION EXPIRY	CONCESSIONAIRE
		A2A EnergieFuture (5 concessions)	2020-2024	Region/Port authorities
		A2A gencogas (10 concessions)	2018-2050 1 concess. with automatic renewal	Region/Province

Environment concessions

	GEOGRAPHICAL AREA	ACTIVITIES IN CONCESSION	CONCESSION EXPIRY	CONCESSIONAIRE
ENVIRONMENT	Milan	Collection and disposal of waste and sanitation	2021	Municipality
	Brescia		2050	
	Bergamo		2023	
	Varese		2034	
	Como		2023	
	Cremona		2029	
	Lodi		2029	
	another 251 municipalities		2017 - 2029	

NETWORKS AND HEAT CONCESSIONS

Networks concessions

	GEOGRAPHICAL AREA	ACTIVITIES IN CONCESSION	CONCESSION EXPIRY	CONCESSIONAIRE
NETWORKS	Milan	Gas distribution	Tender on ATEM(1) basis underway	Municipality
	Brescia			
	Bergamo		The new concessions in various ATEM(1) will be awarded for a period of 12 years through a public tender process	
	Varese			
	Cremona			
	Lodi			
	another 296 municipalities			
	Milan and Rozzano	Electrical distribution	2030	Ministry of Economic Development
	Brescia and another 45 municipalities in the province			
	Cremona			
	Brescia	Aqueduct, sewage and purification	2100	Province, Ambit Authority
	another 84 municipalities in the province of Brescia		2020 - 2034	
	Varese		2030	
	another 33 municipalities in the province of Varese		2019 - 2036	
	Milan Brescia	Public and traffic lighting	indefinite duration (duration equal to company term)	Municipality
	Bergamo		2023	
	another 5 municipalities		- three municipalities: 2028 - 2032 - two municipalities with tacit renewal	

(1) Minimum Territorial Ambit

District heating concessions

	GEOGRAPHICAL AREA	CONCESSION EXPIRY	CONCESSIONAIRE
DISTRICT HEATING	Milan	2036	Municipality
	Brescia	indefinite duration (duration equal to company term)	
	Bergamo	2037	
	Varese	2025	
	Cremona	2030	
	Lodi	2035	
	another 9 municipalities	2022 - 2035	

7) Update of the main legal and tax disputes still pending

Adequate provisions are provided where necessary for the disputes and litigation described below.

It is noted that if there is no explicit reference to the presence of a provision, the Group assessed the corresponding risk as possible without appropriating provisions in the financial statements.

Consult Latina/BAS S.p.A. (now A2A S.p.A.)

In the 90s, the purchase by BAS S.p.A. of the investment in HISA was made thanks to the services of a local consultant, Consult Latina.

Given the non-uniqueness of the contractual text and the non-acquisition of 100% of the investment in HISA, BAS S.p.A. did not pay to Consult Latina the fee requested because it considered the contractual provision as not applicable and therefore the formulated payment request as unjustified. In 1998, Consult Latina established a lawsuit to obtain payment of the fee.

Legal counsel has confirmed that the preliminary phase was completed years ago and that only the final sentence is awaited.

A2A S.p.A. took over the litigation after the incorporation of BAS S.p.A. in 2005 and repeatedly conferred upon the lawyers the mandate to reach a settlement also expressing a willingness to increase previous offers to cover the litigation costs as well as to listen to and weigh even incremental requests.

The Court convened the parties in multiple council chambers from December 18, 2014 and until October 7, 2017 to verify the conditions of a settlement or transaction.

At the last hearing, the parties submitted to the judge the shared text of the transaction. We are waiting for the Judge's decision. The settlement solution will be accepted, in order to settle the dispute, without recognition of debt. Over time, Redengas, a subsidiary of HISA whose shares have been foreclosed by Consult Latina in guarantee for the payment by A2A, has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina; to date, no damages have been claimed in any action, while Redengas has re-initiated enforcement action to release the shares from the pledge. Any damages ascertained in favour of Redengas would result in additional encumbrance for A2A S.p.A..

The Group has set aside a risk provision of 1.3 million euro.

Consorzio Eurosviluppo S.c.a.r.l./Ergosud S.p.A. + A2A S.p.A. - Civil Court of Rome

On May 27, 2011, Consorzio Eurosviluppo Industriale S.c.a.r.l. served a writ on Ergosud S.p.A. and A2A S.p.A. with the following claims: (i) compensation for damages, of both a contractual and extra-contractual nature, jointly, or alternatively exclusively and separately, in the amount of 35,411,997 euro (of which 1,065,529 euro as the residual portion of their share of the expenses); (ii) compensation for damages for the stoppage at the worksite and the failure to return the areas of pertinence to the Consortium.

In the filing of appearance Ergosud S.p.A. and A2A S.p.A. called for the request to be rejected in full because it is unfounded in its merit and in its substance, and pointed out: (i) the lack of the right of the Consortium to institute proceedings as it is in a state of bankruptcy, (ii) the lack of the right of the Consortium to institute proceedings for the damages allegedly suffered by Fin Podella at the item "anticipation of program contract" for 6,153,437 euro and the damages allegedly suffered by Conservificio Laratta S.r.l. for 359,000 euro.

S.F.C. S.A. filed a notice of joinder on November 8, 2011 pursuant to article 105 of the Civil Procedure Code (which allows a third party to make a new, different request to the original judge, extending the argument) and called that Ergosud S.p.A. alone should be ordered to pay damages, in part similar to those claimed by the Consortium, quantified in 27,467,031 euro.

