2013

Consolidated **Annual Report**

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This is a translation of the Italian original "Relazione finanziaria annuale consolidata 2013" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available on the website www.a2a.eu

0.1

Consolidated financial statements

Balance sheet (1)

Assets

Millions of euro	Note	12 31 2013	12 31 2012
NON-CURRENT ASSETS			
Tangible assets	1	5,930	6,370
Intangible assets	2	1,306	1,393
Shareholdings carried according to equity method	3	187	210
Other non-current financial assets	3	53	53
Deferred tax assets	4	372	269
Other non-current assets	5	53	89
Total non-current assets		**7,901**	**8,384**
CURRENT ASSETS			
Inventories	6	284	340
Trade receivables	7	1,889	1,907
Other current assets	8	383	318
Current financial assets	9	107	27
Current tax assets	10	70	90
Cash and cash equivalents	11	376	553
Total current assets		**3,109**	**3,235**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**-**	**326**
TOTAL ASSETS		**11,010**	**11,945**

(1) As prescribed 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 in section 0.2 and discussed in Note 39.
Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40.

Equity and liabilities

Millions of euro	Note	12 31 2013	12 31 2012
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(61)	(61)
Reserves	15	1,161	1,018
Net result of the year	16	62	260
Equity pertaining to the Group		**2,791**	**2,846**
Minority interests	17	557	851
Total equity		**3,348**	**3,697**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	3,982	4,371
Employee benefits	19	339	325
Provisions for risks, charges and liabilities for landfills	20	605	611
Other non-current liabilities	21	436	413
Total non-current liabilities		**5,362**	**5,720**
Current liabilities			
Trade payables	22	1,306	1,332
Other current liabilities	22	566	486
Current financial liabilities	23	415	653
Tax liabilities	24	13	8
Total current liabilities		**2,300**	**2,479**
Total liabilities		**7,662**	**8,199**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**25**	**-**	**49**
TOTAL EQUITY AND LIABILITIES		**11,010**	**11,945**

Income statement (1)

Millions of euro	Note	01 01 2013 12 31 2013	01 01 2012 12 31 2012 (*)
Revenues			
Revenues from the sale of goods and services		5,389	6,281
Other operating income		215	199
Total revenues	27	5,604	6,480
Operating expenses			
Expenses for raw materials and services		3,567	4,559
Other operating expenses		240	251
Total operating expenses	28	3,807	4,810
Labour costs	29	664	602
Gross operating income - EBITDA	30	1,133	1,068
Depreciation, amortization, provisions and write-downs	31	876	567
Net operating income - EBIT	32	257	501
Result from non-recurring transactions	33	75	45
Financial balance			
Financial income		80	58
Financial expense		263	251
Affiliates		(23)	13
Result from disposal of other shareholdings (AFS)		-	-
Total financial balance	34	(206)	(180)
Result before taxes		126	366
Income taxes	35	51	128
Result after taxes from operating activities		75	238
Net result from discontinued operations	36	-	33
Net result of the year		75	271
Minorities		(13)	(11)
Group net result of the year	37	62	260

(1) As prescribed 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 in section 0.2 and discussed in Note 39.
Significant non-recurring events and transactions in the consolidated financial statements are provided in Note 40, as required by Consob Communication DEM/6064293 of July 28, 2006.

(*) According to the new adopted Income Statement structure the comparative figures for 2012 have been reclassified.

Consolidated statement of comprehensive income

Millions of euro	12 31 2013	12 31 2012
Net result of the year (A)	**75**	**271**
Actuarial gains/(losses) on Employee's benefits booked in the Net equity	(20)	(33)
Tax effect of other actuarial gains/(losses)	5	8
Total actuarial gains/(losses) net of the tax effect (B)	**(15)**	**(25)**
Effective part of gains/(losses) on cash flow hedge	(8)	(54)
Tax effect of other gains/(losses)	3	18
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**(5)**	**(36)**
Other gains/(losses) of companies valued at equity net of the tax effect (D)	**-**	**2**
Total comprehensive result (A) + (B) +(C) +(D)	**55**	**212**
Total comprehensive result attributable to:		
Shareholders of the parent company	**42**	**201**
Minority interests	**13**	**11**

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

Cash flow statement

Millions of euro		12 31 2013		12 31 2012
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**553**		**147**
Contributions related to Edipower S.p.A.		**-**		**89**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**553**		**236**
Operating activities				
Result of the year (**)		(9)		192
Tangible assets depreciation		420		417
Intangible assets amortization		66		72
Fixed assets write-downs/disposals		260		10
Result from affiliates		23		(13)
Net taxes paid (a)	(122)		(251)	
Gross change in assets and liabilities (b)	141		534	
Total change of assets and liabilities (a+b) (*)		19		283
Cash flow from operating activities		**779**		**961**
Investment activities				
Investments in tangible assets		(227)		(275)
Investments in intangible assets and goodwill		(57)		(85)
Investments in shareholdings and securities (*)		(3)		(130)
Disposal of fixed assets and shareholdings		53		234
Dividends received		3		6
Cash flow from investment activities		**(231)**		**(250)**

(*) Cleared of balances in return of shareholders' equity and other balance sheet items.
(**) Result of the year is exposed net of gains on shareholders' and fixed assets' disposals.

Millions of euro	12 31 2013	12 31 2012
Free cash flow	**548**	**711**
Financing activities		
Change in financial assets(*)	(96)	151
Change in financial liabilities (*)	(369)	(324)
Net financial interests paid	(173)	(173)
Dividends paid by the parent company	(81)	(40)
Dividends paid by subsidiaries	(6)	(8)
Cash flow from financing activities	**(725)**	**(394)**
CHANGE IN CASH AND CASH EQUIVALENTS	**(177)**	**317**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**376**	**553**

Statement of changes in Group equity

Description *Millions of euro*	**Share capital**	**Treasury shares**	***Cash Flow Hedge***
Net equity at December 31, 2011 (**)	**1,629**	**(61)**	**20**
2011 result allocation			
Distribution of dividends			
IAS 19 Revised reserves (*)			
IAS 32 and IAS 39 reserves (*)			(36)
Put option on Edipower S.p.A. (former Delmi S.p.A.) shares			
Put option on Aspem S.p.A. shares			
Other changes			
Group and minorities net result of the year (*)			
Net equity at December 31, 2012	**1,629**	**(61)**	**(16)**
2012 result allocation			
Distribution of dividends			
IAS 19 Revised reserves (*)			
IAS 32 and IAS 39 reserves (*)			(5)
Put option on Edipower S.p.A. (former Delmi S.p.A.) shares			
Effects from non-proportional partial Edipower S.p.A. demerger			
Other changes			
Group and minorities net result of the year (*)			
Net equity at December 31, 2013	**1,629**	**(61)**	**(21)**

(*) These form part of the statement of comprehensive income.
(**) Net equity at December 31, 2011 reflects the application of IAS 19 Revised "Employee benefits" with the evidence of the reserve regarding the effects of actuarial gains-losses net of the tax effect.

	Other reserves and retained earnings	Net result of the year	Total equity pertaining to the Group	Minority interests	Total net shareholders' equity
	1,602	**(423)**	**2,767**	**826**	**3,593**
	(423)	423			
	(40)		(40)	(8)	(48)
	(24)		(24)	(1)	(25)
			(36)	2	(34)
	(84)		(84)	(127)	(211)
				(1)	(1)
	3		3	149	152
		260	260	11	271
	1,034	**260**	**2,846**	**851**	**3,697**
	260	(260)			
	(81)		(81)	(6)	(87)
	(15)		(15)		(15)
			(5)		(5)
	(24)		(24)		(24)
				(297)	(297)
	8		8	(4)	4
		62	62	13	75
	1,182	**62**	**2,791**	**557**	**3,348**

0.2

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

Balance sheet

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

Assets

Millions of euro	12 31 2013	of which Related parties (note 39)	12 31 2012	of which Related parties (note 39)
NON-CURRENT ASSETS				
Tangible assets	5,930		6,370	
Intangible assets	1,306		1,393	
Shareholdings carried according to equity method	187	187	210	210
Other non-current financial assets	53	6	53	5
Deferred tax assets	372		269	
Other non-current assets	53		89	
TOTAL NON-CURRENT ASSETS	**7,901**		**8,384**	
Current assets				
Inventories	284		340	
Trade receivables	1,889	154	1,907	127
Other current assets	383		318	
Current financial assets	107		27	5
Current tax assets	70		90	
Cash and cash equivalents	376		553	
TOTAL CURRENT ASSETS	**3,109**		**3,235**	
NON-CURRENT ASSETS HELD FOR SALE	**-**		**326**	
TOTAL ASSETS	**11,010**		**11,945**	

Equity and liabilities

Millions of euro	12 31 2013	of which Related parties (note 39)	12 31 2012	of which Related parties (note 39)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(61)		(61)	
Reserves	1,161		1,018	
Net result of the year	62		260	
Equity pertaining to the Group	**2,791**		**2,846**	
Minority interests	557		851	
Total equity	**3,348**		**3,697**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	3,982		4,371	
Employee benefits	339		325	
Provisions for risks, charges and liabilities for landfills	605	1	611	4
Other non-current liabilities	436		413	
Total non-current liabilities	**5,362**		**5,720**	
Current liabilities				
Trade payables	1,306	38	1,332	34
Other current liabilities	566	8	486	8
Current financial liabilities	415	2	653	
Tax liabilities	13		8	
Total current liabilities	**2,300**		**2,479**	
Total liabilities	**7,662**		**8,199**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**-**		**49**	
TOTAL EQUITY AND LIABILITIES	**11,010**		**11,945**	

Consolidated income statement

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

Millions of euro	01 01 2013 12 31 2013	of which related parties (note 39)	01 01 2012 12 31 2012 (1)	of which related parties (note 39)
Revenues				
Revenues from the sale of goods and services	5,389	515	6,281	761
Other operating income	215		199	
Total revenues	**5,604**		**6,480**	
Operating expenses				
Expenses for raw materials and services	3,567	43	4,559	447
Other operating expenses	240	8	251	9
Total operating expenses	**3,807**		**4,810**	
Labour costs	**664**	**3**	**602**	**3**
Gross operating income - EBITDA	**1,133**		**1,068**	
Depreciation, amortization, provisions and write-downs	**876**	**1**	**567**	**2**
Net operating income - EBIT	**257**		**501**	
Result from non-recurring transactions	**75**		**45**	
Financial balance				
Financial income	80	6	58	7
Financial charges	263		251	1
Affiliates	(23)	(23)	13	13
Result from disposal of other shareholdings (AFS)	-		-	
Total financial balance	**(206)**		**(180)**	
Result before taxes	**126**		**366**	
Income taxes	**51**		**128**	
Result after taxes from operating activities	**75**		**238**	
Net result from discontinued operations	**-**		**33**	
Net result of the year	**75**		**271**	
Minorities	**(13)**		**(11)**	
Group net result of the year	**62**		**260**	

(1) According to the new adopted Income Statement structure the comparative figures for 2012 have been reclassified.

0.3

Notes to the consolidated annual report

General information on A2A S.p.A.

A2A S.p.A. is a company incorporated under Italian law.

A2A S.p.A. and its subsidiaries (the “Group”) operate both in Italy and abroad, in particular following the acquisition in Montenegro which took place in recent years.

The A2A Group mainly operates in the following sectors:

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

Consolidated annual report

The consolidated annual report (hereafter referred to as the “Annual report”) of the A2A Group at December 31, 2013 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, 2013 has been prepared:

- in compliance with Legislative Decree no. 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 Group has applied the same principles as those used in the preparation of the Annual financial report at December 31, 2012.

The principles and interpretations described in detail in the paragraph below “Changes in international accounting standards” were adopted for the first time on January 1, 2013.

This Annual report at December 31, 2013 was approved on March 14, 2014 by the Management Board, which authorized publication, and has been audited by PricewaterhouseCoopers S.p.A. in accordance with their appointment by the Shareholders’ Meeting of April 26, 2007 for the nine years from 2007 to 2015.

The consolidated financial statements at December 31, 2013 have been prepared on a going concern basis.

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 (Revised).

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.

On preparing these financial statements, the specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings (AFS)" have been added to 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. More specifically, the item "Result from non-recurring transactions" contains the gains or losses arising from a 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. 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.
This change to the format of the income statement has also led to the restatement of the comparative figures for the previous year, as discussed further in the notes to the income statement. No material effects have however arisen from this.

The cash flow statement has been prepared using the indirect method as permitted by IAS 7.

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

The formats adopted for the financial statements are the same as those used to prepare the annual consolidated financial statements at December 31, 2012.

Basis of preparation

The Annual report at December 31, 2013 has been prepared on a historical cost basis, with the exception of those items which under IFRS must be or can be measured at fair value, as discussed in further detail in the accounting policies.

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 financial statements at December 31, 2012.

Changes in international accounting standards

The accounting principles adopted for 2013 are the same as those used in the prior year, with the exception of those discussed below in the paragraph "Accounting standards, amendments and interpretations applied by the Group from the current year".

A summary is provided in the following paragraphs "Accounting standards, amendments and interpretations approved by the European Union but applicable after December 31, 2013" and "Accounting standards, amendments and interpretations not yet approved by the European Union" of the changes that will be adopted in future periods, stating the expected effects on the A2A Group's Annual report to the extent this is possible.

Accounting standards, amendments and interpretations applied by the Group from the current year

A series of amendments introduced by international accounting standards and interpretations have been applied from January 1, 2013, none of which however has led to a significant effect on the Group's Annual report. The main changes are described in the following:

- IAS 1 - "Presentation of Financial Statements" - presentation of Items of Other Comprehensive Income: this amendment, applicable from July 1, 2012, was issued on June 5, 2012 and regards the classification of items in "other comprehensive income" on the basis of whether they are potentially reclassifiable to profit or loss subsequently;
- IFRS 1 "Government Loans": this amendment, applicable from January 1, 2013, was issued on March 12, 2012 and regards government loans at a below-market rate of interest. More specifically, the amendment requires that a first-time adopter must classify all outstanding government loans received as a financial liability or an equity instrument in accordance with IAS 32 "Financial Instruments: Presentation". In addition, the amendment states that a first-time adopter may not recognize the corresponding benefit of a government loan at a below-market rate of interest as a government grant;

- IFRS 7 "Financial Instruments: Disclosures": on December 16, 2011 the IASB issued an amendment to this standard "Disclosures - Offsetting Financial Assets and Financial Liabilities" which is applicable retrospectively for annual periods beginning on or after January 1, 2013. This amendment requires information to be provided on the effects or potential effects on the statement of financial position of netting agreements for financial assets and liabilities;
- IFRS 13 "Fair Value Measurement": this standard was issued by the IASB on May 12, 2011 and is applicable from January 1, 2013. IFRS 13 defines fair value, provides guidelines on how to measure it and introduces disclosure requirements.
  The standard does not specify when fair value measurement is applicable but establishes how it should be calculated when it is required by other standards. The new standard applies to all transactions, both financial and non-financial, for which international accounting standards require or permit fair value measurements, with the exception of transactions recognized on the basis of IFRS 2 "Share-based Payments", lease agreements governed by IAS 17 "Leases" and transactions recognized on the basis of "net realizable value" as specified in IAS 2 "Inventories" and "value in use" as specified in IAS 36 "Impairment of Assets".
  The standard defines "fair value" as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". If transactions can be observed directly in the marketplace, fair value can be measured fairly easily; where this is not possible, valuation techniques are used. The standard describes three of these techniques which can be used to measure fair value; the first is the market approach, which uses prices and other relevant information generated by market transactions involving comparable assets and liabilities; the second is the income approach, which consists in discounting future cash inflows and outflows; the third is the cost approach, which requires an entity to produce a value that reflects the amount that would be required currently to replace the service capacity of an asset.
  As regards the disclosures to be provided in the financial statements, IFRS 13 extends the hierarchy of three levels of fair value which vary depending on the input used in the valuation techniques, as stated in IFRS 7 "Financial Instruments: Disclosures", to all assets and liabilities within its scope of application. Certain disclosure requirements vary depending on whether the fair value measurement is carried out on a recurring or non-recurring basis: recurring means the fair value measurements required by other accounting standards at the end of each reporting period, whereas non-recurring means fair value measurements required in special circumstances only;
- On March 28, 2013 a set of proposed amendments to IFRSs "Annual Improvements to IFRSs 2009 - 2011 Cycle" was approved which had been issued by the IASB in May 2012;

these amendments are applicable retrospectively from January 1, 2013 and more specifically regard:

a) IAS 1 "Financial Instruments: Presentation" sets out the criteria for presenting current and non-current liabilities as separate classifications in the balance sheet;
b) IAS 16 "Property, Plant and Equipment" clarifies that servicing equipment shall be classified as property, plant and equipment if used for more than one year, otherwise such items shall be classified as inventory;
c) IAS 32 "Financial Instruments: Presentation" clarifies the fiscal treatment for direct taxation arising from distributions to equity holders and from transaction costs on equity instruments, stating that this should follow the rules of IAS 12 "Income Taxes";
d) IAS 34 "Interim Financial Reporting" addresses segment reporting disclosures; in particular, it clarifies that total assets for a particular reportable segment shall only be reported if that information is regularly provided to the entity's chief operating decision maker and if there has been a material change from the amount disclosed in the last financial statements for that reportable segment.

- The amendment to IAS 19 "Employee Benefits" was approved on June 6, 2012 and is applicable from January 1, 2013, and the A2A Group has early applied this from January 1, 2012.

  The changes made in the amendment may be grouped into three main categories:

  (i) recognition and presentation in the financial statements;
  (ii) disclosures;
  (iii) additional changes.

The first category of changes concerns defined benefit plans. In particular, the corridor method used as a means of recognizing actuarial gains and losses has been eliminated, with the simultaneous requirement being introduced to recognize "remeasured" items (actuarial gains and losses) in other comprehensive income.

The change in the defined benefit obligation is then separated into the following three components in the income statement presentation:

1. an operating component (service cost);
2. a financial component (finance cost);
3. a measurement component (remeasurement cost).

As far as disclosures are concerned, in addition to the elimination of the disclosure relating to the deferral of the recognition of income components (which is no longer required following the elimination of the option to select the corridor method), disclosures are required of the features of the plans and the related amounts recognized in the financial statements, the risks involved in the plans, which includes a sensitivity analysis for the demographic risk, and details of any participation in multiemployer pension plans.

Accounting standards, amendments and interpretations approved by the European Union but applicable after December 31, 2013

The following principles and interpretations already approved by the European Union and currently not applied by the Group could be adopted in the next few years if the conditions arise:

- IFRS 10 "Consolidated Financial Statements" was issued by the IASB on May 12, 2011 and is applicable from January 1, 2014. Unlike IAS 27 "Consolidated and Separate Financial Statements", in which control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, in IFRS 10 an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and when at the same time it has the ability to affect those returns through its power over the investee. An investor controls an investee if and only if the investor has all of the following:
  1. the power to direct the relevant activities of the investee;
  2. the exposure to future returns from the investee;
  3. the ability to use its power over an investee to affect the investor's returns.

  The power to direct activities that significantly affect the results of the subsidiary (relevant activities) may more easily be exercised through voting rights (including potential voting rights), but also through contractual arrangements. When control is exercised through voting rights, relevant activities are represented by operating activities (development, purchasing and product sales) and financial management activities (obtaining and negotiating loans, acquisitions and sales of financial assets).
  Future returns also include dividends, payment for services provided by the parent for the subsidiary's activities and tax benefits.
  The third condition for establishing whether control exists regards the interaction between the first two conditions. In particular, in certain circumstances an entity may have an interest in a group of the subsidiary's assets and liabilities as part of a legal or contractual condition. IFRS 10 establishes that to determine the existence of control, this group of assets and liabilities can only be considered a separate entity if it is economically separate from the entity as a whole, and is therefore a subsidiary for the purposes of the consolidated financial statements.
  Following the introduction of this standard, revised versions of IAS 27 "Separate Financial Statements", which remains the main reference standard for separate financial

statements, and IAS 28 “Investments in Associates and Joint Ventures” were issued. The interpretation SIC 12 “Consolidation - Special Purpose Entities” has been superseded;

- IFRS 11 “Joint Arrangements” was issued by the IASB on May 12, 2011 and is effective from January 1, 2014. This standard establishes that in a joint arrangement two or more parties have joint control and decisions regarding relevant activities require the unanimous consent of the parties.
  IFRS 11 identifies two different types of joint arrangement:
  1. joint operations;
  2. joint ventures.

  The two types differ in the rights and obligations of each party to the joint arrangement. In a joint operation, the parties have rights to the assets and obligations for the liabilities of the arrangement, whereas in a joint venture the parties have rights linked to the net assets of the arrangement. IFRS 11 requires an entity to fully recognize the assets, liabilities, revenues and expenses relating to a joint operation on the basis of its interest, while it should account for a joint venture using the equity method, as required by IAS 28 “Investments in Associates and Joint Ventures”.
  Joint operations are recognized in the same way in both the separate and consolidated financial statements, with an entity recognizing the assets, liabilities, revenues and expenses on the basis of its interest; joint ventures and investments in subsidiaries and associates on the other hand may be recognized in the separate financial statements either at cost or on the basis of IFRS 9 “Financial Instruments” (and IAS 39 “Financial Instruments: Recognition and Measurement”), as also specified in IAS 27 “Separate Financial Statements”. As regards disclosures for the purpose of completeness, reference should be made to the new IFRS 12 “Disclosures of Interests in Other Entities”.
- IFRS 12 “Disclosure of Interests in Other Entities” was issued by the IASB on May 12, 2011 and is applicable from January 1, 2014. This standard establishes the minimum disclosure requirements, combining them with those established by other standards, that entities must provide about all types of interests, including those in a subsidiary, a joint arrangement, an associate, a special-purpose entity or an unconsolidated vehicle;
- IAS 27 (Revised) “Separated Financial Statements” was issued by the IASB on May 12, 2011 and is applicable from January 1, 2014; a revised version of IAS 27 was issued at the same time as IFRS 10 “Consolidated Financial Statements” was introduced, which retains its role as the general standard of reference for separate financial statements. This standard applies to the measurement of investments in subsidiaries, associates and joint ventures in the separate financial statements of the parent. Joint ventures, as is also the case for investments in subsidiaries and associates, may be recognized in the separate financial statements either at cost or on the basis of IFRS 9 “Financial

Instruments" (and IAS 39 "Financial Instruments: Recognition and Measurement"). When, in accordance with IFRS 10 "Consolidated Financial Statements", a parent elects not to prepare consolidated financial statements, in its separate financial statements it must disclose information about its investments in subsidiaries, associates and joint ventures, their principal places of business (and their registered offices if different), their activities, the ownership interest in each individual investee and a description of the method used to account for the investment;

- IAS 28 (Revised) "Investments in Associates and Joint Ventures" was issued by the IASB on May 12, 2011 and is applicable from January 1, 2014; a revised version of IAS 28 was issued at the same time as IFRS 10 "Consolidated Financial Statements" was introduced, whose scope is to prescribe the accounting for investments in associates and joint ventures. An entity that exercises joint control or has significant influence over another entity must account for its investment using the equity method;
- IAS 32 "Financial Instruments: Presentation" was issued by the IASB on December 16, 2011 and is applicable retrospectively for annual periods beginning on or after January 1, 2014. This amendment clarifies the application of certain criteria for offsetting the financial assets and liabilities included in IAS 32;
- IAS 36 "Impairment of Assets": the amendments to IAS 36, which are applicable from January 1, 2014, were issued on May 29, 2013 and regard the disclosures required on recognizing impairment losses when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount of assets when the cash generating unit (CGU) includes goodwill or intangible assets with indefinite useful lives but the asset is not impaired. In addition, disclosures are required of the recoverable amount of an asset or CGU and the way in which fair value less costs of disposal has been calculated when an impairment loss has been recognized for the asset;
- IAS 39 "Financial Instruments: Recognition and Measurement": the amendments to this standard, issued on June 27, 2013, regard the accounting for derivatives which have been designated as hedging instruments if there is novation of the counterparty. Before the introduction of these amendments, in these circumstances IAS 39 required an interruption to cash flow hedge accounting on the assumption that the novation led to the conclusion and extinguishment of the pre-existing hedging instrument. These amendments are applicable retrospectively from January 1, 2014;
- IFRS 10, IFRS 12 and IAS 27: the amendments to these standards, issued in October 2012, regard the exclusion from the consolidation scope of the majority of companies controlled by funds or similar bodies, requiring that these be measured at "fair value through profit or loss". The amendments also regard IFRS 12 on the question of disclosures made by investment companies;

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

The following standards and interpretations have not been applied, since at the present time the competent bodies of the European Union have still to complete their approval process.

- IFRS 9 “Financial Instruments”: this standard represents the first of a three-stage process whose scope is to fully replace IAS 39 “Financial Instruments: Recognition and Measurement” and introduces new criteria for classifying and measuring financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets are classified into two categories alone - “at fair value” or “at 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 for accounting for embedded derivatives have been simplified: separate accounting for the embedded derivative and the financial asset “hosting” it is no longer required.

  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 profit or loss. Dividends on the other hand continue to be recognized in profit or loss.

  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:

- bringing into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
- 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 profit or loss;
- deferring the effective date of the standard, originally January 1, 2015. A new date has not yet been set.

- IAS 19 Revised "Employee Benefits": the amendments to this standard, issued by the IASB on November 21, 2013, regard contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (for example employee contributions that are calculated according to a fixed percentage of salary). The amendments are effective from July 1, 2014;
- IFRIC 21 "Levies": this interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" was issued on May 20, 2013 and regards the accounting for levies imposed by governments which do not fall within the scope of IAS 12 "Income Taxes". IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the legislation that triggers the payment of the levy. The interpretation is applicable from January 1, 2014.

  On December 12, 2013 the IASB issued a series of amendments to certain accounting standards which may be summarized as follows:

  a) IFRS 2 "Share-based Payment": the amendment clarifies the definition of "vesting condition" by separately defining a "performance condition" and a "service condition";
  b) IFRS 3 "Business Combinations": the amendment clarifies that the obligation to pay consideration in a business combination that meets the classification requirements for a financial instrument is classified in the financial statements as a financial liability on the basis of IAS 32 "Financial Instruments: Presentation". The amendment also clarifies that the standard is not applicable to the joint ventures and joint arrangements regulated by IFRS 11 "Joint Arrangements";
  c) IFRS 8 "Operating Segments": the standard is amended in terms of the disclosures required when different operating segments having similar economic characteristics are aggregated;

d) IFRS 13 "Fair Value Measurements": the amendment clarifies that the exemption permitting an entity to measure the fair value of financial assets and liabilities on a net basis is applicable to all contracts, regardless of whether they meet the definition of financial assets or financial liabilities;
e) IAS 16 "Property, Plant and Machinery" and IAS 38 "Intangible Assets": both standards are amended to clarify how recoverable amounts and useful lives are treated when an entity carries out a revaluation;
f) IAS 24 "Related Party Disclosures": the standard is amended in order to include an entity providing key management personnel services as a related party;
g) IAS 40 "Investment Property": the amendment to the standard regards the interrelationship between IFRS 3 "Business Combinations" and IAS 40 "Investment Property" when the acquisition of a property can be identified as a business combination.

Scope of consolidation

The Annual report of the A2A Group at December 31, 2013 includes the figures of the parent A2A S.p.A. and those of the subsidiaries over which A2A S.p.A. holds, directly or indirectly, the majority of the voting rights which may be exercised at an ordinary shareholders' meeting. 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.

As discussed further in the section "Significant events during the year", following the sale in July 2013 of Chi.na.co S.r.l., a company to which five mini hydro plants had been contributed, as part of the purchase and sale agreement entered into by A2A S.p.A. and the BKW group, this company, a wholly owned subsidiary of the parent A2A S.p.A., has left the consolidation scope.

In addition the merger of Delmi S.p.A. into Edipower S.p.A. took effect on January 1, 2013.

The above transactions do not represent a real change in the consolidation scope, as they did not lead to any differences in the consolidation perimeter as far as consolidated assets and liabilities are concerned.

The non-proportional partial demerger of Edipower S.p.A. in favor of Iren Energia S.p.A. became effective on November 1, 2013.

Consolidation policies and procedures

Consolidation policies

Subsidiaries

The consolidation scope of the A2A Group comprises the parent A2A S.p.A. and the companies over which it exercises direct or indirect control, including the case when the holding is less than 50%. 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 and joint ventures

Investments in associates, namely those in which the A2A Group has a considerable interest and is able to exercise significant influence, and those over which A2A has joint control together with other entities (joint ventures) 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.

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

The Group has granted put options to minority shareholders which entitle them to require the A2A Group to purchase the shares they own at a future date.

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 recommendations made by the accounting standards adopted, the A2A Group (i) considers that the shares that are the object of the put option have already been acquired, even in the case that the risks and rewards connected with the ownership of the shares remain with the minority shareholders and they continue to be exposed to equity risk; (ii) recognizes the liability arising from the obligation and any changes in the liability that do not depend on the simple passage of time (the unwinding of the discounting of the exercise price), with a counter-entry to equity; (iii) recognizes the latter in profit or loss.

Consolidation policies

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 intragroup balances and transactions, including any unrealized profits arising from transactions between Group companies, are fully eliminated.

In preparing the Annual 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.

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 intragroup financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

a) Rights granted to the financial shareholders (Mediobanca, Fondazione CRT and Banca Popolare di Milano)

On May 24, 2012, A2A S.p.A., the other shareholders of Edipower S.p.A. (formerly Delmi S.p.A.) and Iren Energia S.p.A. (which is no longer a shareholder of Edipower S.p.A. from November 1, 2013) signed a framework agreement concerning the governance of Edipower S.p.A. and its operating model. This framework agreement has a duration of 5 years and renews automatically unless expressly terminated.

The framework agreement also includes provisions regarding the circulation of Edipower S.p.A. shares (e.g. lock-up, pre-emption, acceptance, right to joint sale and right to purchase clauses) and divestment from Edipower S.p.A..

On this final point, beginning on the date of the third anniversary of the merger the parties in the framework agreement are required to meet to verify, in good faith, if the necessary conditions exist for listing the shares in Edipower S.p.A., including by way of mergers with other listed companies. In the event of a listing, the financial shareholders of Edipower S.p.A., namely Mediobanca, Fondazione CRT and BPM, shall be entitled to place their own equity investments on the market with priority over the other parties to the framework agreement.

Should the company not be listed within 48 months of the effective date of the Delmi/Edipower merger, Mediobanca, Fondazione CRT and BPM shall each have the right to liquidate their entire equity interest in Edipower S.p.A. in exchange for payment of the fair value of said investment, to be paid in kind by assignment of a business unit to be selected by the board of directors of Edipower S.p.A.. Should this procedure not be completed for any reason within 50 months of the date of the merger, Mediobanca, Fondazione CRT and BPM shall each have a put option at fair value on their holding which can be exercised with the other shareholders of Edipower S.p.A. subsequent to the merger, in proportion to the equity interest each shareholder owns in Edipower S.p.A.. In this respect, as the result of the non-proportional demerger of Edipower S.p.A. effective from November 1, 2013, Iren S.p.A. and Iren Energia S.p.A. are no longer shareholders of Edipower S.p.A.. Further details may be found in the section “d) Non-proportional partial demerger of Edipower S.p.A. in favor of Iren S.p.A. and Iren Energia S.p.A.”.

The signing of the framework agreement and the rights consequently granted to the financial shareholders (Mediobanca, Fondazione CRT and BPM) have been deemed to be put options on non-controlling interests and have been recognized in accordance with paragraph 23 of IAS 32. This standard states that a contract that contains an obligation for an entity to purchase shares for cash or for another financial asset gives rise to a financial liability for the present value of the exercise price of the option.

The A2A Group therefore considers the shares involved in the put options to have already been purchased, even though the other shareholders maintain the risks and benefits connected with ownership of the shares and they continue to be exposed to the related equity risk, and has recognized the liability resulting from this obligation. Any subsequent changes in the liability that are not related to the mere unwinding of the present value of the exercise price will be recognized in Group equity.

b) Exchange agreement between A2A S.p.A. and Dolomiti Energia S.p.A.

On March 15, 2012, A2A S.p.A. and Dolomiti Energia S.p.A. signed an agreement which establishes swap rights in favour of Dolomiti Energia S.p.A.. Specifically, this exchange agreement states that Dolomiti Energia S.p.A. shall have the right to exchange its shares in Edipower S.p.A. with the shares held by A2A S.p.A. in Dolomiti Energia S.p.A. and with certain assets of A2A S.p.A. which have yet to be determined. Should the fair value of the assets involved in the exchange be less than 16 million euro, there is to be a cash payment for the difference.

Dolomiti Energia S.p.A. may exercise this swap right at any time during the 180-day period beginning from the end of the 24th month subsequent to the date on which the exchange agreement was signed, unless this exercise date is moved forward in the event that A2A S.p.A. should exercise the right to acquire the shares in Edipower S.p.A. in accordance with shareholder agreements or the bylaws.

The signing of the exchange agreement and the consequent granting of rights to Dolomiti Energia S.p.A. have been considered to be a put option on a non-controlling interest and have been recognized for accounting purposes as described above.

c) Option agreement between A2A S.p.A. and Società Elettrica Altoatesina S.p.A. (SEL)

On May 24, 2012, A2A S.p.A. signed an option agreement with Società Elettrica Altoatesina (SEL) S.p.A. concerning a portion of the shares held in Edipower S.p.A. following the merger of the two companies; this merger became effective on January 1, 2013 based on the deed signed on December 18, 2012.

Following the merger SEL S.p.A. held a 6.75% equity interest in Edipower S.p.A.. After the non-proportional partial demerger of Edipower S.p.A. in favor of Iren Energia S.p.A. this interest has risen to 8.5%.

The option agreement states that SEL S.p.A. has a put option (the right to sell) and A2A S.p.A. has a call option (the right to buy) on the shares held by SEL S.p.A. in Edipower S.p.A..

SEL S.p.A. may exercise its put option during the three-month period prior to May 24, 2017, and A2A S.p.A. may exercise its call option during that same three-month period. The exercise price of these options is made up of a fixed portion and a variable portion to be based on the fair value of the shares involved in the options at the exercise date.

The signing of the option agreement and the consequent granting of rights to SEL S.p.A. have been considered to be a put option on a non-controlling interest and have been recognized for accounting purposes as described above.

* * *

As a result of the agreements described under points (a), (b) and (c) above, the Annual report at December 31, 2013 includes a liability to Dolomiti Energia S.p.A., SEL S.p.A. and the financial shareholders of Edipower S.p.A. for the potential exercising of the put options on Edipower S.p.A. shares, totaling approximately 325 million euro. On the initial recognition of the put option at a carrying amount of 284 million, the counter-entry was recorded as a minority interest in equity. The subsequent increase of 41 million euro, of which 24 million euro in the first nine months of 2013, has been recorded with a counter-entry to equity pertaining to the Group. The change in value of the put option due to the passage of time has been recognized in profit or loss.

d) Non-proportional partial demerger of Edipower S.p.A. in favor of Iren S.p.A. and Iren Energia S.p.A..

On May 15, 2012, A2A S.p.A., A2A Trading S.r.l., Iren S.p.A., Iren Energia S.p.A. and Iren Mercato S.p.A. signed a private agreement concerning the potential exit of the Iren Group from the ownership of Edipower S.p.A. and subsequently amended this agreement on May

21, 2012. Specifically, this private agreement granted A2A S.p.A. and Iren S.p.A. the right, at specified dates, to call for a spin-off from Edipower S.p.A. of a group of thermal and hydroelectric power generation assets having a value essentially equivalent to the interest in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A., with the allocation of these assets to Iren S.p.A. and Iren Energia S.p.A..

The rights granted to Iren S.p.A. and Iren Energia S.p.A. are not considered to be put options on non-controlling interests, and accordingly have not led to the recognition of a liability in the consolidated financial statements, as they do not entail any obligation for the A2A Group "to deliver cash or another financial asset" but rather to deliver a group of assets (with the possible payment in cash of any settlement payment) in exchange for the equity interests in Edipower S.p.A..

On February 6, 2013, on the presentation of the 2013-2015 business plan, the Iren Group announced its intention to call for the spin-off from Edipower S.p.A.. This right was then exercised during the year.

As a result of the above, at December 31, 2012 the A2A Group reclassified these assets to non-current assets held for sale and liabilities directly associated with non-current assets held for sale in accordance with IFRS 5.

On June 28, 2013, the extraordinary shareholders' meetings of Edipower S.p.A. and Iren Energia S.p.A. approved the project for the non-proportional demerger of Edipower S.p.A.. On October 24, 2013 the deed for the non-proportional partial merger was signed as completion of the previous agreements between the parties, with effective date November 1, 2013.

Under this operation a group of net assets has been assigned to Iren Energia S.p.A. consisting of the Turbigo thermoelectric plant and the Tusciano hydroelectric complex, the staff working in those plants, the assets and liabilities attributable to the plants and a loan of 44.8 million euro. As a result of the demerger the Iren Group is no longer a shareholder of Edipower S.p.A..

IFRSs provide no specific guidance on how to account for a settlement with a minority shareholder through a non-proportional demerger of part of the company's net assets in favor of that shareholder.

At a meeting held in September 2012 to set its agenda, the IFRIC did, however, provide guidance about accounting for the "Non-cash acquisition of Non-Controlling Interest (NCI) by a controlling shareholder", which in substance is considered to be applicable by analogy to the above demerger.

In particular, the IFRIC concluded in the following way:

"On the basis of our technical analysis, we think that the difference between the fair value of the consideration given and the carrying amount of the assets transferred should be recognized in profit or loss and that the difference between the fair value of the consideration given and the carrying amount of NCI should be recognized in equity".

In the case of the demerger of the group consisting of the Turbigo and Tusciano plants in favor of the shareholder Iren Energia S.p.A. with the latter company leaving Edipower's capital at the same time due to the agreements reached by the parties, the "fair value of the consideration given" in substance coincides with the carrying amount of the interest of the Iren group (an interest which was then concentrated in Iren Energia S.p.A. alone) in the equity of the company at January 1, 2013 (including the effect of the reverse merger of Delmi S.p.A. into Edipower S.p.A.).

As a result, applying the above guidance on the one hand does not lead to any effect on the company's equity and on the other leads to the recognition of a gain equal to the difference between the fair value of the consideration given and the net book value of the group of net assets transferred, as the following table shows:

(Millions of euro)	**2013**
Fair value of consideration given	297.5
Difference between the assets and liabilities of the group	(281.5)
Debt transferred	44.8
Effect on Income Statement	**59.8**

In calculating the effect of the operation on profit or loss, account has also been taken of any settlement balances that may be due to Iren Energia S.p.A., with particular attention being given to certain points of a valuation nature still being discussed by the parties.

e) Option granted to the Municipality of Varese for the sale of 9.8% of Aspem S.p.A.

A2A S.p.A. holds 90% of the shares of Aspem S.p.A., a company that provides local public services in the city of Varese and in other towns in the province of Varese.

Under the shareholders' agreement of January 15, 2009 between A2A S.p.A. and the Municipality of Varese, at the end of a three-year period of non-transferability of the shares of Aspem S.p.A., starting from the date of the shareholders' agreement, the Municipality of Varese has the right, but not the obligation, to sell (put option) 9.8% of the share capital of Aspem S.p.A. to A2A S.p.A..

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.

f) EPCG – Montenegro government options

As a result of the agreement signed in 2009 with A2A S.p.A. on the acquisition of the investment of 43.7% in the capital of EPCG by the Italian listed company, the Montenegro government holds a call option on this interest which, depending on whether certain quantitative targets or specific indicators are reached, may already be exercised from this year at a price higher than the carrying amount in the financial statements at December 31, 2013.

Key figures at December 31, 2013 and December 31, 2012 for joint ventures (consolidated at equity)

Key figures at December 31, 2013 *Millions of euro*	Companies held by A2A Ambiente 50% (*)	Metamer 50%
INCOME STATEMENT		
Revenues from the sale of goods and services	9.5	13.2
Gross operating income	**0.6**	**1.1**
% of net revenues	*6.5%*	*8.0%*
Depreciation, amortization and write-downs	1.3	0.4
Net operating income (loss)	**(0.6)**	**0.7**
Result for the year	**(0.4)**	**0.4**
BALANCE SHEET		
Total assets	**12.3**	**5.4**
Net equity	**0.6**	**1.6**
Net (debt)	**(1.4)**	**0.9**

(*) Bellisolina S.r.l., Bergamo Pulita S.r.l. and Sed S.r.l..

Key figures at December 31, 2012 *Millions of euro*	Ecodeco (now A2A Ambiente) Group 50% (*)	Metamer 50%
INCOME STATEMENT		
Revenues from the sale of goods and services	11.2	12.6
Gross operating income	**0.9**	**0.8**
% of net revenues	*8.0%*	*6.3%*
Depreciation, amortization and write-downs	1.1	0.2
Net operating income (loss)	**(0.2)**	**0.6**
Result for the year	**(3.4)**	**0.4**
BALANCE SHEET		
Total assets	**13.6**	**6.0**
Net equity	**(1.6)**	**1.5**
Net (debt)	**(3.0)**	**1.7**

(*) Bellisolina S.r.l., Bergamo Pulita S.r.l. and Sed S.r.l..

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 profit or loss 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 installments, 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.

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.

Tangible assets are stated net of accumulated depreciation and any impairment losses. 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% – 17.3%
• production plants	1.0% – 33.3%
• transport lines	1.4% – 100.0%
• transformation stations	1.8% – 33.3 %
• distribution networks	1.4% – 33.3 %
• miscellaneous equipment	3.3% – 100.0%
• mobile phones	100.0%
• furniture and fittings	10.0% – 25.0%
• electric and electronic office machines	10.0% – 33.3%
• vehicles	10.0% – 25.0%
• leasehold improvements	12.5% – 33.3%

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"; impairment losses 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 profit or loss 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 profit or loss in the period in which the costs are incurred.

Intangible assets with a definite useful life are stated net of the related accumulated amortization and any impairment losses in the same way as for tangible assets. Changes in the expected useful life of an asset or in the ways in which the future economic benefits of an asset are obtained are recognized by suitably adjusting the period or method of amortization and treated as changes in accounting estimate. The amortization of intangible fixed assets with a definite useful life is charged to profit or loss 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 profit or loss 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 ________ 12.5% – 33.3%
- concessions, licences, and trademarks ________ 6.7% – 33.3%

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 they may be impaired.

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 profit or loss. 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. The reversal of an impairment loss is immediately recognized in profit or loss.

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 Group'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 has the autonomous power to determine the strategic decisions of a business in order to obtain the associated benefits. 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.

Le società controllate vengono consolidate con il metodo dell'integrazione globale,

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 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 profit or loss.

Financial instruments

Financial instruments include investments (excluding investments in subsidiaries, entities under joint control and associates) held for trading (trading investments) or available for sale, and 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 profit or loss.

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

- non-derivative financial assets and liabilities at fair value through profit or loss 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 being at fair value through profit or loss;
- 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 profit or loss 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 impairment losses are recognized in profit or loss 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 profit or loss 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 profit or loss. Losses recognized in equity are in any case reversed and recognized in profit or loss, 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 impairment losses. Impairment losses are reversed when the reasons originating the loss no longer exist, with the exception of impairment losses 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 profit or loss 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 profit or loss; 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 profit or loss. The amounts recognized directly in equity are then reflected in profit or loss 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 profit or loss. 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 Group 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 Group 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 Group 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 Group 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 an extinguishment of the original financial liability and the recognition of a new financial liability. The difference in carrying amounts is recognized in profit or loss.

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 an 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 profit or loss 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 profit or loss; the corridor method is not applied.

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 the balance sheet date 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 Group 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 profit and loss 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 profit or loss 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 profit or loss 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 prescribed by the law in force during the year or period, and by the Electricity, Gas and Water Authority or equivalent organizations abroad;
- connection contributions paid by users, if not for costs incurred to extend the network, are recognized in profit or loss 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 profit or loss 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 profit or loss.

Non-recurring transactions

The line 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 expense

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 profit or loss 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 profit or loss.

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 for making assessments for impairment testing, for calculating certain sales revenues, provisions for risks and charges, provisions for receivables and other provisions, depreciation and amortization and for measuring derivatives, employee benefits and taxation. The underlying estimates and assumptions are regularly reviewed and the effect of any change is immediately recognized in profit or loss.

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 testing

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 carrying amount of a group of non-current assets is impaired, the group is written down to its recoverable amount which is estimated with reference to its use or future disposal, depending on the Group's latest plans. Management is of the opinion that the estimates of such recoverable amounts are reasonable, although possible 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 should be 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 of electricity and gas to customers are recognized when the supply takes place, based on periodic meter readings; they also include an estimate of the usage of electricity and gas from the date of the last reading to the balance sheet date. Revenues from the date of the last reading to the balance sheet date are based on estimates of customers' daily usage, according to their historical profile, and are adjusted to reflect weather conditions or other factors that may affect the usage being estimated.

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 judgments on the part of Group 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.

Bad debts provision

The provision for bad debts reflects the estimated losses in the Group'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 and amortization

Depreciation and amortization charges are a significant cost for the Group. Non-current assets are depreciated or amortized on a straight-line basis over the useful lives of the assets. The useful lives of the Group's non-current assets is established by the directors, with the assistance of expert appraisers, when they are purchased. The Group 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 by the Group 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 Group, 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 profit or loss.

Business combinations

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 profit or loss. The A2A Group 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 Group 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.

Areas of activity

The A2A Group mainly operates in the production, sale and distribution of gas and electricity, district heating, environmental services and the integrated water cycle. These activities in turn form part of the following sectors:

Sectors of the A2A Group

Energy	Environment	Heat and Services	Networks	Other Services and Corporate
Thermoelectric and hydroelectric plants	Collection and street sweeping	Cogeneration plants	Electricity networks	Other services
Energy management	Treatment	District heating networks	Gas networks	Corporate services
Sale of electricity and gas	Disposal and energy recovery	Sale of heat and other services	Integrated water cycle	

This breakdown into sectors reflects the organization of the financial reporting regularly analyzed by management and by the Management Board in order to manage and plan the Group's business.

Result sector by sector

Millions of euro	Energy		Environment	
	01 01 13 12 31 13	01 01 12 12 31 12	01 01 13 12 31 13	01 01 12 12 31 12
Revenues	**4,368**	**5,306**	**850**	**810**
- of which inter-sector	*160*	*185*	*88*	*59*
Gross operating income	**533**	**541**	**282**	**219**
% of revenues	*12.2%*	*10.2%*	*33.2%*	*27.0%*
Depreciation, amortization, provisions and write-downs	**(622)**	**(320)**	**(95)**	**(75)**
Net operating income	**(89)**	**221**	**187**	**144**
% of revenues	*(2.0%)*	*4.2%*	*22.0%*	*17.8%*
Result from non-recurring transactions				
Financial balance				
Result before taxes				
Income taxes				
Result after taxes from operating activities				
Net result from discontinued operations				
Minorities				
Group net result of the year				
Gross investments (1)	**76**	**2,216** (a)	**45** (c)	**48**

(1) See the items "Investments" in the schedules on tangible and intangible assets presented in Notes 1 and 2 to the balance sheet.
(*) According to the new adopted Income Statement structure the comparative figures for 2012 have been reclassified.
(a) Includes an effect of 2,113 million euro arising from the first-time consolidation of Edipower.
(b) Includes the acquisition of theTecnovalore business for 7 million euro.
(c) Includes additional paid-in capital of 4 million euro.

Millions of euro	Energy		Environment	
	12 31 13	12 31 12	12 31 13	12 31 12
Tangible assets	3,486	3,960	446	460
Intangible assets	82	63	35	36
Trade receivables and current financial assets	1,569	1,578	288	272
Trade payables and current financial liabilities	1,247	1,265	229	209

Heat and Services		Networks		Other Services and Corporate		Eliminations		Total Group	
01 01 13 12 31 13	01 01 12 12 31 12	01 01 13 12 31 13	01 01 12 12 31 12	01 01 13 12 31 13	01 01 12 12 31 12	01 01 13 12 31 13	01 01 12 12 31 12	01 01 13 12 31 13	01 01 12 12 31 12 (*)
330	326	708	685	234	250	(886)	(897)	5,604	6,480
38	*42*	*380*	*381*	*220*	*230*	*(886)*	*(897)*		
86	73	256	242	(24)	(7)			1,133	1,068
26.1%	*22.4%*	*36.2%*	*35.3%*	*(10.3%)*	*(2.8%)*			*20.2%*	*16.5%*
(23)	(34)	(110)	(107)	(26)	(31)	-	-	(876)	(567)
63	39	146	135	(50)	(38)			257	501
19.1%	*12.0%*	*20.6%*	*19.7%*	*(21.4%)*	*(15.2%)*			*4.6%*	*7.7%*
								75	45
								(206)	(180)
								126	366
								(51)	(128)
								75	238
								-	33
								(13)	(11)
								62	260
43	56 (b)	109	123	11	30	-	-	284	2,473

Heat and Services		Networks		Other Services and Corporate		Eliminations		Total Group	
12 31 13	12 31 12	12 31 13	12 31 12	12 31 13	12 31 12	12 31 13	12 31 12	12 31 13	12 31 12
527	492	1,334	1,343	240	221	(103)	(106)	5,930	6,370
37	38	1,286	1,364	54	83	(188)	(191)	1,306	1,393
134	148	351	401	195	113	(541)	(578)	1,996	1,934
107	114	225	275	445	702	(532)	(580)	1,721	1,985

Notes to the balance sheet

ASSETS

Non-current assets

1) Tangible assets

Millions of euro	Balance at 12 31 2012	Changes during the year						Balance at 12 31 2013
		Investm./ Acquisit.	Other changes	Disposals and sales	Write-downs	Deprecia-tion	Total changes	
Land	249	-	(3)	-	(1)	-	(4)	245
Buildings	1,064	4	6	(5)	(37)	(46)	(78)	986
Plant and machinery	4,816	77	117	(17)	(208)	(347)	(378)	4,438
Industrial and commercial equipment	40	5	-	-	-	(5)	-	40
Other assets	58	14	(1)	-	-	(14)	(1)	57
Landfills	14	5	13	-	-	(5)	13	27
Construction in progress and advances	109	119	(116)	(1)	(4)	-	(2)	107
Leasehold improvements	13	3	21	(11)	-	(2)	11	24
Leased assets	7	-	-	-	-	(1)	(1)	6
Total	**6,370**	**227**	**37**	**(34)**	**(250)**	**(420)**	**(440)**	**5,930**
of which:								
Historical cost	9,737	227	28	(54)			201	9,938
Accumulated depreciation	(3,367)		9	20		(420)	(391)	(3,758)
Write-downs					(250)		(250)	(250)

"Tangible assets" amounted to 5,930 million euro at December 31, 2013 (6,370 million euro at December 31, 2012), representing a net decrease of 440 million euro.

The following changes took place during the year:

- an increase of 227 million euro due to investments, as described in further detail below;
- an increase of 37 million euro due to other changes, relating mainly to reclassifications of other balance sheet items;
- a decrease of 34 million euro for disposals, net of accumulated depreciation;
- write-downs of 250 million euro of which 237 million euro regarded the write-down of certain thermoelectric plants carried out as a consequence of the results obtained from the impairment testing performed by an independent external appraiser appointed by

the Group; these write-downs were made to adjust the carrying amount of the assets to the lower earnings prospects deriving from a market in structural production overcapacity. Further details of the work carried out for the impairment testing can be found in note 2. Write-downs of 13 million euro were made of assets involved in the normal production process;
- a decrease of 420 million euro for the depreciation charge for the year.

Investments may be analyzed as follows:
- there was an increase of 70 million euro in the energy sector of which 14 million euro regarded work carried out at the Monfalcone and Calabria unit power stations, 4 million euro regarded work carried out at the Cassano d'Adda, Braulio, Premadio, Lovero, Stazzona and Grosio power stations, 2 million euro regarded work carried out at the Gissi power station, 2 million euro regarded work carried out at the Mincio power station, 40 million euro regarded investments made by Edipower S.p.A. and 8 million euro regarded investments made by the EPCG Group;
- investments of 42 million euro in the heat sector regarded the development of the district heating networks in the Milan, Brescia and Bergamo areas for 34 million euro, extraordinary maintenance and development work on the plants in the Milan, Brescia and Bergamo areas for 7 million euro and investments made by the Aspem Group for 1 million euro;
- the investments of 45 million euro in the environment sector relate to work carried out on the waste to energy, biocube and biogas plants for 9 million euro, development and maintenance work on the waste treatment and disposal plants for 1 million euro, the purchase of equipment for 4 million euro and of vehicles for waste collection for 15 million euro, the extension of the Villafalletto landfill for 5 million euro, the construction of a new glass treatment plant at Asti for 6 million euro, leasehold improvements in the municipalities of Milan and Acerra for 4 million euro and investments made by the Aspem Group for 1 million euro;
- investments in the networks sector amounted to 67 million euro (of which 24 million euro made by the EPCG Group) and mainly related to development and maintenance work carried out on electricity distribution plants, the extension and refurbishment of the low and medium voltage network, the installation of new electronic meters, the upgrading of primary plants and work carried out on the gas transportation network;
- investments in the services sector amounting to 3 million euro mainly relate to optic fiber cabling, maintenance work at the Milan, Brescia and Bergamo offices, the purchase of other assets and the investments made by the EPCG Group.

Tangible assets include "Leased assets" totaling 6 million euro, recognized in accordance with IAS 17, for which the outstanding payable to lessors at December 31, 2013 amounted to 3 million euro.

2) Intangible assets

Millions of euro	Balance at 12 31 2012	Changes during the year					Balance at 12 31 2013
		Invest-ments/ Acquisi-tions	Reclassi-fications	Disposals and sales	Amort-ization	Total changes	
Industrial patents and intellectual property rights	35	6	15		(20)	1	36
Concessions, licences, trademarks and similar rights	752	38	5	(4)	(43)	(4)	748
Assets in progress	24	13	(16)			(3)	21
Other intangible assets	13		9		(3)	6	19
Goodwill	569		(87)			(87)	482
Total	**1,393**	**57**	**(74)**	**(4)**	**(66)**	**(87)**	**1,306**

"Intangible assets" amounted to 1,306 million euro at December 31, 2013 (1,393 million euro at December 31, 2012).

Applying IFRIC 12, from 2010 intangible assets also include assets in concession relating to gas distribution, the integrated water cycle and district heating distribution.

The following changes took place during the year:

- an increase of 57 million euro due to the investments made during the year;
- a decrease of 74 million euro due to other changes, arising mainly from a decrease of 87 million euro in goodwill regarding expectations over the outcome of the dispute with ENEL concerning the purchase of the Milan and Rozzano distribution network by A2A Reti Elettriche S.p.A. in 2002;
- a decrease of 4 million euro arising from disposals, net of accumulated amortization;
- a decrease of 66 million euro for the amortization charge for the year.