The judge found the bankruptcy of S.F.C. S. A. was legitimate and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion, setting May 23, 2013 as the date for the hearing to appoint the court's expert witness. At that hearing the judge, changed in the meantime, confirmed the questions already formulated on December 19, 2012 and appointed the court experts Messrs. Pompili and Caroli, setting a term for the parties to appoint their own consultants. A2A S.p.A. and Ergosud S.p.A. appointed as their experts Mr. Massardo and Mr. Gioffrè, persons who over the years have already drawn up reports on the matters to which the questions refer. After adjournments requested by the experts, on July 31, 2014, the CTU was filed with the Court. The hearing for the expert's examination was held after postponement on April 1, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence. After said hearing, it established the new terms and scheduled a new hearing for clarification of conclusions for November 30, 2017, then adjourned to January 17, 2018 and thus to March 28, 2018.

The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

CIP 6 auxiliary services

This matter regards the usage of electricity for auxiliary services. According to ARERA (Regulatory Authority for Energy Networks and Environment), self-consumption by certain types of plant (waste-to-energy) should be considered in the same way as consumption for auxiliary services. The Group has various plants that benefited from CIP 6/92 incentives and for which inspection visits have been carried out over the years. In certain cases, the Authority carried out said verifications by mandating the CSEA to act with respect to the Group; in other cases, the Authority has not taken any action; in others, the verifications are underway. To date, it is not deemed that there are potential contingent liabilities such as to require the recording of a provision.

With regard to the inspection visit in 2006 by the CSEA at the Silla 2 waste-to-energy plant, to date, no updates were found with respect to as already reported in the Notes to the financial statements of previous years. It is believed that, in the event of measures by ARERA tending to the recovery of the CIP 6/92 facilitation, valid defensive objections can be adopted, even taking into account the peculiarities of the waste-to-energy plant in question. In relation to this specific case, the Group has not allocated any provision as it considers the liability possible and not likely.

Monfalcone Plant investigation

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The current risk considered possible is for the higher costs incurred for undelivered biomass and higher costs incurred for counterfeiting (others) of the calorific capacity of the biomass delivered and not delivered. This is in addition to the increased use of coal instead of biomasses could have as a consequence an increase in the environmental costs relating to the second half of 2009 and the whole of 2010, as well the need to reimburse the additional income or Green Certificates recognized with respect to the real income. The company could have submitted, without fault and with reference to the years 2009 and 2010, generating statements of environmental rights greater than those actually produced.

To date, the GSE, as it blocked the issuing of licenses for subsequent years, did not address return requests for previous annuities of competence of the A2A Group (second half of 2009-full-year 2010). If the GSE were to take action against the A2A Group, it will evaluate the appropriate actions, including damages, considering also the amount withheld from third-party suppliers. A2A Trading S.r.l. (now A2A S.p.A.) filed a request with the GSE, in accordance with the procedures and modalities required, to obtain Green Certificates relating to 2011 in which the calculation has been made on the basis of the real quantities of biomasses delivered to the power station and, in agreement with the Public Prosecutor, by taking into account a possible false (not of A2A) increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged to A2A Trading S.r.l. (now A2A S.p.A.) the correctness of the calculations made for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

In criminal proceedings, some sentencing measures have been adopted in the context of alternative rites to some of the defendants, with recognition of minimum compensation and recasts of expenses in favour of A2A.

The proceeding passed, for local jurisdiction, before the Court of Gorizia.

The dispute is ongoing. At the hearing of February 22, 2018, some texts were heard and the trial was postponed to the hearing of March 22, 2018 for the hearing of further texts.

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

Monfalcone Plant Investigation

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

The suspect employees appointed trusted defenders.

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

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

ASM Novara S.p.A. dispute

In March 2013, Pessina Costruzioni initiated arbitration proceedings against A2A to declare the failure to comply with the shareholder agreements of ASM NOVARA and to sue A2A for damages. On June 30, 2015, the Arbitration Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses. The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal.

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

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

Effectiveness and execution of the award

On May 11, 2016, following invalidity of the effectiveness suspension of the award ordered by the Court of Appeal and the outcome of enforcement actions, A2A paid to Pessina Costruzioni 38,524,290.56 euro.

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

With Regional Law no. 22/2011, Lombardy essentially doubled the fee for hydroelectric use of public water, thereby infringing the principles of gradualism and reasonableness in the determination of fees, already recognized by the case law, and also violating the principle of equal competition between operators in the national territory.

Faced with the payment requests made by the Region for the years 2012 and 2013, Edipower S.p.A. (now A2A S.p.A.) therefore paid the fee considering solely the increase arising from the planned inflation rate as compared to the previous year. As a consequence, for 2012 and 2013 the Region issued injunctions for the payment of the amount not paid by the company; Edipower S.p.A. (now A2A S.p.A.) appealed against these injunctions before the Regional Court of Public Waters ("TRAP") of Milan, proposing the exception of unconstitutionality of the regional provision.

The same conduct was adopted by Edipower S.p.A. (now A2A S.p.A.) for the annuities of the 2014, 2015 and 2016 fees.

However, given the consolidation of unfavourable law and contrary to the thesis of Edipower S.p.A. (now A2A S.p.A.) (ref. sent. TSAP no. 138/2016 and sent. Const. Court no. 158/2016), there was the extinction of almost all the appeals established by Edipower S.p.A. (now A2A S.p.A.) and payment the amount originally ordered pursuant to art. 309 Code of Civil Procedure, in order to avoid the increase of legal interest and the risk of condemnation to significant legal fees, as happened to other operators, while keeping intact its right to recover any amounts overpaid. Against this background, the injunctions for payment of October 2016 relating to the years 2014-2015 have not been opposed by Edipower S.p.A. (now A2A S.p.A.), which undertook to pay, with reserve of repetition in the event of a favourable judicial outcome, the quantum state fee not yet paid. The only judgement ("pilot") still pending before the TRAP Milan is related to the state property fee for 2013 related to the Liro Auction.