More specifically, investments relate to the following:

- there was an increase of 6 million euro in the energy sector relating mainly to the implementation of information systems;
- the investments of 1 million euro in the heat sector were principally made by the Aspem Group;
- the investments of 42 million euro in the networks sector relate to development and maintenance work on the plants of the gas distribution area and the replacement of low and medium underground piping for 35 million euro, work on the water transport and distribution network, on the sewage networks and on the purification plants for 6 million euro and information systems for 1 million euro;
- the investments of 8 million euro in the service sector mainly relate to the implementation of information systems.

"Other intangible assets" include customer lists arising on the acquisition of customer portfolios by Group companies. These balances are amortized on the basis of the estimated benefits expected to be obtained in future years. More specifically, the outstanding balance of 5 million euro mainly relates to the amount paid in previous years by subsidiaries relating to a portion of the networks and customers of the city and province of Brescia and the customer portfolio of the subsidiary Aspem Energia S.r.l..

Goodwill

Millions of euro	Balance at 12 31 2012	Changes during the year				Balance at 12 31 2013
		Invest-ments	Other changes	Write-downs	Total changes	
Goodwill	569	-	(87)	-	(87)	482
Total	**569**	**-**	**(87)**	**-**	**(87)**	**482**

Goodwill has decreased by 87 million euro over the balance at December 31, 2012 regarding expectations over the outcome of the dispute with ENEL concerning the purchase of the Milan and Rozzano distribution network by A2A Reti Elettriche S.p.A. in 2002.

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:

- 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 best estimate of the range of economic conditions that will exist over the remaining useful life of the asset;
- cash flows for subsequent years estimated by assuming a nominal growth rate that is in any case less than the long-term average nominal growth rate;
- 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) which, depending on the different cases analyzed, 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;
- future operating cash flows based on the medium-term 2013-2015 business plan approved in November 2012 and suitably revised to take into consideration updated assumptions of the macroeconomic and energy scenario, regulatory changes and the business results for 2013;
- 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).

Starting from 2014, consistent with current legislation on the Robin Hood Tax, these rates exclude the IRES corporate income tax surcharge of 4% still applicable for 2013; in addition, it has been assumed that the effects of that surcharge will cease from 2021. These rates were further increased for the estimate of the recoverable amount of the flows relating to assets for which there is an appreciable country risk with respect to Italy: in particular for the assets situated in Montenegro.

Goodwill

The impairment testing carried out in accordance with IAS 36 did not indicate the need to write down the goodwill recognized in the consolidated financial statements as shown in the table below.

"Goodwill" may be analyzed by CGU as follows at December 31, 2013:

CGU - *Millions of euro*	
Electricity networks	184
Environment	232
Gas networks	38
Gas	7
Heat - Italy	21
Total goodwill at December 31, 2013	**482**

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 and invested capital allocated to each individual cash-generating unit, specifying for each the recoverable amount and the discount rate used.

CGU with goodwill *Millions of euro*	**Value at 12 31 2013**	**Recoverable amount**	**WACC 2013 (1)**	**Value at 12 31 2012**	**WACC 2012 (1)**
Electricity networks (*)	184	Value in use	8.25%	271	8.86%
Environment	232	Value in use	7.99%	232	8.47%
Gas networks (*)	38	Value in use	5.54%	38	5.88%
Gas (*)	7	Value in use	10.60%	7	9.91%
Heat - Italy	21	Value in use	7.88%	21	8.60%
	482			**569**	

(1) Nominal pre-tax discount rate applied to future cash flows.
(*) For 2012 and 2013, WACC includes the effect of the Robin Hood Tax surcharge.

"Electricity networks" 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., amounts to 184 million euro, while at December 31, 2012 it amounted to 271 million euro. At December 31, 2013 the goodwill of the existing cash-generating unit was written down by 87 million euro following the transaction currently being finalized with the counterparty regarding the value of the Milan and Rozzano distribution network acquired by A2A Reti Elettriche S.p.A. in 2002.

For completeness of information it is noted that a time horizon was considered in calculating value in use which corresponds to the expiry of the concession for the distribution of electricity in the municipalities of Milan, Rozzano and the municipalities of the province of Brescia, and that the goodwill of 4 million euro relating to the agreements for the work on the public lighting equipment in the Municipality of Bergamo has also been allocated to this cash-generating unit; this goodwill arose from the merger between BAS S.p.A. and A2A S.p.A..

No loss of value was noted during the impairment testing as the recoverable amount of the goodwill exceeds its carrying amount.

"Environment" cash-generating unit

At December 31, 2013 the project for integrating the activities carried out in the waste sector and concentrating waste treatment and disposal activities and energy recovery in a single company, A2A Ambiente S.p.A., was complete; A2A Ambiente S.p.A. wholly owns the companies operating in the collection and street sweeping sector, Amsa S.p.A. and Aprica S.p.A.. The cash-generating unit therefore consists of A2A Ambiente S.p.A. and its subsidiaries.

As part of management's objectives this project will enable the Group to obtain a number of opportunities and benefits, with the possibility that these will generate considerable synergies.

The A2A Group's "Environment" CGU carries out collection and street sweeping and is involved in the treatment and disposal of waste and the waste to energy process; in addition, it also builds treatment plants for third parties.

The unit 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, 2013 include goodwill of 232 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 S.p.A. (subsequently merged into AEM S.p.A. which at the same time changed its name to A2A S.p.A.) and BAS S.p.A..

No loss of value was noted during the impairment testing as the recoverable amount of the goodwill exceeds its carrying amount.

"Gas networks" cash-generating unit

The goodwill of 38 million euro arises from various acquisitions made by A2A Reti Gas 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. This goodwill has been allocated to the "Gas networks" cash-generating unit whose recoverable amount has been calculated by referring to its value in use.

For completeness of information it is noted that 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 of the goodwill exceeds its carrying amount.

"Italy Heat" cash-generating unit

The goodwill arising from the consolidation of the Italy Heat Sector, 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 and was impairment tested. The total amount of this goodwill was allocated to the cash-generating unit "Italy Heat", with recoverable amount being calculated with reference to the sector itself using a time horizon of 30 years. 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..

No loss of value was noted during the impairment testing as the recoverable amount of the goodwill exceeds its carrying amount.

"Gas" cash-generating unit

The goodwill arising from the consolidation of the Gas Sector, 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. The recoverable amount was calculated on the basis of the value in use of the sector, considering an indefinite time horizon. This cash-generating unit includes 7 million euro representing the portion of the goodwill arising on the merger between BAS S.p.A. and A2A S.p.A..

No loss of value was noted during the impairment testing as the recoverable amount of the goodwill exceeds its carrying amount.

Assets other than goodwill

In preparing the 2012 financial statements management considered it appropriate to carry out impairment testing for all of the Group's main cash-generating units (CGU), thereby voluntarily extending an activity which is only required to be carried out on an annual basis for CGUs with allocated goodwill to the "Electricity" CGU and to EPCG, which although not having any allocated goodwill holds significant assets within the Group.

This decision was taken on a precautionary basis, and moreover in a context where the Group's market capitalization is lower than its accounting equity and in the light of the general negative situation which Italy's economy is experiencing.

The continuation of these conditions and the existence of specific indications of impairment, with specific reference to the "Electricity" CGU, led management to decide to carry out impairment testing on this CGU again this year, and the following table sets out net invested capital at December 31, 2013, the discount rates used and the type of recoverable amount considered for the CGU.

CGU - without goodwill Electricity *Millions of euro*	**In millions of euro at 12 31 2013**	**WACC 2014-2021**	**WACC after 2021**	**Recoverable amount**
12 31 2013	3,175	6.7%	6.9%	Value in use

CGU - without goodwill Electricity *Millions of euro*	**In millions of euro at 12 31 2012**	**WACC 2014-2020**	**WACC after 2020**	**Recoverable amount**
12 31 2012	3,636	6.7%	7.0%	Value in use

Impairment testing of the "Electricity" cash-generating unit

Impairment testing of the "Electricity" cash-generating unit began in 2012. The "Electricity" cash-generating unit belongs to A2A's Electricity Sector, 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 "Electricity" cash-generating unit consist of the following:

- production of electricity: managing plants through an energy generation system composed of hydroelectric and thermoelectric plants with an installed power of 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 "Electricity" cash generating unit:

- Abruzzo Energia S.p.A., Edipower S.p.A. and Ergosud S.p.A., electricity producers operating in Italy;
- A2A Energia S.p.A., providing marketing activities;
- A2A Trading S.r.l., which optimizes the Group's energy portfolio by buying and selling on the wholesale national and international electricity markets as well as buying and selling any other commodities required for the sale of electricity, in this case for industrial purposes.
- Aspem Energia S.p.A., which sells electricity.

The impairment testing of the "Electricity" cash-generating unit solely regarded activities concerning electricity and accordingly not those relating to the "Gas" cash-generating unit, for which specific impairment testing was carried out as described above.

The perimeter of the "Electricity" cash-generating unit does not include the following:

- EPCG, a company producing electricity in Montenegro, because it is not interconnected and the electricity is dispatched outside its national borders;
- the San Filippo del Mela plant, owned by Edipower S.p.A., which operates as an Essential Unit (*);

(*) *The San Filippo plant was admitted by the Electricity, Gas and Water Authority (AEEGSI) to the cost reintegration framework in December 2010. The plant therefore operates within the "Essential Unit" framework and the whole of its production is sold to Terna at a price determined by the rules established by the AEEGSI.*

- protected category services(**), delivered by A2A Energia S.p.A.;
- trading carried out byA2A Trading S.r.l..

The "Electricity" cash-generating unit subject to impairment testing has a carrying amount of 3,175 million euro.

The A2A Group has had to acknowledge that the continuation of the economic crisis in Italy and the resulting decrease in requirements, together with the further increase in production from unprogrammable renewable sources, has caused a further contraction in the profitability of the combined cycle thermoelectric plants.

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 analysis also included any requirements for the decommissioning of the thermoelectric plants at the end of their useful lives and the reimbursements that may be expected to be received in the event that the hydroelectric concessions are not renewed at their present expiry dates. The result of the impairment testing led to a write-down of 237 million euro, concentrated on the thermoelectric plants, and a write-down of 30 million euro of the shareholding in Ergosud S.p.A., the company owning the Scandale thermoelectric plant.

An estimate of the recoverable amount was made using the financial method. This was calculated by using simulations regarding different variables through the application of statistical simulation techniques (the Montecarlo method); the main variables involved, and those to which the recoverable amount is the most sensitive, were as follows: the possible ways of calculating the capacity payment, discount rates, growth rates and the non-discretional investments needed to maintain normal business operating conditions.

Consistent with the above-mentioned flows, discount rates were estimated by determining the weighted average cost of capital. More specifically, a post-tax median rate was used.

Once the existence of an impairment loss of the CGU as a whole had been identified, this was then allocated to the generation plants.

(**) *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 fewer than 50 employees and an annual turnover of less than 10 million euro). This category includes all users who selected the Free Market and ended up without a supplier. The Protected Category service guarantees the supply of electricity at prices established by the Electricity, Gas and Water Authority (AEEGSI).*

On allocating the total impairment loss no amounts were attributed to the hydroelectric plants. This step was taken because of the profitability of those plants and because of the valuation criterion applicable at the end of the concession term for those assets for which a reimbursement could be obtained from the incoming concession holder in the event of losing a tender. The loss was firstly allocated to the coal thermoelectric plants and the gas thermoelectric plants on the basis of net carrying amount, then for the gas thermoelectric plants the loss was allocated on the basis of specific parameters which enable the fair value of the individual plants to be calculated on an inductive basis and the attributable impairment loss to be identified through a comparison with the relative net carrying amounts.

EPCG cash-generating unit

Although the EPCG cash-generating unit showed no indications of impairment, the A2A Group decided in any case to carry out impairment testing on the unit, engaging an independent appraiser to perform the work. The results of the appraisal were in line with Group management's estimates. Accordingly no loss of value was noted as the recoverable amount exceeds the carrying amount.

3) Shareholdings and other non-current financial assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Shareholdings carried according to equity method	210	(23)	187	-	-
Other non-current financial assets	53	-	53	44	44
Total shareholdings and other non-current financial assets	**263**	**(23)**	**240**	**44**	**44**

"Shareholdings carried according to equity method" decreased by 23 million euro over December 31, 2012.

The following table sets out details of the changes:

Shareholdings carried according to equity method - *Millions of euro*	**Total**
Balance at December 31, 2012	**210**
Changes in the period	
- acquistions and capital increases	3
- valuations at equity	7
- write-downs	(30)
- dividends received from shareholdings in companies carried at equity	(3)
- sales	
- other changes	
- reclassifications	
Total changes in the period	**(23)**
Balance at December 31, 2013	**187**

The decrease of 23 million euro relates to the following: the write-down of the shareholding Ergosud S.p.A. by 30 million euro following the results of impairment testing carried out by an external appraiser as discussed in note 2, partially offset by an increase of 7 million euro from accounting for the shareholdings in Dolomiti Energia S.p.A. and ACSM-AGAM S.p.A. using the equity method and an increase of 3 million euro from the acquisition of 40% of G.Eco S.r.l. by Aprica S.p.A..

There was also an increase of 3 million arising from the acquisition of 40% of G.Eco S.r.l. by Aprica S.p.A. and a decrease of 3 million euro as the result of the receipt of dividends.

"Other non-current financial assets" had a balance of 53 million euro at December 31, 2013, in line with that at the end of the previous year.

4) Deferred tax assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Deferred tax assets	**269**	**103**	**372**

"Deferred tax assets" amounted to 372 million euro (269 million euro at December 31, 2012). 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 balance for deferred tax assets/liabilities at December 31, 2013 is presented net, after offsetting carried out in accordance with IAS 12.

The main balances for deferred tax assets and liabilities are set out in the following table.

Millions of euro	Consolid-ated financial statements at 12 31 2012	Accruals (A)	Utili-zations (B)	Total (A+B)	IAS 39 to equity	IAS 19 Revised to equity	Other changes /reclass/ mergers	Deferred tax assets and liabilities relating to assets held for sale	Consolid-ated financial statements at 12 31 2013
Detail of deferred tax assets and liabilities									
Deferred tax liabilities									
Measurement differences for tangible assets	1,095	3	(96)	(93)	–	–	3	–	1,005
Application of the leasing standard (IAS 17)	8	–	–	–	–	–	–	–	8
Application of the financial instrument standard (IAS 39)	–	–	–	–	–	–	–	–	–
Measurement differences for intangible assets	2	–	–	–	–	–	–	–	2
Deferred capital gains	–	–	–	–	–	–	–	–	–
Employee leaving entitlement	3	–	–	–	–	1	–	–	4
Goodwill	94	2	–	2	–	–	–	–	96
Other deferred tax liabilities	69	–	(3)	(3)	–	–	–	–	66
Total deferred tax liabilities (A)	**1,271**	**5**	**(99)**	**(94)**	**–**	**1**	**3**	**–**	**1,181**
Deferred tax assets									
Taxed risk provisions	91	50	(17)	33	–	4	(1)	–	127
Measurement differences for tangible assets	817	77	(57)	20	–	–	–	–	837
Application of the financial instrument standard (IAS 39)	17	–	–	–	3	–	–	–	20
Bad debt provision	34	9	(13)	(4)	–	–	–	–	30
Grants	17	2	–	2	–	–	–	–	19
Goodwill	487	1	(55)	(54)	–	–	–	–	433
Other deferred tax assets	77	19	(10)	9	–	–	1	–	87
Total deferred tax assets (B)	**1,540**	**158**	**(152)**	**6**	**3**	**4**	**–**	**–**	**1,553**
NET DEFERRED TAX ASSETS/LIABILITIES (A-B)	**269**								**372**

5) Other non-current assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Non-current derivatives	70	(27)	43	*70*	*43*
Other non-current assets	19	(9)	10	-	-
Total other non-current assets	**89**	**(36)**	**53**	***70***	***43***

"Other non-current assets" amounted to 53 million euro, a decrease of 36 million euro over the balance at December 31, 2012, and consist of the following:

- 43 million euro relating to "Derivatives" hedging non-current financial items consisting mainly of Interest Rate Swap (IRS) contracts hedging the risk of an adverse change in interest rates on bonds and long-term loans. The decrease in this item compared to December 31, 2012 is mostly due to the early settlement on July 11, 2013 of a part of certain derivatives relating to the bond of 1,000 million euro maturing in 2016, on the partial redemption of the bond itself, as discussed further in the section "Significant events during the year", as well as to measurement at fair value at the end of the year;
- 10 million euro for "Other non-current assets" principally relating to guarantee deposits and expenditure incurred but relating to future years.

Current assets

6) Inventories

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Inventories	**340**	**(56)**	**284**

"Inventories" amounted to 284 million euro (340 million euro at December 31, 2012), net of the obsolescence provision, a decrease of 56 million euro over the year, and may be analyzed as follows:

- 99 million euro relating to the decrease in fuel stocks, which at the balance sheet date totaled 132 million euro compared to 231 million euro at December 31, 2012;
- 3 million euro relating to a decrease in materials stocks, which totaled 69 million euro compared to 72 million euro at the end of the previous year;
- 47 million euro relating to an increase in other stocks, which amounted to 81 million euro at December 31, 2013 against 34 million euro at December 31, 2012;

- 1 million euro arising from a decrease in payments on account, which amounted to 2 million euro at December 31, 2013 and 3 million euro at the end of the previous year.

7) Trade receivables

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Trade receivables	2,220	(13)	2,207
(Bad debt provision)	(313)	(5)	(318)
Total trade receivables	**1,907**	**(18)**	**1,889**

"Trade receivables" amounted to 1,889 million euro at December 31, 2013 (1,907 million euro at December 31, 2012), representing a net decrease of 18 million euro. In further detail:

- 30 million euro due to a decrease in trade receivables from customers; this item had a balance of 1,775 million euro at the balance sheet date compared to 1,805 million euro at December 31, 2012;
- 18 million euro due to an increase in receivables from the Municipalities of Milan and Brescia. This item had a balance of 103 million euro at December 31, 2013 (85 million euro at the end of the previous year);
- 4 million euro due to a decrease in receivables from associates; this item had a balance of 7 million euro at the balance sheet date compared to 11 million euro at December 31, 2012;
- 2 million euro due to a decrease in contracts in progress, which in total amounted to 4 million euro (6 million euro at December 31, 2012).

A term sheet has been signed by EPCG with the Montenegro government concerning receivables of 45 million euro due to the subsidiary EPCG by an energy sector customer operating in Montenegro and arising from the direct and indirect supply of electricity. The implementation of this agreement in 2014 will enable an essential offset to be achieved between the amount to be accrued as a provision relating to those receivables and the economic benefits resulting from the offsetting of a planned capital increase to be subscribed by the state of Montenegro with the cancellation of tax liabilities.

The Group carries out spot sales of receivables on a non-recourse basis. At December 31, 2013 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 175 million euro in total. These receivables amount to 12 million euro as of today's date. The total consist of trade balances of 108 million euro and balances of 67 million euro arising from the “essential framework” within which the San Filippo del Mela plant operates. In addition, the Group has sold receivables on a with-recourse basis for 2 million euro.

The Group has no rotating factoring programs.

The bad debt provision amounted to 318 million euro at December 31, 2013 (313 million euro at December 31, 2012). Accruals of 53 million euro were made during the year while utilizations and other changes amounted to 48 million euro.

8) Other current assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Current derivatives	27	4	31	*8*	-
Other current assets	291	61	352	-	-
Total other current assets	**318**	**65**	**383**	**8**	**-**

“Other current assets” had a balance of 383 million euro at December 31, 2013 compared to 318 million euro at December 31, 2012, an increase of 65 million euro which may be analyzed as follows:

- an increase of 4 million euro relating to “Current derivatives” which arises essentially from an increase in commodity derivatives partially offset by a decrease in hedging derivatives due to the redemption of the underlying bond during the year;
- an increase of 43 million euro in VAT and duty receivables which at December 31, 2013 amounted to 96 million euro (53 million euro at the end of the previous year);
- a decrease of 15 million euro in receivables from the Electricity Sector Equalization Fund which at December 31, 2013 amounted to 48 million euro and at the end of the previous year totaled 63 million euro;
- an increase in other receivables of 35 million euro which therefore totaled 190 million euro (155 million euro at December 31, 2012);
- a decrease of 2 million euro in balances relating to future years which accordingly amounted to 14 million euro at December 31, 2013 (16 million euro at December 31, 2012).

Balances due from personnel and advances to suppliers were unchanged compared to the previous year end.

9) Current financial assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Other financial assets	22	84	106	*22*	*106*
Financial assets due from related parties	5	(4)	1	*5*	*1*
Total current financial assets	**27**	**80**	**107**	***27***	***107***

This item had a balance of 107 million euro at the balance sheet date (27 million euro at December 31, 2012).

10) Deferred tax assets

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Current tax assets	**90**	**(20)**	**70**

"Current tax assets" amounted to 70 million euro (90 million euro at December 31, 2012) representing a decrease of 20 million euro over the previous year-end.

11) Cash and cash equivalents

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Cash and cash equivalents	553	(177)	376	*553*	*376*

"Cash and cash equivalents" amounted to 376 million euro at December 31, 2013 compared to 553 million euro at the beginning of the year, representing a decrease of 177 million euro.

Bank deposits include accrued interest although this had not yet been credited at the end of the year.

12) Non-current assets held for sale

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Non-current assets held for sale	326	(326)	-	-	-

"Non-current assets held for sale" had a nil balance at December 31, 2013 (326 million euro at December 31, 2012). At the end of the previous year this item related to a series of assets of Edipower S.p.A. which had been reclassified following the exercising by the Iren Group of a call option to acquire a business consisting of generation assets, partly thermoelectric and partly hydroelectric, associated with the shareholding held by the Iren Group in Edipower S.p.A.. The non-proportional demerger was completed in November as described further in the section "Significant events during the year" of the Report on Operations.

EQUITY AND LIABILITIES

Equity

Equity, which amounted to 3,348 million euro at December 31, 2013 (3,697 million euro at December 31, 2012), is set out in the following table:

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(61)	-	(61)
Reserves	1,018	143	1,161
Group net result of the year	260	(198)	62
Total equity pertaining to the Group	**2,846**	**(55)**	**2,791**
Minority interests	851	(294)	557
Total equity	**3,697**	**(349)**	**3,348**

The overall change in equity, a decrease of 349 million euro, is due to changes in minority interests, the payment of the 2012 dividend, net profit of the year of 62 million euro, the measurements under IAS 32 and IAS 39 of cash flow hedge derivatives and the measurements under revised IAS 19 “Employee Benefits”.

Equity at December 31, 2013 is in line with market capitalization, calculated using the quoted price of the Company’s share at that date. Market capitalization calculated on the basis of the average quoted price of the share for the first two months of 2014 is considerably higher than equity at December 31, 2013.

On June 27, 2013 A2A S.p.A. distributed a dividend of 0.026 euro per share for a total of 81 million euro, as approved by the Shareholders’ Meeting of June 13, 2013.

13) Share capital

“Share capital” amounted 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 61 million euro, unchanged compared with December 31, 2012, consist of 26,917,609 own shares held by the parent company A2A S.p.A..

15) Reserves

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Reserves	1,018	143	1,161
of which			
Changes in the fair value of cash flow hedge derivatives	(23)	(9)	(32)
Tax effect	7	4	11
Cash flow hedge reserve	**(16)**	**(5)**	**(21)**

“Reserves”, which amounted to 1,161 million euro (1,018 million euro at December 31, 2012), consist of the legal reserve, extraordinary reserves and reserves arising on consolidation and the retained earnings of subsidiaries.

This item also includes the negative cash flow hedge reserve of 21 million euro which derives from the measurement at year end of derivatives qualifying for hedge accounting.

The balance also includes negative reserves of 32 million euro arising from the early adoption of IAS 19 Revised “Employee Benefits” which requires actuarial profits and losses to be recognized directly in an equity reserve. There was a negative change of 15 million euro during the year.

Reserves also include the effect of applying paragraph 23 of IAS 32 to the put options agreed between A2A S.p.A. and Società Elettrica Altoatesina S.p.A. (SEL) and the effects arising from the “Framework Agreement” and “Exchange Agreement” entered into by the parent A2A S.p.A. and the financial shareholders of Edipower S.p.A. (Mediobanca, Fondazione CRT and Banca Popolare di Milano) and Dolomiti Energia S.p.A., based on the shares of Edipower S.p.A.. As discussed in the section “Consolidation policies and procedures”, the difference between the present value of the exercise price for these put options and the carrying amount of minority interests is deducted from Group equity (if positive) or added to Group equity (if negative). At December 31, 2013 the effects of the put options on Edipower S.p.A. shares led to a reduction of Group equity of 24 million euro, being the difference between the carrying amount of the put options and minority interests.

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

Millions of euro	2013	2012
Result of the year of A2A S.p.A.	**5**	**183**
Intragroup dividends eliminated in the consolidated financial statements	(221)	(241)
Results of subsidiaries, associates and jointly controlled companies not recognized in the financial statements of A2A S.p.A.	248	233
Write-downs of shareholdings in subsidiaries made in the financial statements of A2A S.p.A.	47	5
Other consolidation adjustments	(17)	80
Group result of the year	**62**	**260**

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

Millions of euro	12 31 2013	12 31 2012
Equity of A2A S.p.A.	**2,448**	**2,537**
- Elimination of the residual portion of the equity reserve deriving from the intragroup profit arising on the contribution of businesses	(425)	(434)
- Retained earnings (accumulated losses)	771	659
- Intragroup dividends eliminated in the consolidated financial statements	(221)	(241)
- Results of subsidiaries, associates and jointly controlled companies not recognized in the financial statements of A2A S.p.A.	248	233
- Write-downs of shareholdings in subsidiaries made in the financial statements of A2A S.p.A.	47	5
- Other consolidation adjustments	(77)	87
Equity pertaining to the Group	**2,791**	**2,846**

16) Net result of the year

This item consists of a profit of 62 million euro, representing the result for the year.

17) Minority interests

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Minority interests	**851**	**(294)**	**557**

"Minority interests" amounted to 557 million euro (851 million euro at December 31, 2012) and represent the portion of capital, reserves and the net result pertaining to minority shareholders.

The decrease for the year of 294 million euro mainly relates to the non-proportional partial demerger of Edipower S.p.A. in favour of Iren Energia S.p.A., effective November 1, 2013, and the allocation to minorities of their share of the result for the year of the EPCG Group.

LIABILITIES

Non-current liabilities

18) Non-current financial liabilities

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Non-convertible bonds	2,462	505	2,967	2,462	2,967
Due to banks	1,906	(893)	1,013	1,906	1,013
Finance lease payables	3	(1)	2	3	2
Total non-current financial liabilities	**4,371**	**(389)**	**3,982**	**4,371**	**3,982**

"Non-current financial liabilities", which amounted to 3,982 million euro (4,371 million euro at December 31, 2012), decreased by 389 million euro.

"Non-convertible bonds" regard the following issued bonds:

- a thirty-year bond in yen issued on August 10, 2006 bearing interest at a fixed rate of 5.405% and having a carrying amount, measured at amortized cost, of 98 million euro;
- a seven-year bond issued on November 2, 2009 bearing interest at a nominal fixed rate of 4.50% and having a carrying amount of 814 million euro. This bond was partially redeemed as a result of the early repurchase of 238 million euro carried out on July 11, 2013. The nominal value of this bond is currently 762 million euro. The accompanying derivative has been accounted for as a fair value hedge and accordingly the bond is measured at amortized cost adjusted for the change in fair value of the underlying derivative;
- a seven-year bond having a nominal value of 750 million euro issued on November 28, 2012 bearing interest at a nominal fixed rate of 4.50% and having a carrying amount, measured at amortized cost, of 744 million euro at December 31, 2013;
- a seven and a half year bond having a nominal value of 500 million euro issued on July 10, 2013 bearing interest at a nominal fixed rate of 4.375% and having a carrying amount, measured at amortized cost, of 494 million euro at December 31, 2013;

- a ten-year bond having a nominal value of 300 million euro issued though a private placement on December 4, 2013 bearing interest at a nominal fixed rate of 4.00% and having a carrying amount, measured at amortized cost, of 299 million euro at December 31, 2013;
- a bond with a term of eight years and one month having a nominal value of 500 million euro issued on December 13, 2013 bearing interest at a nominal fixed rate of 3.625% and having a carrying amount, measured at amortized cost, of 495 million euro at December 31, 2013.

The year end measurement of the non-convertible bonds at fair value and amortized cost led to a decrease of 7 million euro in “Non-current financial liabilities”.

Interest of 23 million euro had accrued on the bonds at December 31, 2013.

The ten-year bond issued on May 28, 2004 has been reclassified to “Current financial liabilities”.

Non-current amounts “Due to banks” decreased by 893 million euro over the year. This is mainly due to the early repayment of the loan granted to Edipower S.p.A. in May 2012 and the reclassification of the portion falling due within twelve months to “Current financial liabilities”.

“Finance lease payables” amounted to 2 million euro (3 million euro at December 31, 2012).

19) Employee benefits

The balance on this item amounted to 339 million euro at December 31, 2013 (325 million euro at December 31, 2012) with changes as follows during the period:

Millions of euro	Balance at 12 31 2012	Accruals	Utiliz-ations	Other changes	Balance at 12 31 2013
Employee leaving entitlement	168	25	(8)	(11)	174
Employee benefits	157	-	(10)	18	165
Total employee benefits	**325**	**25**	**(18)**	**7**	**339**

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

	2013	2012
Discount rate (*)	from 0.86% to 3.17%	3.50%
Annual inflation rate	2.0%	2.0%

(*) The discount rate used by the Group varies from company to company on the basis of the average financial term of the bond.

20) Provisions for risks, charges and liabilities for landfills

Millions of euro	Balance at 12 31 2012	Accruals	Utilizations	Other changes	Balance at 12 31 2013
Provisions for risks, charges and liabilities for landfills	611	87	(46)	(47)	605

These provisions totaled 605 million euro at December 31, 2013 (611 million euro at the previous year end). Accruals had a net effect of 87 million euro, resulting from charges for the period of 111 million euro less the release of provisions of 24 million euro recognized in previous years for certain disputes that no longer subsist. The utilizations of 46 million euro mainly refer to the amount used for payments made during the year.

On the basis of Opinion no. 535/12 of the Electricity, Gas and Water Authority (AEEGSI), which among other things contained the proposal for 2012 to tie the calculation of the Avoidable Cost Component (CEC) of the CIP 6 tariff indexed to gas to movements in the price of gas on the balancing market and to remove the component relating to the wholesale sales margin (CEC com) from the formula (on settlement and on account for the individual quarters), the Group recognized a provision of 24 million euro at December 31, 2012, with the counter-entry reducing sales revenues. Noting the legislative changes in this discipline, in 2013 the Group released to income the provision recognized at December 31, 2012.

Other changes include a decrease of 87 million euro regarding expectations over the outcome of the dispute with ENEL concerning the purchase of the Milan and Rozzano distribution network by A2A Reti Elettriche S.p.A. in 2002.

Provisions for risks at December 31, 2013 also include the total cost of the business restructuring plan for the future exit of employees under a redundancy scheme, amounting to 22 million euro. Further details of the business restructuring plan can be found in the section “Significant events during the year” in the Report on Operations.

The provisions for risks and charges include an amount providing against the risk arising from the pending dispute concerning the self-consumption of the auxiliary groups of certain plants, as described in more detail in the section “Other information”.

21) Other non-current liabilities

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	12 31 2013
Other non-current liabilities	365	24	389	-	-
Non-current derivatives	48	(1)	47	48	47
Total other non-current liabilities	**413**	**23**	**436**	**48**	**47**

At December 31, 2013 this item had increased by 6 million euro compared to the balance at the end of the previous year. “Other non-current liabilities” increased by 24 million euro, due mainly to the change in payables to third parties arising from the measurement of the put options on the Edipower S.p.A. shares, while “Non-current derivatives” decreased by 1 million euro principally as the result of measuring financial instruments at fair value.

Current liabilities

22) Trade payables and other current liabilities

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Advances	7	1	8	-	-
Trade payables	1,325	(27)	1,298	-	-
Total trade payables	**1,332**	**(26)**	**1,306**	**-**	**-**
Payable to social security institutions	42	1	43	-	-
Other current liabilities	434	65	499	-	-
Current derivatives	10	14	24	2	-
Total other current liabilities	**486**	**80**	**566**	**2**	**-**
Total trade payables and other current liabilities	**1,818**	**54**	**1,872**	**2**	**-**

"Trade payables and other current liabilities" amounted to 1,872 million euro (1,818 million euro at December 31, 2012), representing an overall increase of 54 million euro which principally arises from an increase in "Other current liabilities" and "Current derivatives", offset by a decrease in "Trade payables". "Other current liabilities" mainly relate to amounts due to personnel, balances payable to the Electricity Sector Equalization Fund and amounts due to the tax authorities for VAT and withholding tax.

23) Current financial liabilities

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013	*of which included in the NFP*	
				12 31 2012	*12 31 2013*
Non-convertible bonds	518	(210)	308	*518*	*308*
Due to banks	134	(29)	105	*134*	*105*
Finance lease payables	1	-	1	*1*	*1*
Financial payables to related parties	-	1	1	-	*1*
Total current financial liabilities	**653**	**(238)**	**415**	***653***	***415***

"Current financial liabilities" amounted to 415 million euro, compared to 653 million euro at December 31, 2012.

More specifically, the item "Non-convertible bonds" consists of:

- the residual balance of a ten-year bond having a nominal value of 500 million euro issued on May 24, 2004 bearing interest at a nominal fixed rate of 4.875% and having a carrying amount, measured at amortized cost, of 299 million euro at December 31, 2013. On July 11, 2013, 201 million euro at nominal value of this bond was partially reacquired and cancelled in advance. At December 31, 2013 interest of 9 million euro had been accrued on the bond.

The ten-year bond issued on October 30, 2003 bearing interest at a nominal fixed rate of 4.875% was redeemed in October. This bond was being accounted under the fair value option available on transition to IAS/IFRS and was reclassified to "Current financial liabilities" at December 31, 2012 for an amount of 518 million euro.

An amount of 105 million euro was "Due to banks" as a current liability at December 31, 2013 (134 million euro at December 31, 2012). The balance decreased by 29 million euro over the year mainly due to the repayment of loan installments.

24) Tax liabilities

Millions of euro	Balance at 12 31 2012	Changes during the year	Balance at 12 31 2013
Tax liabilities	8	5	13

"Tax liabilities" amounted to 13 million euro (8 million euro at December 31, 2012), representing a net increase of 5 million euro.

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

This item had a nil balance at December 31, 2013 and 49 million euro at December 31, 2012 when it related to a series of liabilities to be sold to Edipower S.p.A. in connection with the non-proportional demerger in favor of Iren Energia S.p.A..

Net debt

26) NET DEBT

(pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006)

The following table provides details of net debt.

Millions of euro	Note	12 31 2013	12 31 2012
Bonds - non-current portion	18	2,967	2,462
Bank loans - non-current portion	18	1,013	1,906
Finance leases - non-current portion	18	2	3
Other non-current liabilities	21	47	48
Total medium/long-term debt		**4,029**	**4,419**
Non-current financial assets - related parties	3	(6)	(5)
Financial assets - non-current portion	3	(38)	(39)
Other non-current assets	5	(43)	(70)
Total medium/long-term financial receivables		**(87)**	**(114)**
Total non-current net debt		***3,942***	***4,305***
Bonds - current portion	23	308	518
Bank loans - current portion	23	105	134
Finance leases - current portion	23	1	1
Current financial liabilities - related parties	23	1	-
Other current liabilities	22	-	2
Total short-term debt		**415**	**655**
Other current financial assets	9	(106)	(22)
Current financial assets - related parties	9	(1)	(5)
Other current assets	8	-	(8)
Total short-term financial receivables		**(107)**	**(35)**
Cash and cash equivalents	11	(376)	(553)
Total current net debt		***(68)***	***67***
Net debt		***3,874***	***4,372***

Notes to the income statement

In preparing this "Consolidated annual report", the specific line items "Result from non-recurring transactions" and "Result from disposal of other shareholdings (AFS)" have been included in the format of the income statement in order to provide clear and explicit identification of the results arising from non-recurring transactions regarding continuing operations, separating these from the results from discontinued operations, as discussed in further detail in the section "Format of financial statements" of this "Consolidated annual report".

The results for the year ended December 31, 2013 include the line-by-line consolidation of Edipower S.p.A. for the whole year, but only for seven months in the prior year; as a consequence, the results for the year ended December 31, 2013 are not homogeneous with the corresponding figures for the year ended December 31, 2012.

27) Revenues

Revenues for the year totaled 5,604 million euro (6,480 million euro in the year ended December 31, 2012), therefore decreasing by 876 million euro.

Details of the more significant items of this balance are as follows:

Revenues - *Millions of euro*	**12 31 2013**	**12 31 2012**
Revenues from the sale of goods	4,592	5,465
Revenues from services	796	791
Revenues from long-term contracts	1	25
Total revenues from the sale of goods and services	**5,389**	**6,281**
Other operating income	**215**	**199**
Total revenues	**5,604**	**6,480**

"Revenues from the sale of goods and services" amounted in total to 5,389 million euro (6,281 million euro in the previous year), decreasing by 892 million euro, mainly due to the decision to reduce gas brokerage activity on the wholesale markets. This decrease is due to lower sales revenues of 873 million euro, an increase in service revenues of 5 million euro and a decrease in long-term contract revenues of 24 million euro.

“Other operating income” amounted to 215 million euro, an increase of 16 million euro over the previous year.

Further details of the main items are as follows:

Millions of euro	**12 31 2013**	**12 31 2012**
Sale and distribution of electricity	3,222	3,441
Sale and distribution of gas	1,031	1,652
Sale of heat	200	188
Sale of materials	1	1
Sale of water	45	45
Hedging gains on operating derivatives	-	-
Hedging losses on operating derivatives	-	(1)
Sales of emission certificates and allowances	59	108
Connection contributions	34	31
Total revenues from the sale of goods	**4,592**	**5,465**
Services to customers	796	791
Total revenues from services	**796**	**791**
Revenues from long-term contracts	**1**	**25**
Total revenues from the sale of goods and services	**5,389**	**6,281**
Other operating income	**215**	**199**
Total revenues	**5,604**	**6,480**

Revenues include the effect of 24 million euro resulting from the Decree of the Ministry for Economic Development of April 24, 2013, which in quantifying the CEC settlement balance for 2012 took the position of not applying Opinion no. 535 of the Electricity, Gas and Water Authority (AEEGSI) for that year, as discussed in the note to the item “Provisions for risks, charges and liabilities for landfills” to which reference should be made.

Further details on the reasons for the performance of revenues relating to the various businesses can be found in the Report on Operations.

28) Operating expenses

"Operating expenses" amounted to 3,807 million euro (4,810 million euro in the previous year), representing a decrease of 1,003 million euro, mainly due to the effect of the decision to reduce gas brokerage activity on the wholesale markets.

The main components of this item are as follows:

Operating expenses - *Millions of euro*	**12 31 2013**	**12 31 2012**
Raw materials and consumables	2,763	3,758
Service costs	804	801
Total expenses for raw materials and services	**3,567**	**4,559**
Other operating expenses	**240**	**251**
Total operating expenses	**3,807**	**4,810**

"Total expenses for raw materials and services" amounted to 3,567 million euro (4,559 million euro in the year ended December 31, 2012), decreasing by 992 million euro.

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

- a reduction of 1,058 million euro in the purchase of raw materials and consumables, due to a decrease in costs for the purchase of power and fuel of 1,076 million euro, an increase in the costs relating to the purchase of emission certificates and allowances of 13 million euro, an increase in the cost for the purchase of materials of 1 million euro and a net increase of 4 million euro arising from hedging gains and losses on operating derivatives;
- an increase of 3 million euro in costs for delivery, subcontracted work and services;
- a positive change of 63 million euro in stocks of fuels and materials.

The following table sets out details of the more significant components:

Millions of euro	**12 31 2013**	**12 31 2012**
Purchases of power and fuel	2,527	3,603
Purchases of materials	75	74
Purchases of water	4	4
Hedging losses on operating derivatives	4	7
Hedging gains on operating derivatives	(10)	(17)
Purchases of emission certificates and allowances	67	54
Total expenses for raw materials and consumables	**2,667**	**3,725**
Delivery, subcontracted work and services	804	801
Total service costs	**804**	**801**
Change in inventories of fuel and materials	96	33
Total expenses for raw materials and services	**3,567**	**4,559**
Other operating expenses	**240**	**251**
Total operating expenses	**3,807**	**4,810**

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*	Note	12 31 2013	12 31 2012
Revenues	27	1,861	1,176
Operating expenses	28	(1,847)	(1,175)
Total trading margin		**14**	**1**

29) Labour costs

Net of capitalized expenses, labour costs in the year ended December 31, 2013 amounted to 664 million euro (602 million euro in the year ended December 31, 2012).

“Labour costs” may be analyzed as follows:

Labour costs - *Millions of euro*	12 31 2013	12 31 2012
Wages and salaries	422	399
Social security charges	155	145
Employee leaving entitlement (TFR)	26	24
Other costs	61	34
Total labour costs	**664**	**602**

The A2A Group had an average workforce of 12,626 people during the year ended December 31, 2013.

Labour costs for the year ended December 31, 2013 include the total cost of the business restructuring plan for the future exit of employees under a redundancy scheme, amounting to 25 million euro. This plan will reach the peak of its effectiveness, in particular for the redundancy scheme, in the two-year period 2013-2014 and will continue for the following two years. Further details of the business restructuring plan can be found in the section “Significant events during the year” of the Report on Operations.

30) Gross operating income

As a result of the above movements, consolidated “Gross operating income” for the year ended December 31, 2013 amounted to 1,133 million euro (1,068 million euro for the year ended December 31, 2012).

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" totaled 876 million euro in the year ended December 31, 2013 (567 million euro in the year ended December 31, 2012), representing an increase of 309 million euro.

The following table provides details of the individual items:

Depreciation, amortization, provisions and write-downs - *Millions of euro*	**12 31 2013**	**12 31 2012**
Amortization of intangible assets	66	72
Depreciation of tangible assets	420	417
Total depreciation and amortization	**486**	**489**
Provisions for risks and charges	87	44
Bad debt provision (receivables recognized as current assets)	53	32
Other write-downs of fixed assets	250	2
Total depreciation, amortization, provisions and write-downs	**876**	**567**

"Depreciation and amortization" totaled 486 million euro (489 million euro in the previous year), a decrease of 3 million euro.

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 has carried out a series of simulation estimating the revaluations using ISTAT coefficients, which were found to be the only possible data objectively usable, and 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, the net carrying amount of the wet works for which concessions are close to expiry was significantly lower than the range of results obtained. As a result, therefore, since June 30, 2012 depreciation and amortization is no longer charged only for those concessions nearing expiry, while the same valuation methods continue to be applied to the remaining concessions.

"Provisions for risks and charges" amounted to 87 million euro (44 million euro in the year ended December 31, 2012) and relate to the provisions made in the period for disputes in course and pending litigation.

The "Bad debt provision" amounted to 53 million euro (32 million euro in the year ended December 31, 2012), consisting of the accrual for the period. In the previous year this item included the release of significant previously accrued provisions due to the fact that the collectibility risk for certain customer receivables for which a provision had been made in previous years no longer existed.

"Other write-downs of fixed assets" amounted to 250 million euro (2 million euro in the year ended December 31, 2012), of which 237 million euro regarded the write-down of certain thermoelectric plants carried out as a consequence of the results obtained from the impairment testing performed by an independent external appraiser appointed by the Group; these write-downs were made to adjust the carrying amount of the assets to the lower earnings prospects deriving from a market in structural production overcapacity. Further details of the work carried out for the impairment testing can be found in note 2. Write-downs of 13 million euro were made of assets involved in the normal production process.

32) Net operating income

"Net operating income" amounted to 257 million euro (501 million euro in the year ended December 31, 2012); if the impairment losses discussed above are excluded, this would have been 494 million euro.

33) Result from non-recurring transactions

This item amounting to 75 million euro (45 million euro in the year ended December 31, 2012) includes 60 million euro representing the capital gain realized on the non-proportional partial demerger of Edipower S.p.A. effective November 1, 2013, income of 23 million euro arising from the sale of five small flowing water hydroelectric plants having an installed power of approximately 8 MW and non-recurring net expense of 8 million euro incurred by the subsidiary EPCG. The corresponding figure of 45 million euro for the previous year mainly consisted of the income arising on the sale of e-Utile S.p.A. and the shareholding in Metroweb S.p.A., together with non-recurring net expense incurred by the subsidiary EPCG.

34) Financial balance

The "Financial balance" closed with net expense of 206 million euro (net expense of 180 million euro in the year ended December 31, 2012).

Details of the more significant items are as follows:

Financial balance - *Millions of euro*	**12 31 2013**	**12 31 2012**
Financial income	80	58
Financial expense	(263)	(251)
Affiliates	(23)	13
Total financial balance	**(206)**	**(180)**

"Financial income" amounted to 80 million euro (58 million euro in the previous year). For the year ended December 31, 2013 this item includes the positive effect of measuring derivative contracts at fair value, while in the corresponding period of the previous year it included the benefit of 18 million euro of negative goodwill arising from the first-time consolidation of Edipower S.p.A..

"Financial expense", which amounted to 263 million euro, increased by 12 million euro over the year ended December 31, 2012, and may be analyzed as follows:

- expense of 7 million euro arising from derivatives (42 million euro in the year ended December 31, 2012);
- expense of 256 million euro from financial liabilities (205 million euro in the year ended December 31, 2012), which may be analyzed as follows:

Expenses from financial liabilities - *Millions of euro*	**12 31 2013**	**12 31 2012**
Interest on bond loans	144	104
Interest charged by banks	76	66
Interest on Cassa Depositi e Prestiti loans	7	7
Decommissioning costs	3	2
Other financial expense	28	26
Total expenses from financial liabilities	**256**	**205**

"Financial expense" in 2012 included expense of 4 million euro arising from the write-down of shareholdings.

Expense of 23 million euro arose from the "Affiliates" (income of 13 million euro in the year ended December 31, 2012). Of this, 30 million euro relates to the write-down of the shareholding in Ergosud S.p.A., following the results of the impairment testing carried out by an external appraiser as discussed in more detail in note 2, which was partially offset by income of 7 million euro arising from accounting for the shareholdings in Dolomiti Energia S.p.A. and ACSM-AGAM S.p.A. using the equity method.

35) Income taxes

Income taxes - *Millions of euro*	**12 31 2013**	**12 31 2012**
Current taxes	151	124
Deferred tax assets	(8)	79
Deferred tax liabilities	(92)	(75)
Total income taxes	**51**	**128**

"Income taxes" for the year amounted to 51 million euro (128 million euro in the year ended December 31, 2012). In 2012 income of 30 million euro was recognized in connection with the application for a refund of IRES corporate income tax for the omitted deduction in prior years of the IRAP regional production tax relating to expenses for employees and similar staff.

La riconciliazione tra l'onere fiscale iscritto in bilancio consolidato e l'onere fiscale teorico. determinato sulla base delle aliquote fiscali teoriche vigenti in Italia. è la seguente:

TAX RATE TABLE - *Millions of euro*	**2013**	**2012 (*)**
Result before taxes	**126**	**366**
Write-downs of tangible assets	237	
Result before taxes adjusted for write-downs	**363**	
Theoretical taxation calculated at the current tax rate (1)	138	
Temporary differences	(100)	(12)
Permanent differences	(6)	
Tax benefits from previous years		(30)
Difference between foreign tax rates and theoretical Italian tax rates	(8)	3
Difference for companies not subject to IRES surcharge	(20)	(17)
Total taxes charged to income statement (excluding IRAP)	**4**	**(56)**
IRAP	47	45
Total taxes charged to income statement	**51**	**(11)**

(1) Taxes have been calculated by considering a theoretical rate of 38% for 2013 and 2012.
(*) The comparative figures for 2012 have been reclassified on the basis of the new income statement structure adopted.

36) Net result from discontinued operations

This item had a nil balance for the year ended December 31, 2013 while the figure of 33 million euro for the previous year represented the net gain on the sale of the Coriance Group.

37) Group net result of the year

The "Group net result of the year", stated after attributing a profit of 13 million euro to minority interests (a profit of 11 million euro attributed to minority interests in the year ended December 31, 2012), amounted to 62 million euro (260 million euro in the year ended December 31, 2012).

Earnings per share

38) Earnings per share

	01 01 2013 12 31 2013	01 01 2012 12 31 2012
Earnings (loss) per share (euro)		
- basic	0.0201	0.0838
- basic from continuing operations	0.0201	0.0730
- basic from discontinued operations	-	0.0108
- diluted	0.0201	0.0838
- diluted from continuing operations	0.0201	0.0730
- diluted from discontinued operations	-	0.0108
Weighted average number of outstanding shares for the calculation of earnings (loss) per share		
-basic	3,105,987,497	3,105,987,497
-diluted	3,105,987,497	3,105,987,497

Note on related party transactions

39) Note on related party transactions

The definition of "related parties" is included in the international accounting standard describing the disclosures which must be made for related party transactions in financial statements (revised IAS 24).

Transactions 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 and governance of A2A S.p.A.; this gave the Municipalities joint control over the company by means of a dual system of administration and control.

The merger took effect from January 1, 2008, and irrespective of the legal structure adopted, resulted in a joint venture under the joint control of the Municipality of Brescia and the Municipality of Milan, which each hold 27.5%.

Dealings between A2A Group companies and the Municipalities of Milan and Brescia are of a commercial nature, involving the supply of electricity, gas, heat and water and the management of the public illumination and traffic light systems, the management of water purification and sewage plants, public refuse collection and road sweeping and video surveillance systems.

Likewise, the A2A Group has commercial relations with the companies controlled by Milan and Brescia city councils, such as Metropolitana Milanese 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, sewerage and purification services at the same market tariffs appropriate to the terms of the supply, and providing services as requested by these companies. It is emphasized that these companies are considered related parties in the summary schedules prepared in accordance with Consob Resolution 17221 of March 12, 2010.

Dealings between the Municipalities of Milan and Brescia and the A2A Group relate to public illumination and traffic light services and the management and distribution of electricity, gas and heat, as well as sewer management and water purification, which are governed by special agreements and specific contracts.

All transactions with entities controlled by the Municipalities of Milan and Brescia relating to the supply of electricity are handled at normal market conditions.

On May 27, 2011, AMSA S.p.A., an A2A S.p.A. subsidiary, signed an extension to the contract to provide waste collection, road cleaning, waste disposal and special services for a fee of 711 million euro, VAT included, for the period from January 1, 2011 to June 30, 2013.

Transactions with subsidiaries and associates

The parent A2A S.p.A. provides centralized treasury services for all of its subsidiaries. Intragroup transactions are regulated through current accounts between the parent company and the subsidiaries; these balances bear interest at the 3-month Euribor rate increased for the creditor positions (of A2A S.p.A.) or reduced for the debtor positions by a margin in line with that applied by the financial market.

In 2013, A2A S.p.A. and its subsidiaries again filed their VAT return on a group basis. For IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with articles 117-129 of DPR no. 917/86. To this end, a contract has been stipulated with each of the subsidiaries involved in the Group tax return to regulate the tax benefits and burdens transferred, with specific reference to current items. These contracts also govern the transfer of any excess gross operating income as provided in applicable legislation.

A2A S.p.A. signed a tax transparency agreement with an associate company, with effect from 2010.

The parent company provides subsidiaries and associates with administrative, tax, legal, managerial and technical services in order to optimize the resources available within the company and to make the best use of existing know-how in the most economical way possible.

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 parent company provides a power generation service to A2A Trading S.r.l. in exchange for a monthly fee based on the effective availability of the thermoelectric and hydroelectric plants.

Telecommunication services are provided by the subsidiary Selene S.p.A..

Finally, in accordance with the Consob communication issued on September 24, 2010 laying down regulations for transactions with related parties within the meaning of Consob Resolution no. 17221 of March 12, 2010 as amended on November 11, 2010, after receiving the positive opinion of the Internal Control Committee the A2A S.p.A. Management Board approved a procedure to regulate activities with related parties which took effect on January 1, 2011; the purpose of this procedure is to assure the transparency and material and procedural propriety of operations with related parties undertaken by A2A S.p.A., either directly or indirectly via subsidiaries, as defined by revised IAS 24.

Summaries of balances and transactions with related parties are set out in the following tables pursuant to Consob Resolution no. 17221 of March 12, 2010:

Balance Sheet *Millions of euro*	**Total 12 31 2013**	**of which with related parties**								
		Associated companies	**Related companies**	**Municipality of Milan**	**Subsidiaries Municipality of Milan**	**Municipality of Brescia**	**Subsidiaries Municipality of Brescia**	**Related individuals**	**Total related parties**	**% effect on the balance sheet item**
TOTAL ASSETS OF WHICH:	**11,010**	**161**	**65**	**95**	**14**	**11**	**1**	**-**	**347**	**3.2%**
Non-current assets	*7,901*	*157*	*33*	*-*	*-*	*3*	*-*	*-*	*193*	*2.4%*
Shareholdings	187	157	30	-	-	-	-	-	187	100.0%
Other non-current financial assets	53	-	3	-	-	3	-	-	6	11.3%
Current assets	*3,109*	*4*	*32*	*95*	*14*	*8*	*1*	*-*	*154*	*5.0%*
Trade receivables	1,889	4	32	95	14	8	1	-	154	8.2%
TOTAL LIABILITIES OF WHICH:	**7,662**	**10**	**19**	**8**	**3**	**9**	**-**	**-**	**49**	**0.6%**
Non-current liabilities	*5,362*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*1*	*-*
Provisions for risks and charges	605	-	1	-	-	-	-	-	1	0.2%
Current liabilities	*2,300*	*10*	*18*	*8*	*3*	*9*	*-*	*-*	*48*	*2.1%*
Trade payables	1,306	-	18	8	3	9	-	-	38	2.9%
Other current liabilities	566	8	-	-	-	-	-	-	8	1.4%
Current financial liabilities	415	2	-	-	-	-	-	-	2	0.5%

Income statement *Millions of euro*	**Total 12 31 2013**	**of which with related parties**								
		Associa-ted compa-nies	**Related compa-nies**	**Munici-pality of Milan**	**Subsidia-ries Munici-pality of Milan**	**Munici-pality of Brescia**	**Subsidia-ries Munici-pality of Brescia**	**Related indivi-duals**	**Total related parties**	**% effect on the balance sheet item**
REVENUES	**5,604**	**3**	**66**	**339**	**70**	**35**	**2**	**-**	**515**	**9.2%**
Revenues from the sale of goods and services	5,389	3	66	339	70	35	2	-	515	9.6%
Other operating income	215	-	-	-	-	-	-	-	-	-
OPERATING EXPENSES	**3,807**	**-**	**39**	**3**	**3**	**6**	**-**	**-**	**51**	**1.3%**
Expenses for raw materials and services	3,567	-	39	1	3	-	-	-	43	1.2%
Other operating expenses	240	-	-	2	-	6	-	-	8	3.3%
LABOUR COSTS	**664**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**	**0.5%**
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	**876**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**0.1%**
FINANCIAL BALANCE	**(206)**	**(23)**	**-**	**-**	**-**	**6**	**-**	**-**	**(17)**	**8.3%**
Financial income	80	-	-	-	-	6	-	-	6	7.5%
Financial expense	(263)	-	-	-	-	-	-	-	-	-
Affiliates	(23)	(23)	-	-	-	-	-	-	(23)	100.0%

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

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

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

The Group has recognized as a non-recurring transaction in 2013 the total cost for the future departure of employees under redundancy schemes as part of the business restructuring plan, as discussed in the note to the income statement "Labour costs". Further details of the business restructuring plan may be found in the section "Significant events during the year" of the Report on Operations.