The same issue also concerns the large-scale derivations in Lombardy of A2A, which, since the outset, in view of its specific circumstances, fully pays, but with reservation of repetition, the fee demanded by the Region and then sues for excess repetition. In December 2016, the only case pending for A2A before the TRAP Milan on the "doubling" of the state fee was also concluded, with partial loss of A2A in this respect.

In addition, the D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an "additional fee" established "provisionally" at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. It is noted that said additional fee is imposed retroactively from the original expiry of each concession, and therefore for Grosotto, Lovero and Stazzona from January 1, 2011, for Premadio 1 from July 29, 2013 and for Grosio from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters.

For disputes relating to public water derivation fees, at December 31, 2017, the Group set aside risk provisions for the total amount of 36 million euro equal to the entire claim of the counterparties.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual "discount" on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate them (specifying that it be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

The parties will discuss the admissibility and relevance of their respective preliminary requests at the next hearing of September 26, 2017, adjourned to January 16, 2018 and then to April 10, 2018. Upon completion of the discussion, the judge will decide on the preliminary motions and, in particular, on the opposing request to have an expert witness.

The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

Investigation related to EPCG service contracts

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

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

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

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

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

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

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

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

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. Investigative measures are still covered by investigation confidentiality. Based on as currently known, the former CFO is accused - along with two previous EPCG Italian managers appointed by A2A, and three Montenegrin officials of EPCG - of abuse of office in the management of service contracts stipulated by EPCG. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 7, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest, the company also monitored the possibility of extension of the investigation to A2A S.p.A.. At June 30, 2017, this event did not occur, but in the following weeks it emerged from press reports in Montenegro, and lastly with the notification in Podgorica on July 25, 2017, in the hands of the defendant appointed for this purpose by A2A, that the shares held by A2A in EPCG have been the subject of a precautionary measure of seizure. This precautionary measure was judicially challenged by A2A S.p.A., obtaining complete revocation on September 29, 2017. From the precautionary measure, there was also evidence that the proceedings in question were extended to A2A on July 3, 2017. Subsequently, following a civil/commercial agreement signed by A2A on October 23, 2017 with EPCG, and the resolution adopted by the latter on November 17, 2017 to not constitute as injured party in the criminal proceedings, as there was no damage, the Special State Prosecutor ordered the withdrawal of the accusations on December 28, 2017 and therefore the filing of the proceedings against A2A S.p.A. as well as against the three Montenegro officials.

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

Only approximately, and as broad reference, it is in fact possible to indicate that the amount of the penalties contemplated by the Montenegrin law on the liability of legal persons could theoretically – in the extreme variability of the local law with an unclear discipline – be significantly greater (from 2 to 100 times the amount of the alleged damage, as stated in the precautionary measure), even though it is appropriate to consider that there is no sound case-law on the matter and that the proceeding against A2A can be filed.

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

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

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

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

As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of "price protection". Furthermore, since the existence of an effect on trade between Member

States is established, the proceedings deal with the case as an infringement of the EU competition law (article 102 TFEU).

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

The closure of all the proceedings initiated is expected by the end of June 2018.

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

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

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

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

The hearing was scheduled for October 9, 2017 before the GIP (preliminary investigation judge) of Brescia Ms Sabatucci. At that hearing, the company's defences were presented, representing its absolute non-involvement with alleged unlawful conduct, and on November 13, 2017, a defence brief was filed reiterating the absolute groundlessness of the request for the application of interdiction measures against A2A Ambiente for lack of the conditions foreseen by the law.

With a ruling dated December 27, 2017, filed with the court on December 28, 2014, the GIP of Brescia did not consider that as present the conditions justifying the adoption of precautionary measures against A2A Ambiente and therefore rejected the request of the Public Prosecutor.

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

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

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The following information is provided in connection with the main litigation of a fiscal nature.

A2A gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) - General IRES/IRAP/VAT audit for fiscal years 2014 and 2015

On January 19, 2016, the Finance Police - Chieti Unit commenced a general audit of A2A Gencogas S.p.A. (formerly Abruzzoenergia S.p.A.) for fiscal years 2014 and 2015 for IRES, IREP and VAT purposes. The audit was completed on May 25, 2016. The company submitted comments to the formal notice of assessment by the inspectors. In December 2016, the Revenue Agency of Chieti issued notices of assessment for IRES, IRAP and VAT for the years 2011 and 2012. The company has proposed a timely appeal against all the deeds notified. The Provincial Tax Commission of Chieti issued favourable sentences. In August 2017, the Revenue Agency of Chieti also issued notices of assessment for IRES, IRAP and VAT for the years 2013 and 2014, all appealed against by the company. A risk provision of 2 million euro has been recognized.