Guarantees and commitments with third parties

Millions of euro	**12 31 2013**	**12 31 2012**
Guarantee deposits received	650	552
Guarantees given	1,764	1,485

Guarantee deposits received

Guarantees deposited by subcontractors and performance bonds issued by insurance companies amount to 650 million euro (552 million euro at December 31, 2012).

Guarantees and commitments with third parties

These amount to 1,764 million euro (1,485 million euro at December 31, 2012) and relate to sureties issued and guarantee deposits given as security for commitments made to third parties.

Collateral pledged

At December 31, 2013, the loan for which the shares of Edipower S.p.A. had been given as collateral had been fully repaid. On January 8, 2014 the lending banks signed a deed of assent to the annul the pledge.

* * *

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, 2013

Reference should be made to the specific section of this Report on Operations for a description of subsequent events.

2) Information on treasury shares

At December 31, 2013 A2A S.p.A. held 26,917,609 treasury shares, being 0.859% of share capital which consists of 3,132,905,277 shares, unchanged from the end of the previous year. At December 31, 2013 no treasury shares were held through subsidiaries, finance companies or nominees.

3) Information on non-current assets held for sale and discontinued operations (IFRS 5)

"Non-current assets held for sale" and "Liabilities directly associated with non-current assets held for sale" had a nil balance at December 31, 2013, while at December 31, 2012 these items arose from the reclassification of a series of assets of Edipower S.p.A. and the liabilities associated with them as the result of the agreements entered into by the A2A Group and the Iren Group on May 21, 2012. On January 17, 2013, Iren S.p.A. announced that it was the intention of the Iren Group to relinquish its shareholding in Edipower S.p.A.. More specifically, Iren S.p.A. made a request to carry out a non-proportional spin-off of Edipower S.p.A. with the assignment to Iren S.p.A. and Iren Energia S.p.A. of a group of thermoelectric and hydroelectric generation assets having a value effectively equal to the shareholding of Iren S.p.A. and Iren Energia S.p.A. in Edipower S.p.A.. The deed for the partial non-proportional spin-off was signed on October 24, 2013 to complete the previous agreements between the parties, and this became effective on November 1, 2013. As part of the demerger a group of net assets was assigned to Iren Energia S.p.A. consisting of the Turbigo thermoelectric plant and the Tusciano hydroelectric complex, the staff working in those plants, the assets and liabilities attributable to the plants and a loan of 44.8 million euro. As a result of the demerger the Iren Group is no longer a shareholder of Edipower S.p.A..

4) 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) currency risk not related to commodities;
d) liquidity risk;
e) credit risk;
f) equity risk;
g) default and covenant risk.

Commodity price risk is the risk linked to changes in the price of energy commodities (gas, electricity, fuel oil, coal etc) and environmental securities (EUA/ETS emission allowances, green certificates, white certificates, etc). This consists of the potentially adverse effects that a change in the market price of one or more commodities could have on the company's cash flow and earnings prospects. Commodity currency risk is related to changes in cash flows generated by commodity contracts and assets in portfolio. It is caused by fluctuations in foreign currency exchange rates and is an integral part of commodity risk.

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

Currency risk not related to commodities is the possibility of incurring losses because of an unfavorable 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 unfavorable change in the price of shares.

Default and covenant 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.

a. Commodity risk

a.1) Commodity price risk and currency 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.

In order to stabilize cash flows and to guarantee the Group's economic and financial equilibrium, A2A has introduced an Energy Risk Policy which lays down clear guidelines for the management and control of the above risks. It also includes the recommendations of the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and of Euroelectric's Group on Risk Management. Reference was also made to the Accords of the Basel Committee for Interbank Supervision approved in June 2004 (Basel 2) and the requirements of international accounting standards for the way in which any volatility in commodity prices and financial derivatives should be recognized in the balance sheet and in profit or loss.

In the A2A Group, the assessment of this kind of risk is centralized at the parent company under the responsibility of the General Manager's Department (Corporate and Market Area), which has set up a Risk Management Unit as part of the Administration, Finance and Control Department with the task of managing and monitoring market and commodity risk, elaborating and evaluating structured energy products, proposing financial hedging strategies for energy risk and supporting senior management and the Risk Management Committee in defining the Group's Energy Risk Management policies.

Each year, A2A S.p.A.'s Management Board sets the Group's commodity risk limits, while the Risk Management Committee supervises the situation to ensure compliance with these limits and defines the hedging strategies designed to bring risk within the set limits.

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 earned by industrial activities, namely all contracts which while being related to industrial operations are not strictly necessary for such.

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.

The Corporate and Market Area Department is systematically updated on changes in the Group's commodity risk by the 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), 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) 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 greenhouse gas emission rights portfolio (Directive 2003/87/EC), the A2A Group trades futures on the ICE ECX (European Climate Exchange). These are considered hedging transactions from an accounting point of view in the event of demonstrable surplus/deficit quotas.

Derivatives of the industrial portfolio not considered hedges

As part of its optimization of the portfolio of greenhouse gas emission allowances (see Directive 2003/87/EC), the A2A Group operates both on OTC markets for environmental certificates with swaps and forward contracts and on the ICE ECX (European Climate Exchange) with futures contracts.

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.

Derivatives of the trading portfolio

As part of its trading activity, the A2A Group has taken out 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. Futures have been stipulated on the ICE ECX market price of EUA, CER and ERU environmental certificates, which permit delivery of the allowances at the contract price as well as cash settlement of the differential between the market price and the contract price. The Group has also taken out forward contracts on OTC markets on the price of environmental certificates that provide for the delivery of allowances at the contract price. As part of trading activities, forward contracts were also stipulated for the market price of gas (APX-Endex).

a.3) Energy derivatives, assessment of risks

PaR (Profit at Risk) [1] 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. This is a tool that gives the positive or negative change in the value of a financial instrument portfolio within set probability assumptions as the result of a favorable or unfavorable 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

(1) Profit at Risk: a statistical measurement of the maximum potential negative variation in the margin of a portfolio of assets in the event of unfavorable movements in the market with a given time horizon and confidence interval.

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 change in financial derivatives outstanding at December 31, 2013 was 58.907 million euro (7.990 million euro at December 31, 2012).

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

Millions of euro	12 31 2013		12 31 2012	
Profit at Risk (PaR)	***Worst case***	***Best case***	***Worst case***	***Best case***
Confidence level 99%	**(58.907)**	**45.504**	**(7.990)**	**11.480**

This means that with a 99% probability the A2A Group expects not to have changes in fair value exceeding 58.907 million euro in the fair value of its entire portfolio of financial instruments at December 31, 2013 due to commodity price fluctuations.

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

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. VaR is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavorable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 1 day and a confidence level of 99%. Alternative methods, such as stress test analysis, are used for contracts where it is not possible to perform a daily estimate of VaR.

Under this method, in the case of extreme market movements, with a confidence level of 99% and a holding period of 1 day, the maximum estimated loss on the derivatives in question was 1.38 million euro at December 31, 2013 (1.08 million at December 31, 2012).

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

b. Interest rate risk

The A2A Group's exposure to interest rate risk arises mainly from the volatility of the interest expense arising from variable rate debt.

The Group's policy for managing interest rate risk has the goal of limiting this volatility first and foremost by selecting a balanced mix of fixed and floating rate financing and by using hedging derivative instruments to limit fluctuations in interest rates.

Bank borrowings and other financing obtained by the A2A Group may be analyzed as follows at December 31, 2013:

Millions of euro	December 31, 2013			December 31, 2012		
	Without derivatives	With derivatives	% with derivatives	Without derivatives	With derivatives	% with derivatives
Fixed rate	3,361	3,752	85%	3,079	3,938	78%
Floating rate	1,036	645	15%	1,945	1,086	22%
	4,397	**4,397**		**5,024**	**5,024**	

The derivatives refer to the following loans:

Loan	Derivative	Accounting
A2A loan with BEI, expiring in 2023, residual balance at December 31, 2013 amounting to 190.5 million euro, at floating rate interest.	Collar due to run until November 2023; fair value at December 31, 2013 was 15.9 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with the effective portion of the hedge recognized in a specific equity reserve.
A2A bond with a nominal value of 761.6 million euro, maturing in 2016 bearing fixed interest at 4.5%.	IRS on the full nominal amount, same duration as the loan; fair value at December 31, 2013 was 56.3 million euro.	Fair value hedge The valuation, based on the fair value hedge of the bond, is equal to the carrying amount of the financial liability (as required by IAS and relative doctrine), and includes the interest expense and a portion of the accrual relating to the premium and issue costs. The accumulated changes in the fair value of the risk being hedged, i.e. the interest flow differentials recognized in profit or loss, are added to this value.
	Collar on 261.6 million euro euro with duration equal to the loan; fair value at December 31, 2013 was -12.8 million euro.	The collar is measured at fair value through profit or loss.
	Collar on 350 million euro expiring in November 2016; fair value at December 31, 2013 was -9.8 million euro.	The collar is measured at fair value through profit or loss.
	Collar with double cap on 150 million euro expiring in November 2016; fair value at December 31, 2013 was -2.9 million euro.	The collar is measured at fair value through profit or loss.
A2A loan with Cassa Depositi e Prestiti expiring in December 2025, residual balance at December 31, 2013 of 200 million euro, floating rate interest.	Collar with double cap with duration until June 2017; fair value at December 31, 2013 was -4 million euro.	The loan is measured at amortized cost. The collar is measured at fair value through profit or loss.

An internal model has been developed to analyze and manage interest rate risk which enables the exposure to this risk to be calculated using the Montecarlo method by assessing the effect that fluctuations in interest rates have on future cash flows. Under this methodology at least ten thousand scenarios are simulated for each key variable on the basis of the associated volatilities and correlations, using market rate forward curves for future levels. In this way a probability distribution of the results is obtained from which the worst case scenario and best case scenario can be extrapolated using a 99% confidence level.

The following are the results of the simulation with the related maximum variances: (worst case and best case scenarios) for 2014 together with a comparison with 2013:

Millions of euro	2014 (base case: -124.099)		2013 (base case: -175.464)	
	Worst case	***Best case***	***Worst case***	***Best case***
Changes in expected cash flows (including hedge flows) Confidence level of 99%	(0.5)	0.4	(0.8)	0.6

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 2013 (*base case*: 11)		12 31 2012 (*base case*: 25.9)	
	-50 bps	**+50 bps**	**-50 bps**	**+50 bps**
Changes in the fair value of derivatives	(5.7)	3.4	(14.4)	9.4
(of which cash flow hedge derivatives)	(4.5)	4.2	(13.3)	12.7
(of which fair value hedge derivatives)	12.1	(11.9)	21.3	(20.8)

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, as discussed further in the section “Changes in international accounting standards”.

c. Currency risk not related to commodities

A2A S.p.A. does not consider it necessary at the present time to take out any specific hedges against currency risk for sales, other than that arising from commodity prices, as the amounts involved are quite small and are paid or collected within a short period of time, and any imbalance is immediately offset by a sale or purchase of foreign currency.

The only case of hedging currency risk that was not related to commodities is the fixed rate bullet bond of 14 billion yen with maturity 2036 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. This derivative is accounted for as a cash flow hedge, with the effective portion of the hedge being recognized in a specific equity reserve.

At December 31, 2013 the fair value of the hedge was negative 15 million euro. This fair value would improve by 15.1 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 12.3 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen).

In this case too the sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

d. Liquidity risk

Liquidity risk concerns the Group's capacity to meet its payment commitments by means of self-financing, funding from banks, recourse to the financial markets and cash in hand.

The Group places particular emphasis on constantly managing liquidity risk, thereby ensuring adequate funds are available to meet expected commitments over a given period of time along with a liquidity buffer sufficient to meet any unexpected needs.

From this standpoint, the Group also follows a policy of diversifying the various deadlines for debt and other sources of financing. Of note in this regard is the use of the Euro Medium Term Note Programme for a total of up to 3 billion euro, approved by the Management Board on November 7, 2013.

In April 2013 A2A S.p.A. entered an agreement with a group of Italian and international banks for a Club Deal revolving credit line for a total of 600 million euro, having a duration of 5 years and the main aim of acting as a back-up.

At December 31, 2013, the Group had unused revolving lines of committed credit in the amount of 1,465 million, contracted and unused medium and long-term financing for a total of 36 million euro and cash and cash equivalents totaling 376 million, 187 million of which held by the parent company. The revolving credit line granted to Edipower S.p.A. in May 2012, amounting to 50 million euro, was extinguished on the repayment of the loan on December 31, 2013.

The following table analyses the worst case for financial liabilities (including trade payables) in which the amounts shown are undiscounted future nominal cash flows determined on the basis of residual contractual maturities for both principal and interest; they also include the undiscounted nominal flows of derivative contracts on interest rates.

Loans are generally included on the basis of their contractual maturity for repayment, whereas revocable loans have been considered redeemable at sight.

2013 - *Millions of euro*	**1-3 months**	**4-12 months**	**After 12 months**
Bonds	14	385	3,649
Payables and other financial liabilities	10	114	1,192
Total cash flows	**24**	**499**	**4,841**
Trade payables	434	56	2
Total trade payables	**434**	**56**	**2**

2012 - *Millions of euro*	**1-3 months**	**4-12 months**	**After 12 months**
Bonds	3	609	2,793
Payables and other financial liabilities	20	173	2,198
Total cash flows	**23**	**782**	**4,991**
Trade payables	378	42	9
Total trade payables	**378**	**42**	**9**

e. Credit risk

The Group's exposure to credit risk is principally linked to its sales activity. In order to control this risk, which is handled by the credit management function located centrally and relative departments in the operating companies, a credit policy has been implemented to regulate the assessment of customers' credit standing and grant extended credit terms or exceptions if necessary, possibly backed by suitable 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 no. 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. The situation can be understood better with the aid of the following analysis of gross trade receivables and the related bad debt provision.

Millions of euro	12 31 2013	12 31 2012
Trade receivables from third parties, gross	2,227	2,220
Bad debt provision (-)	(318)	(313)
Trade receivables	**1,889**	**1,907**
Of which:		
Past due from 9 to 12 months	**39**	**51**
Past due by more than 12 months	**362**	**348**

Trade receivables past due by more than 12 months amount to 362 million euro. The bad debt provision represents the estimated amount of receivables that are difficult to collect.

f. Equity risk

A2A S.p.A. was not exposed to equity risk at December 31, 2013.

At December 31, 2013, A2A S.p.A. held 26,917,609 treasury shares, representing 0.859% of the share capital consisting of 3,132,905,277 shares.

As prescribed by IAS/IFRS, treasury shares do not constitute an equity risk as their purchase cost is deducted from equity, and even if they are sold any gain or loss on the purchase cost does not have any effect on profit or loss.

g. Default and covenant risk

The following table sets out for the A2A Group amounts relating to bank borrowings and amounts due to other providers of finance, excluding financial payables relating to derivatives:

millions of euro	Book value 12 31 2013	Portion due within 12 months	Portion due after 12 months	Portion due by				
				12 31 2015	12 31 2016	12 31 2017	12 31 2018	After
Bonds	3,275	308	2,967	-	819	-	-	2,148
Finance lease payables	3	1	2	1	1	-	-	-
Financial payables to related parties	1	1	-	-	-	-	-	-
Bank loans	1,118	105	1,013	125	110	109	104	565
TOTAL	**4,397**	**415**	**3,982**	**126**	**930**	**109**	**104**	**2,713**

At December 31, 2013 the parent company had issued bonds to the public for a total nominal value of 2,811 million euro as follows: 299 million euro maturing in May 2014, 762 million euro maturing in November 2016; 750 million euro maturing in November 2019; 500 million euro maturing in January 2021; and 500 million euro maturing in January 2022. As noted earlier, on July 11, 2013 A2A repurchased portions of the bonds maturing in May 2014 and November 2016 for 201 and 238 million euro respectively. In addition, in December 2013 A2A issued a bond in the form of a private placement for 300 million euro which matures in December 2023.

The terms and conditions of these bond issues are in line with the market standard for this type of financial instrument.

All the bonds issued by A2A as part of the EMTN Programme (amounting in total to 2,050 million euro including the private placement of 300 million euro maturing in 2023) contain a change of control put clause in favor of investors for changes in control which lead to a resulting downgrading of the rating to sub investment grade in the following 180 days. If the rating returns to investment grade within the 180-day period the put option is not exercisable.

The loan agreements entered into with the European Investment Bank contain a credit rating clause guarding against a rating of below BBB- or equivalent level.

The loan agreements with the European Investment Bank (specifically for loans with original balances of 200 million euro expiring in 2025-2026, 95 million euro expiring in 2026, and 70 million euro, 50 million euro of which drawn down, expiring in 2027-2028) grant the bank the right, on providing notice to the company containing an explanation of the reasons, to invoke early repayment of the loan in the event of change in control of the parent company.

The agreement entered by the parent with UniCredit for a floating rate loan of 85 million euro expiring in June 2018, intermediated by the EIB, includes a credit rating clause that requires the company to maintain an investment grade rating throughout the duration of the loan. In the event of a breach of contract in this regard, there are, on an annual basis, a number of covenants to be respected based on the ratios of debt to equity, debt to gross operating income and gross operating income to interest expense.

There is also a credit rating clause in the agreements for the two loans from Cassa Depositi e Prestiti having original balances of 200 million euro and 95 million euro and expiring in 2025 and 2013 respectively, the latter entered into in June 2013, protecting against the company's rating falling below investment grade (BBB-).

In addition, the private bond issue in yen with a maturity of 2036 and the related cross-currency swap derivative include a put right clause in favor of the investor (and in favor of the financial counterparty in the derivative) in the event the rating should fall below BBB- (sub investment grade).

As mentioned above, the A2A Group has received various lines of revolving committed credit from a number of financial institutions for a total of 1,465 million euro (fully contractualized by A2A S.p.A.) which are not subject to covenants, with the exception of the revolving line of credit (currently unused) granted to A2A S.p.A. in April 2013 in the amount of 600 million euro having a duration of 5 years, whose terms include the requirement to respect an NFP/EBITDA covenant. The agreement for the credit line also 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 of the syndicate to request the facility to be extinguished and any amounts drawn down to be repaid.

The following can be found in the agreements for the bond loans, the loans mentioned above and the lines of revolving committed credit: (i) negative pledge clauses based on which the parent company undertakes not to set up, with exceptions, real guarantees on its assets and those of its direct subsidiaries over and above a certain threshold; (ii) cross default/acceleration clauses which entail immediate reimbursement of the bonds in the event of serious non-performance; (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain direct subsidiaries.

The loan to the subsidiary Abruzzoenergia S.p.A. is backed by a secured guarantee (mortgage) for a maximum of 264 million euro and the related agreement contains two covenants, NFP/Shareholders' funds and NFP/Gross operating income. Failure to meet one of these alone for two consecutive years requires the parties to meet and agree the means of remedying the situation. Both covenants were met at December 31, 2013.

Regarding the subsidiary EPCG, the agreement for a 35 million euro loan granted by the European Bank for Reconstruction and Development (EBRD), drawn down in the amount of 31 million at December 31, 2013, includes a number of financial covenants that were met at December 31, 2013.

As things currently stand no companies in the A2A Group have defaulted.

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.

More specifically:

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 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.
2) Transactions not qualifying for hedge accounting under IAS 39 can be analyzed between:
    a. Margin hedges: for all hedging transactions that meet internal risk policy compliance requirements, 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 financial derivatives is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on best industry practice and designed to limit the risk of the Group’s exposure to commodity price fluctuations, based on a cash flow hedging strategy.

Outstanding derivatives at December 31, 2013 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 have a forward pricing structure. In the absence of a forward market curve, fair value has been estimated internally using models based on best industry practice.

In determining fair value the A2A Group uses continuous discounting and for the discount rate uses a risk-free rate, identified as the Euro Overnight Index Average (Eonia) rate and represented in its forward structure by the Overnight Index Swap (OIS) curve. The fair value of cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IAS 39.

In accordance with the requirements of international accounting standard IFRS 13, the fair value of an OTCX financial instrument is calculated by considering the non performance risk. In order to quantify the fair value adjustment due to that risk, consistent with best market practice A2A has developed a proprietary model called the "Bilateral Credit Value Adjustment" (bCVA) which measures the changes in the creditworthiness of the counterparty and changes in its own creditworthiness.

The bCVA consists of two items added together which are calculated by considering the probability of insolvency of both counterparties, namely 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 this methodology did not lead to any changes in the fair value measurements.

Instruments outstanding at December 31, 2013

A) On interest and exchange rates

Millions of euro	Notional value (a) due within one year		Notional value (a) due between 2 and 5 years		Notional value (a) due after 5 years	Balance sheet carrying amount (b)	Progressive effect on the Income Statement loss at 12 31 2013 (c)
	to receive	to pay	to receive	to pay			
Interest rate risk management							
– hedging cash flows as per IAS 39 (cash flow hedges)	–	19	–	76	95	(16)	–
– not qualifying as hedges under IAS 39	–	–	–	807 (d)	–	27 (e)	27 (e)
Total interest rate derivatives	**–**	**19**	**–**	**883**	**95**	**11**	**27**
Exchange rate risk management							
– qualifying as hedges under IAS 39							
On commercial operations	–	–	–	–	–	–	–
On financial operations	–	–	–	–	98	(15)	–
– not qualifying as hedges under IAS 39							
On commercial operations	–	–	–	–	–	–	–
On financial operations	–	–	–	–	–	–	–
Total exchange rate derivatives	**–**	**–**	**–**	**–**	**98**	**(15)**	**–**

(a) This represents the sum of the notional values of the elementary contracts that derive from any dismantling of complex contracts.
(b) This represents the net receivable (+) or payable (-) shown in the balance sheet/income statement after measuring the derivatives at fair value.
(c) This represents the adjustment of derivatives to fair value recognized over time in the income statement from stipulation of the contract to the present date.
(d) Includes derivative instruments with underlying bond worth 762 million euro, maturing in 2016, and an IRS with notional value of 762 million euro, with no economic effect, as a result of the fair value measurement. Hedges and three collars with a notional value of 762 million euro, not qualifying as hedges under IAS 39.
(e) Includes the effect on the collars, with overall notional value of 762 million euro, not qualifying as hedges under IAS 39.

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.

Energy product price risk management	Unit used for measuring notional value	Notional value due within 1 year	Notional value due within 2 years	Notional value due within 5 years	Balance sheet carrying amount (*) (millions of euro)	Progressive effect on Income Statement loss (**) (millions of euro)
A. Cash flow hedges as per IAS 39, including:					***(0.1)***	**–**
– Electricity	TWh	7.8	0.6		0.2	
– Oil	Bbl	–	–	–	–	–
– Fuel oil	Tonnes	–	–	–	–	–
– Natural gas	Millions of cm	–	–	–	–	–
– Exchange	Millions of dollars	–	–	–	–	–
– Emission rights	Tonnes	145,700	2,000	–	(0.3)	
B. Qualifying for fair value hedge accounting under IAS 39		**–**	**–**	**–**	**–**	**–**
C. Not qualifying as hedges under IAS 39, including:					***7.6***	***(4.5)***
C.1 Margin cover					**–**	***0.8***
– Electricity	TWh	4.2	–		–	0.7
– Oil	Bbl	–	–	–	–	–
– Fuel oil	Tonnes	–	–	–	–	–
– Natural gas	Millions of cm	–	–	–	–	–
– CO_2 emission rights	Tonnes	10,000			–	0.1
– Exchange	Millions of dollars	–	–	–	–	–
C.2 Trading operations					***7.6***	***(5.3)***
– Electricity	TWh	26	1.9		5.6	(6.2)
– Natural gas	TWh	4.7			(0.1)	0.1
– CO_2 emission rights	Tonnes	2,030,000	24,000		(0.8)	(0.8)
– Environmental certificates	MWh	29,555			2.9	1.6
Total					**7.5**	**(4.5)**

(*) 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 the stipulation of the contract to the present day.

Balance sheet and income statement effects of derivative trading at December 31, 2013

The following table sets out the balance sheet figures at December 31, 2013 arising from the management of derivatives.

Effect on the balance sheet

Millions of euro	Note	
ASSETS		
Non-current assets		**43**
Other non-current assets - Derivatives	5	43
Current assets		**31**
Other current assets - Derivatives	8	31
Total assets		**74**
Liabilities		
Non-current liabilities		**47**
Other non-current liabilities - Derivatives	21	47
Current liabilities		**24**
Trade payables and other current liabilities - Derivatives	22	24
Total liabilities		**71**

Effect on the income statement

The following table sets out the income statement figures for the year ended December 31, 2013 arising from the management of derivatives.

Millions of euro	Note	Realized during the year	Change in fair value during the year	Amounts recognized in comprehensive income
REVENUES	27			
Revenues from the sale of goods				
Energy product price risk management and commodity currency risk management				
– qualifying for hedge accounting under IAS 39		–	–	–
– not qualifying for hedge accounting under IAS 39		10	10	20
Total revenues from sales		**10**	**10**	**20**
OPERATING EXPENSES	28			
Expenses for raw materials and services				
Energy product price risk management and commodity currency risk management				
– qualifying for hedge accounting under IAS 39		8	–	8
– not qualifying for hedge accounting under IAS 39		(7)	(15)	(22)
Total expenses for raw materials and services		**1**	**(15)**	**(14)**
Total recognized in gross operating income (*)		**11**	**(5)**	**6**
FINANCIAL BALANCE	34			
Financial income				
Interest rate risk management and equity risk management				
Gains on derivatives				
– qualifying for hedge accounting under IAS 39		–	–	–
– not qualifying for hedge accounting under IAS 39		24	20	44
Total		**24**	20	**44**
Total financial income		**24**	20	**44**
Financial expense				
Interest rate risk management and equity risk management				
Charges on derivatives				
– qualifying for hedge accounting under IAS 39		(7)	–	(7)
– not qualifying for hedge accounting under IAS 39		–	–	–
Total		**(7)**	**–**	**(7)**
Total financial expenses		**(7)**	**–**	**(7)**
TOTAL RECOGNIZED IN THE FINANCIAL BALANCE		**17**	**20**	**37**

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

Classes of financial instruments

To complete the analyses required by IFRS 7, 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, 2013, where applicable.

Millions of euro	Accounting policies used to measure financial instruments in the financial statements							
	Note	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Share-holdings/ securities convertible into unlisted shareholdings valued at cost	Consolidated balance sheet at 12 31 2013	Fair value at 12 31 2013 (*)
		Income Statement	Net Equity					
		(1)	(2)	(3)	(4)	(5)		
ASSETS								
Other non-current financial assets								
Shareholdings/ securities convertible into shares available for sale, consisting of:								
- unlisted				9			9	n.a.
- listed							-	-
Held-to-maturity financial assets							-	-
Other non-current financial assets					44		44	44
Total other non-current financial assets	**3**						**53**	
Other non-current assets	5	43			10		53	53
Trade receivables	7				1,889		1,889	1,889
Other current assets	8	31			352		383	383
Current financial assets	9				107		107	107
Cash and cash equivalents	11				376		376	376
Assets held for sale								
LIABILITIES								
Financial liabilities								
Current and non-current bonds	18 and 23	819			2,456		3,275	3,275
Other current and non-current financial liabilities	18 and 23				1,122		1,122	1,122
Other non-current liabilities	21	16	31		389		436	436
Trade payables	22				1,306		1,306	1,306
Other current liabilities	22	24			542		566	566

(*) 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 at fair value through income statement.
(2) Hedging derivatives (cash flow hedges).
(3) Available-for-sale financial assets measured at fair value through equity.
(4) Loans and receivables and financial liabilities measured at amortized cost.
(5) Available-for-sale financial assets consisting of unlisted shareholdings whose fair value is not reliably measurable are measured at the lower of cost less any impairment losses and fair value.

Fair Value hierarchy

IFRS 7 requires 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 sets out three levels of fair value:

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

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

Millions of euro	Note	Level 1	Level 2	Level 3	Total
Available-for-sale assets measured at fair value	3	–	9	–	**9**
Other non-current assets	5	–	43	–	**43**
Other current assets	8	28	3	–	**31**
TOTAL ASSETS		**28**	**55**	**–**	**83**
Non-current financial liabilities	18	–	819	–	**819**
Other non-current liabilities	21	–	47	–	**47**
Current financial liabilities	23	–	–	–	**–**
Other current liabilities	22	29	–	(5)	**24**
TOTAL LIABILITIES		**29**	**866**	**(5)**	**890**

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	Change in the parameter	Sensitivity (Millions of euro)
Commodity derivatives	Probability of default (PD)	1%	(0.01)
Commodity derivatives	Loss given default (LGD)	25%	(0.00)
Commodity derivatives	Volatility underlying foreign interconnection capacity	1%	(0.11)
Commodity derivatives	Correlation underlying foreign interconnection capacity	1%	(0.01)
Commodity derivatives	Underlying zonal IDEX interconnection capacity	1%	(0.03)

5) Concessions

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

	Number
Hydroelectric concessions	75
District heating concessions	10
Electricity distribution concessions	48
Gas distribution concessions	209
Urban solid waste (“SUW”) concessions (*)	86
Water service management concessions (**)	114
Public lighting and traffic light network management agreements	13
Other concessions	15

(*) Agreements can relate to the disposal and treatment of SUW, the construction, running and safety of landfills or waste to energy.
(**) Concessions may regard the sale and distribution of drinking water or water purification and sewage services.

6) Update of the main legal and fiscal disputes pending

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

EC infringement procedure

On June 5, 2002, the European Commission published Decision no. 2003/193/EC stating that the three-year exemption from income tax provided by article 3.70 of Law no. 549/95 and article 66.14 of Decree Law no. 331/1993, converted into Law no. 427/93, is incompatible with community law, considering this to be "State aid" which is prohibited by article 87.1 of the EC Treaty.

The Company appealed against this decision before the community jurisdictions but these appeals were rejected. The Italian State went ahead with the recovery of the aid in three separate stages, issuing different orders for the various tax period concerned.

The process followed by the various community and national appeals was described in the financial statements up until 2012 and in the quarterly reports up until the third quarter of 2013, to which reference is made for brevity.

All the amounts requested for the principal and interest have been settled to avoid any executive action.

The situation regarding pending matters is as follows:

- Sentence regarding the "First recovery". The verdict has been finalized following the sentence of the first instance rejecting the Company's appeal.
- Sentence regarding the "Second recovery". Following the adverse sentence of the Regional Tax Commission the Company has filed an appeal with the Supreme Court. The case is awaiting discussion.
- Sentence regarding the "Third recovery". Following the adverse sentence of the Regional Tax Commission the Company filed an appeal with the Supreme Court. The appeal was discussed on November 14, 2013 before the Tax Section. By way of an ordinance published on February 13, 2014, the court suspended the case and ordered that the records be passed to the Court of Justice, raising a question of a preliminary ruling pursuant to article 267 of the Treaty of the Functioning of the European Union concerning the way in which the interest due on the recovery of the aid should be calculated.

As of today, therefore, the question concerning the quantification of the interest due on the amounts to be recovered is still pending (whether the interest is compound or simple interest). On this point an opinion has been requested of the EC Court of Justice and it is considered that the result of this will affect the proceedings on both the third and the second recovery. As all the amounts requested have been settled, it is believed that once the pending disputes are completed the Company should not have to bear any further costs for the recovery of State aid.

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

The purchase by BAS S.p.A. of the investment in HISA was made through a local consultant, Consul Latina.

Given that the wording of the contract was not totally clear and the fact that BAS S.p.A. on its own did not buy 100% of HISA, BAS S.p.A. held that the contractual clause was not applicable and that the payment request made by Consul Latina was unjustified, and accordingly did not pay the fee due to Consul Latina which in 1998 commenced legal action for payment.

The lawsuit is still in underway with various procedural objections which have always been resolved in favor of A2A S.p.A..

The international rogatory notification was sent on July 30, 2010 with the request that A2A S.p.A. be formally questioned about the evidence formulated by the Buenos Aires Court; the hearing was held on September 17, 2010. The evidence was sent to the Buenos Aires appeal court for its judgment.

The lawyers representing A2A S.p.A. believe that the testimony provided by the company was positive but are unable to estimate a date for the issuing of a sentence nor are they able to forecast the outcome of the litigation.

In February 2010, A2A S.p.A. renewed the lawyers' mandate to find a way of settling the original lawsuit brought by Consul Latina and take the necessary steps to revoke the lien filed by Consul Latina on HISA's subsidiaries. At the end of September 2011 the legal team advised of a proposed settlement submitted by Consul Latina for US$ 3.9 million, however without documenting the actual terms. A2A S.p.A. communicated that this would not be acceptable, confirming its availability to settle for up to US$ 750 thousand. In June 2013, A2A S.p.A.'s lawyers advised that under instruction from HISA's current shareholders, Aseguradores de Cauciones S.A. intends to request a guarantee from A2A S.p.A. in the form of a deposit regarding the obligation to pay Consul Latina, with HISA's present shareholder as the beneficiary. Checks are currently taking place.

ENEL/AEM Elettricità S.p.A. (now A2A Reti Elettriche S.p.A., a subsidiary of A2A S.p.A.)

By means of a writ served in 2001, ENEL requested annulment of the decision made by the Board of Arbitrators appointed in accordance with Decree no. 79 of March 16, 1999 (the

“Bersani Decree”), which set at 820 billion lire the price to be paid to ENEL for the sale to AEM Elettricità S.p.A. (now A2A Reti Elettriche S.p.A.) of the power distribution business in the municipalities of Milan and Rozzano. AEM Elettricità S.p.A. asked for ENEL’s request to be rejected, as the arbitrators’ decision could not be considered manifestly unfair or erroneous in accordance with article 1349 of the Italian civil code. AEM Elettricità S.p.A. in turn filed a counter-claim asking for ENEL to be sentenced to pay compensation for the damages caused by the delay with which ENEL implemented the sale of the business, as imposed by the law.

The Court-appointed expert witness carried out a detailed review of the situation, making numerous adjustments, and in the end established a figure of 88 million euro as the upper value of the business, net of damages which the expert recommended should be awarded to AEM Elettricità S.p.A..

With a sentence published on June 9, 2008, the Court of Milan accordingly recalculated the price of the business on the basis of the figure indicated by the Court-appointed expert witness (990.8 billion lire) and on the other hand rejected the claim for damages made by AEM Elettricità S.p.A..

The judge also rejected the claim made by AEM Elettricità S.p.A. for damages caused by the delay in transferring the business. In fact, according to the judge, ENEL was justified in not transferring the business as the price was unfair.

A2A S.p.A. believes that objections can be made to this sentence.

A settlement agreement was signed with the counterparty in 2009 for any costs to be paid on an instalment basis, to avoid the risk for the company to have to pay a large amount in a lump sum.

When preparing the 2009 Annual report, it was decided in the interests of prudence to maintain the book value of 88 million euro recognized for goodwill already disclosed as a balance sheet asset for the business transferred, booking a counter-entry to a provision for risks and charges (under liabilities) of the same amount and recognizing ancillary charges of 24 million euro in the same way.

As a result of the need to reorganize the rolls, the case was rescheduled and the hearing for the statement of the conclusions, originally planned for April 5, 2011, was deferred to September 18, 2012.

On this date, the parties detailed their respective conclusions and subsequently exchanged final statements and rejoinders. The Court adjourned the case and set aside its decision until January 15, 2013. On this date, it issued a decision to resume the preliminary cross examination and renew the mandate of the court-appointed expert. The expert's assigned task was to measure the damage caused by the delay suffered by AEM, believing "to have merit the claims made by the appellant (A2A S.p.A., editor's note) as regards measuring the value of the transfer of the business unit as determined by the court of first instance, as well as regarding disallowance of the damages due to the delay in the aforementioned transfer".

Prof. Adriano Propersi was appointed by the court to act as its expert, while A2A S.p.A. designated Prof. Angelo Provasoli as its own expert witness. Prof. Propersi had until January 20, 2014 to file his report and the hearing for subsequent discussion was set for March 25, 2014 with the personal appearance of the parties in a further attempt to reach a settlement.

On March 18, 2014 the parties signed a settlement agreement under which ENEL will refund 89.5 million euro to A2A Reti Elettriche S.p.A.. This agreement ends the dispute between the parties on a final basis.

Investigation into gas metering devices

An investigation is pending at the Public Prosecutor's Office in Trento concerning the way that gas consumption is accounted for. The investigation involves, among others, a number of A2A Group companies and some of their directors and managers The alleged offence is fraud, as well as other matters.

The investigation was initiated by the Milan Judicial Authority but then transferred to Brescia for a question of territorial jurisdiction. After notification of the "Notice of the Conclusion of Preliminary Investigations - article 415-bis of the Italian Criminal Procedure Code" dated February 7, 2011, the "Notice of the Preliminary Hearing Date" was received on June 9, 2011 regarding the committal for trial presented by the Public Prosecutor. The preliminary hearing was held before the judge in charge of the preliminary investigations (Gip) on November 8, 2011. The defense for the accused raised a preliminary exception claiming that the notification of the decree containing the "Notice of the Preliminary Hearing Date" was null and void, given that it did not include the CD with the list of "indicted" meters indicated in the decree as an "attachment forming a material part of the charge". The Gip upheld the exception and declared the notification null and void. As a result, the Public Prosecutor had to reissue the "Notification of the Conclusion of Preliminary Investigations - article 415-bis of the Italian Criminal Procedure Code" and return to the previous stage in the proceedings. On January 4-9, 2012, the "Notification of the Conclusion of Preliminary Investigations - article 415-bis of the Italian Criminal Procedure Code" was reissued, this time with the CD.

The preliminary hearing was held on October 18, 2012, at which the judge raised a preliminary exception pursuant to article 11 of the criminal procedure code noting that at least two magistrates, whose judicial offices are included within the district of the Brescia

Appeal Court, are “injured parties” in the proceeding and asked the judge in charge of the preliminary hearing (Gup), Dr. Napo, to declare that the Brescia judicial authority was acting beyond its jurisdiction. The defense agreed with the application. The Gup therefore declared that the case was beyond his jurisdiction and ordered the papers to be sent to the Public Prosecutor’s Office of Venice. As a result of this provision the proceeding has returned to the initial stage.

However, as A2A Reti Gas S.p.A. had to carry out maintenance on certain plants sequestered as part of the criminal proceeding in question, checks were carried out to identify the prosecuting magistrate in charge of the case at the Public Prosecutor’s Office of Venice. It was learned from this that without giving notice of such to any of the attorneys of the persons under investigation or to those persons themselves, in the meantime the proceeding had been transferred from the Public Prosecutor’s Office of Venice to that of Trento. At the present moment, therefore, the proceeding, assigned index no. 838/2013, is being followed by the Trento Court, and is still at the initial stage of preliminary investigations.

Arbitration initiated by Ecovolt for violation of the Quotaholders’ Agreement for the Investment in Ostros Energia S.r.l. in liquidation (arbitration case no. 6309 initiated by Ecovolt)

On May 25, 2009 the minority quotaholders of Ostros Energia S.r.l. in liquidation initiated arbitration proceedings under a settlement clause contained in the Investment Agreement signed with ASM S.p.A. (now A2A S.p.A.) on January 30, 2007, with a view to establishing a breach of that agreement by A2A S.p.A. for having failed to finance the development of Ostros Energia S.r.l. in liquidation and comply with the provisions of article 2.5 of the Agreement.

The Board of Arbitration is made up of Prof. N. Irti, Prof. G. Sbisà and Prof. M. Cera. During the first meeting on March 4, 2010, convened to make the obligatory attempt at reconciliation, noting the absence of the parties the Board took note that the conditions did not exist for a settlement and scheduled the hearing to cross-examine the parties for April 26, 2010, to this end inviting their legal representatives or informed persons with right of attorney to attend. The Board also established November 20, 2010 as the deadline to conclude the arbitration proceedings.

Following the aforementioned cross-examination hearing the board issued order no. 6309/20 on June 3, 2010 requesting the Chamber of Arbitration to appoint an expert assessor to qualify the difference between the projects mentioned in the January 31, 2007 Investment Agreement, in particular the San Biagio project, and those included in the “Baltic agreement”.

In an order of the Board of Arbitrators of July 1, 2010, Deutsches Windenergie GmbH Institute Branch DeEI Italia was appointed as expert assessor; subsequently, the Board scheduled a hearing for September 23, 2010 to confirm the arbitration question and determine the dates when the appraisal would commence (October 15, 2010) and when the final report would be due (January 10, 2011), and also to allow the parties involved to appoint their own expert advisors.

At this hearing, A2A S.p.A. appointed the firm D'Apollonia as its expert advisor and Ecovolt appointed Prof. Zaninelli.

On September 28, 2010 the Chamber of Arbitration notified that the expert which it had appointed with the above order had withdrawn from the case.

In a letter dated October 13, 2010, the Chamber of Arbitration gave notice of order 1611/21 issued on October 12, 2010 in which Prof. Villacci of the University of Sannio was appointed as the new expert. On December 23, 2010, the expert made an application to the Arbitrators to obtain an extension of the deadline established for the filing of the expert's report until February 25, 2011. The deadline was further extended to April 6, 2011.

On receipt of the expert's report, the Board set the term for the parties to submit their respective statements and the last statement was filed on June 24, 2011. The Board then invited the parties to come to a settlement but the exchange of correspondence in this regard did not alter the positions of the parties.

The Board of Arbitrators requested an extension of the term to submit the award which was set for May 20, 2012, and established October 6, 2012 as the date for the hearing, in the presence of the lawyers and the technical experts.

The Board of Arbitrators set December 14, 2011 as the date for the obligatory attempt at achieving a settlement, and a few days prior to this date Ecovolta filed a new opinion by an external third party with no relation to the arbitration procedure in an attempt to quantify the damage caused by A2A S.p.A.'s conduct.

During the hearing the arbitrators listened to the parties and communicated that no new measures or orders would be passed until January 15, 2012. On December 19, 2011, Ecovolt's lawyers wrote to A2A S.p.A.'s lawyers to remind them of the limited time available to assess any settlement solutions.

A2A S.p.A.'s lawyers replied in writing that the company was willing to reach an agreement, with no recognition of responsibility whatsoever, to pay the all-inclusive and non-modifiable sum of 500,000 euro in exchange for Ecovolta's agreement to withdraw all claims of any kind.

The Arbitration Board appointed Prof. Mario Massari as the new expert witness on February 2, 2012, establishing multiple requisites to determine the value of the shareholding in Ostros Energia S.r.l. in liquidation held by Ecovolt at December 31, 2008. After lengthy discussion at the subsequent hearing on February 14, 2012, Ecovolt appointed Prof. Brugger as the expert witness and A2A S.p.A. appointed Prof. Dallocchio; the deadline to submit the expert's report taking these expert opinions into account was set for June 15, 2012.

Following an application by the expert witness Prof. Massari, at the end of the pleading and meetings of the consultants a hearing was held in which the Board provided further clarification of the questions raised and the deadlines for the expert witness's work was extended: June 15, 2012 for the filing of the first expert witness's report, June 29, 2012 for observations to be provided to the parties' expert witnesses and July 16, 2012 for the filing of the final report.

On July 24, 2012, Ecovolt formulated additional preliminary petitions and on July 30, 2012, subsequent to the filing of Prof. Massari's expert report, A2A revised the settlement offer it had previously drawn up.

On July 31, 2012, the Board issued an independent order to set September 25 as the last date for the parties to file their remarks to the expert's report; the parties respected this deadline.

On October 5, 2012, the Chamber of Arbitration set October 16, 2012 as the hearing date for discussions.

At the October 16, 2012 hearing, the deadline for filing the decision was postponed further to May 20, 2013; the deadlines for filing each parties' briefs were set respectively at October 31, 2012, December 1, 2012, January 31, 2013 and the final hearing was set as February 14, 2013. During the hearing, following the discussion by the parties' attorneys, the Board reserved the right to issue an order and demanded and obtained an extension of the deadline for filing its decision; pursuant to article 36 of the regulations of the Chamber of Arbitration, the deadline for filing was set at June 28, 2013. On June 11, 2013 the Board filed its decision, sent by the Chamber of Arbitration in a note of June 14, 2013, in which (i) it upheld the first request raised by Ecovolt to order A2A S.p.A. to pay the consequential loss arising from the damage to the value of the investment of Ecovolt in Ostros Energia S.r.l. in liquidation, quantifying this in 2.84 million euro on the basis of the expert's report, (ii) rejected the other requests of Ecovolt and all the requests of A2A S.p.A. and (iii) awarded legal expenses, taking into account that both parties had partially lost. The total cost, including interest through June 15, 2013 and the principal amounts to approximately 3.14 million euro. A2A S.p.A. has made this payment with the reservation of further action and the repayment of the amount paid.

The Company is represented by the legal firm Chiomenti.

Arbitration initiated by S.F.C. S.A. and Eurosviluppo Industriale S.p.A. against A2A S.p.A. and E.ON Europa S.L. for alleged non-fulfillment of the private deed for the purchase of the shares of Eurosviluppo Industriale S.p.A. (now Ergosud S.p.A.)

On May 2 and May 3, 2011 respectively, the Milan Arbitration Chamber sent A2A S.p.A. (the holder of an interest of 50% in the share capital of Ergosud S.p.A.) and E.ON Europa S.L. a request for arbitration in which Société Financiere Cremonese S.A. in conjunction with Eurosviluppo Industriale S.p.A. initiated an arbitration procedure against such companies, requesting (i) ascertainment as to non-fulfillment by E.ON Europa S.L. and A2A S.p.A. of the obligations assumed in the agreements of December 16, 2004, October 15, 2004 and July 25, 2007 inter partes and (ii) by virtue of the effect, that they be ordered to pay the remaining part of the price for the sale of the shares making up the whole share capital of Ergosud S.p.A., amounting to 10,000,000 euro, as well as compensation for the damages suffered by Société Financiarie Cremonese S.A. and Eurosviluppo Industriale S.p.A. from the double standpoint of the consequential loss or damage and loss of profits in the amount of 126,496,496 euro, save better specification, plus damages for the stoppage at the worksite, interest and revaluation.

E.ON Europa and A2A S.p.A. duly appeared before the court calling for the request to be rejected in full and by cross-claim calling for the counterparts to be condemned to pay compensation for the damages suffered by the defendants as the result of the numerous examples of contractual non-fulfillment, quantified initially in the amount of 30,500,000 euro, or alternatively the greater or lesser sum considered equitable, quantified also pursuant to article 1226 of the Italian civil code, plus interest, ex article 1283 of the Italian civil code and monetary revaluation, ex article 1284 of the Italian civil code.

On September 7, 2011, the Chamber of Arbitration officially suspended arbitration due to the non-payment of the legal expenses by the claimant.

Lawyers for A2A S.p.A. and E.ON Europa S.L. verified whether arbitration can be continued only for the counter-claim without having to take responsibility for the payment of the claimant's expenses.

With regard to payment of the legal fees by defendants A2A S.p.A. and E.ON Europa S.L., and the non-payment by claimants SFC S.A. and Eurosviluppo Industriale S.p.A., on December 2, 2011 the secretary of the Chamber of Arbitration communicated that the claimants' applications had been extinguished and proceedings would continue only for the applications presented by A2A S.p.A. and E.ON Europa S.L.; in simultaneous letters, the secretary also advised that all documentation had been sent to the arbitrators to allow the proceedings to commence.

The Board consists of Giuseppe Portal (Chairman), Vincenzo Mariconda (arbitrator appointed by A2A S.p.A. and E.ON Europa S.L.) and Giovanni Frau (arbitrator appointed by SFC S.A. and Eurosviluppo Industriale S.p.A.).

On February 1, 2012 the first hearing was held after formalities had been completed regarding the setting up of the Board at which it was stated that the terms for the questions originally proposed by SFC S.A. and Eurosviluppo Industriale S.p.A. had lapsed. In addition, the parties were assigned the dates by which pleading and replies should be filed and items of evidence produced. In particular, having become claimants from a substantial standpoint (wishing to continue with the case by counter-claim following the above-mentioned lapse of the counter-party's terms), E.ON Europa S.L. and A2A S.p.A. were invited to note their questions and indicate their evidence by March 15, 2012; the subsequent dates for filing pleading were set as April 16, 2012, May 8, 2012 and May 31, 2012.

The date of the next hearing was set for June 12, 2012 for the personal appearance of the parties in order to make an attempt at reaching a settlement and for any informal questioning. At the hearing, adjourned to June 19, 2012, the Arbitration Board acknowledged the bankruptcy of Eurosviluppo Industriale S.p.A. which had occurred and set a date of October 30, 2012 for the appointment of a receiver and a date of November 20, 2012 for the hearing for the attempt to reach a settlement and carry out any informal questioning of the parties.

In view of the intervening bankruptcy of Eurosviluppo Industriale and the process issues raised during such declaration, the Board issued a decision dated November 13, 2012 ordering that the hearing set for November 20, 2012 should not be devoted to an attempt at reaching a settlement and, therefore, would not include the presence of the parties. At the hearing on November 20, 2012, the Board set the deadline for filing the award as July 4, 2013; also, the deadlines for the parties to file briefs were set as December 20, 2012 and January 31, 2013, and February 20, 2013 was set for the hearing date for discussion, to be held at the office of the Chairman of the Board. At the hearing of February 22, 2013 (the hearing was adjourned from February 20 to February 22 due to a commitment of the Chairman of the Arbitration Board), the Board issued an order requesting A2A S.p.A. and E.ON Europa S.L. to add to their respective attorneys to remedy all possible defects by March 20, 2013, and set March 20, 2013 and April 5, 2013 as the new final dates for the filing of briefs and replies to clarify and explain their respective positions. Subsequent to these obligations, the Board reserved the right to issue an order. On June 5, 2013, the Board filed an order in which it set July 22, 2013 as the date of the hearing for an attempt to reach a settlement and for questioning by the parties; given the deadline of July 4, 2013 previously set for the filing of the decision, the Board made an application to the Chamber for the granting of a reasonable extension.

At the end of the hearing of July 22, 2013, in which the questioning by the parties took place and the absence of the conditions for reaching a settlement was confirmed, the Chamber set a deadline of September 30, 2013 for filing documents and drawing up preliminary motions and October 21, 2013 for any submissions in reply from the lawyers. On October 2, 2013 the Chamber of Arbitration noted that S.F.C. S.A. and the bankruptcies had not paid the contributions requested in July and as of today the proceeding is suspended. On October 23, 2013, S.F.C. S.A., in breach of the terms of the arbitration and the question raised by the Arbitration Board, filed an appraisal arranged on its behalf having technical content. As of today the Arbitration Board has not yet set the date for a new hearing.

The company is represented by the legal firms Chiomenti and Simmons & Simmons.

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

On May 27, 2011 Consorzio Euroviluppo 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 currently 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.

The first hearing was set for October 30, 2011. This judgment was assigned to the Second Civil Section of the Court. The first appearance hearing was set for November 30, 2011 and the judge deferred decision concerning the legitimacy of the failed Consortium to establish a case.

On this occasion Ergosud S.p.A. and A2A S.p.A. were not able to make any cross-claims as the competence for this lies with the bankruptcy judge.

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 legitimacy of S.F.C. S.A. is independent with respect to that of the Consortium, the original claimant, and should it be found that the request of the Consortium may not proceed further for lack of grounds (or because of the bankruptcy that has occurred), the judgment would continue between S.F.C. S.A. and Ergosud S.p.A.. In this scenario, A2A S.p.A. could ask to be excluded since no request would have been raised against the company, but for the purpose of simplicity the judge would probably remit the question to the final sentence.

Within the term set for the first hearing the lawyers formulated conclusions on behalf of Ergosud S.p.A. in respect of the request made by S.F.C. S.A., then counter-claiming in a more complete manner in the subsequent preliminary pleading pursuant to article 183, section VI of the civil procedure code.

The judge found the bankruptcy was legitimate as S.F.C. S.A. and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion on a number of points, indicating the questions to put to the expert and 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. The start of the experts' work was scheduled as June 18, 2013, with a deadline of 180 days after that date. A2A S.p.A. and Ergosud S.p.A. appointed Prof. Massardo and Mr. Gioffrè as their experts, persons who over the years have already drawn up reports on the matters to which the questions refer. The deadline for the expert's filing has been postponed.

The company is represented by the legal firm Simmons & Simmons.

CIP 6 auxiliary services

This matter regards the usage of electricity for auxiliary services. According to the Authority for Electricity, Gas and Water (AEEGSI), self-consumption by certain types of plant (waste to energy plants) should be considered in the same way as consumption for auxiliary services.

A2A Ambiente S.p.A. (formerly Amsa S.p.A.)

In the CIP 6 convention entered into by A2A Ambiente S.p.A. (formerly Amsa S.p.A.), which has now expired, electricity consumption for auxiliary plant services was set at a flat 5% of gross output. Under the convention this value "can be updated ..... on the basis of jointly defined technical inspections". A2A Ambiente S.p.A. (formerly Amsa S.p.A.) received an inspection from the Electricity Sector Equalization Fund (CCSE) at the Milan waste to energy plant on December 19, 2006. The visit led to a note issued by the CCSE (September 19, 2007) which claimed that the consumption of electricity for auxiliary services was higher than the flat rate set at 5% and quantified this instead as lying in a range of between 16% and 23%. There are no further developments. Although the CCSE inspection was known for some time, the possibility that this could create potential liabilities only emerged when it was learnt that the AEEGSI had taken measures against other companies. It is not, however, possible to estimate the potential liability on a reliable basis, although in the worst case the maximum liability could be around 40 million euro. Nevertheless valid defensive objections could be raised to support the validity of the figure set in the convention, given the specific nature of the plants and the waste to energy plant in question, or in any case a figure close to this, with the consequent elimination of the estimated liability or at least a considerable decrease in the balance. Given the above arguments, the company believes that as of today the liability is possible but not probable. As a consequence, no amounts have been provided for this matter at December 31, 2013. As a secondary point it is noted further that Amsa S.p.A. has joint responsibility due to the partial demerger of the business consisting of the plant in favor of A2A Ambiente S.p.A. and the possibility of being able to obtain partial compensation of any cost by way of contractual clauses.