A2A S.p.A. – Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The Provincial Tax Commission of Milan rejected the appeal with sentence filed on July 7, 2017 and the subsequent actions are being evaluated. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

Unareti S.p.A. (already A2A Reti Gas S.p.A.) – COSAP Municipality of Milan for the years from 2003 to 2017

On December 27, 2011 the Municipality of Milan served payment notices for COSAP (a fee paid for occupying public spaces and areas) for the years 2003 to 2011. An application was filed for annulment of these notices by internal revocation, which the Municipality rejected. The company filed a summons with the Court of Milan against this rejection on July 11, 2012 and on September 25, 2012 filed an appeal with the regional administrative court. In December 2014, payment notices were notified for the years 2012 to 2014 and, in February 2016, a notice of assessment was served for the year 2015. In February 2015, a settlement agreement was entered into with the Municipality of Milan for the final conclusion of the COSAP litigation for the years 2003 to 2011 and a claim was filed before the Regional Administrative Court of Milan against the payment notices for the years from 2012 to 2014. In April 2016, appeal was submitted to the Regional Administrative Court for the year 2015. In September 2016, notice of payment for 2016 was submitted, against which the company appealed. On January 5, 2018, the notice of payment was served for 2017. The company is assessing the action to be taken. A risk provision of 3.5 million euro has been recognized.

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

On September 4, 2014, the Tax Revenue Office - Brescia Provincial Department - began a general tax audit of Partenope Ambiente S.p.A. (now A2A Ambiente S.p.A.) for fiscal year 2011 for IRES, IREP and VAT purposes. This audit was completed on October 6, 2014. The findings mainly related to violations exclusively regarding direct taxation. On July 7, 2015, a notice of assessment was served for the year 2011. On October 5, 2015, the company filed an application to the assessing office for settlement. On December 22, 2015, the company and the Office signed the contradictory report defining the tax claim. A risk provision of 0.3 million euro has been recognized.

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

On March 7, 2013, the Brescia Customs Agency commenced a technical audit of the Brescia waste-to-energy plant owned by Aprica S.p.A. (now owned by A2A Ambiente S.p.A.). The audit was completed on January 16, 2014 with the serving of a formal notice of assessment for the years 2008 to 2011. For 2008 and 2009, the Customs Authority served payment notices on May 7 and 21, 2014 together with the respective penalties. The company appealed against these two demands in July 2014. For the year 2009, in December 10, 2014, the company signed a conciliation agreement with the Customs Agency of Brescia for the final closure of the dispute and the consequent termination of the proceedings. For 2008, the litigation of first instance ended favorably for the company. On September 24, 2015, the Office appealed. The company filed counter-claims on November 17, 2015. With sentence of June 6, 2016, the Regional Tax Commission partially upheld the company's reasons. The Office appealed to the Court of Cassation and the company is considering the consequent actions. On August 5, 2014, the Customs Authority served formal notices of assessment for 2012 and 2013. In March 2016, the company defined with the Customs Agency of Brescia the years from 2010 to 2013 with the payment of the amounts due on the basis of the criteria identified in the deed of reconciliation for the year 2009. As a result of the settlement agreements, the fund has been released for the excess and there is a residual risks provision of 0.3 million euro for the year 2008.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favourable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. (now A2A S.p.A.), filed a cross-appeal on November 9, 2012.

The outcomes of the 2002 and 2003 disputes were also favourable for the company but the Tax Revenue Office filed an appeal against both sentences. The appeal for 2002 was discussed on November 30, 2010, and by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation. For 2001 and 2002, the hearing dates for discussion before the Supreme Court have not yet been set. A risk provision of 1.4 million euro has been recognized.

A2A S.p.A. (formerly A2A Trading S.r.l.) - VAT assessments Green Certificates 2004 – 2010

On December 23, 2009 the Milan Tax Revenue Office served A2A Trading S.r.l. (now A2A S.p.A.) with a VAT tax assessment regarding fiscal 2004. This notice cited the company's failure to invoice taxable transactions and required the company to pay additional VAT as well as penalties and interest amounting to a total of 3.3 million euro.

In particular, under this assessment the Tax Revenue Office served a penalty on A2A Trading S.r.l. (now A2A S.p.A.) for not having invoiced the Tollee (Edipower S.p.A.) for the Green Certificates allegedly transferred between the two.

After appropriate examination, which also included the other Tollers, it was considered that the Tax Revenue Office's conclusions could not be accepted. In fact, under Tolling arrangements Tollers are on the one hand the owners of the raw materials, including fuel, that they supply to the Tollees to produce electricity, and on the other are the "ab origine" owners of the electricity produced. The delivery of Green Certificates to Tollees by Tollers can in no way be considered to be the transfer of title of such.

A2A Trading S.r.l. (now A2A S.p.A.) has therefore not committed any breach of law and accordingly no risk provision has been made in the financial statements for this matter.

On December 16, 2010, the Milan Tax Revenue Office served notice of a VAT tax assessment regarding fiscal 2005 and on October 31, 2011 notice of a VAT tax assessment regarding fiscal 2006 for the same reasons, with the resulting demands for additional value added tax plus penalties and interest totalling 5.2 million euro and 11.2 million euro respectively. As in the case of 2004, and also for 2005 and 2006, A2A Trading S.r.l. (now A2A S.p.A.) has not committed any breach of law accordingly no risk provision has been made in the financial statements for this matter.

A2A Trading S.r.l. (now A2A S.p.A.) has filed an appeal with the relevant bodies against both notices, requesting that the claim for additional taxes be fully annulled.

The Milan Provincial Tax Commission upheld the company's appeals for all years under dispute.

On March 12, 2013 the Tax Revenue Office stated its acceptance, for 2006, of the sentence for the part relating to the dispute regarding the green certificates and filed an appeal with respect to the remaining findings (283,454.16 euro). The Regional Tax Commission rejected the appeal and the Office filed an appeal against this decision with the Supreme Court on August 5, 2014, which was followed by a cross appeal by the company. On May 6, 2013 the Tax Revenue Office notified that it was waiving its appeal and applying for a dismissal of the case for 2004 and 2005.

Note that following the request for documentation regarding Green Certifications for the same Tolling contract in tax years from 2007 to 2010, on October 28, 2011 the Italian Guardia di Finanza - Milan Office served notice of the Report on Findings, highlighting the same failure to bill taxable transactions for the years 2007, 2008 and 2010. No assessment notices have yet been notified.

No provision was ever allocated as the company considered unfounded the claims of the financial administration.

* * *

Consob Recommendation no. 61493 of July 18, 2013

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

The investments made in this sector in the first half of 2017 were of a marginal amount and due to ordinary maintenance.

In addition, the A2A Group plans to make investments in the hydroelectric sector in the coming years and in particular to incur expenditure for maintenance and for increasing the energy efficiency of plants located in Lombardy and Calabria.

4
Attachments to the notes to the Consolidated annual report

1 - Statement of changes in tangible assets

Tangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2016 Restated	FIRST CONSOLIDATION	CHANGE IN CONSOLIDATION METHOD (EPCG)	CHANGES DURING THE YEAR	
				INVESTMENTS	CHANGES IN CATEGORY
Land	235		(124)	2	
Buildings	821	1	(194)	9	15
Plant and machinery	3,703	36	(207)	111	80
Industrial and commercial equipment	33		(4)	9	2
Other assets	72		(1)	26	12
Landfills	73				
Construction in progress and advances	101		(29)	135	(116)
Leasehold improvements	82			13	1
Leased assets	9	43		1	
Total tangible assets	**5,129**	**80**	**(559)**	**306**	**(6)**

Tangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2015	FIRST-TIME CONSOLIDATION ACQUISITIONS 2016	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Land	266	15	1	
Buildings	913	57	6	6
Plant and machinery	3,608	233	102	99
Industrial and commercial equipment	24	8	7	1
Other assets	56	6	17	9
Landfills	23	42	1	3
Construction in progress and advances	103	20	106	(120)
Leasehold improvements	72	1	19	1
Leased assets	2	7		1
Total tangible assets	**5,067**	**389**	**259**	**-**

CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2017
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
2		(1)			(1)	2	113
(8)	(5)	(2)			(31)	(22)	606
(3)		(9)	6		(258)	(73)	3,459
4		(2)	2		(8)	7	36
13	(3)	(6)	6		(21)	27	98
					(7)	(7)	66
4						23	95
(3)		(2)	1		(9)	1	83
					(3)	(2)	50
9	**(8)**	**(22)**	**15**	**-**	**(338)**	**(44)**	**4,606**

CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2016 Restated
RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
(45)				(1)	(1)	(46)	235
(87)	(7)	(3)	1	(32)	(33)	(149)	821
144	(17)	(66)	61	(185)	(276)	(138)	3,703
(1)		(1)	1		(6)	1	33
	(1)	(9)	9		(15)	10	72
12					(8)	8	73
(5)				(3)		(22)	101
(1)		(2)			(8)	9	82
(1)	1				(1)	-	9
16	**(24)**	**(81)**	**72**	**(221)**	**(348)**	**(327)**	**5,129**

2 - Statement of changes in intangible assets

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2016 Restated	FIRST CONSOLIDATION	CHANGE IN CONSOLIDATION METHOD (EPCG)	CHANGES DURING THE YEAR	
				INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	21			9	2
Concessions, licences, trademarks and similar rights	1,046	19	(1)	90	37
Goodwill	500				
Assets in progress	26	1	(1)	48	(34)
Other intangible assets	111	9		1	1
Total intangible assets	**1,704**	**29**	**(2)**	**148**	**6**

Intangible assets *millions of euro*	NET BOOK VALUE AT 12 31 2015	FIRST-TIME CONSOLIDATION ACQUISITIONS 2016	CHANGES DURING THE YEAR	
			INVESTMENTS	CHANGES IN CATEGORY
Industrial patent and intellectual property rights	26		6	3
Concessions, licences, trademarks and similar rights	799	174	88	31
Goodwill	482	39		
Assets in progress	20	14	29	(34)
Other intangible assets	21	77		
Total intangible assets	**1,348**	**304**	**123**	**-**

	CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2017
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
						(13)	(2)	19
	(10)		(10)	8		(49)	66	1,130
	(9)				(34)		(43)	457
							14	40
	105					(10)	97	217
	86	**-**	**(10)**	**8**	**(34)**	**(72)**	**132**	**1,863**

	CHANGES DURING THE YEAR							NET BOOK VALUE AT 12 31 2016 Restated
	RECLASSIFICATIONS/ OTHER CHANGES		DISPOSALS/ SALES		WRITE-DOWNS	AMORTIZATION	TOTAL CHANGES FOR THE YEAR	
	GROSS VALUE	ACCUMULATED AMORTIZATION	GROSS VALUE	ACCUMULATED AMORTIZATION				
						(14)	(5)	21
	(4)	(1)	(13)	10		(38)	73	1,046
					(21)		(21)	500
					(3)		(8)	26
	16					(3)	13	111
	12	**(1)**	**(13)**	**10**	**(24)**	**(55)**	**52**	**1,704**

3 - List of companies included in the consolidated annual report

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Scope of consolidation			
Unareti S.p.A.	Brescia	Euro	965,250
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	28,600
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
A2A Smart City S.p.A.	Brescia	Euro	3,000
A2A Energia S.p.A.	Milan	Euro	2,000
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
A2A Ambiente S.p.A.	Brescia	Euro	220,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100
A2A Energiefuture S.p.A.	Milan	Euro	50,000
A2A gencogas S.p.A.	Milan	Euro	450,000
Retragas S.r.l.	Brescia	Euro	34,495
Aspem S.p.A.	Varese	Euro	174
Varese Risorse S.p.A.	Varese	Euro	3,624
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900
A2A Alfa S.r.l.	Milan	Euro	100
Plurigas S.p.A. in liquidation	Milan	Euro	800
Proaris S.r.l.	Milan	Euro	1,875
Ecofert S.r.l. in liquidation	S. Gervasio Bresciano (BS)	Euro	100
SEASM S.r.l.	Brescia	Euro	700
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	8,939
Consul System S.p.A.	Milan	Euro	2,000
Unareti Servizi Metrici S.r.l.	Brescia	Euro	100
LaboRAEE S.r.l. (formerly Mincio Trasmissione S.r.l.)	Milan	Euro	90
Ecodeco Hellas S.A. in liquidation	Atene (Greece)	Euro	60
Ecolombardia 4 S.p.A.	Milan	Euro	13,515
Sicura S.r.l.	Milan	Euro	1,040
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250
Vespia S.r.l. in liquidation	Milan	Euro	10
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582
Nicosiambiente S.r.l.	Milan	Euro	50
Bioase S.r.l.	Sondrio	Euro	677
Aprica S.p.A.	Brescia	Euro	20,000
Amsa S.p.A.	Milan	Euro	10,000
SED S.r.l.	Robassomero (TO)	Euro	1,250

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2017	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
91.60%	91.60%	A2A S.p.A. (87.27%) Unareti S.p.A. (4.33%)	Line-by-line consolidation
90.00%	90.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Aspem S.p.A.	Line-by-line consolidation
81.90%	89.00%	A2A S.p.A. (74.50%) Linea Energia S.p.A. (14.50%)	
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
71.48%	95.00%	A2A S.p.A. (47%) Linea Energia S.p.A. (48%)	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
74.80%	74.80%	A2A S.p.A. (74.55%) Unareti S.p.A. (0.25%)	Line-by-line consolidation
75.00%	75.00%	A2A Calore & Servizi S.r.l.	Line-by-line consolidation
100.00%	100.00%	Unareti S.p.A.	Line-by-line consolidation
100.00%	100.00%	Amsa S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
68.78%	68.78%	A2A Ambiente S.p.A.	Line-by-line consolidation
96.80%	96.80%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
99.90%	99.90%	A2A Ambiente S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
80.00%	80.00%	A2A Ambiente S.p.A.	Line-by-line consolidation

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Bergamo Servizi S.r.l.	Brescia	Euro	10
LA BI.CO DUE S.r.l. (*)	Lograto (BS)	Euro	96
RI.ECO S.r.l.	Novate Milanese (MI)	Euro	1,000
RESMAL S.r.l.	Milan	Euro	500
Galli Ecologistica S.r.l.	Novate Milanese (MI)	Euro	100
Resmal Ecologistica S.r.l.	Truccazzano (MI)	Euro	80
A2A Security S.c.p.a.	Milan	Euro	50
PATAVINA TECHNOLOGIES S.r.l.	Padova	Euro	12
LumEnergia S.p.A.	Lumezzane (BS)	Euro	300
A2A Energy Solution S.r.l.	Milan	Euro	10
A2A IDRO4 S.r.l.	Milan	Euro	10
A2A Rinnovabili S.p.A.	Trento	Euro	50
HELIOS 1 S.r.l.	Trento	Euro	12
INTHE 1 S.r.l.	Trento	Euro	10
INTHE 2 S.r.l.	Trento	Euro	10
TFV 1 S.r.l.	Trento	Euro	10
TFV 2 S.r.l.	Trento	Euro	10
renewA21 S.r.l.	Trento	Euro	20
renewA22 S.r.l.	Trento	Euro	20
renewA23 S.r.l.	Trento	Euro	20
renewA24 S.r.l.	Trento	Euro	20
renewA25 S.r.l.	Trento	Euro	20
renewA26 S.r.l.	Trento	Euro	20
renewA27 S.r.l.	Trento	Euro	20
renewA28 S.r.l.	Trento	Euro	20
Linea Group Holding S.p.A.	Cremona	Euro	189,494
Linea Reti e Impianti S.r.l.	Cremona	Euro	7,794
Linea Gestioni S.r.l.	Crema (CR)	Euro	5,000
LD Reti S.r.l.	Lodi	Euro	23,981
Linea Più S.p.A.	Pavia	Euro	5,000
Linea Energia S.p.A.	Rovato (BS)	Euro	3,969
Linea Com S.r.l.	Cremona	Euro	5,833
Linea Ambiente S.r.l.	Rovato (BS)	Euro	3,000
Lomellina Energia S.r.l.	Parona (PV)	Euro	160
Equity investments held for sale			
Elektroprivreda Cnre Gore AD Nikšič (EPCG)	Nikšič (Montenegro)	Euro	1,003,666

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

% OF SHAREHOLDING CONSOLIDATED BY GROUP AT 12 31 2017	SHAREHOLDING %	SHAREHOLDER	VALUATION METHOD
100.00%	100.00%	Aprica S.p.A.	Line-by-line consolidation
64.00%	64.00%	Aprica S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A. (45%) RI.ECO S.r.l. (55%)	Line-by-line consolidation
100.00%	100.00%	A2A Ambiente S.p.A. (45%) RESMAL S.r.l. (55%)	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A. (47.60%) Unareti S.p.A. (19.10%) A2A Ciclo Idrico S.p.A. (10.90%) Amsa S.p.A. (9.50%) A2A gencogas S.p.A. (4.10%) A2A Ambiente S.p.A. (4.10%) A2A Calore & Servizi S.r.l. (2.70%) A2A Energiefuture S.p.A. (2%)	Line-by-line consolidation
100.00%	100.00%	A2A Smart City S.p.A.	Line-by-line consolidation
92.70%	92.41%	A2A Energia S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Rinnovabili S.p.A.	Line-by-line consolidation
51.00%	51.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
90.85%	90.85%	Linea Group Holding S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
100.00%	100.00%	Linea Group Holding S.p.A.	Line-by-line consolidation
80.00%	80.00%	Linea Ambiente S.r.l.	Line-by-line consolidation
41.75%	41.75%	A2A S.p.A.	Equity

4 - List of shareholdings in companies carried at equity

Company name	REGISTERED OFFICE	CURRENCY	SHARE CAPITAL (THOUSANDS)
Shareholdings in companies carried at equity			
PremiumGas S.p.A.	Bergamo	Euro	120
Ergosud S.p.A.	Rome	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (CH)	Euro	650
SET S.p.A.	Toscolano Maderno (BS)	Euro	104
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Centrale Termoelettrica del Mincio S.r.l. in liquidation	Ponti sul Mincio (MN)	Euro	11
Serio Energia S.r.l.	Concordia sulla Secchia (MO)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (BS)	Euro	1,616
ACSM-AGAM S.p.A.	Monza	Euro	76,619
Futura S.r.l.	Brescia	Euro	2,500
Prealpi Servizi S.r.l.	Varese	Euro	5,451
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100
G.Eco S.r.l.	Treviglio (BG)	Euro	500
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
Rudnik Uglja Ad Pljevlja	Pljevlja (Montenegro)	Euro	21,493
ASM Codogno S.r.l.	Codogno (LO)	Euro	1,898
Total shareholdings			

SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2017 (THOUSANDS)	VALUATION METHOD
50.00%	A2A Alfa S.r.l.	-	Equity
50.00%	A2A gencogas S.p.A.	-	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	2,045	Equity
49.00%	A2A S.p.A.	739	Equity
47.00%	A2A S.p.A.	2,090	Equity
45.00%	A2A S.p.A.	1	Equity
40.00%	A2A S.p.A.	670	Equity
40.00%	A2A S.p.A.	10	Equity
24.29%	A2A S.p.A.	735	Equity
23.94%	A2A S.p.A.	41,476	Equity
20.00%	A2A Calore & Servizi S.r.l.	1,005	Equity
12.47%	Aspem S.p.A.	-	Equity
52.00%	A2A Calore & Servizi S.r.l.	95	Equity
40.00%	Aprica S.p.A.	3,400	Equity
50.00%	A2A Ambiente S.p.A.	-	Equity
25.00%	A2A Ambiente S.p.A.	238	Equity
39.49%	A2A S.p.A.	7,067	Equity
49.00%	Linea Più S.p.A.	3,344	Equity
		62,915	

5 - List of available-for-sale financial assets

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2017 (THOUSANDS)
Available-for-sale financial assets (AFS)			
Immobiliare-Fiera di Brescia S.p.A.	1.21%	A2A S.p.A.	280
Azienda Energetica Valtellina e Valchiavenna S.p.A. (AEVV)	9.39%	A2A S.p.A.	1,846
Others:			
AQM S.r.l.	7.80%	A2A S.p.A. (7.52%) LumEnergia S.p.A. (0.28%)	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio DIX.IT in liquidation	14.28%	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
L.E.A.P. S.c.a.r.l.	8.57%	A2A S.p.A.	
Consorzio Milano Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
E.M.I.T. S.r.l. in liquidation	10.00%	A2A S.p.A.	
Guglionesi Ambiente S.c.a.r.l.	1.01%	A2A Ambiente S.p.A.	
Isfor 2000 S.c.p.a.	5.13%	A2A S.p.A. (4.94%) Linea Gestioni S.r.l. (0.19%)	
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A. in liquidation	3.00%	A2A Ambiente S.p.A.	
DI.T.N.E.	1.82%	A2A S.p.A.	
COMIECO	n.s.	RI.ECO S.r.l. (n.s.) RESMAL S.r.l. (n.s.)	
CONAPI	0.28%	RI.ECO S.r.l. (0.23%) RESMAL S.r.l. (0.05%)	
Blugas Infrastrutture S.r.l.	27.51%	Linea Group Holding S.p.A.	
Casalasca Servizi S.p.A.	13.88%	Linea Gestioni S.r.l.	
SABB S.p.A.	4.47%	Linea Gestioni S.r.l.	
Gestione Multiservice S.c.a.r.l.	6.07%	Linea Più S.p.A. (5.97%) Linea Reti e Impianti S.r.l. (0.10%)	
Crit S.c.a.r.l.	32.90%	Linea Com S.r.l.	

Company name	SHAREHOLDING %	SHAREHOLDER	CARRYING AMOUNT AT 12 31 2017 (THOUSANDS)
Sinergie Italiane S.r.l. in liquidation	14.92%	Linea Group Holding S.p.A.	
Cassa Padana S.c.a.r.l.	n.s.	Linea Com S.r.l.	
Confidi Toscana S.c.a.r.l.	n.s.	Linea Ambiente S.r.l.	
Credito Valtellinese	n.s.	Linea Ambiente S.r.l.	
Idroenergia S.c.a.r.l.	n.s.	Lomellina Energia S.r.l.	
GAL-GOLEM	2.00%	Azienda Servizi Valtrompia S.p.A.	
MORINA S.r.l.	5.00%	Azienda Servizi Valtrompia S.p.A.	
Total other financial assets			**6,108**
Total available-for-sale financial assets			**8,234**

Note: A2A S.p.A. took part in the setting up of Società Cooperativa Polo dell'innovazione della Valtellina, subscribing 5 shares having a nominal value of 50 euro.

Certification of the consolidated financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned Luca Camerano, in the name and on behalf of the entire Board of Directors of A2A S.p.A., and Andrea Crenna, as manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify, also taking into account the contents of article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 February 24, 1998:

    - the adequacy in relation to the characteristics of the company and
    - the effective application

    of administrative and accounting procedures for the preparation of financial statements in the year 2017.

2. It is also certified that:

    2.1 the Consolidated Financial Statements:

    a) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;

    b) correspond to the information contained in the accounting ledgers and records;

    c) provide a true and fair representation of the equity, economic and financial situation of the issuer and the whole of the companies included in the scope of consolidation;

    2.2 the Report on Operations includes reliable analysis on the performance, result of operations and the business of the issuer and of all entities included in the consolidated financial statements as well as description of principal risks and uncertainties to which they are exposed.

Milan, March 20, 2018

Luca Camerano	Andrea Crenna
(for the Board of Directors)	(Manager in charge of preparing the corporate accounting documents)

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Independent Auditors' Report

Independent Auditors' Report

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of A2A Group (the A2A Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, the consolidated statement of comprehensive income, statement of changes in group equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the A2A Group as at December 31, 2017, 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 the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of A2A S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Estimate of revenues for the sale of electricity and gas	
Revenues from sales and services include the estimated revenues accrued for electricity and gas services delivered to the customers between the date of last meter reading and December 31, 2017, as well as billed revenues based on effective consumptions of the period. The processes and methodologies for assessing and determining the estimate of accrued revenues are based on complex assumptions that, by their nature, imply use of the directors' judgment, where the estimate developed by the A2A Group for revenues from electricity and gas services delivered to each customer between the date of last meter reading and December 31, 2017 are based on complex calculation algorithms derived from different IT systems. Additionally, such estimate is developed based on historical consumptions and the profile of each customer, adjusted to account for potential changes in consumptions. Considering the judgment required and the complexity of the assumptions used in the estimate of revenues from the sale of electricity and gas, we identified this area as a key audit matter. The disclosure of revenues recognition principles for gas and electricity sales is included in the paragraph "Use of estimates" of the consolidated financial statements.	Our audit procedures in response to this key audit matter included, among others: • assessment of the processes and key controls implemented by the Company related to the estimate of revenues for gas and electricity sales, including those related to Information Technology (IT); • testing of the design and operating effectiveness of key controls; • assessment of the key assumptions used by the directors; • assessment of calculation algorithms and data from ERP systems used in developing the estimate of revenues for gas and electricity sales, also with the support of EY IT specialists; • analysis of historical trends of revenues estimate, and analysis of the impacts on total revenues; • execution of test of details on a sample of data used by the directors to determine recognized revenues; • look-back analysis of the prior year estimate against the data subsequently reported, and analysis of the variances in order to support the accuracy of the current estimation process. Lastly, we reviewed the adequacy of the disclosure included in the notes to the consolidated financial statements.

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Recoverability of goodwill

At December 31, 2017, the goodwill balance amounts to 457 million euro and it is allocated to the following Cash Generating Units (CGU) of the A2A Group: A2A Reti Elettriche, A2A Ambiente, A2A Reti Gas, A2A Gas and A2A Calore.

The processes and methodologies for assessing and determining the recoverable amount of each CGU, in terms of value in use, are based on complex assumptions, that by their nature imply the use of the directors' judgment, in particular with reference to the forecast of future cash flows relating to the period covered by the Group's strategic plan 2018-2022, the normalized cash flows assumed as a basis for the terminal value, as well as the long-term growth rates and discount rates applied to such cash flows forecasts. Such assumptions could be affected by future expectation on energy market conditions, regulatory and macroeconomic scenarios.

In consideration of the judgment required and of the complexity of the assumptions used in the estimate of the recoverable amount of goodwill, we have considered that this area represents a key audit matter.

The disclosures related to the recoverability of goodwill are included in the paragraph "Use of estimates" and in note 2 "Intangible Assets" to the consolidated financial statements.

Our audit procedures related to this key audit matters included, among others:

- assessment of the processes and key controls implemented by the Company related to the goodwill impairment test;
- assessment of the adequacy of the process adopted in determining the CGUs, and allocating assets and liabilities to the carrying amount of each CGUs;
- assessment of the report produced by the directors' third party specialists, as well as the assessment of their competence, capability and objectivity;
- assessment of the forecasted future cash flows;
- assessment of the consistency between the future cash flows assumed in the Group A2A's strategic plan for the period 2018-2022 and the cash flows forecasts assumed for each CGU;
- assessment of the accuracy of actual results against previous forecasts;
- assessment of the long-term growth rates and discount rates.

In performing our procedures, we leveraged the used of EY valuation specialists who performed an independent calculation and sensitivity analysis on key assumptions, in order to determine any changes that could significantly impact the valuation of recoverable amount.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the A2A Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company A2A S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the A2A Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit 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 A2A Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the A2A Group's ability to

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continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the A2A Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of A2A S.p.A., in the general meeting held on June 11, 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the A2A Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

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Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of A2A S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of A2A Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and 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 of A2A Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of A2A Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of A2A S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, March 27, 2018

EY S.p.A.
Signed by: Massimo Antonelli, Partner

This report has been translated into the English language solely for the convenience of international readers.