In the case of requests of the kind that have been made to the companies of the former Ecodeco Group, it should be noted that Amsa S.p.A. will be able take action with the municipality to request the reimbursement of the portion of the fees for the urban hygiene service contract retained by the municipality contractor in application of article 8, paragraph 3b, according to which "The fee due from January 1, 2010 will be calculated definitively on the basis of the following: ….. b) the amounts which Amsa expects to bill on a two-monthly basis for the sale of electricity produced from the waste of Milan, which should be deducted from the fee". In this respect in previous circumstances Amsa S.p.A. had already called for the activation of contractual clauses for requests for refunds, then effectively upheld by the municipality by calculating contractual settlement amounts in relation to reductions in electricity revenues arising from the avoided fuel cost component.

A2A Ambiente Group (formerly the Ecodeco Group)

Ecolombardia 4 S.p.A. received an inspection from the GSE (Energy Services Manager) in September 2011. A note dated January 4, 2012 followed, stating that the consumption of electricity produced by the plant and absorbed by its auxiliary services exceeded the agreed flat quantity. A dispute was raised against this note with the request for a review. On October 10, 2012, the AEEGSI disputed electricity usage as exceeding the flat quantity, with the conclusion that the CIP 6 incentives were paid for quantities of energy exceeding those put into the grid and that the excess should be recovered. The company filed an appeal with the Regional Administrative Court of Milan. The application for cautionary suspension was upheld. On January 14, 2014 the appeal was taken by the court under advisement.

A2A Ambiente S.p.A. (formerly Ecodeco S.r.l.) received an inspection on its waste to energy plant and biogas plants at Corteolona (May 10-11, 2012 and July 5-6, 2012). The findings of the inspection team were the same as those noted for the Ecolombardia 4 S.p.A. plant, namely that the consumption attributable to the auxiliary plant services is higher than that indicated in the CIP 6 convention. On June 21, 2013, the AEEGSI issued a notification similar to that received by Ecolombardia 4 S.p.A. which instructed the CCSE to take action against A2A Ambiente S.p.A. (formerly Ecodeco S.r.l.) for the recovery of the excess. The request from the CCSE then arrived. The company appealed. The case was discussed at a hearing of January 14, 2014 and the appeal was taken by the court under advisement.

The following considerations may be made with respect to the above two disputes. Two sentences have recently been issued by the Regional Administrative Court in question on the matter (Section III nos. 580/14 and 592/14). More specifically, Sentence no. 580/14 rejected the claims hinging on the necessary respect of the contractual information, the same claims that are at the basis of the appeals filed by A2A Ambiente S.p.A.. These new facts imply the need to change assessment. It is now believed that losses relating to the above two proceedings should be considered to be of a probable nature. Although considering the possibility of filing appeals with the Council of State, the companies in question have made suitable provisions in the financial statements at December 31, 2013 commensurate with the estimated probable liability.

Giussago bioreactor

The Municipality of Casarile (together with other municipalities) appealed against the Lombardy Region and the Province of Pavia to obtain the cancellation of the integrated environmental authorization (AIA) and (positive) environmental impact assessment (VIA) measures issued by the bodies regarding the building of a bioreactor (by A2A Ambiente S.p.A.) for non-hazardous waste in Cascina Maggiore - Giussago (PV). The appeal proposed subsequent additional reasons to extend the appeal to other acts relating to the proceedings and broaden the list of bans. The Province of Milan intervened voluntarily in the case to support the claims of the Municipality of Casarile. Following the hearing on December 5, 2011, where the application for interim relief submitted by the municipalities was also discussed, ordinance no. 1818 of December 6, 2011 was initially pronounced and then Sentence no. 67 of January 11, 2012 was published. This sentence rejected the appeal in the part directed against the positive VIA measure in that it was late. The Regional Administrative Court (TAR) therefore ruled that verification procedures were required to decide the portion of the challenge raised against the AIA. The judge instructed the "Manager of the Environmental Assessment Department of the Ministry for the Environment" (or "a qualified official delegated by such") to carry out these procedures and present a conclusion "within 90 days of the notification or the communication by administrative means" of the sentence. A2A Ambiente S.p.A. appointed Prof. Adami of the

Polytechnic as its advisor. The discussion of the appeal was set for November 20, 2012. The appraisal report was filed on July 6, 2012 and in summary this confirmed that:

1. the sureties are sufficient by law;
2. the waste is not putrescent;
3. the coverage is effective.

These elements/assessments are in agreement with the position taken by A2A Ambiente S.p.A..

Following the quoted sentence of January 2012, the municipality petitioners also formulated a further document listing additional reasons to appeal against ruling no. 155384 of November 18, 2011, whereby ARPA, having verified the plant's compliance with the prescriptions laid down in the relative authorization documents, gave its permission, pursuant to article 9 of Legislative Decree no. 36/03, to the start of disposal operations at the bioreactor, further extending the thema decidendum.

By way of the sentence filed on January 9, 2013, the Regional Administrative Court rejected the petition filed by the Municipality of Casarile and another eight municipalities (n.r.g. 1965/10).

The municipalities have filed an appeal against the sentence. Assessments are in course to decide whether to initiate litigation.

On the basis of the information available to date, by virtue of the valuations of the consultant of the Ministry, A2A Ambiente S.p.A. believes the risk of an unfavorable verdict in the judgment on the merit of the appeal to be possible and not probable and accordingly no amount has been provided at December 31, 2013. An unfavorable verdict would lead to the write-down of the asset in question, which is currently carried at 2,795 thousand euro in the balance sheet, and possible costs associated with restoring the area.

With reference to the same plant, the Municipality of Lacchiarella appealed against the Lombardy Region and the Province of Pavia to obtain the cancellation of the integrated environmental authorization (AIA) and (positive) environmental impact assessment (VIA) measures issued by the bodies regarding the building of a bioreactor (by A2A Ambiente S.p.A.) for non-hazardous waste in Cascina Maggiore - Giussago (PV). The appeal proposed subsequent additional reasons to extend the appeal to other acts related to the proceedings and broaden the list of bans. The Province of Milan intervened voluntarily in the case to support the claims of the Municipality of Lacchiarella.

Following the hearing on December 5, 2011, at which the application for interim relief submitted by the municipality was also discussed, ordinance no. 1826 of December 6, 2011 was initially pronounced and then Sentence no. 68 of January 11, 2012 was published. The sentence rejected the appeal and the additional reasons included in such, in that it was late. This sentence was challenged before the Council of State (n.r.g. 2364/12). Subsequently an application was filed for interim relief. After rejecting the request for cautionary measures prior to the case, in chambers on April 9, 2013 the judge ordered an adjournment to the merits of the discussion of the case. The hearing has been set for November 19, 2013.

On January 19, 2012 the Municipality of Lacchiarella therefore notified a further appeal (n.r.g. 373/12: for which a date for the hearing has not yet been set) against ARPA Lombardia, the Region of Lombardy and other public administrations (and against A2A Ambiente S.p.A.) to challenge ruling no. 155384 of November 18, 2011, whereby ARPA, having verified the plant's compliance with the prescriptions laid down in the relative authorization documents, gave its permission, pursuant to article 9 of Legislative Decree no. 36/03, to the start of disposal operations at the bioreactor. The setting of a hearing is pending.

Union Temporal De Impresas vs. the Municipality of Calig (Spain)

This proceeding involves the Union Temporal De Impresas (UTE), set up by the company that is now A2A Ambiente S.p.A., Azhar and Teconma, to build and manage an ITS treatment and disposal plant and composting line in Castellon de la Plana (Spain) as the result of being awarded the tender called by Zone 1 Consortium of Castellon. The Municipality of Calig, neighboring with Castellon, has appealed against the amendment to the agreement between the consortium and the UTE which provided for an increase in the fee of 121 million euro and 140 million euro for adjusting the plants to the specifications required in the AIA, requesting that it be annulled. In the sentence of the court of the first instance of May 21, 2013, the court upheld the appeal of the Municipality of Calig, additionally ordering, besides upholding the requests of the counterparty, the annulment of the original awarding of the tender to the UTE, with the resulting requirement for the consortium to find a new supplier.

Despite the fact that A2A Ambiente S.p.A. holds an interest of 1% in the UTE, under Spanish law, UTEs are characterized by the joint liability of their members.

The UTE, defended by the law firm Urìa Mendez, has filed an appeal against the court's sentence of June 12, 2013.

The internal legal department believes the risk of the annulment of the original award of the tender to the UTE to be remote (it was not even one of the counterparty's requests) and the risk of losing in the matter concerning the amendment of the agreement between the consortium and the UTE, which provided for an increase in the fee as above, to be possible.

Losing the case would lead to a maximum potential risk for the UTE of 19 million euro. A2A Ambiente S.p.A., a member of the UTE with a 1% interest and jointly responsible, could be called to respond not only for its own interest but potentially also for a larger figure if the other members are insolvent towards the bank (it should be remembered that the UTE obtained a loan to build the plant). The figure of 19 million euro could then be further revised in the light of the conclusions of the appeal filed by the UTE against this sentence of the Regional Administrative Court.

To complete this matter approximately trade and financial receivables of 3.6 million euro due from the UTE are included in the financial statements of A2A Ambiente S.p.A. at December, 2013, which in the case of losing could become uncollectable.

Monfalcone Plant investigation

In November 2011, the Trieste Judicial Authority took restrictive action against several individuals in the Veneto, Friuli Venezia Giulia and Lombardy regions, including an employee of the Monfalcone thermoelectric plant, for criminal association aimed at defrauding the state and private persons and conceptual falsity, as well as activities organized for illegal trafficking in waste.

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 - guaranteed the disposal of special waste by illegal trafficking and 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.

A2A S.p.A., the owner of the production site, ordered the precautionary suspension of the employee concerned and a freezing of the payments of the invoices issued by the biomass suppliers, which, to its knowledge, are involved in the investigations.

The investigation initiated by the Trieste Judicial Authority has not yet been completed and therefore the information needed to determine the effect of any illegal conduct has not yet been made available. Nevertheless the A2A Group, and in particular A2A Trading S.r.l. may incur damages, at their sole expense, arising from the qualitative and quantitative differences in the biomasses, since there is the risk for the latter, as toller and in charge of the plant’s dispatch, that on completion of the preliminary stage it may incur increased costs for the biomasses not delivered and increased costs for incorrectly stating the calorific value of the biomasses, delivered and not delivered.

To this should be added that the increased use of coal instead of biomasses could as a consequence have 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 environmental allowances recognized with respect to the real income or allowances (reference here is to Green Certificates). In fact for 2009 and 2010 the company may have filed declarations generating environmental allowances that are greater than those actually produced, as the calculation may have been affected by considering a biomass energy to conventional source energy ratio that is mistakenly higher than the real figure.

If this were the case, the company would have to file corrections to the above-mentioned past declarations and reimburse the income relating to environmental allowances that may have additionally been recognized.

Further, in accordance with the procedures and modalities required, A2A Trading S.r.l. has filed a request with the GSE 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 increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged the correctness of the calculations made by A2A Trading S.r.l. for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

As things currently stand, given that the investigations have not yet been completed and that there is still insufficient information relating to the alleged illegal conduct, it is impossible to estimate the potential liability.

In conclusion, as the aggrieved party the A2A Group will protect its interests in all the appropriate places, requesting compensation for any damages it may have suffered.

ASM Novara S.p.A. dispute

The shareholder Pessina Costruzioni and the outgoing directors Massimo Pessina and Guido Stefanelli served notice of the summons to have the court declare null the resolution of October 26, 2012 with which the Board of Directors of the company certified the existence of reasons to liquidate the company, pursuant to article 2484 of the Italian civil code, ordered publication of the resolution pursuant to article 2484 and issued a request to appoint the official receiver at the Court of Brescia pursuant to article 2487 of the Italian civil code.

The petition examines the motives illustrated in the memorandum of appearance in the civil action filed by Pessina Costruzioni and by its outgoing directors Massimo Pessina and Guido Stefanelli, noting the errors of irregularity in the composition of the Board of

Directors passing the resolution and the errors in the certification of the causes of liquidation, which allegedly did not exist.

The directors of ASM Novara S.p.A. and the shareholder A2A S.p.A. filed a petition at the Court of Brescia to appoint an official receiver after having certified with the resolution of October 26, 2012 the existence of the reasons for liquidating the company under article 2484 of the Italian civil code, section 1 no. 3) (inability of the shareholders' meeting to function) and no. 4) (decrease below the minimum legal requirements of share capital due to losses).

After meeting in chambers on January 11, 2013, the Court of Brescia issued a decree in which it rejected the petition.

The directors of ASM Novara S.p.A. and the shareholder A2A S.p.A. filed a claim pursuant to article 739 of the Italian code of civil procedure to revoke the decree and seek certification of the reasons for the liquidation of the company, while determining with recourse the number of official receivers. The date of the hearing was set for March 20, 2013; at that hearing the Court of Appeal believed it appropriate to acquire the documents provided by the parties, adjourning the proceeding to the hearing of April 24, 2013. On April 24, 2013 in coming to its decision the Court of Appeal fully upheld the claim.

The Court therefore proceeded in accordance with article 2487, paragraph 2 of the Italian civil code, appointing the company's receiver who has been granted all the powers required for ordinary and extraordinary administration.

On March 29, 2013 Pessina Costruzioni notified A2A S.p.A. of the appointment of the arbitrator and the deposition with the arbitrators to initiate the arbitration, in fulfillment of the shareholders' agreements signed in August 2007, with the scope of having A2A S.p.A. ordered to pay compensation for damages for the non-fulfillment of its obligations under the agreements.

A2A S.p.A. appointed its arbitrator within the established term of 20 days, rejecting the requests.

After discussion on the appointment, and after a request for the appointment of a sole arbitrator made by Pessina to the Court of Novara, the parties signed an agreement concerning the formation of the arbitration board.

Water derivation fees

The Lombardy Region has requested Edipower S.p.A. to pay the fee due for derivations used for cooling at the Sermide and Turbigo thermoelectric plants, without recognizing the right to a halving of the fee and increased as the result of regional legislation (Regional Law no. 22/2011); from the date of this regional law, the request for the payment of the fee also regards the Mese unit for the use of public water for hydroelectric purposes. The total in dispute for the Sermide and Turbigo plants (equal to the amount not paid by the company due to the reduction by 50%) amounts to approximately 71 million euro for 2003 to 2013; an amount of 4 million euro is in dispute for the Mese unit for 2012-2013.

Edipower S.p.A. accordingly accrued a provision of 50% of the fee not paid to the Region, pending the outcome of the dispute.

For the Sermide plant (for 2003), the Supreme Court (by way of Sentence no. 2596/2013) definitively recognized the right to a halving of the fee, as the amount requested by the region, equal to 6,680 thousand euro, must be halved.

For the Turbigo plant (for 2003), the Supreme Court on the other hand did not express an opinion on the existence of the right to halve the fee and in accordance with the Supreme Court's requirements, Edipower S.p.A. initiated an appeal before the TSAP on a timely basis.

By way of Sentence no. 14259 the Supreme Court finally ascertained the existence of the right of the Sermide plant to a halving of the derivation fee for 2006: on January 15, 2013, the Region requested payment of the amount of 216 thousand euro corresponding to the difference not paid by Edipower S.p.A. (which calculated the module in a different way: the amount accrued has been partially released: a provision has been maintained that has been calculated considering the "modules" (26 by number) resulting from the difference between the 500 modules actually approved and the 526 modules recalculated pursuant to article 18 of the Galli Law (no. 36/1994).

For the Turbigo plant, by way of Sentence no. 2751/2013, for 2006 and 2007, the Milan TRAP recognized the right to halve the fee only until the date Regulation no. 2/06 came into force. Edipower S.p.A. and the Region filed an appeal against the unfavorable parts of this sentence on a timely basis before the High Court of Public Waters.

In November and December 2013, Edipower S.p.A. appealed before the TRAP against the injunction orders issued by the Region for fees allegedly due for 2011 (3,560,715.44 euro) and 2012 (10,775,140.96 euro) for the Turbigo plant.

As the result of the partial demerger, from November 1, 2013 the Turbigo plant has been transferred to Iren Energia S.p.A., which will formally take over the relative concession application at the first available hearing, following the takeover by Iren Energia S.p.A. of the concession and costs, including those of a past nature, as ratified by the Lombardy Region in a letter dated January 23, 2014.

In November and December 2013, Edipower filed an appeal with the TRAP against the injunction orders issued by the Region for the payment of fees allegedly due for 2010 (2,188,505.91 euro), 2011 (2,197,972.38 euro) and 2012 (6,631,399.13 euro) relating to the Sermode plant.

For hydroelectric use, with respect to the Mese - Chiavenna unit the regional administration has requested the payment of a fee of approximately 690 thousand euro; in a similar way, a fee has been established for 2012 by the Region in approximately 220 thousand euro for the Mese- Gravedona unit, while for the Mese - Asta Liro unit the amount requested amounts to approximately 3,115 thousand euro.

In November 2013, Edipower S.p.A. appealed against the Region's payment injunctions for the "Chiavenna" (Mera I) and "Prata" (Mera II) derivations for an amount of 379,453.28 euro for 2012, the "Gravedona" derivation for 114,209.25 euro for 2012 and the "Asta Liro" derivation for 1,643,999.68 euro for 2012.

Similar demands for hydroelectric use have arrived for 2013.

With respect to the Mese-Chiavenna plant an amount of approximately 690 thousand euro has been requested, for the Mese-Gravedona plant the amount is approximately 220 thousand euro and for the Mese-Asta Liro plant the amount is approximately 3,160 thousand euro.

Regarding the hydroelectric plants, between the end of 2008 and the first few days of 2009 payment demands arrived from the Region of Lombardy for fees for the use of public water allegedly not paid: following appeal, the Region acknowledged that Edipower S.p.A.'s assertions were grounded in 23 out of 28 disputes and accordingly cancelled the relative payment notices. In December 2009, the Region of Lombardy served three other payment injunctions, against two of which appeals have been filed with the TRAP.

Between October and December 2010 the Region of Lombardy served seven notices for the alleged failure to pay the fee and the additional regional tax, five of which have been cancelled by the Region by internal revocation. Appeals have been made against the other notices. The amount in dispute is 0.3 million euro.

On November 25, 2011, Equitalia (on behalf of the Region of Lombardy) ordered Edipower S.p.A. to pay the sum of 26,742 thousand euro; the Region partially provided relief on the payment notice (with the exception of the injunction relating to the assessment notice for additional regional tax, for 2005, for an amount of 798 thousand euro: an appeal against this injunction has been filed with the Tax Commission). On May 15, 2013 the TRAP upheld the appeal for the part of the payment notice relating to the fees, ordering the Region of Lombardy to pay legal expenses of 5 thousand euro.

The Venice TRAP rejected the appeals raised by Edipower S.p.A. to ascertain the correct identification of the amount of the hydroelectric fee surcharges, after disapplying the pertinent ministerial decrees: by way of Sentence no. 577/2012 (revision of the fee surcharges due from 2004 to 2009) the TRAP ordered Edipower S.p.A. to pay 132 thousand euro to the Consortium set up between the municipalities of the mountain catchment basin (BIM) of Livenza Pordenone, plus legal interest, as well as to pay 3 thousand euro to the Ministry for the Environment and 5 thousand euro to the above Consortium as compensation for legal expenses. By way of Sentence no. 580/2012 (revision of the fee surcharges due from 2004 to 2009) the TRAP ordered Edipower S.p.A. to pay 3 thousand euro to the State Property Office as compensation for legal expenses. By way of Sentence no. 959/2012 (revision of the fee surcharges due from 2004 to 2009) the TRAP ordered Edipower S.p.A. to pay a total of 13 thousand euro to the Tagliamento BIM, the National Federation of BIM Consortia and the Ministry for the Environment and the Protection of the Land and Sea as compensation for legal expenses. Appeals have been filed against these sentences before the competent TSAP of Rome.

On April 2, 2013, Equitalia (on behalf of the Region of Lombardy) served a payment notice regarding the regional surcharge for 2007 for the Sermide and Turbigo plants for a total of 724 thousand euro (of which 277 thousand euro for the Sermide plant and 447 thousand euro for the Turbigo plant). The amounts requested include the portions not paid by Edipower S.p.A. relating to the halving and difference in modules due to the different unit of measure for the modules (industrial modules/100 l/s modules). The regional payment notice was firstly suspended for precautionary reasons by the Region by way of a measure dated April 17, 2013, and in any case a timely appeal against the demand has been filed before the competent tax commission.

On November 14, 2013, the Emilia Romagna Region made a request for clarifications concerning the way in which the fee due for the derivation for industrial use for the Piacenza plant had been calculated, affirming the existence of a debt of 9,801,498.56 euro payable by Edipower S.p.A. for 2001 to 2013 inclusive. Following the explanations provided by Edipower S.p.A., the Region - in a note dated December 23, 2013 - reduced its payment demand (6,137,947.44 euro for the same years). Edipower S.p.A. therefore pleaded a five year prescription and raised objection to the way in which the fee had been calculated (actual annual withdrawal). In a note dated February 5, 2014, the Region acknowledged that the five year prescription term was applicable and the possibility that the any amount still payable by Edipower S.p.A. could be paid on an installment basis.

Brindisi bunker

The investigations that led to the sequestration of the Brindisi bunker (owned by Enel) have been formally closed; the head of the Brindisi power station has been sent for trial amongst others. Having civil responsibility, Edipower S.p.A. has been implicated in the relative court case by the parties instituting the action. A release notice for the seized areas was notified on May 13, 2010 as part of the criminal proceeding. In a ruling of March 8, 2013, the court acquitted the head of Edipower S.p.A.'s power station for the offence with which he was charged "because there is no case to answer".

On September 3, 2013 the public prosecutor at the Brindisi Court issued a notification that an appeal had been filed against the sentence of the Brindisi Court.

San Filippo del Mela appraisal enquiry

By way of a provision dated May 8, 2005, the Public Prosecutor of Barcellona Pozzo di Gotto ordered Edipower S.p.A. representatives for the San Filippo del Mela plant to appear at the plant on March 11, 2005 to carry out an appraisal in the presence of the court experts appointed by the Public Prosecutor for the purpose of performing tests on the emission outflows and inflows arising from the company's activity (and that of the local refinery), on their nature and harmfulness, on any effects of the pollutants on the soil, on agriculture and on health and on any measures needed to take the emissions to within the limits of normal tolerance. Appraisal enquiries began on that date and as of today have been completed, although they are still covered by secrecy regulations. The proceeding has been initiated against unknown persons. There are no other elements (suspected criminal offences, statements reported, etc.). In the present situation it appears improbable that a liability will arise.

* * *

The following information is provided in connection with the main litigation of a fiscal nature.

A2A S.p.A. – Assessments for IRES, IRAP and VAT purposes for fiscal 2005

The Regional Department of the Lombardy tax office in Milan notified A2A S.p.A. (formerly ASM Brescia S.p.A.) on December 23, 2010 of IRES, IRAP and VAT tax assessments for fiscal 2005 as a result of a general tax audit carried out in 2008 by the Brescia 2 tax office into that tax year.

These assessments were based on the Regional Department's claim that the company had not fulfilled its direct tax and VAT obligations; on this basis, additional IRES, IRAP and VAT payments were claimed as well as penalties and interest amounting to a total of 3.3 million euro.

Appeals against each of these assessments were filed with the relevant Tax Commissioners.

On the same date, the Regional Department served notice of IRES assessments (level 2 notice) for fiscal 2005 on A2A S.p.A. as the consolidating company of Aprica S.p.A. and A2A Reti Gas S.p.A..

The sum demanded was paid for the notice served as the consolidating company of A2A Reti Gas S.p.A., thereby definitively closing the case.

The notice served as the consolidating company of Aprica S.p.A. was, however, the subject of an appeal as part of the dispute currently in course for the level 1 notice, received in 2010 for the same reasons regarding Aprica S.p.A..

On July 1, 2013 A2A S.p.A. came to a settlement with the Tax Revenue Office putting an end to all fiscal claims.

A2A S.p.A. – General audit for IRES, IRAP and VAT purposes for fiscal 2010

On January 20, 2014 the Regional Department of the Lombardy Tax Revenue Office - Milan Large Taxpayers Section - initiated a general audit of A2A S.p.A. for IRES, IRAP and VAT purposes for fiscal 2010. This audit is currently in progress.

A2A Reti Elettriche S.p.A. - registration tax assessment for adjustments to the value of the sale of the "protected categories" business to A2A Energia S.p.A.

On February 16, 2010, the Milan 3 Office of the Tax Revenue Office served notice of the correction and settlement of registration tax due on the sale of the "protected categories" business from AEM Elettricità S.p.A. (now A2A Reti Elettriche S.p.A.) to AEM Energia S.p.A. (now A2A Energia S.p.A.) on February 1, 2008. In an assessment notice, the tax office contested the figure disclosed for "goodwill" and as a result the corresponding registration tax payable. The company attempted to reach a tax settlement but since no agreement was reached, challenged the notice served by filing an appeal. The Milan Provincial Tax Commission upheld the company's appeal. The tax office lodged an appeal against the sentence favorable to the company with the Regional Tax Commission which discussed it at its meeting of September 30, 2013 and found in the company's favor. The term is still open for the Tax Revenue Office to appeal to the Supreme Court.

A2A Reti Gas S.p.A. – COSAP Municipality of Milan for the years from 2003 to 2011

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. The date for the discussion before the Court of Milan has been set for May 21, 2014, while that before the regional administrative court has not yet been established.

Aprica S.p.A. - General IRES/IRAP/VAT audit for fiscal 2007

On January 10, 2011 the Tax Revenue Office (Brescia 2 Office) commenced a general tax audit of Aprica S.p.A. for IRES, IRAP and VAT purposes for tax year 2007. The audit was completed on February 8, 2011.

The findings mainly related to violations regarding direct taxation.

On September 14, 2011 a tax assessment notice was served reporting the findings noted during the audit which the company accepted, paying the additional tax assessed. In respect of the disallowed items arising from mistakes in applying the accruals principle, on March 18, 2013 the company filed a request for a refund of the additional tax paid in the year in which the costs should have been charged for tax purposes.

Aprica S.p.A. - General IRES/IRAP/VAT audit for fiscal 2009

On January 24, 2013 the Finance Police - Brescia Unit commenced a general tax audit of Aprica S.p.A. for IRES, IRAP and VAT purposes for fiscal 2009 and for fiscal 2010, an audit only to ensure that the requirements of Decree Law no. 78/2009 (the "Tremonti ter") had been fulfilled. The audit is currently in progress.

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.. The audit was completed on January 16, 2014 with the serving of a formal notice of assessment. The company is assessing the action to be taken.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) – Assessments for VAT purposes for fiscal years 2001 to 2005

In early 2006, the Italian Finance Police - Lombardy Regional Unit, Milan - carried out an audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for fiscal 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 favorable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first judges. 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. filed a cross-appeal on November 9, 2012.

The outcomes of the 2002 and 2003 disputes were also favorable 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 on February 23, 2011 the Milan Regional Tax Commission issued its ruling, overturning the initial verdict and 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.

Plurigas S.p.A. - Excise duty audit for tax years 2009, 2010 and 2011

On May 25, 2011 the Finance Police - Milan Tax Unit - began a tax audit into Plurigas S.p.A. in connection with excise duty for fiscal years 2009, 2010 and 2011 limited to the date of access.

The audit was completed on October 20, 2011 with the issue of a tax audit report describing irregularities in the compilation of the statements for the annual consumption of natural gas for 2009 and 2010 and the inaccurate compilation of Intrastat lists for 2010. At the present date an assessment notice has been served for 2010 only.

Edipower S.p.A. - VAT audit for fiscal 2004 to 2007

In 2008 the Messina Customs Office performed a tax audit on the company to check the correctness for VAT purposes for fiscal years 2004 to 2007 of the commercial purchases by the tollers of the fuel that is used in the San Filippo del Mela thermoelectric power station for the production of electricity. More specifically, the aim of the audit was to check whether VAT was charged on the excise duty discharged by the tollers after the purchase of the fuel. In the tax audit report the Customs Office claimed additional tax amounting in total to 5.57 million euro plus penalties of the same amount. Edipower S.p.A. filed its defensive arguments against the tax audit report with the Customs Office and the Tax Revenue Office having jurisdiction for the recovery of VAT.

By way of a notice served on December 29, 2009 relating to fiscal year 2004 the Milan Tax Revenue Office assessed VAT on excise duty and interest for a total of 1.98 million euro plus penalties of 2.6 million euro. After filing an application for annulment by internal revocation and, subsequently, an application for settlement, without receiving any positive response from the Tax Revenue Office, in 2010 Edipower S.p.A. filed an appeal against the assessment notice. The appeal was upheld by the Milan Provincial Tax Commission which ordered the assessment to be cancelled. The Tax Revenue Office has not appealed and accordingly the sentence in the company's favor has become final.

On December 14, 2010 the Milan Tax Revenue Office served Edipower S.p.A. with a similar assessment notice for additional VAT on excise duty plus penalties relating to fiscal 2005, in which it made a demand for VAT and interest of 1.9 million euro, arguing the same reasons used in the assessment notice relating to 2004. In the same assessment, the Tax Revenue Office also provided notification of the result of the partial audit of fiscal 2005, claiming additional IRES and IRAP of 0.62 million euro plus accumulated penalties in both cases of 1.3 million euro.

The company filed an application for settlement against this assessment which was not accepted by the Tax Revenue Office; it accordingly filed an appeal, requesting the Tax Commission to order the total cancellation of the notice. In October 2011 the Tax Revenue Office notified a provision by internal revocation partially cancelling the subject assessment, upholding certain of the defensive arguments used by Edipower S.p.A. in connection with the costs relating to 2005 and considerably reducing the additional amounts of IRES and IRAP claimed. The Milan Provincial Tax Commission fully upheld the company's arguments concerning VAT on excise duty and partially upheld those regarding IRES and IRAP, ordering the partial cancellation of the assessment.

The Tax Revenue Office filed an appeal but only concerning IRES and IRAP; as a result, therefore, the dispute regarding VAT on excise duty for 2005 has been closed by means of internal revocation. The hearing for the appeal was held on December 3, 2013. The appeal court confirmed the sentence of the court of the first instance, partially favorable to the company.

Edipower S.p.A. - VAT assessments Green Certificates 2004 to 2010

On December 29, 2009 the Milan Tax Revenue Office served Edipower S.p.A. a VAT assessment notice regarding fiscal 2004 and having as its object the alleged sales of Green Certificates by tollers for the 2004 "green" requirements. This assessment notice was not preceded by an audit at the company's premises; instead, the Tax Revenue Office's information and assumptions were taken from the assessments carried out at the tollers' premises in 2008 and 2009.

In particular, in the assessment in question the Tax Revenue Office sanctioned Edipower S.p.A. for not having used the reverse charge procedure given that invoices were not received for the alleged sales of the Green Certificates which in the Tax Revenue Office's opinion the tollers had made in 2005 to meet their obligations for the previous year. The amount of the penalty inflicted was 6.5 million euro.

Following opportune analyses which also included the tollers, it was considered that the Tax Revenue Office's conclusions could not be accepted. In fact under the tolling arrangements the owners of the electricity produced by Edipower S.p.A. are "ab origine" the tollers, who are the owners of the fuel used. Under these arrangements each toller is responsible for the operational and economic cost of obtaining the Green Certificates that relate to that toller on the basis of the electricity produced according to its indications and production plans, handing them over to the Manager via Edipower S.p.A.. Under the tolling arrangements and the requirements of law there is no transfer of the ownership of the Green Certificates between the tollers and Edipower S.p.A. and no fee passes between the parties; accordingly no transaction is carried out for VAT purposes. For this reason no provision has been made in the financial statements for this matter.

On December 14, 2010 the Tax Revenue Office served a further VAT assessment notice regarding fiscal 2005 having as its object the alleged sales of Green Certificates by tollers for the 2005 "green" requirements. The findings of the Tax Revenue Office were the same as those already notified in the assessment for 2004 and the penalty inflicted was 4.6 million euro.

In August 2011 the Milan Finance Police carried out an official tax audit of Edipower S.p.A. having as its object the alleged sales of Green Certificates from 2006 to 2010. This investigation was started as the result of a tax audit completed earlier at one of the tollers and was the continuation of the audits already started by the Tax Revenue Office for 2004 and 2005 described above.

In their tax audit report issued on the completion of the investigations on October 21, 2011, the officers stated their conviction that the Green Certificates handed over by the tollers to discharge their obligations represent remuneration for Edipower S.p.A. as an addition to the tolling fee. For this reason the auditors stated that Edipower S.p.A. should have used the reverse charge procedure for the Green Certificates received from the tollers and should have recharged the costs incurred in this way on their behalf. For this double violation the Finance Police assessed unsettled VAT, for the years from 2006 to 2010, in the amount of 54.4 million euro and penalties of the same amount. Following the issue of the tax audit report, at the end of December 2011 the Milan Tax Revenue Office issued an assessment notice for 2006 containing a demand for VAT and related penalties for a total of 61.7 million euro and a penalty notice of 12.3 million euro.

On the basis of the reasons described in detail above, it is considered that the claims regarding VAT on excise duty and VAT on Green Certificates are unsubstantiated from a subjective standpoint and on the merits, and accordingly no provision has been made in the financial statements for this matter.

Edipower S.p.A. has made timely appeal to the appropriate authorities against all the notices served, requesting the total cancellation of the demands for taxes. The assessment notice for 2005 was discussed at the hearing of May 25, 2012, during which the judges upheld the company's appeal; the Tax Revenue Office did not appeal and the favorable sentence of the court of the first instance has therefore become final. On November 26, 2012 a hearing was held to discuss the appeal relating to 2004; the court fully upheld the company's appeal.

In August 2012 Equitalia served a payment notice for the recovery of one third of the VAT relating to 2006. The company filed an application for the suspension of payment against this demand and this request was upheld in the hearing of October 23, 2012.

On April 9, 2013 the hearing for the discussion of the appeal for 2006 was held (assessment notice for VAT and penalties). The Tax Revenue Office filed an application for the dismissal of the case for the lack of issues to dispute together with the records for the complete cancellation by internal revocation of the assessments served for 2006. As a result, the judge dismissed the case.

In April 2013, the Tax Revenue Office additionally served the company notice of the complete cancellation of the demand for penalties for 2006 by internal revocation. The company is currently waiting to receive formal notice from the court that the dispute has been annulled.

These steps confirm earlier statements made verbally by officials of the Tax Revenue Office to the company's lawyers, concerning the fact that the administration had taken the decision to completely cancel all the VAT assessments served on tollers and tollees concerning Green Certificates.

A2A Trading S.r.l. - VAT assessments Green Certificates 2004 to 2010

On December 23, 2009 the Milan Tax Revenue Office served A2A Trading S.r.l. 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. 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. has therefore not committed any breach of law and accordingly no 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 tax year 2006 for the same reasons, with the resulting demands for additional value added tax plus penalties and interest totaling 5.2 million euro and 11.2 million euro respectively. As in the case of 2004, A2A Trading S.r.l. has not committed any breach of law and accordingly no provision has been made in the financial statements for this matter.

A2A Trading S.r.l. 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 5, 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 on May 6, 2013 notified that it was waiving its appeal and applying for a dismissal of the case for 2004 and 2005.

It should be noted that following the request for documentation relating to the Green Certificates falling within the scope of the same tolling arrangement for fiscal 2007 to 2010, on October 28, 2011 the Milan Unit of the Finance Police served a tax audit report containing the same violations of failure to invoice taxable transactions relating to 2007, 2008 and 2010. At the present date no formal assessment notice has been served.

A2A Ambiente S.p.A. (formerly Ecodeco S.r.l.) – Assessment for VAT purposes for fiscal 2003

On November 15, 2012 the Milan Tax Revenue Office notified that it had filed an appeal with the Supreme Court against the sentence of the Lombardy Regional Tax Commission which upheld the company's arguments concerning the dispute with the Finance Police over VAT for a total of 48,000 euro plus interest and penalties.

On December 23, 2012 the company filed a cross appeal with the Supreme Court.

A2A Ambiente S.p.A. (formerly Ecodeco S.r.l.) – Assessment for VAT purposes for fiscal 2006 and 2007

On July 5 and 6, 2010 the Milan Tax Revenue Office 3 served four notices of VAT assessments for the years 2006 and 2007 contesting the reduced VAT rates applied to the disposal of Refuse Derived Fuel (RDF). This claim was accompanied by a demand for additional VAT of 472 thousand euro for 2006 and 496 thousand euro for 2007, in both cases plus penalties and interest.

The company filed an appeal with the appropriate authorities against both tax assessment notices. The appeal was discussed on March 22, 2012.

On May 15, 2012 the Milan Provincial Tax Commission (CTP) upheld the appeal.

On December 10, 2012 the Milan Tax Revenue Office filed an appeal with the Milan Regional Tax Commission (CTR) against the sentence in the company's favor. On February 8, 2013 the company filed a cross appeal. On July 9, 2013, the Milan CTR rejected the appeal filed by the Tax Revenue Office for three of the four notices.

The fourth assessment notice relating to 2006 VAT for an amount of 157,435.00 euro was discussed on October 24, 2013 before the Milan CTR, which rejected the Tax Revenue Office's appeal.

A2A Ambiente S.p.A. (formerly Ecodeco S.r.l.) - Assessment for IRES/IRAP/VAT purposes for fiscal 2007

On August 17, 2011 notices of IRES and IRAP tax assessments were served, contesting among other things the deductibility of the charge to a provision for risks, with the request for additional IRES and IRAP taxes of 233 thousand euro plus penalties and interest and smaller findings.

On May 21, 2012 the Milan Provincial Tax Commission partially upheld the appeal recognizing the deductibility of the utilization of the taxed provision for risks and confirming the smaller findings.

On August 17, 2011 a notice of VAT assessment was served contesting the recovery of VAT due to the effect of failing to apply the pro-rata deductibility on exempt revenues of cash pooling interest income, with the resulting demand for additional taxes of 284 thousand euro plus penalties and interest.

The company filed an application for suspension and an application for discussion in a public hearing with the Second Provincial Department of the Tax Revenue Office of Milan on November 15, 2011 by means of registered letter, and an appeal with the Milan Provincial Tax Commission on December 6, 2011.

The Milan Provincial Tax Commission partially upheld the appeal by way of a sentence filed on May 21, 2012.

On November 14, 2012 the company was served a payment notice for 365 thousand euro which was settled on January 11, 2013. On January 8, 2013 the Tax Revenue Office filed an appeal and on March 8, 2013 the company filed a cross appeal.

On May 3, 2013 a further payment notice for 252 thousand euro was served which was paid on May 25, 2013. On January 27, 2014, the case was discussed at a public hearing and the outcome is not currently known.

7) Contingent assets

The Group had an excess of environmental certificates (Green Certificates and White Certificates) at December 31, 2013.

The application of Resolution no. 447/13 of the AEEGSI could lead to benefits for the Group in future years, although the amount is currently not quantifiable.

* * *

Consob Recommendation no. 61493 of July 18, 2013

As a consequence of 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 2013 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 increasing the energy efficiency of plants located in Lombardy and Calabria.

0.4

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 2012**	**Changes during the year**			
		Investments	**Category changes**	**Other changes**	
				Gross value	**Accumulated depreciation**
Land	249			(3)	
Buildings	1,064	4	7	(1)	
Plant and machinery	4,816	77	113	4	
Industrial and commercial equipment	40	5			
Other assets	58	14	2	(12)	9
Landfills	14	5		13	
Assets held under concession					
Construction in progress and advances	109	119	(122)	6	
Leasehold improvements	13	3		21	
Leased assets	7				
Total tangible assets	**6,370**	**227**	**-**	**28**	**9**

Tangible assets *Millions of euro*	**Net book value at 12 31 2011**	**Edipower first-time consolidation**	**Changes during the year**			
			Investments	**Category changes**	**Other changes**	
					Gross value	**Accumulated depreciation**
Land	244		4	2	(1)	
Buildings	818	305	4	4	(22)	(3)
Plant and machinery	3,130	1,300	110	98	959	(408)
Industrial and commercial equipment	39	2	5		(1)	
Other assets	59	2	10	3		
Landfills	11		5		1	
Assets held under concession	297	418			(1,125)	410
Construction in progress and advances	66	80	133	(107)	(61)	
Leasehold improvements	12		3			
Leased assets	9		1		(3)	1
Total tangible assets	**4,685**	**2,107**	**275**	**-**	**(253)**	**-**

Changes during the year					Net book value at 12 31 2013
Write-downs	Disposals/sales		Deprecia-tion	Total changes in the year	
	Asset value	Accumulated depreciation			
(1)				(4)	245
(37)	(7)	2	(46)	(78)	986
(208)	(28)	11	(347)	(378)	4,438
			(5)		40
	(3)	3	(14)	(1)	57
			(5)	13	27
(4)	(1)			(2)	107
	(15)	4	(2)	11	24
			(1)	(1)	6
(250)	**(54)**	**20**	**(420)**	**(440)**	**5,930**

Changes during the year							Net book value at 12 31 2012
Write-downs	Coriance sale		Disposals/sales		Deprecia-tion	Total changes in the year	
	Asset value	Accumulated depreciation	Asset value	Accumulated depreciation			
						5	249
(1)	(1)				(40)	(59)	1,064
			(40)	18	(351)	386	4,816
			(1)	1	(5)	(1)	40
			(5)	4	(15)	(3)	58
					(3)	3	14
						(715)	–
(1)			(1)			(37)	109
					(2)	1	13
					(1)	(2)	7
(2)	**(1)**	**–**	**(47)**	**23**	**(417)**	**(422)**	**6,370**

2 - Statement of changes in intangible assets

Intangible assets *Millions of euro*	Net book value at 12 31 2012	Changes during the year			
		Investments	Category changes	Reclassifications/other changes	
				Gross value	Accumulated amortization
Industrial patents and intellectual property rights	35	6	11	13	(9)
Concessions, licences, trademarks and similar rights	752	38	5		
Goodwill	569			(87)	
Assets in progress	24	13	(16)		
Other intangible assets	13			9	
Total intangible assets	**1,393**	**57**	**-**	**(65)**	**(9)**

Intangible assets *Millions of euro*	Net book value at 12 31 2011	Edipower first-time consolidation	Changes during the year			
			Investments	Category changes	Reclassifications/other changes	
					Gross value	Accumulated amortization
Industrial patents and intellectual property rights	21	4	10	18	1	
Concessions, licences, trademarks and similar rights	864		51	4	(1)	
Goodwill	580		4		(4)	
Assets in progress	25	2	20	(22)	(1)	
Other intangible assets	13				3	
Total intangible assets	**1,503**	**6**	**85**	**–**	**(2)**	

Changes during the year					Net book value at 12 31 2013
Disposals/sales		Write-downs	Amortization	Total changes in the year	
Asset value	Accumulated amortization				
			20	1	36
(8)	4		(43)	(4)	748
				(87)	482
				(3)	21
			(3)	6	19
(8)	**4**		**(66)**	**(87)**	**1,306**

Changes during the year							Net book value al 12 31 2012
Coriance sale		Disposals/sales		Write-downs	Amortization	Total changes in the year	
Asset value	Accumulated amortization	Asset value	Accumulated amortization				
					(19)	10	35
(136)	21	(8)	7		(50)	(112)	752
(11)						(11)	569
						(3)	24
(1)	1				(3)	–	13
(148)	**22**	**(8)**	**7**		**(72)**	**(116)**	**1,393**

3 - List of companies included in the consolidated annual report

Company name	Registered office	Currency	Share capital (*thousands*)
Consolidation scope			
A2A Reti Gas S.p.A.	Brescia	Euro	445,000
A2A Reti Elettriche S.p.A.	Brescia	Euro	520,000
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
Selene S.p.A.	Brescia	Euro	3,000
A2A Servizi alla Distribuzione S.p.A.	Brescia	Euro	2,000
A2A Energia S.p.A.	Milan	Euro	2,000
A2A Trading S.r.l.	Milan	Euro	1,000
A2A Logistica S.p.A.	Brescia	Euro	250
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
A2A Ambiente S.p.A.	Brescia	Euro	220,000
Aspem Energia S.r.l.	Varese	Euro	2,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	300
Mincio Trasmissione S.r.l.	Brescia	Euro	10
Assoenergia S.p.A. in liquidation	Brescia	Euro	126
Abruzzoenergia S.p.A.	Gissi (Ch)	Euro	130,000
Retragas S.r.l.	Brescia	Euro	34,495
Aspem S.p.A.	Varese	Euro	174
Varese Risorse S.p.A.	Varese	Euro	3,624
Ostros Energia S.r.l. in liquidation	Brescia	Euro	350
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
SEASM S.r.l.	Brescia	Euro	700
Proaris S.r.l.	Milan	Euro	1,875
Edipower S.p.A.	Milan	Euro	1,139,312
Ecofert S.r.l. in liquidation	S. Gervasio Bresciano (Bs)	Euro	100
A3A S.r.l.	Brescia	Euro	10
Elektroprivreda Cnre Gore AD Niksic (EPCG)	Niksic (Montenegro)	Euro	958,666
EPCG d.o.o. Beograd	Beograd (Serbia)	Dinar RSD	35
Zeta Energy d.o.o.	Danilovgrad (Montenegro)	Euro	12,240

For shareholdings in the subsidiaries of the A2A Ambiente Group reference should be made to attachment 5.

% consolidated group shareholding at 12 31 2013	Holding %	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 Reti Gas 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 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
97.76%	97.76%	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%) A2A Reti Gas 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
80.00%	80.00%	A2A S.p.A.	Line-by-line consolidation
74.50%	74.50%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Trading S.r.l.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
70.95%	70.95%	A2A S.p.A.	Line-by-line consolidation
47.00%	47.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
43.70%	43.70%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	EPCG	Line-by-line consolidation
57.86%	51.00%	EPCG	Line-by-line consolidation

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.	Roma	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (Ch)	Euro	650
Bergamo Servizi S.r.l.	Sarnico (Bg)	Euro	10
SET S.p.A.	Toscolano Maderno (Bs)	Euro	104
Azienda Servizi Valtrompia S.p.A.	Gardone Valtrompia (Bs)	Euro	6,000
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Centrale Termoelettrica del Mincio S.r.l.	Ponti s/Mincio (Mn)	Euro	11
Serio Energia S.r.l.	Concordia s/Secchia (Mo)	Euro	1,000
Visano Soc. Trattamento Reflui S.c.a.r.l.	Brescia	Euro	25
LumEnergia S.p.A.	Lumezzane (Bs)	Euro	300
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
Dolomiti Energia S.p.A.	Rovereto (Tn)	Euro	411,496
Rudnik Uglja Ad Pljevlja	Pljevlja (Montenegro)	Euro	21,493
Consolidation of the shareholdings of A2A Ambiente S.p.A. (1)			
Total shareholdings			

(1) For the shareholdings of A2A Ambiente S.p.A. reference should be made to attachment 5.

Holding %	Shareholder	Carrying amount at 12 31 2013 (*thousands*)	Valuation method
50.00%	A2A Alfa S.r.l.	3,039	Equity
50.00%	A2A S.p.A.	54,219	Equity
50.00%	A2A S.p.A.	-	Equity
50.00%	A2A Energia S.p.A.	1,193	Equity
50.00%	Aprica S.p.A.	336	Equity
49.00%	A2A S.p.A.	476	Equity
49.15%	A2A S.p.A. (48.77%) A2A Reti Gas S.p.A. (0.38%)	4,353	Equity
44.50%	A2A S.p.A.	1,567	Equity
45.00%	A2A S.p.A.	4	Equity
40.00%	A2A S.p.A.	716	Equity
40.00%	A2A S.p.A.	10	Equity
33.33%	A2A Energia S.p.A.	158	Equity
24.29%	A2A S.p.A.	837	Equity
21.94%	A2A S.p.A.	32,708	Equity
20.00%	A2A Calore & Servizi S.r.l.	670	Equity
12.47%	Aspem S.p.A.	887	Equity
52.00%	A2A Calore & Servizi S.r.l.	61	Equity
40.00%	Aprica S.p.A.	3,400	Equity
7.91%	A2A S.p.A.	61,983	Equity
39.49%	A2A S.p.A.	19,067	Equity
		1,605	See attachment 5
		187,289	

5 - List of companies held by A2A Ambiente S.p.A.

Company name	Registered office	Currency	Share capital (*thousands*)
Consolidation scope			
A2A Ambiente S.p.A.	Brescia	Euro	220,000
Ecodeco Hellas S.A.	Atene	Euro	60
Ecolombardia 18 S.r.l.	Milan	Euro	658
Ecolombardia 4 S.p.A.	Milan	Euro	17,727
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
Ecoair S.r.l.	Milan	Euro	10
Bioase S.r.l.	Sondrio	Euro	677
Montichiariambiente S.p.A.	Brescia	Euro	928
Aprica S.p.A.	Brescia	Euro	20,000
Amsa S.p.A.	Milan	Euro	10,000
Shareholdings in companies carried at equity			
SED S.r.l.	Robassomero (TO)	Euro	1,250
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
Bellisolina S.r.l.	Montanaso (LO)	Euro	10
Total shareholdings			

	% consolidated group shareholding at 12 31 2013	Holding %	Shareholder	Carrying amount at 12 31 2013	Valuation method
					Line-by-line consolidation
	100.00%	100.00%	A2A Ambiente S.p.A.		Line-by-line consolidation
	98.86%	98.86%	A2A Ambiente S.p.A.		Line-by-line consolidation
	68.58%	68.58%	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
	100.00%	100.00%	A2A Ambiente S.p.A.		Line-by-line consolidation
	70.00%	70.00%	A2A Ambiente S.p.A.		Line-by-line consolidation
	79.99%	79.99%	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
		50.00%	A2A Ambiente S.p.A.	1,356	Equity
		50.00%	A2A Ambiente S.p.A.	-	Equity
		25.00%	A2A Ambiente S.p.A.	249	Equity
		50.00%	A2A Ambiente S.p.A.	-	Equity
				1,605	

6 - List of available-for-sale financial assets

Company name	% holding	Shareholder	Carrying amount at 12 31 2013 (*thousands*)
Available-for-sale financial assets (AFS)			
Infracom S.p.A.	1.57%	A2A S.p.A.	155
Immobiliare-Fiera di Brescia S.p.A.	5.52%	A2A S.p.A.	573
Azienda Energetica Valtellina e Valchiavenna S.p.A. (AEVV)	9.39%	A2A S.p.A.	1,846
Other:			
Alesa S.r.l.	6.01%	A2A Reti Gas S.p.A.	
AQM S.r.l.	7.52%	A2A S.p.A.	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo di Calcio e Covo Società Cooperativa	n.s.	A2A S.p.A.	
Brixia Expo-Fiera di Brescia S.p.A.	9.44%	A2A S.p.A.	
Cavaglià Sud S.r.l. in liquidation	1.00%	A2A Ambiente S.p.A.	
Consorzio DIX.IT in liquidation	14.28%	A2A S.p.A.	
Consorzio Ecocarbon	n.s.	A2A Ambiente S.p.A.	
Consorzio Intellimech	n.s.	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	A2A Ambiente S.p.A.	
Consorzio L.E.A.P.	10.53%	A2A S.p.A.	
Consorzio Milan Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	A2A Ambiente S.p.A.	
CSEAB (previously Cramer S.c.a.r.l.)	6.67%	A2A S.p.A.	
Emittenti Titoli S.p.A.	1.85%	A2A 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.	
INN.TEC. S.r.l.	10.89%	A2A S.p.A.	
Isfor 2000 S.c.p.a.	4.94%	A2A S.p.A.	

Company name	% holding	Shareholder	Carrying amount at 12 31 2013 (*thousands*)
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.	3.00%	A2A Ambiente S.p.A.	
Prva banka Crne Gore A.D. Podgorica (*)	19.76%	EPCG	
DI.T.N.E.	1.30%	Edipower S.p.A.	
Total other financial assets			**6,123**
Total available-for-sale financial assets			**8,697**

(*) If the preference shares with no voting rights are also taken into account the shareholding in Prva banka Crne Gore A.D. Podgorica amounts to 24.10% of share capital.

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 Graziano Tarantini, in the name of and on behalf of the entire Management Board of A2A S.p.A., and Patrizia Savi, the manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify the following, taking into account the provisions of article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the business and
- the effective application

of the administrative and accounting procedures for the preparation of the consolidated financial statements during 2013.

2. We also certify that:

2.1 the consolidated financial statements:

a) have been approved in accordance with the international accounting standards approved by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;

b) agree with the balances on the books of account and the accounting entries;

c) give a true and fair view of the assets and liabilities, results and financial position of the issuer and the companies included in the consolidation;

2.2 the report on operations includes a reliable analysis of the Group's performance and results for the year, as well as the situation of the issuer and the companies included in the consolidation together with a description of the main risks and uncertainties to which they are exposed.

Milan, 14 March 2014

Graziano Tarantini
(on behalf of the Management Board)

Patrizia Savi
(Manager in charge of
preparing corporate
accounting documents)

05

Independent Auditors' Report

Independent Auditors' Report

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AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

To the shareholders of
A2A SpA

1 We have audited the consolidated financial statements of A2A SpA and its subsidiaries ("A2A Group") as of 31 December 2013, which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes. The management board of A2A SpA is responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union , as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian stock exchange commission Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management board. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements show the previous year's consolidated figures as comparatives. As stated in the notes to the consolidated financial statements, the management board restated certain comparative amounts of the consolidated income statement with respect to the figures previously reported and audited by us, on which we reported on 5 April 2013. We examined the method applied to restate the comparative amounts and the disclosures presented in the notes to the consolidated financial statements for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2013.

3 In our opinion, the consolidated financial statements of A2A Group as of 31 December 2013 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the consolidated financial position, results of operations and cashflows of A2A Group for the year then ended.

PricewaterhouseCoopers SpA

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4 The management board of A2A is responsible for the preparation of a report on operations and a report on corporate governance and ownership structure, published in the *Governance – Corporate Documents* section of the company's website, in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98, presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by the Italian accounting profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) and recommended by CONSOB. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of A2A SpA as of 31 December 2013.

Milan, 4 April 2014

PricewaterhouseCoopers SpA

signed by
Marco Sala
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers