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This is a translation of the Italian original “Bilancio separato 2016” 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

Overview of performance, financial conditions and net debt

A2A S.p.A.

The Parent Company is responsible for strategic vision, planning, control, financial management and coordination of the A2A Group activities. It also provides services to support the business and operating activities of Group companies (administrative, legal, supply, and personnel management services, information technology and communications) in order to optimize the resources available and use existing expertise in the most efficient manner. These services are governed by intercompany service agreements.

Finally, A2A S.p.A. provides its subsidiaries with office space and operating areas, as well as related services.

A2A S.p.A. owns some hydroelectric plants in Valtellina, the hydroelectric unit in Calabria, as well as the hydroelectric plants of the units in Udine and Mese (former Edipower S.p.A.).

In line with the implementation of the 2015-2019 Business Plan and subsequent 2016-2020, in 2016, the A2A Group carried out a number of corporate transactions, especially relating to the Generation and Trading Business Unit, to reorganize the productive assets in specific companies with homogeneous plants.

As a result of the non-recurring transactions described above, the contents of the balance sheet and income statement at December 31, 2016 are therefore not homogeneous and therefore difficult to compare with those of the previous year as they include:

- the merger by incorporation of the subsidiary A2A Trading S.r.l., effective January 1, 2016, with the exception of the business unit relating to energy efficiency certificates (white certificates) demerged in favour of the subsidiary A2A Calore & Servizi S.r.l. effective July 1, 2016; in relation to the energy certificates unit, the economic effects recognized in A2A S.p.A. only refer to the period January/June 2016;
- the merger by incorporation of the subsidiary Edipower S.p.A., effective January 1, 2016, for the operation of hydroelectric plants and some staff functions, while during the year, the following were demerged from the company Edipower S.p.A.:
 - effective January 1, 2016, the "Cellina Unit" in favour of Cellina Energy S.r.l. (company

wholly owned by Società Elettrica Altoatesina S.p.A.) in application of the demerger deed stipulated the parties on December 28, 2015, whose economic effect on the income statement was recorded under “Result from non-recurring transactions”;

- effective July 1, 2016, the business unit relating to the thermoelectric plants CCGT (Sermide, Piacenza, Chivasso) in favour of the subsidiary A2A gencogas S.p.A.;
- effective July 1, 2016, the business unit relating to the other thermoelectric plants (Brindisi, San Filippo del Mela) in favour of the subsidiary A2A Energiefuture S.p.A..

The economic effect recognized by A2A S.p.A. relating to the demerged business units of Edipower S.p.A., only refers to the period January/June 2016;

- the transfer of the business unit relating to the thermoelectric plants CCGT (Mincio and Cassano d’Adda) to the subsidiary A2A gencogas S.p.A. effective July 1, 2016; the economic effects relating to the period January/June 2016 are included in the income statement of A2A S.p.A.;
- the conferment to A2A Energiefuture S.p.A. of the business unit related to the thermoelectric plant of the plant in Monfalcone, effective as of December 31, 2016; in the period from July 1, 2016 to December 31, 2016, a contract was in effect for the lease of a business unit between A2A S.p.A. and A2A Energiefuture S.p.A. for the same plant; the economic effects recognized in A2A S.p.A. relating to the business unit transferred refer to the period January/June 2016.

Below is a summary, by period, of the plants included in the separate financial statements of A2A S.p.A.:

Year 2015	Year 2016	
	1st half 2016 (*)	2nd half 2016
Hydroelectric Unit Valtellina	Hydroelectric Unit Valtellina	Hydroelectric Unit Valtellina
Hydroelectric Unit Calabria	Hydroelectric Unit Calabria	Hydroelectric Unit Calabria
Plant in Cassano d’Adda.	Plant in Cassano d’Adda	-
Plant in Ponti sul Mincio	Plant in Ponti sul Mincio	-
Plant in Monfalcone	Plant in Monfalcone	(**)
	Hydroelectric Unit Mese	Hydroelectric Unit Mese
	Hydroelectric Unit Udine	Hydroelectric Unit Udine
	Plant in Piacenza	-
	Plant in Sermide	-
	Plant in Chivasso	-
	Plant in Brindisi	-

(*) The so-called “Cellina Unit” owned by Edipower S.p.A. was sold to Cellina Energy S.r.l., effective January 1, 2016.
(**) The Monfalcone plant was sold effective December 31, 2016, in the transitional period between July 1, 2016 and December 31, 2016, a business unit lease contract was in effect between A2A S.p.A. and A2A Energiefuture S.p.A..

Results

<i>Millions of euro</i>	01 01 2016 12 31 2016	01 01 2015 12 31 2015	Changes
Revenues			
Revenues from the sale of goods and services	2,554.2	466.0	2,088.2
Other operating income	206.7	28.0	178.7
Total revenues	2,760.9	494.0	2,266.9
Operating expenses	(2,326.2)	(290.9)	(2,035.3)
Labour costs	(151.7)	(119.7)	(32.0)
Gross operating income - EBITDA	283.0	83.4	199.6
Depreciation, amortization and write-downs	(333.2)	(85.8)	(247.4)
Provisions	(27.6)	(46.2)	18.6
Net operating income - EBIT	(77.8)	(48.6)	(29.2)
Result from non-recurring transactions	48.3	-	48.3
Financial balance	258.4	(71.8)	330.2
Result before taxes	228.9	(120.4)	349.3
Income taxes	45.2	46.9	(1.7)
Result after taxes from operating activities	274.1	(73.5)	347.6
Net result from discontinued operations	-	-	-
Net result of the year	274.1	(73.5)	347.6

In the year in question A2A S.p.A. shows revenues for a total of 2,760.9 million euro (494.0 million euro in the previous year). Sales revenues (2,380.9 million euro) mainly refer to electricity sales to wholesalers, institutional operators, even on IPEX markets (Italian Power Exchange) and subsidiaries, sales of gas and fuels to third parties and subsidiaries and the sale of environmental certificates. Revenues from services (173.3 million euro) mainly relate to provisions to subsidiaries of administrative, fiscal, legal, managerial and technical services, and revenues from the Municipality of Milan for the maintenance and management of public lighting systems. Other revenues (206.7 million euro) include, as from January 1, 2016, incentives on net production from renewable sources, revenues relating to the reinstatement of costs of the San Filippo del Mela plant for the essentiality regime from January to May 2016.

Operating costs amounted to 2,326.2 million euro (290.9 million euro at December 31, 2015) and refer to costs for raw materials (1,882.6 million euro) related primarily to purchases of energy and fuels, both for electricity production and for resale, purchases of materials and environmental certificates; service costs (201.2 million euro), which refer to the costs for the transport and storage of natural gas, costs for plant maintenance as well as for professional and technical services costs; other operating costs (242.4 million euro), which include the contracting of thermoelectric production plants “tolling agreement” of both subsidiaries and associates, as well as water derivation fees, damages and penalties.

Labour costs equalled 151.7 million euro (119.7 million euro at December 31, 2015). The increase is mainly due to the effect of non-recurring transactions for the year.

Due to the dynamics mentioned above the “Gross Operating Margin” equals 283.0 million euro (83.4 million euro at December 31, 2015).

“Amortization and depreciation, provisions and write-downs” of the year amounted to 360.8 million euro (132.0 million euro at December 31, 2015) and include amortisation, depreciation and write-downs of the tangible and intangible assets for 333.2 million euro (85.8 million euro at December 31, 2015) and provisions for 27.6 million euro (46.2 million euro at December 31, 2015).

The item includes 203.3 million euro relating essentially to the write-down of the thermoelectric plant of Monfalcone as a result of the findings of the appraisal carried out by an independent external expert as part of the transfer to the subsidiary A2A Energiefuture S.p.A.. This item includes 23.1 million euro of provisions for risks and charges, mainly relating to public water derivation fees and contractual charges as well as 4.5 million euro relating to credit risk provisions.

“Net Operating Income” is negative for 77.8 million euro (negative for 48.6 million euro at December 31, 2015).

The “Result from non-recurring transactions” is 48.3 million euro (no value at December 31, 2015) and incorporates the income from the demerger of the “Cellina Unit” (formerly Edipower S.p.A.) in favour of Cellina Energy S.r.l., which took effect on January 1, 2016 following the demerger deed signed between the parties on December 28, 2015 as further specified in the paragraph “Significant events during the year” in the file Report on Operations.

Financial balance is positive for 258.4 million euro (negative for 71.8 million euro at December 31, 2015). This item incorporates dividends from subsidiaries for 446.9 million euro (234.9 million euro as at 31 December 2015), the write-down of the shareholdings in A2A gencogas S.p.A., for 54.0 million euro, in Rudnik Uglja Ad Pljevlja for 5.0 million euro, performed following the results of the Impairment Test (in 2015, the write-downs of shareholdings came to 221.4 million euro), as well as net financial expenses for 129.5 million euro (85.3 million euro at December 31, 2015).

The “Result before taxes” was positive for 228.9 million euro (negative for 120.4 million euro at December 31, 2015).

“Income taxes” were positive for 45.2 million euro (positive for 46.9 million euro at December 31, 2015).

The positive tax is mainly due to the recognition of *i)* positive current taxes by way of remuneration for the transfer to the consolidated tax interest expense, *ii)* decrease in deferred tax liabilities as a result of the reversal of temporary differences from previous years, partially offset by decrease in deferred tax assets also due, primarily, to the reversal of temporary differences from previous years and, second, the specific reversal of part of the IRAP deferred tax assets to adapt them to future taxable income of the plan.

Following the dynamics explained above the “Net result of the year” is positive for 274.1 million euro (negative for 73.5 million euro in the previous year).

* * *

Investments for the year amounted to 127.3 million euro and in particular concerned work on hydroelectric plants, improvements to third party assets, investments on the Group’s IT systems, as well as investments in shareholdings to acquire 51% of Linea Group Holding S.p.A..

Balance sheet and financial position

<i>Millions of euro</i>	12 31 2016	12 31 2015	Changes
CAPITAL EMPLOYED			
Net fixed capital	4,926.6	4,992.4	(65.8)
- Tangible assets	1,193.1	1,266.7	(73.6)
- Intangible assets	115.8	52.6	63.2
- Shareholdings and other non-current financial assets (*)	3,905.3	3,894.7	10.6
- Other non-current assets/liabilities (*)	(16.9)	0.4	(17.3)
- Prepaid/deferred tax assets/liabilities	73.4	48.3	25.1
- Provisions for risks, charges and liabilities for landfills	(179.6)	(144.3)	(35.3)
- Employee benefits	(164.5)	(126.0)	(38.5)
<i>of which with counter-entry to equity</i>	<i>(47.3)</i>	<i>(16.4)</i>	
Working capital	116.8	(32.2)	149.0
- Inventories	71.6	4.8	66.8
- Trade receivables and other current assets (*)	1,020.8	235.6	785.2
- Trade payables and other current liabilities (*)	(1,001.2)	(269.7)	(731.5)
- Assets for current assets/liabilities for taxes	25.6	(2.9)	28.5
<i>of which with counter-entry to equity</i>	<i>8.1</i>	<i>-</i>	
Assets/liabilities held for sale (*)	-	0.5	(0.5)
<i>of which with counter-entry to equity</i>	<i>-</i>	<i>-</i>	<i>-</i>
TOTAL CAPITAL EMPLOYED	5,043.4	4,960.7	82.7
SOURCES OF COVERAGE			
Equity	2,316.5	2,161.6	154.9
Total financial position beyond one year	2,530.4	2,599.6	(69.2)
Total financial position within one year	196.5	199.5	(3.0)
Total net financial position	2,726.9	2,799.1	(72.2)
<i>of which with counter-entry to equity</i>	<i>(10.9)</i>	<i>(27.2)</i>	
TOTAL SOURCES	5,043.4	4,960.7	82.7

(*) Excluding balances included in the Net Financial Position.

“Capital employed” totalled 5,043.4 million euro at December 31, 2016, partly covered by “Equity” in the amount of 2,316.5 million euro and net debt of 2,726.9 million euro.

As a result of previously described non-recurring transactions, the figures at December 31, 2016 are not comparable with the figures at December 31, 2015; provided below are the main items that make up the Employed Capital.

Net fixed capital amounted to 4,926.6 million euro and includes:

- tangible assets for 1,193.1 million euro mainly related to the hydroelectric plants in Valtellina, the Calabria, Mese and Udine units;

- intangible assets for 115.8 million euro that include software licenses and development projects of IT systems, goodwill and inventories of the environmental certificates related to the industrial portfolio;
- shareholdings and other non-current financial assets for 3,905.3 million euro, which include shareholdings in subsidiaries (3,854.9 million euro), including the acquisition of 51% of Linea Group Holding S.p.A. finalized in the year, associates (46.7 million euro), which include the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings (3.7 million euro);
- other non-current assets/liabilities (-16.9 million euro) which mainly relate to the payable to the minority shareholders of Linea Group Holding S.p.A.;
- deferred tax assets/liabilities for 73.4 million euro both IRES and IRAP on changes and provisions made solely for tax purposes;
- provision for risks, charges and liabilities for landfills for 179.6 million euro, which refer to tax provisions (3.9 million euro) for pending or potential disputes with the tax authorities; provisions for lawsuits and disputes with staff (31.6 million euro) in particular related to disputes with social security institutions and third parties; other risk provisions (144.1 million euro), which include provisions concerning the burden of the contractual obligations in the tolling contract with the company Ergosud S.p.A., the provisions relating to the public water derivation fees, the provisions relating to contractual charges as well as other risk provisions;
- employee benefits for 164.5 million euro that include the leaving entitlement (TFR) accrued to employees for 27.6 million euro and other provisions for benefits for 136.9 million euro.

Working capital amounted to 116.8 million euro and includes:

- inventories for 71.6 million euro relating primarily to inventories of fuels, also stored at third parties to produce electricity as well as gas inventories for the sale and storage thereof;
- trade receivables and other current assets for 1,020.8 million euro that include trade receivables from third parties and Group companies for a total of 650.1 million euro and other current assets totalling 370.7 million euro, which mainly include: assets for commodity derivatives (260.4 million euro); receivables from subsidiaries for tax consolidation (59.6 million euro); tax receivables for VAT, excise and withholding taxes (21.3 million euro); advances to suppliers (6.9 million euro); receivables from Ergosud S.p.A. related to portions of emission rights for the Scandale plant (9.1 million euro); as well as receivables from Cassa per i Servizi Energetici e Ambientali related to the conclusion of the mechanism inherent Resolution 196/2013/R/gas (5.8 million euro);
- trade payables and other current liabilities for 1,001.2 million euro that include trade payables to third parties and to Group companies for a total of 667.5 million euro and

other current liabilities totalling 333.7 million euro, which mainly include: liabilities for commodity derivatives (247.4 million euro); payables to subsidiaries for tax consolidation (28.5 million euro); payables to social security institutions and to employees (30.5 million euro); payables for fiscal transparency to Ergosud S.p.A. (7.2 million euro); and tax payables for excise and withholdings (5.4 million euro);

- current tax assets/payables for 25.6 million euro that include current tax assets of 51.4 million euro related to IRAP receivables, IRES receivables for amounts requested for reimbursement and receivables for Robin Tax paid in previous years, partially offset by IRES current tax payables of 25.8 million euro.

The “Net debt” of 2,726.9 million euro, improved by 72.2 million euro compared to December 31, 2015 and includes the effect of the non-recurring transactions during the year, which was negative by 70.2 million euro. Operations during the year generated resources of 373.3 million euro, partly offset by the resources absorbed by net investments in tangible and intangible assets and shareholdings of 121.3 million euro and dividends paid to shareholders of 125.9 million euro.

<i>Millions of euro</i>	12 31 2016	12 31 2015
NET FINANCIAL POSITION AT THE START OF THE YEAR	(2,799.1)	(2,854.0)
CONTRIBUTIONS FROM NON-RECURRING TRANSACTIONS	(70.2)	-
Result of the year (**)	219.7	(73.5)
Amortization and depreciation	129.9	80.8
Net taxes paid/receivables for taxes paid	8.0	44.0
Write-downs on shareholdings and fixed assets	265.5	227.1
Change in the assets and liabilities (*)	(249.8)	(57.7)
Cash flow from operating activities	373.3	220.7
Cash flow from investment activities	(121.3)	(76.5)
Dividends paid	(125.9)	(112.7)
Changes in financial assets/liabilities with counter-entry to equity	16.3	23.4
NET FINANCIAL POSITION AT THE END OF THE YEAR	(2,726.9)	(2,799.1)

(*) Excluding balances with counter-entry to equity.

(**) Result of the year is exposed net of gains on shareholdings' and fixed assets' disposals.

Below is a detail of the net debt:

<i>Millions of euro</i>	12 31 2016	Effect of non-recurring transactions	12 31 2015
Medium/long-term debt	2,937.0	-	3,001.1
Medium/long-term financial receivables	(406.6)	-	(401.5)
Total non-current net debt	2,530.4	-	2,599.6
Short-term debt	857.4	(89.5)	1,408.0
Short-term financial receivables	(382.7)	187.8	(621.5)
Cash and cash equivalents	(278.2)	(28.1)	(587.0)
Total current net debt	196.5	70.2	199.5
Net debt	2,726.9	70.2	2,799.1

0.1

Financial Statements

Balance sheet ⁽¹⁾

Assets

<i>Amounts in euro</i>	Note	12 31 2016	12 31 2015
NON-CURRENT ASSETS			
Tangible assets	1	1,193,119,976	1,266,693,752
Intangible assets	2	115,786,296	52,605,327
Shareholdings	3	3,901,566,008	3,890,927,319
Other non-current financial assets	3	406,463,302	405,362,171
Deferred tax assets	4	73,426,087	48,261,061
Other non-current assets	5	4,453,710	452,429
Total non-current assets		5,694,815,379	5,664,302,059
CURRENT ASSETS			
Inventories	6	71,635,325	4,777,441
Trade receivables	7	650,195,136	146,947,980
Other current assets	8	370,735,926	104,703,500
Current financial assets	9	382,645,017	605,367,617
Current tax assets	10	51,359,537	38,987,274
Cash and cash equivalents	11	278,207,406	587,049,592
Total current assets		1,804,778,347	1,487,833,404
NON-CURRENT ASSETS HELD FOR SALE	12	-	469,000
TOTAL ASSETS		7,499,593,726	7,152,604,463

(1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of relations with related parties in the separate financial statements are highlighted in the accounting statements in section 0.2 and commented on in Note 35. Significant non-recurring events and transactions in the separate financial statements are provided in Note 36 pursuant to Consob Communication DEM/6064293 of July 28, 2006.

Equity and liabilities

Amounts in euro	Note	12 31 2016	12 31 2015
EQUITY			
Share capital	13	1,629,110,744	1,629,110,744
(Treasury shares)	14	(53,660,996)	(60,891,196)
Reserves	15	466,984,916	666,859,220
Net result of the year	16	274,049,714	(73,487,107)
Total equity		2,316,484,378	2,161,591,661
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	17	2,922,181,214	2,973,930,319
Employee benefits	18	164,559,678	125,996,516
Provisions for risks, charges and liabilities for landfills	19	179,628,845	144,313,123
Other non-current liabilities	20	32,261,924	27,231,315
Total non-current liabilities		3,298,631,661	3,271,471,273
Current liabilities			
Trade payables	21	667,474,444	162,012,623
Other current liabilities	21	333,766,188	115,139,335
Current financial liabilities	22	857,449,886	1,400,512,790
Tax liabilities	23	25,787,169	41,876,781
Total current liabilities		1,884,477,687	1,719,541,529
Total liabilities		5,183,109,348	4,991,012,802
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL EQUITY AND LIABILITIES		7,499,593,726	7,152,604,463

Income statement ⁽¹⁾

Amounts in euro	Note	01 01 2016 12 31 2016	01 01 2015 12 31 2015
Revenues			
Revenues from the sale of goods and services		2,554,203,010	465,963,699
Other operating income		206,691,561	28,044,921
Total revenues	25	2,760,894,571	494,008,620
Operating expenses			
Expenses for raw materials and services		2,083,797,799	221,374,062
Other operating expenses		242,403,978	69,493,703
Total operating expenses	26	2,326,201,777	290,867,765
Labour costs	27	151,699,176	119,732,850
Gross operating income - EBITDA	28	282,993,618	83,408,005
Depreciation, amortization, provisions and write-downs	29	360,854,186	132,013,925
Net operating income - EBIT	30	(77,860,568)	(48,605,920)
Result from non-recurring transactions	31	48,336,439	-
Financial balance			
Net financial income		491,423,599	299,498,071
Financial expenses		233,065,225	371,305,323
Result from disposal of other shareholdings (AFS)		-	-
Total financial balance	32	258,358,374	(71,807,252)
Result before taxes		228,834,245	(120,413,172)
Income taxes	33	(45,215,469)	(46,926,065)
Result after taxes from operating activities		274,049,714	(73,487,107)
Net result from discontinued operations		-	-
NET RESULT OF THE YEAR	34	274,049,714	(73,487,107)

- (1) As required by Consob Resolution no. 17221 of March 12, 2010, the effects of relations with related parties in the separate financial statements are highlighted in the accounting statements in section 0.2 and commented on in Note 35. Significant non-recurring events and transactions in the separate financial statements are provided in Note 36 pursuant to Consob Communication DEM/6064293 of July 28, 2006.

Statement of comprehensive income

<i>Amounts in euro</i>	12 31 2016	12 31 2015
Net result of the year (A)	274,049,714	(73,487,107)
Actuarial gains/(losses) on Employee's Benefits booked in the Net equity	(36,144,144)	6,086,047
Tax effect of other actuarial gains/(losses)	11,214,346	(1,544,790)
Total actuarial gains/(losses) net of the tax effect (B)	(24,929,798)	4,541,257
Effective part of gains/(losses) on cash flow hedge	24,378,320	23,443,082
Tax effect of other gains/(losses)	(6,302,733)	(5,052,274)
Total other gains/(losses) net of the tax effect (C)	18,075,587	18,390,808
Gains/(losses) from recalculation of available for sale	-	(248)
Tax effect of other gains/(losses)	-	145,942
Gains/(losses) from the restatement of financial assets available for sale (D)	-	145,694
Total comprehensive result (A) + (B) + (C) + (D)	267,195,503	(50,409,348)

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

Cash flow statement

<i>Amounts in euro</i>	12 31 2016	12 31 2015
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	587,049,592	410,501,055
Contribution from non-recurring transactions	28,102,900	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	615,152,492	410,501,055
Operating activities		
Result of the year (**)	219,713,275	(73,487,107)
Tangible assets depreciation	121,488,437	74,160,540
Intangible assets amortization	8,429,260	6,664,143
Fixed assets write-downs	205,394,156	5,716,663
Shareholdings write-downs	60,130,442	221,372,219
Net taxes paid/receivables for disposed taxes (a)	7,958,109	44,053,403
Gross change in assets and liabilities (b)	(249,871,300)	(57,747,217)
Total change of assets and liabilities (a+b) (*)	(241,913,191)	(13,693,814)
Cash flow from operating activities	373,242,379	220,732,644
Investment activities		
Investments in tangible assets	(27,568,056)	(39,532,919)
Investments in intangible assets and goodwill	(10,650,456)	(5,908,823)
Investments in shareholdings and securities (*)	(89,067,015)	(35,802,787)
Disposal of fixed assets and shareholdings	6,010,000	4,788,391
Cash flow from investment activities	(121,275,527)	(76,456,138)
FREE CASH FLOW	251,966,852	144,276,506
Financing activities		
Change in financial assets (*)	22,501,414	96,644,887
Change in financial liabilities (*)	(380,884,578)	150,497,221
Net financial interests paid	(104,618,280)	(102,122,725)
Dividends paid	(125,910,494)	(112,747,352)
Cash flow from financing activities	(588,911,938)	32,272,031
CHANGE IN CASH AND CASH EQUIVALENTS	(336,945,086)	176,548,537
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	278,207,406	587,049,592

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

(**) Result of the year is exposed net of gains on shareholdings' and fixed assets' disposals.

Statement of changes in equity

Description <i>Amounts in euro</i>	Share Capital note 13	Treasury shares note 14	
Equity at December 31, 2014	1,629,110,744	(60,891,196)	
Allocation of 2014 net result			
Ordinary dividend distribution			
IAS 32 and 39 reserves (*)			
IAS 19 Revised reserve "Employee Benefits" (*)			
Other changes			
Net result of the year (*)			
Equity at December 31, 2015	1,629,110,744	(60,891,196)	
Allocation of 2014 net result			
Ordinary dividend distribution			
Contribution from non-recurring transactions			
Operations on own shares		7,230,200	
IAS 32 and 39 reserves (*)			
IAS 19 Revised reserve "Employee Benefits" (*)			
Other changes			
Net result of the year (*)			
Equity at December 31, 2016	1,629,110,744	(53,660,996)	
Availability of Equity Reserves			
A: For share capital increase			
B: To cover losses			
C: For distribution to Shareholders - available for euro 214,940,217 (**)			
D: Reserves not available			

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

(**) Of which to fiscal moderate suspension equal to euro 124,783,022.

	Reserves note 15	Cash Flow hedge reserve note 15	Available for sale reserve note 15	Net result of the year note 16	Total equity
	787,947,001	(39,068,957)	(607,840)	8,257,733	2,324,747,485
	8,257,733			(8,257,733)	-
	(112,747,352)				(112,747,352)
		18,390,808	145,694		18,536,502
	4,541,257				4,541,257
	876				876
				(73,487,107)	(73,487,107)
	687,999,515	(20,678,149)	(462,146)	(73,487,107)	2,161,591,661
	(73,487,107)			73,487,107	-
	(125,910,494)				(125,910,494)
	(4,770,421)	(3,981,983)		48,336,439	39,584,035
	2,833,104				10,063,304
		22,057,570			22,057,570
	(16,614,973)				(16,614,973)
					-
				225,713,275	225,713,275
	470,049,624	(2,602,562)	(462,146)	274,049,714	2,316,484,378
	A-B-C	D			

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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

<i>Amounts in euro</i>	12 31 2016	of which Related Parties (note 35)	12 31 2015	of which Related Parties (note 35)
ASSETS				
NON-CURRENT ASSETS				
Tangible assets	1,193,119,976		1,266,693,752	
Intangible assets	115,786,296		52,605,327	
Shareholdings	3,901,566,008	3,901,566,008	3,890,927,319	3,890,927,319
Other non-current financial assets	406,463,302	402,792,009	405,362,171	401,596,232
Deferred tax assets	73,426,087		48,261,061	
Other non-current assets	4,453,710		452,429	
TOTAL NON-CURRENT ASSETS	5,694,815,379		5,664,302,059	
CURRENT ASSETS				
Inventories	71,635,325		4,777,441	
Trade receivables	650,195,136	171,861,525	146,947,980	144,179,706
Other current assets	370,735,926	59,593,634	104,703,500	78,456,910
Current financial assets	382,645,017	381,245,017	605,367,617	605,367,617
Current tax assets	51,359,537		38,987,274	
Cash and cash equivalents	278,207,406		587,049,592	
TOTAL CURRENT ASSETS	1,804,778,347		1,487,833,404	
NON-CURRENT ASSETS HELD FOR SALE	-	-	469,000	469,000
TOTAL ASSETS	7,499,593,726		7,152,604,463	

Equity and liabilities

Amounts in euro	12 31 2016	of which Related Parties (note 35)	12 31 2015	of which Related Parties (note 35)
EQUITY				
Share capital	1,629,110,744		1,629,110,744	
(Treasury shares)	(53,660,996)		(60,891,196)	
Reserves	466,984,916		666,859,220	
Net result of the year	274,049,714		(73,487,107)	
Total equity	2,316,484,378		2,161,591,661	
LIABILITIES				
NON-CURRENT LIABILITIES				
Non-current financial liabilities	2,922,181,214		2,973,930,319	
Employee benefits	164,559,678		125,996,516	
Provisions for risks, charges and liabilities for landfills	179,628,845	94,019,372	144,313,123	33,350,586
Other non-current liabilities	32,261,924		27,231,315	
Total non-current liabilities	3,298,631,661		3,271,471,273	
CURRENT LIABILITIES				
Trade payables	667,474,444	79,573,486	162,012,623	83,737,545
Other current liabilities	333,766,188	36,420,057	115,139,335	46,948,578
Current financial liabilities	857,449,886	562,985,047	1,400,512,790	732,742,345
Tax liabilities	25,787,169		41,876,781	
Total current liabilities	1,884,477,687		1,719,541,529	
Total liabilities	5,183,109,348		4,991,012,802	
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-		-	
TOTAL EQUITY AND LIABILITIES	7,499,593,726		7,152,604,463	

Income statement

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

<i>Amounts in euro</i>	01 01 2016 12 31 2016	of which Related Parties (note 35)	01 01 2015 12 31 2015	of which Related Parties (note 35)
Revenues				
Revenues from the sale of goods and services	2,554,203,010	840,687,784	465,963,699	459,633,982
Other operating income	206,691,561	9,790,621	28,044,921	7,320,088
Total revenues	2,760,894,571		494,008,620	
Operating expenses				
Expenses for raw materials and services	2,083,797,799	136,621,523	221,374,062	127,195,934
Other operating expenses	242,403,978	123,250,578	69,493,703	7,651,241
Total operating expenses	2,326,201,777		290,867,765	
Labour costs	151,699,176	2,714,228	119,732,850	2,461,994
Gross operating income - EBITDA	282,993,618		83,408,005	
Depreciation, amortization, provisions and write-downs	360,854,186		132,013,925	
Net operating income - EBIT	(77,860,568)		(48,605,920)	
Result from non-recurring transactions	48,336,439		-	
Financial balance				
Financial income	491,423,599	471,792,883	299,498,071	273,920,071
Financial expenses	233,065,225	63,569,466	371,305,323	226,017,077
Result from disposal of other shareholdings (AFS)	-		-	
Total financial balance	258,358,374		(71,807,252)	
Result before taxes	228,834,245		(120,413,172)	
Income taxes	(45,215,469)		(46,926,065)	
Result after taxes from operating activities	274,049,714		(73,487,107)	
Net result from discontinued operations	-		-	
NET RESULT OF THE YEAR	274,049,714		(73,487,107)	

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Notes

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, abroad, the A2A Group is present in Montenegro following the acquisition of a controlling stake in the company EPCG which took place in 2009.

In particular, as the “Parent Company”, A2A S.p.A. is responsible for the guiding strategy, administration, planning and control, financial management and coordinating the activities of the A2A Group.

Therefore, Group companies benefit from administrative, tax, legal, personnel management, procurement and communication services, so as to optimize the resources that are available within the Group and to use the existing known how in a cost-effective way.

Following the non-recurring transactions in the year, the company increased its operating activities.

The A2A Group mainly operates in the following sectors:

- production, sale and distribution of electricity;
- sale and distribution of gas;
- 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.

The separate financial statements for A2A S.p.A. are presented in euro, which is also the functional currency in the economies in which the company operates. In particular, the following notes are prepared in thousands of euro.

The separate financial statements of A2A S.p.A. at December 31, 2016, have been prepared on a going-concern basis and comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and these notes.

These financial statements have been prepared in accordance with the international accounting standards (IAS/IFRSS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Union, including “International Accounting Standards” (IAS) and “International Financial Reporting Standards” (IFRSS), as well as the interpretations of the “International Financial Reporting Interpretation Committee” (IFRIC) and rules issued in application of art. 9 of Legislative Decree 38/2005.

These explanatory notes include the supplemental information required by the Italian civil code, by Consob Resolutions no. 15519 and 15520 of July 27, 2006, and Consob communication no. 6064293 of July 28, 2006.

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

These separate financial statements for the year ended December 31, 2016, were approved on April 3, 2017, by the Board of Directors, which authorized its publication, and has been audited by EY S.p.A. in accordance with their appointment by the shareholders of June 11, 2015, for the nine years from 2016 to 2024.

Financial statements

For the balance sheet, the company A2A S.p.A. has adopted a format which separates current and non-current assets and liabilities, as required by paras. 60 et seq. of IAS 1.

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

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

The cash flow statement 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.

The formats adopted for the financial statements are the same as those used to prepare the annual separate financial statements at December 31, 2015.

Basis of preparation

The separate financial statements as at December 31, 2016, have 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 accounting principles, the accounting policies and the methods of measurement used in the preparation of the separate financial statements are consistent with those used to prepare the annual separate financial statements at December 31, 2015, except as specified below.

Changes in international accounting standards

Pursuant to IAS 8, the subsequent paragraph “Accounting standards, amendments and interpretations applicable by the company as of the current year” indicates and briefly illustrates the amendments in force as of January 1, 2016.

The following paragraphs, *“Accounting standards, amendments and interpretations approved by the European Union”* and *“Accounting standards approved by the European Union but applicable in future years”* instead detail the accounting standards and interpretations already issued, whether not yet approved or approved by the European Union and therefore not applicable for the preparation of the financial statements at December 31, 2016, any impacts of which will then be transposed as of the financial statements of the following years.

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

As from January 1, 2016, some additions have been applied following specific paragraphs of the international accounting standards already adopted by the company in previous years, none of which had an effect, with respect to December 31, 2015, on the company’s economic and financial results or reporting methods.

The main changes are described in the following:

- IFRS 11 “Joint Arrangements”: issued by the IASB on May 6, 2014, the amendment to this standard provides guidance on how to account for the acquisition of an interest in a joint operation that is a business as defined by IFRS 3 “Business Combinations”. The amendment in question is applicable from January 1, 2016. There were no impacts for the company because at December 31, 2016, this case was not present. Specifically, with the entry into force of the amendment to IFRS 11, the company has carried out an analysis of its jointly controlled shareholdings or joint ventures, analyzing for each the type of joint arrangement and verifying the existence of requirements of the standard for the identification of joint operations;

- IAS 1 “Presentation of the Financial Statements”: issued by the IASB on December 18, 2014 and applicable from January 1, 2016, the amendment to the standard in question explicitly clarifies that non-significant disclosures need not be provided even if expressly required by a specific IFRS. With respect to the notes to the financial statements, there is no specific order and therefore the company could also decide to present the notes for each item of the financial statements, commenting on the content and the changes during the period along with a description of the accounting standard applied to said item. The amendment to the standard in question also intends to provide clarification on the aggregation or disaggregation of items of the financial statements if the amount is significant or “material”. In particular, the amended to the standard requires not proceeding with the aggregation of financial statement items with different characteristics or the disaggregation of financial statement items that make the disclosure and reading of the financial statements difficult. Furthermore, with regard to the exposure of the financial position of an entity, the amendment clarifies the need to disaggregate some items required by paragraphs 54 (Balance sheet) and 82 (Income statement) of IAS 1. There were no significant impacts for the company, since the reporting of the separate financial statements at December 31, 2016 is compliant with the amendments introduced to this standard;
- IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”: this amendment to the two principles outlined, issued by the IASB on May 12, 2014, clarifies that a depreciation process based on revenues cannot be applied with reference to elements of property, plant and equipment, since this method is based on factors (ex. volumes and selling prices) that do not represent the actual consumption of the economic benefits of the underlying asset. The above prohibition has also been included in IAS 38, under which intangible assets may be amortized on the basis of revenues only if it can be shown that the revenues and consumption of the economic benefits of the intangible asset are highly correlated. There were no impacts because the company has never applied said methodology;
- with the amendments to the international accounting standards IAS 41 “Agriculture” and IAS 16 “Property, plant and equipment”, the IASB established that fruit-bearing plants, used exclusively for the cultivation of agricultural products over various years, should be subject to the same accounting treatment for property, plant and equipment in accordance with IAS 16 “Property, plant and equipment”, as the “operation” is similar to that of manufacturing production. The amendments in question are applicable from January 1, 2016. There were no impacts because the company has never applied said methodology;
- IAS 27 Revised “Separate Financial Statements”: the amendment to this standard, issued by the IASB on August 12, 2014 and applicable from January 1, 2016, allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. In continuity with previous years, the company has decided not to resort to said option;

- IAS 28 “Investments in Associates and Joint Ventures”: on December 18, 2014, this standard was amended regarding the investments in associates and joint ventures that are “investment entities”: these investments can be measured at fair value or with the equity method. This amendment is applicable from January 1, 2016. There were no impacts for the company because at December 31, 2016, this case was not present;
- annual amendments to IFRS 2012-2014: on September 25, 2014, the IASB published a series of amendments to certain international accounting standards, applicable with effect from January 1, 2016. The amendments concern:
 - (i) IFRS 5 “Non-current assets held for sale and discontinued operations”;
 - (ii) IFRS 7 “Financial Instruments: Disclosures”;
 - (iii) IAS 19 “Employee Benefits”;
 - (iv) IAS 34 “Interim financial reporting”.

Regarding the first point, the amendment clarifies that the restatement of the financial statement figures shall not be resort to if an asset or group of assets available for sale is reclassified as “held for distribution”, or vice versa. There were no impacts for the company because at December 31, 2016, this case was not present.

With reference to IFRS 7, the amendment provides that if an entity transfers a financial asset on terms which allow the “derecognition” of the asset, it shall be required to provide information regarding the involvement of the entity in the transferred asset, if it has signed service contracts that show an entity’s interest in the future performance of the financial assets transferred. There were no impacts for the company because at December 31, 2016, this case was not present.

The amendment of IAS 19 proposed, clarifies that the discount rate to discount the obligations for benefits following the employment relationship, is determined with reference to market yields on corporate bonds of leading companies and, in countries where there is no “thick market” of such securities, the market yields of the securities of public entities are used. There were no impacts because the company already applies this accounting treatment.

The proposed amendment to IAS 34 requires disclosure of cross-references between the data reported in the interim financial statements and the information associated with them. There were no impacts because the company, in the preparation of the interim financial statements, already applies as required by the amendment to the standard in question.

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

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

- on September 11, 2014, the IASB published an amendment to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Shareholdings in affiliates and joint ventures”, in order to resolve the conflict between IAS 28 and IFRS 10. According to the provisions of IAS 28, the gain or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in the capital of the latter is limited to the shareholding in the joint venture or associate by other investors extraneous to the transaction. In contrast, IFRS 10 requires the recording of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling stake in it, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that for a sale or transfer of an asset or a subsidiary to a joint venture or associate, the measure of the gain or loss to be recognized in the financial statements of the seller (or transferor) depends on whether the asset or subsidiary sold (or transferred) constitute a business, under the meaning of IFRS 3. If the assets or the subsidiary sold represent a business, the entity shall recognize the gain or loss on the entire investment held; otherwise, the portion of the gain or loss related to the share still held by the entity shall be eliminated. For said amendments, a date of first application has not been established yet;
- IFRS 14 “Regulatory deferral accounts”: the new transitional standard, issued by the IASB January 30, 2014, allows the entity that adopts for the first time the international accounting standards IAS/IFRS, to continue to apply the previous GAAP accounting policies for the evaluation (including impairment) and elimination of regulatory deferral accounts. This standard is still pending approval and will be applicable retroactively from January 1, 2016;
- Amendment to IFRS 15 “Revenues from contracts with customers”: the amendment, issued on April 12, 2016 and applicable from January 1, 2018, aims to clarify the guidelines for the identification of an obligation to sell an asset or provide one or more services, and also intends to provide clarification regarding the accounting of licenses related to intellectual property;
- IFRS 16 “Leasing”: this standard, issued by the IASB on January 13, 2016, replaces IAS 17 and sets out the criteria for the recognition, measurement and presentation of leasing contracts. IFRS 16 is applicable from January 1, 2019, but early adoption is permitted for

entities that also apply IFRS 15. Any impacts regarding the adoption of the standard on the separate financial statements are being evaluated;

- IAS 7 “Additional information in the financial statements on financial instruments”: the amendment to the standard, applicable from January 1, 2017, was issued by the IASB on January 29, 2016 and requires that an entity provide information that enables users of the financial statements to evaluate changes in liabilities arising from financial assets;
- IAS 12 “Income taxes”: on January 19, 2016, the IASB published some amendments that aim to clarify the accounting method for deferred tax assets related to debt instruments measured at fair value. The amendments are applicable from January 1, 2017;
- IFRS 4 “Insurance contracts”: the amendment issued by the IASB on September 12, 2016 disciplines the effects of the application of the standard in question together with those related to the adoption of IFRS 9 “Financial instruments” in the financial statements of insurance contracts issuers. This amendment is applicable from January 1, 2018;
- on December 8, 2016, the IASB issued some amendments to the standards approved in the three-year period 2014-2016 in particular IFRS 1 “First-time adoption of International Accounting Standards”, IFRS 12 “Disclosure of shareholdings in other entities” and IAS 28 “Shareholdings in associates”:
 - (i) With reference to IFRS 1, some exemptions are eliminated as provided by specific paragraphs of the standard;
 - (ii) The amendment to IAS 18 provides that, if the parent is a venture capital company, it has the power to measure its shareholdings in associates and joint ventures at fair value with recognition of any changes in the income statement;
 - (iii) The amendment to IFRS 12 establishes that the disclosure requirements also apply in cases where shareholdings in subsidiaries, associates and joint ventures are classified as “Non-current assets held for sale” in accordance with IFRS 5;
- On December 8, 2016, the IASB issued an amendment to IAS 40 “Property Investments”, which clarifies when an entity is required to transfer the ownership of properties (including those under construction). It also establishes that the only intention of the management to change the use of a property is not evidence of a change in the use of the property investment. The amendment to the standard in question, despite early adoption is provided, is applicable retrospectively with effect from January 1, 2018;
- IFRIC 22 “Transactions and advances in foreign currency”: this interpretation was issued by the IASB on December 8, 2016 and is intended to clarify the accounting for transactions that include the payment or collection of advance payments in currency other than the euro. In particular, this interpretation regulates the exchange rate to be adopted for transactions in foreign currency resulting in non-monetary assets and liabilities related to the collection or payment of advances, before the recognition of the related assets, costs or revenues. The interpretation in question is applicable from January 1, 2018.

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

The following standards have been approved by the European Union but will apply from 2018; therefore, they are not applicable by the company in the financial statements at December 31, 2016.

- IFRS 9 “Financial instruments”: this standard, approved by the European Union on November 29, 2016, entirely replaces IAS 39 “Financial instruments: recognition and measurement” and introduces two new criteria to recognize and measure financial assets and liabilities. The main changes introduced by IFRS 9 may be summarized as follows: financial assets can be measured either at fair value or at their amortized cost. As a result, the categories “loans and receivables”, “available-for-sale financial assets” and “held-to-maturity investments” disappear. Classification within the two categories is carried out on the basis of an entity’s business model and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost if both of the following requirements are met: the objective of the entity’s business model is to hold assets to collect contractual cash flows (and therefore in substance not to earn trading profits) and the characteristics of the cash flows of the asset are solely payments of principal and interest. A financial asset is measured at fair value if it is not measured at amortized cost. The rules to account for derivatives have been simplified, as the embedded derivative and the host financial asset are no longer recognized separately.

All equity instruments - listed or unlisted - must be measured at fair value (IAS 39 established on the other hand that unlisted equity instruments should be valued at cost if fair value could not be reliably measured).

An entity has the option of presenting changes in the fair value of equity instruments that are not held for trading in equity; that option is not permitted for equity instruments that are held for trading. This designation is permitted on initial recognition, may be adopted for each individual instrument and is irrevocable. If an election is made for this option, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends on the other hand continue to be recognized in the income statement. IFRS 9 does not permit reclassifications between the two categories of financial asset except in the rare case of a change in an entity’s business model. In this case the effects of the reclassification are applied prospectively.

The disclosures required to be made in the notes have been adjusted to the classification and measurements rules introduced by IFRS 9. On November 19, 2013, the IASB issued an amendment to this standard which mainly regards the following:

- (i) the substantial revision of the “Hedge accounting”, which will allow entities to better reflect their risk management activities in the financial statements;

- (ii) enabling entities to change the accounting of liabilities measure at fair value: in particular the effects of a worsening of an entity's own credit risk will no longer be recognized in the income statement;
- (iii) the effective date of the standard is deferring, originally effective as of January 1, 2015.

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

The amendment in question is applicable from January 1, 2018.

The impact of the adoption of this standard on the separate financial statements is currently being analyzed; however, the company does not expect significant effects from the application thereof on recurring transactions;

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

A contract with a customer falls within the scope of the standard if all the following conditions are met:

- (i) the contract has been approved by the parties to the contract, who have undertaken to carry out their respective obligations;
- (ii) each party's rights in relation to the goods and services to be transferred can be identified and the payment terms have been identified;
- (iii) the contract has commercial substance (the risks, the timing or the cash flows may change as the result of the contract);

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

IFRS 15 also includes the disclosure requirements that are significantly more extensive than the existing standard concerning the nature, amounts, timing and uncertainty of revenues and cash flows arising from contracts with customers.

Based on these considerations, and preliminary analysis conducted on the contracts in place, it is believed that the application of IFRS 15 will not have a material impact on the separate financial statements of A2A S.p.A.. The provisions of IFRS 15, following the amendments made with the amendment issued on September 11, 2015, will be effective for years beginning on or after January 1, 2018; at the present state, A2A S.p.A. does not expect to exercise the option of early adoption granted by the standard. The standard includes mandatory retroactive application and the transition can take place in two possible ways: retroactively to each previous year presented in accordance with IAS 8 (full retrospective approach) or retroactively by accounting for the cumulative effect from the initial application date (modified retrospective approach). In case of choosing the second approach, IFRS 15 is only applied retroactively to contracts that are not concluded at the initial application date (January 1, 2018). A2A is evaluating which of the two options of retroactive application to adopt.

For the purposes of implementation of IFRS 15, the company expects the completion of its analyses by the end of 2017, in time for the evaluation of the quantitative aspects of the adoption of the new standard, to be included in the annual financial statements at December 31, 2017.

Accounting standards and policies

Translation of foreign currency items

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

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

Tangible assets

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

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

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

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

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

Assets acquired under finance leases are accounted for on the basis of IAS 17 “Leases”, which requires the leased asset to be recognized as a tangible asset together with a financial liability of the same amount. The liability is progressively reduced on the basis of the scheme for the repayment of the capital portion of the contractual lease instalments, while the carrying amount of the asset is systematically depreciated over its economic and technical life or over the shorter of the lease term and the asset’s useful life, but only if there is reasonable certainty that the lessee will obtain ownership by the end of the lease term.

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

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

Tangible assets are stated net of accumulated depreciation and any write-downs. Depreciation is charged from the year in which the individual asset enters service on a straight-line basis over the estimated useful life of the asset for the business. The estimated realizable value which is deemed to be recoverable at the end of an asset’s useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset. During the reporting year, the useful lives of the CCGT plants were reviewed, as described in note “1) Tangible assets”.

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 _____	1.7 % - 33.3 %
• production plants _____	1.7 % - 50.0 %
• transport lines _____	1.4 % - 100.0 %
• transformation stations _____	6.7 %
• distribution networks _____	1.4 % - 10.0 %
• miscellaneous equipment _____	4.8 % - 14.3 %
• mobile phones _____	100.0 %
• furniture and fittings _____	10.0 % - 12.5 %
• electric and electronic office machines _____	10.0 %
• vehicles _____	10.0 % - 12.5 %
• leasehold improvements _____	5 % - 10.9 %

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

- industrial patents and intellectual property rights _____ 12.5 % - 33.3 %
- concessions, licenses, trademarks and similar rights _____ 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 non-current 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 the income statement. If a loss recognized for an asset other than goodwill no longer exists or is reduced, the carrying amount of the asset or cash-generating unit is increased to the new estimate of recoverable value, which may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset. Reversals of impairment losses are immediately recognized in the income statement.

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

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

Environmental certificates: emission quotas and Green 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 those companies over which A2A S.p.A. exercises control as it “is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee”, as defined by IFRS 10.

Associates are companies in which the company 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.

Investments in subsidiaries, associates and joint ventures are recognized in the separate financial statements at their purchase cost less any distributions of capital or impairment losses determined through the Impairment Test.

Should the portion attributable to the company of any impairment losses for the shareholding exceed the carrying value of the investment, the value of the investment is set to zero, and the excess share of the loss is recognized among liabilities as a provision in the event the company is responsible for said liability.

The cost is restored in subsequent periods if the reasons for the impairment should cease to apply.

Long term construction contracts in progress

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

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

Inventories

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

Financial instruments

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

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

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

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

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

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

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

- non-derivative financial assets and liabilities at fair value through the income statement are measured at fair value;
- other non-derivative financial assets and liabilities, other than investments with fixed or determinable payments, are measured at amortized cost. Any transaction costs incurred during the acquisition or sale are treated as direct adjustments to the nominal value of the asset or liability (e.g. issue premium or discount, loan acquisition costs, etc.). Interest income and expense is then remeasured on the basis of the effective interest method. Financial assets are assessed regularly to see if there is any indication that they are impaired. In the assessment of receivables in particular, account is taken of the solvency of debtors, as well as the characteristics of credit risk which is indicative of the ability of the individual debtors to pay. Any write-downs are recognized in the income statement for the period. This category includes investments held with the intent and ability to hold them to maturity, non-current loans and receivables, trade receivables and other receivables originated by the operations of the business, financial payables, trade payables, other payables and other financial liabilities;
- available-for-sale financial assets are non-derivative financial assets that are not classified as financial assets at fair value through the income statement or other financial assets, which therefore makes them a residual item. They are measured at fair value and any gains or losses generated are recognized directly in equity until the assets are written- down or

realized, at which stage they are reclassified to the income statement. Losses recognized in equity are in any case reversed and recognized in the income statement, even if the financial asset has not been eliminated, if there is objective evidence that the asset is impaired. Unlisted investments with a fair value that cannot be reliably measured are measured at cost less any write-downs. Write-downs are reversed when the reasons originating the loss no longer exist, with the exception of write-downs on equity instruments. This category essentially includes the other investments (i.e. not subsidiaries, jointly controlled entities or associates), except for those held for trading (trading investments);

- derivative instruments, including embedded derivatives separate from the main agreement are measured at current value (fair value) and any changes are recognized in the income statement if they do not qualify as hedging instruments. Derivatives qualify as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high, this being checked periodically. When derivatives hedge the risk of fluctuation in the fair value of hedged items (fair value hedges), they are measured at fair value through the income statement; consistent with this, the hedged items are adjusted to reflect variations in the fair value associated with the hedged risk. When derivatives hedge the risk of changes in the cash flows of the instruments being hedged (cash flow hedges), the effective portion of changes in the fair value of the derivatives is recognized directly in equity, while the ineffective portion is recognized in the income statement. The amounts recognized directly in equity are then reflected in the income statement in line with the economic effects produced by the hedged item.

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

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

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

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

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

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

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

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

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

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

Non-current assets held for sale are not depreciated or amortized and are measured at the lower of carrying amount and fair value less costs to sell; any difference between carrying amount and fair value less costs to sell is recognized in the income statement 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".

Employee benefits

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

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

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

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

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

Provisions for risks, charges and liabilities for landfills

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

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

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

Revenue grants (given to provide the company with immediate financial support or as compensation for expenses or losses incurred in a previous accounting period) are recognized in their entirety in the income statement as soon as the conditions for recognition thereof 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 the income statement on collection and presented as “revenues from services”;
- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the carrying amount of tangible assets and are recognized in the income statement as a reduction in the depreciation charged over the useful life of the cost capitalized to extend the network;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group’s share are measured at the prices envisaged in the related purchase or sale contract;
- revenues from the provision of services are recognized according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to calculate revenues on a reliable basis they are recognized up to the amount of the costs incurred providing they are expected to be recovered;
- revenues from the sale of certificates are recognized at the time of sale.

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

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

Non-recurring transactions

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

Financial income and expenses

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

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

Dividends

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

Income taxes

Current taxes

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

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amount of assets and liabilities in the balance sheet and their tax bases, with the exception of goodwill which is not deductible for tax purposes and any differences resulting from investments in subsidiaries which are not expected to reverse in the foreseeable future.

The tax rates used are those expected to apply to the period when the temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the tax benefit will be realized. The measurement of deferred tax assets takes account of the period for which business plans are available.

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

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

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

Use of estimates

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

Estimates have been used 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 the income statement.

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

Impairment Test

The carrying amount of non-current assets (including goodwill and other intangible assets) and of assets held for sale is reviewed periodically and whenever circumstances or events require a more frequent assessment. If it is considered that the 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 company'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 is made to the specific paragraph.

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 judgements on the part of company management. When the directors are of the opinion that it is only possible that a liability could arise, the risks are disclosed in the section on commitments and contingent liabilities without making any provision.

Liabilities for landfills

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

Bad debts provision

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

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

Amortization

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

Measurement of derivative instruments

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

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

Employee benefits

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

Business 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 the income statement. A2A S.p.A. bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Current taxes and future recovery of deferred tax assets

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

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

Notes to the balance sheet

The Balance Sheet of A2A S.p.A. includes, with respect to the situation at December 31, 2015, the effect of the following non-recurring transactions:

- the merger by incorporation of the subsidiary A2A Trading S.r.l., effective January 1, 2016, with the exception of the business unit relating to energy efficiency certificates (white certificates) demerged in favour of the subsidiary A2A Calore & Servizi S.r.l. effective July 1, 2016;
- the merger by incorporation of the subsidiary Edipower S.p.A., effective January 1, 2016, for the operation of hydroelectric plants and some staff functions, while during the year, the following were demerged from the company Edipower S.p.A.:
 - effective January 1, 2016, the “Cellina Unit” in favour of Cellina Energy S.r.l. (company wholly owned by Società Elettrica Altoatesina S.p.A.) in application of the demerger deed stipulated by the parties on December 28, 2015;
 - effective July 1, 2016, the business unit relating to the thermoelectric plants CCGT (Sermide, Piacenza, Chivasso) in favour of the subsidiary A2A gencogas S.p.A.;
 - effective July 1, 2016, the business unit relating to the other thermoelectric plants (Brindisi, San Filippo del Mela) in favour of the subsidiary A2A Energiefuture S.p.A.;
- the conferment of the business unit relating to the thermoelectric plants CCGT (Mincio and Cassano D’Adda) in favour of the subsidiary A2A gencogas S.p.A., effective July 1, 2016;
- the conferment to A2A Energiefuture S.p.A. of the business unit related to the thermoelectric plant of the Plant in Monfalcone, effective as of December 31, 2016; in the period from July 1, 2016 to December 31, 2016, a contract was in effect for the lease of a business unit between A2A S.p.A. and A2A Energiefuture S.p.A. for the same plant.

The shareholding in SEASM S.r.l. held 67% by A2A S.p.A., reclassified in the previous year under “Non-current assets held for sale” since it is a discontinued operation in accordance with IFRS 5, following the decision of management to sell it, in 2016, it was reported under “Shareholdings in subsidiaries” as the sale was not finalized.

ASSETS

Non-current assets

1) Tangible assets

Thousands of euro	Balance at 12 31 2015	Effect of non- recurring transactions	Changes during the year					Balance at 12 31 2016
			Invest.	Others changes	Disposals and sales net of prov.	Depreciation and write-downs	Total changes	
Land	29,672	4,027	2			(1,009)	(1,007)	32,692
Buildings	263,328	25,776	1,029	420	(1,628)	(40,361)	(40,540)	248,564
Plant and machinery	909,955	174,972	1,962	52,128	(445)	(276,802)	(223,157)	861,770
Industrial and commercial equipment	1,373	302	254			(593)	(339)	1,336
Other assets	2,284	29	644	(2)		(1,152)	(510)	1,803
Construction in progress and advances	35,246	3,219	17,789	(35,131)	(20)	(2,663)	(20,025)	18,440
Leasehold improvements	24,836		5,888			(2,209)	3,679	28,515
Total tangible assets	1,266,694	208,325	27,568	17,415	(2,093)	(324,789)	(281,899)	1,193,120
of which:								
Historical cost	3,453,795	(622,213)	27,568	17,415	(34,485)		10,498	2,842,080
Accumulated depreciation	(2,044,040)	850,150			32,392	(121,489)	(89,097)	(1,282,987)
Write-downs	(143,061)	(19,612)				(203,300)	(203,300)	(365,973)

As at December 31, 2016, “Tangible assets” amounted to 1,193,120 thousand euro (1,266,694 thousand euro in the previous year) and include the effect of non-recurring transactions for the year for a total of 208,325 thousand euro.

“Tangible assets” in 2016, net of non-recurring transactions, show a decrease of 281,899 thousand euro resulting from the following:

- investments for 27,568 thousand euro;
- other positive changes for 17,415 thousand euro, which mainly include the increase in the decommissioning provision, made in the first six months of the year for the discounting rate adjustment, on some thermoelectric plants included in the non-recurring transactions for conferment to A2A gencogas S.p.A. and A2A Energiefuture S.p.A.;
- disposal of assets, net of accumulated depreciation, for 2,093 thousand euro;
- write-downs for 203,300 thousand euro that included 202,000 thousand euro for the write-down of the thermoelectric plant of Monfalcone following the findings of the appraisal carried out by an independent external expert as part of the transfer to the subsidiary A2A Energiefuture S.p.A. and for 1,300 thousand euro to the write-down of some plants in the first half of 2016 by the former Edipower S.p.A.;
- depreciation for the year for 121,489 thousand euro.

For a detailed analysis of changes in the year, reference shall be made to annex “1 Statement of changes in tangible assets”.

Investments made during the year refer to:

- “Land” totalling 2 thousand euro, related to the purchase of new land in Mese;
- “Buildings” for a total of 1,029 thousand euro, which mainly refer to the various interventions on the buildings in Via della Signora, Piazza Trento, Via Orobio, Via Canavese and Piazza Po in Milan; as well as investments in the office in Via Lamarmora in Brescia;
- “Plant and machinery” for 1,962 thousand euro, which refer mainly to work on the plants in Monfalcone, Chivasso, Piacenza and Sermide, carried out in the first six months of the year, as well as to work on the plants of the hydroelectric Units of Calabria and Valtellina;
- “Industrial and commercial equipment” for 254 thousand euro;
- “Other assets” relating to furniture, furnishings, IT equipment and assets worth less than 516 euro, for 644 thousand euro;
- “Construction in progress and advances” for an amount of 17,789 thousand euro;
- “Leasehold improvements” for 5,888 thousand euro for the replacement of the lamps of public lighting in Milan, Bergamo and Cassano d’Adda, with new LED technology light sources.

“Tangible assets” include “Construction in progress and advances” for 18,440 thousand euro (35,246 thousand euro at December 31, 2015), presenting, net of non-recurring transactions, a decrease of 20,025 thousand euro resulting from the counter effects of the following items:

- the increase of 17,789 thousand euro is mainly attributable to work on buildings in the offices of Via Lamarmora in Brescia and Via della Signora and Piazza Trento in Milan; to work on plants and machinery of the thermoelectric plants in the first six months of the year; to work on the hydroelectric plants in Calabria, Valtellina Mese and Udine and the purchase of servers that will be installed at the new CED;
- the decrease due to the entry into service is equal to 35,201 thousand euro and is mainly due to interventions on the production plants, of which 3,922 thousand euro for the hydroelectric plants in Calabria, 24,630 thousand euro for the Monfalcone plant, 1,373 thousand euro for the plants in Valtellina, 1,493 thousand euro for the plants in Mese and Udine, 1,955 thousand euro for the plants in Chivasso, Piacenza and Sermide, 680 thousand euro for the Cassano d’Adda plant, as well as 690 thousand euro for data, electrical and telephone networks in Valtellina, the net decrease of 2,613 thousand euro for other changes in the year.

2) Intangible assets

Thousands of euro	Balance at 12 31 2015	Effect of non- recurring transactions	Changes during the year				Balance at 12 31 2016
			Invest.	Others changes	Amort.	Total changes	
Industrial patents and intellectual property rights	4,139	3,090	2,475	1,496	(4,246)	(275)	6,954
Concessions, licences, trademarks and similar rights	9,529	(21)	4,361	562	(4,152)	771	10,279
Goodwill	37,480						37,480
Assets in progress	1,323	8	3,814	(2,239)		1,575	2,906
Other intangible assets	134	54,404		3,660	(31)	3,629	58,167
Total intangible assets	52,605	57,481	10,650	3,479	(8,429)	5,700	115,786

At the reporting date, “Intangible assets” amounted to 115,786 thousand euro (52,605 thousand euro at December 31, 2015) and include the effect of non-recurring transactions in the year for a total of 57,481 thousand euro. In applying IFRIC 12, from 2010 intangible assets also include assets in concession.

The increase for the year, excluding non-recurring transactions, was 5,700 thousand euro and is due to the combined effect of the following components:

- investments for 10,650 thousand euro;
- positive changes for 3,479 thousand euro, mainly related to the change in environmental certificates and industrial CO₂ portions;
- amortization for the year for 8,429 thousand euro.

More specifically, investments made during the year refer to the following:

- 2,475 thousand euro for industrial patents and intellectual property rights mainly concerning the implementation of information technology and computer systems;
- 4,361 thousand euro for concessions, licences, trademarks and similar rights related to the purchase of software;
- 3,814 thousand euro for intangible assets under construction.

“Intangible assets” include “Construction in progress” for 2,906 thousand euro (1,323 thousand euro at December 31, 2015), presenting, net of non-recurring transactions, an increase of 1,575 thousand euro resulting from the counter effects of the following items:

- the increase of 3,814 thousand euro mainly relating to the IT projects;
- the decrease of 2,239 thousand euro due to the entry into service of software and IT applications.

For more in-depth information, refer to annex “2. Statement of changes in intangible assets”.

Goodwill

Thousands of euro	Balance at 12 31 2015	Changes during the year						Balance at 12 31 2016
		Invest.	Others changes	Reclass.	Disp./ Write- downs	Amort.	Total changes	
Goodwill	37,480	-	-	-	-	-	-	37,480
Total goodwill	37,480	-	-	-	-	-	-	37,480

Goodwill equal to 37,480 thousand euro, was formed as a result of non-recurring transactions with third parties.

Under IAS 36 goodwill, an intangible asset with an indefinite useful life, is not amortized systematically but tested at least once a year ("Impairment Test"). As goodwill neither generates independent cash flow nor can it be sold separately, IAS 36 calls for a secondary audit of its recoverable amount, determining cash flows generated by a set of assets that constitute the business to which it belongs, i.e. the Cash Generating Unit (CGU).

The verification of the recoverable value has been carried out within the broader Impairment Test activities of the various CGU carried out for the Consolidated Financial Statements, which includes the goodwill in question.

From the impairment test carried out, the recoverable value of the CGU revealed no need for write-downs. More specifically, the future cash flows associated with the goodwill of A2A S.p.A. allow the recovery thereof.

The parameters used for the purposes of the Impairment Test are set out in note 2 of the Consolidated Annual Financial Report, to which reference is made for further details.

3) Shareholdings and other non-current financial assets

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Net changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Shareholdings in subsidiaries	3,839,327	(42,805)	58,358	3,854,880	-	-
Shareholdings in affiliates	51,600	-	(4,914)	46,686	-	-
Other non-current financial assets	405,362	5	1,096	406,463	401,554	402,749
Total shareholdings and other non-current financial assets	4,296,289	(42,800)	54,540	4,308,029	401,554	402,749

Shareholdings in subsidiaries

“Shareholdings in subsidiaries” amounted to 3,854,880 thousand euro (3,839,327 thousand euro as at December 31, 2015).

The following table illustrates the changes during the year:

Shareholdings in subsidiaries - Thousands of euro	Total
Balance at December 31, 2015	3,839,327
Effect of non-recurring transactions	(42,805)
Changes during the year:	
- acquisitions and capital increases	112,929
- sales and decreases	(10)
- revaluations	-
- write-downs	(55,030)
- other changes	-
- reclassifications	469
Total net changes in the year	58,358
Balance at December 31, 2016	3,854,880

The value of shareholdings in subsidiaries, net of the effect of non-recurring transactions for the year 2016, is negative for 42,805 thousand euro, a total increase of 58,358 thousand euro compared to the previous year-end and is due:

- for 112,929 thousand euro to the acquisitions of the year in particular for 112,779 thousand euro, to the acquisition of 51% of the share capital of Linea Group Holding S.p.A., which took place in August, based on the provisions of the industrial partnership contract signed in March between A2A S.p.A. and AEM Cremona, ASM Pavia, ASTEM Lodi, Cogeme and SCS Crema, as further described in the paragraph “Significant events during the year” in the file of the Report on Operations; 50 thousand euro to the incorporation of A2A Energiefuture S.p.A. and for 100 thousand euro to the incorporation of A2A Illuminazione Pubblica S.r.l.;
- for 55,030 thousand euro to the write-down of the following investments: in A2A gencogas S.p.A. for 54,000 thousand euro following the results of the specific Impairment Test carried out by an external expert on investments attributable to the Electricity CGU and the write-down of A2A Alfa S.r.l. for 1,030 thousand euro;
- for 10 thousand euro to the decrease arising from the sale of the shareholding in Unareti servizi metrici S.r.l. to the subsidiary Unareti S.p.A.;
- for 469 thousand euro, to the reclassification of the shareholding in SEASM S.r.l. held 67% by A2A S.p.A., from the item “Non-current assets held for sale” since the planned sale transaction of the same was no longer finalized.

Further information regarding movements involving shareholdings in subsidiary companies may be found within annexes 3a and 4a to compare their book value and corresponding portions of net assets.

Shareholdings in affiliates and joint ventures

“Shareholdings in affiliates and joint ventures” amounted to 46,686 thousand euro (51,600 thousand euro as at December 31, 2015).

The changes in the year are shown below:

Shareholdings in affiliates and joint ventures - Thousands of euro	Total
Balance at December 31, 2015	51,600
Changes during the year:	
- effect of non-recurring transactions	-
- acquisitions and capital increases	86
- sales and decreases	-
- revaluations	-
- write-downs	(5,000)
- reclassifications	-
Total net changes in the year	(4,914)
Balance at December 31, 2016	46,686

As at December 31, 2016, the value of shareholdings in affiliates and joint ventures presented a decrease of 4,914 thousand euro with respect to the close of the previous fiscal year and is attributable to the effect of the following operations of opposite sign:

- for 86 thousand euro, the increase determined by the acquisition of an additional 2.5% of the share capital of the company Ge.S.I. S.r.l.;
- for 5,000 thousand euro, the decrease related to the write-down of the investment in Rudnik Uglja Ad Pljevlja following the results of the specific Impairment Test performed internally.

Further details regarding shareholdings in affiliates may be found in annexes 3/b and 4/b.

Impairment of shareholdings in subsidiaries, associates and joint ventures

The recoverable value of shareholdings has been measured based on the present value of the corresponding expected net cash flows attributable to the shareholdings of A2A S.p.A.. The cash flows used are in line with those used for the Impairment Test of the CGU for the consolidated financial statements. The same applies to the methodological approach and discount rates adopted further detailed in the Consolidated Annual Financial Report (note 2).

Shown below are the carrying values of the individual shareholdings subject to Impairment Test by an external expert, along with a specification of the type and discount rate applied. It shall be recalled that the Impairment Test is carried out for all investments which have a carrying value higher than the corresponding fraction of shareholders' equity of competence and/or in the presence of specific impairment indicators.

Shareholdings <i>Millions of euro</i>	Pre-impairment test values at 12 31 2016	Recoverable amount (value in use) at 12 31 2016	Write-down	WACC	Growth rate g
A2A gencogas S.p.A.	564.3	510.3	(54.0)	9.9%	1.0%
Rudnik Uglja Ad Pljevlja	12.1	7.1	(5.0)	12.9%	1.0%

Shareholdings <i>Millions of euro</i>	Pre-impairment test values at 12 31 2015	Recoverable amount (value in use) at 12 31 2015	Write-down	WACC	Growth rate g
Edipower S.p.A.	854.6	737.6	(117.0)	9.0%	1.0%
EPCG	376.0	279.0	(97.0)	10.3%	1.0%
Rudnik Uglja Ad Pljevlja	19.1	12.1	(7.0)	12.7%	1.0%

Even in the presence of a result of Impairment Test higher than the value of the shareholding in EPCG, it was not considered prudent to reverse the previous write-down.

The other shareholdings did not require any write-downs. It is noted that for A2A Ciclo Idrico S.p.A., the 2016 impairment test was not carried out in the absence of impairment indicators.

Shareholdings <i>Millions of euro</i>	Pre-impairment test values at 12 31 2016	Recoverable amount (value in use) at 12 31 2016	WACC	Growth rate g
Aspem S.p.A.	26.5	39.0	7.3% - 8.9% - 7.0%(*)	1.0%
EPCG	279.0	283.0	9.9%	1.0%

(*) The values indicated refer respectively to the three sectors in which the company operates (gas-environment-water networks).

Shareholdings <i>Millions of euro</i>	Pre-impairment test values at 12 31 2015	Recoverable amount (value in use) at 12 31 2015	WACC	Growth rate g
Aspem S.p.A.	26.5	49.0	7.3% - 8.3% - 6.2%(*)	1.0%
A2A Ciclo Idrico S.p.A.	167.0	295.0	6.3%	1.0%
Ergosud S.p.A.	-	-	9.0%	1.0%

(*) The values indicated refer respectively to the three sectors in which the company operates (gas-environment-water networks).

Other non-current financial assets

“Other non-current financial assets”, which include the effect of non-recurring transactions for 5 thousand euro, amounted to 406,463 thousand euro (405,362 thousand euro at December 31, 2015), of which:

- financial assets held to maturity represented by Government securities for 96 thousand euro (unchanged from the previous year);
- financial assets with related parties in the amount of 402,653 thousand euro (401,458 thousand euro at December 31, 2015). This item refers both to financial receivables from subsidiaries, in particular to non-interest bearing loan with A2A gencogas S.p.A. (398,000 thousand euro), granted on December 31, 2013 to Edipower S.p.A. and transferred through the demerger of a business unit relating to the thermoelectric plants CCGT to A2A gencogas S.p.A., to SEASM S.r.l. (549 thousand euro) and A2A Montenegro d.o.o. (400 thousand euro), as well as receivables from the city of Brescia (3,704 thousand euro) in application of IFRIC 12;
- financial assets held for sale amounted to 3,714 thousand euro (3,808 thousand euro at December 31, 2015) and, net of non-recurring transactions, decreased by 99 thousand euro due to the write-downs in the year under review and consist of other minority shareholdings.

4) Deferred tax assets

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Deferred tax assets	48,261	(5,573)	30,738	73,426

This item, which includes the net effect of deferred tax liabilities and deferred tax assets as per corporate income tax and regional tax as well as provisions made solely for tax purposes, resulted in a net asset of 73,426 thousand euro. The recoverability of “Deferred tax assets” recognized in the financial statements is considered likely, since future plans include IRES taxable income sufficient to absorb the temporary differences that will be reversed; for the years of the plan for which the IRAP taxable income is not provided sufficiently to absorb IRAP temporary differences, it was decided to repay the related IRAP deferred tax assets and liabilities.

Deferred tax assets are calculated using the tax rate applicable at the time of repayment.

At December 31, 2016, the amounts relative to deferred tax assets/deferred tax liabilities have been expressed as net after offsetting in accordance with IAS 12.

This item is detailed within the table below:

<i>Thousands of euro</i>	Balance at 12 31 2016	Balance at 12 31 2015
Value differences of tangible assets	171,511	81,922
Adoption of the financial lease standard (IAS 17)	5,592	5,592
Value differences of intangible assets	2,886	5,633
Employee leaving entitlement (TFR)	1,226	187
Amounts to be paid in 2016	-	1,571
Other deferred tax liabilities	6,103	3,976
Deferred tax liabilities (A)	187,318	98,881
Tax loss carryforwards	-	-
Taxed risk provisions	93,488	62,196
Amortization, depreciation and write-downs	89,989	31,808
Application of the financial instrument standard (IAS 39)	359	6,889
Bad debts provision	2,008	1,816
Grants	2,654	2,654
Goodwill	65,914	31,039
Amounts to be paid in 2016	(1)	5,259
Other deferred tax assets	6,333	5,481
Deferred tax assets (B)	260,744	147,142
Net effect deferred tax assets (B-A)	73,426	48,261

For further details and information, please refer to the item “Income/expenses for income tax” on the income statement.

5) Other non-current assets

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Non-current derivatives	-	-	3,868	3,868	-	3,868
Other non-current assets	453	197	(64)	586	-	-
Total other non-current assets	453	197	3,804	4,454	-	3,868

“Other non-current assets” amounted to 4,454 thousand euro (453 thousand euro at December 31, 2015), with an increase of 3,804 thousand euro compared with the previous year, net of the effect of non-recurring transactions, positive for 197 thousand euro, and were made up of:

- non-current derivatives amounted to 3,868 thousand euro (no value at December 31, 2015) and refer to the fair value valuation of a financial instrument at the end of the year; at December 31, 2015, said derivative instrument had a fair value valuation recognized under non-current liabilities;
- 586 thousand euro for other non-current assets related to other receivables (453 thousand euro at December 31, 2015).

Current Assets

6) Inventories

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
- Materials	9,022	(7,883)	187	1,326
- Material obsolescence provision	(4,290)	5,548	(1,766)	(508)
Total materials	4,732	(2,335)	(1,579)	818
- Fuel	45	82,703	(18,994)	63,754
- Others (include environmental certificates)	-	21,505	(21,497)	8
Raw and ancillary materials and consumables	4,777	101,873	(42,070)	64,580
Third-party fuel	-	3,264	3,791	7,055
Total inventory	4,777	105,137	(38,279)	71,635

Inventories at December 31, 2016 amounted to 71,635 thousand euro (4,777 thousand euro at December 31, 2015) and include the net effect of non-recurring transactions, positive for 105,137 thousand euro, while the changes in the year were negative and equal to 38,279 thousand euro.

This item includes:

- inventories of materials amounting to 818 thousand euro, net of relative provisions for obsolescence for 508 thousand euro;
- inventories of fuels, for 63,754 thousand euro, which include the inventories of fuels for the production of electricity, as well as the gas inventories for the sale and storage thereof;
- inventories of environmental certificates related to the trading portfolio for 8 thousand euro;
- fuels at third parties, for 7,055 thousand euro, relating to coal at the warehouse in Koper that have not cleared customs in Italy yet.

7) Trade receivables

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Trade receivables invoices issued	40,501	107,427	(45,116)	102,812
Trade receivables invoices to be issued	110,194	162,294	285,465	557,953
Bad debts provision	(3,747)	(4,613)	(2,210)	(10,570)
Total trade receivables	146,948	265,108	238,139	650,195

At December 31, 2016, trade receivables amounted to 650,195 thousand euro (146,948 thousand euro at December 31, 2015) and increased by 238,139 thousand euro, net of the effect of non-recurring transactions, positive for 265,108 thousand euro. These receivables include:

- 478,340 thousand euro of trade receivables;
- 171,855 thousand euro of receivables from subsidiaries, controlling entities and associates.

Trade receivables at December 31, 2016 include the receivables relating to the trading activities and receivables for the commercialization of electricity and gas resulting from the incorporation of A2A Trading S.r.l. with effect from January 1, 2016.

At the reporting date, the bad debt provision amounted to 10,570 thousand euro, an increase of 2,210 thousand euro, net of non-recurring transactions for 4,613 thousand euro. This provision is considered adequate to cover the risks to which it relates.

The changes in the provisions to adjust the value of receivables for the sale of electricity and the provision of services are detailed in the following table:

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Accruals	Utilizations	Other changes	Balance at 12 31 2016
Bad debts provision	3,747	4,613	2,592	(382)	-	10,570

The following is the aging of trade receivables:

<i>Thousands of euro</i>	12 31 2015	12 31 2016
Trade receivables of which:	146,948	650,195
Current	28,753	32,428
Past due of which:	11,748	70,384
- Past due up to 30 days	618	45,302
- Past due from 31 to 180 days	5	2,137
- Past due from 181 to 365 days	3,068	3,109
- Past due over 365 days	8,057	19,836
Invoices to be issued	110,194	557,953
Bad debts provision	(3,747)	(10,570)

8) Other current assets

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Current derivatives	16,096	38,675	205,662	260,433	16,096	65
Other current assets of which:	88,608	(11,135)	32,830	110,303	-	-
- receivables from Cassa per i Servizi Energetici e Ambientali	-	-	5,827	5,827		
- advances to suppliers	272	4,878	1,808	6,958		
- receivables from employees	308	22	(112)	218		
- tax receivables	1,974	953	18,424	21,351		
- receivables related to future years	1,826	(1,804)	941	963		
- receivables from subsidiaries for tax consolidation	78,457	(35,321)	16,458	59,594		
- receivables from social security entities	981	52	(1)	1,032		
- receivables for water derivation fees	980	-	(927)	53		
- Stamp office	130	-	(2)	128		
- receivables for security deposits	-	1,003	(521)	482		
- receivables from Ergosud	-	19,000	(9,864)	9,136		
- receivables for hedging	-	-	2,750	2,750		
- other sundry receivables	3,680	82	(1,951)	1,811		
Total other current assets	104,704	27,540	238,492	370,736	16,096	65

“Other current assets” presented a balance of 370,736 thousand euro (104,704 thousand euro at December 31, 2015), an increase of 238,492 thousand euro with respect to the previous year, net of non-recurring transactions, positive for 27,540 thousand euro.

“Current derivatives” equal to 260,433 thousand euro refer primarily to the fair value measurement of commodity derivatives at the end of the year under review resulting from the incorporation of A2A Trading S.r.l., effective January 1, 2016; at December 31, 2015, this item included the fair value measurement of hedging derivatives, mainly related to Interest Rate Swap (IRS) contracts to hedge against the risk of unfavourable changes in interest rates on bonds matured during the year.

Receivables from Cassa per i Servizi Energetici e Ambientali, amounting to 5,827 thousand euro (no value at December 31, 2015), refer to receivables relating to the conclusion of the mechanism inherent Resolution 196/2013/R/gas.

Tax receivables, amounting to 21,351 thousand euro, mainly relate to tax receivables from the tax authorities for VAT, excise and withholding taxes.

Receivables from Ergosud amounting to 9,136 thousand euro refer to the receivable due for new entry plants (Scandale Plant), regarding portions of emission allowances as provided by AEEGSI Resolutions ARG/elt no. 194/10 and no. 117/10.

9) Current financial assets

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Financial assets from third parties	-	-	1.400	1.400	-	1.400
Financial assets from related parties	605,367	(187,858)	(36,264)	381,245	605,367	381,245
Total current financial assets	605,367	(187,858)	(34,864)	382,645	605,367	382,645

“Current financial assets” amounted to 382,645 thousand euro and refer to:

- 1,400 thousand euro of financial receivables from third parties;
- for 373,380 thousand euro, financial receivables from subsidiaries for the balance of the intercompany current accounts on which rates are applied at market conditions, with variable Euribor base with specific spreads for companies;
- for 7,865 thousand euro, to financial receivables from associates.

This item, net of the effect of non-recurring transactions, negative for 187,858 thousand euro, decreased by 34,864 thousand euro and mainly refers to lower receivables accrued on the current account held with the subsidiaries.

10) Current tax assets

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Current tax assets	38,987	13,719	(1,346)	51,360

At December 31, 2016, this item amounted to 51,360 thousand euro (38,987 thousand euro at December 31, 2015) and refers to IRAP receivables (13,863 thousand euro), as well as to IRES receivables (25,015 thousand euro), relating to amounts requested for reimbursement on payments of previous years, and the remaining credit for Robin Tax (12,482 thousand euro) paid in previous years and that will be recovered in subsequent years.

11) Cash and cash equivalents

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Cash and cash equivalents	587,050	28,103	(336,946)	278,207	587,050	278,207

“Cash and cash equivalents” at December 31, 2016 amounted to 278,207 thousand euro (587,050 thousand euro at December 31, 2015), with a decrease of 336,946 thousand euro compared with the end of the previous year, net of the effect of non-recurring transactions, positive for 28,103 thousand euro. Bank deposits include accrued interest not yet credited by the end of the year.

12) Non-current assets held for sale

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Non-current assets held for sale	469	-	(469)	-

The item “Non-current assets held for sale” at December 31, 2016, shows a zero balance, while at December 31, 2015, it was 469 thousand euro and referred to the reclassification of the shareholding in SEASM S.r.l., held 67% by A2A S.p.A., since this is a discontinued operation in accordance with IFRS 5 as a result of management’s decision to divest it; in 2016, the shareholding was recognized in the item “Shareholdings in subsidiaries” as the disposal was not finalized.

EQUITY AND LIABILITIES

Equity

Equity, which at December 31, 2016 amounted to 2,316,485 thousand euro (2,161,592 thousand euro at December 31, 2015), is set forth within the following table:

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
<i>Equity</i>				
Share capital	1,629,111	-	-	1,629,111
(Treasury shares)	(60,891)	-	7,230	(53,661)
Reserves	666,859	(8,752)	(191,122)	466,985
Result of the year	(73,487)	48,336	299,201	274,050
Total equity	2,161,592	39,584	115,309	2,316,485

13) Share capital

At December 31, 2016, the “Share capital” amounted to 1,629,111 thousand euro and is comprised of 3,132,905,277 ordinary shares with a unitary value of 0.52 euro each.

14) Treasury shares

“Treasury shares” amounted to 53,661 thousand euro (60,891 thousand euro at December 31, 2015 and consist of 23,721,421 treasury shares held by the company (26,917,609 treasury shares at December 31, 2015). In February and March 2016, the company A2A S.p.A. had purchased 35,000,000 treasury shares with a total value of 37,177 thousand euro as part of the buy back program approved by the Shareholders’ Meeting on June 11, 2015. Treasury shares acquired during the year and a further portion already held in the previous year were used as part of the payment for the purchase of 51% of the share capital of LGH S.p.A. by A2A S.p.A. in August 2016 with a total value of 47,241 thousand euro. The adjustment of the value of treasury shares at cost value, compared to the market value on the transaction date, resulted in a positive change of 2,833 thousand euro, which was recognized as a balancing entry in equity reserves as required by IAS/IFRS international standards.

15) Reserves

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Reserves	666,859	(8,752)	(191,122)	466,985
of which:				
Change in the fair value of cash flow hedge derivatives	(27,208)	(5,523)	29,901	(2,830)
Tax effect	6,530	1,541	(7,844)	227
Cash flow hedge reserves	(20,678)	(3,982)	22,057	(2,603)
Change in the IAS 19 Revised reserve - Employee Benefits	(29,579)	(12,760)	(23,384)	(65,723)
Tax effect	7,511	4,445	6,770	18,726
IAS 19 Revised reserve - Employee Benefits	(22,068)	(8,315)	(16,614)	(46,997)
Change in the Available-for-sale reserves	(608)	-	-	(608)
Tax effect	146	-	-	146
Change in Available for sale	(462)	-	-	(462)

“Reserves”, which at December 31, 2016 amounted to 466,985 thousand euro (666,859 thousand euro at December 31, 2015), net of negative non-recurring transactions for 8,752 thousand euro, were negative for 191,122 thousand euro mainly due to the distribution of the dividend and coverage of the loss for 2015.

This item includes the following unavailable reserves:

- for 109,430 thousand euro, the reserve arising from the corporate separation occurred in 1999. Such reserve will be available for distribution in portions in the following years based on the amortization carried out by the receiving company on the higher values determining capital gains from contribution;
- 2,603 thousand euro for the negative cash flow hedge reserve including the fair value of hedging derivatives, net of tax;
- for 46,997 thousand euro, the negative reserve arising from the adoption of IAS 19 Revised - Employee Benefits which requires actuarial profits and losses to be recognized directly in an equity reserve, net of the tax effect;
- for 462 thousand euro, the negative available-for-sale reserve including the fair value of certain available-for-sale shareholdings net of the tax effect;
- for 186,468 thousand euro, the legal reserve.

It should be noted that during 2016, dividends amounting to 125,910 thousand euro corresponding to 0.041 euro per share were distributed, as approved by the shareholders’ meeting on June 7, 2016.

16) Result of the year

This item was positive for 274,050 thousand euro and includes the net result for the reporting year.

It is noted that the total value adjustments and provisions made as per article 109, paragraph 4 lett. B of the Consolidated Tax Act (TUIR) amounted to 74,518 thousand euro, net of the deferred tax provision relating to amounts deducted.

LIABILITIES

Non-current liabilities

17) Non-current financial liabilities

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Non-convertible bonds	2,430,953	-	(248,387)	2,182,566	2,430,953	2,182,566
Payables to banks	542,977	-	196,638	739,615	542,977	739,615
Total non-current financial liabilities	2,973,930	-	(51,749)	2,922,181	2,973,930	2,922,181

“Non-current financial liabilities” amounted to 2,922,181 thousand euro (2,973,930 thousand euro at December 31, 2015), reflecting a decrease of 51,749 thousand euro.

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

- 565,331 thousand euro, maturing in November 2019 and a coupon of 4.50%, the nominal value of which at December 31, 2016, net of the partial repurchase in December 2016 for 182,475 thousand euro nominal, is equal to 567,525 thousand euro;
- 426,903 thousand euro, maturing in January 2021 and a coupon of 4.375%, the nominal value of which at December 31, 2016, net of the partial repurchase in December 2016 for 70,020 thousand euro nominal, is equal to 429,980 thousand euro;
- 497,056 thousand euro, maturing in January 2022 and coupon of 3.625%, the nominal value of which is equal to 500,000 thousand euro;
- 298,997 thousand euro, Private Placement maturing in December 2023 and coupon of 4.00%, the nominal value of which is equal to 300,000 thousand euro;
- 296,695 thousand euro, maturing in February 2025 and coupon of 1.75%, the nominal value of which is equal to 300,000 thousand euro;
- 97,584 thousand euro, Private Placement in yen maturing August 2036 and 5.405% fixed rate.

The decrease in the non-recurring item of “Non-convertible bonds”, equal to 248,387 thousand euro compared to December 31, 2015, is due to the partial repurchase of the bonds maturing 2019 and 2021 in line with the Group’s strategy aimed at optimizing the timing of maturities and the consequent changes in amortized costs.

Non-current “Payables to banks” amounted to 739,615 thousand euro, an increase of 196,638 thousand euro mainly due to the new BEI loans.

18) Employee benefits

At the end of the fiscal year, “Employee Benefits” amounted to 164,560 thousand euro (125,997 thousand euro as of December 31, 2015) with changes as follows during the period:

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Provisions	Utilizations	Other changes	Balance at 12 31 2016
Employee leaving entitlement (TFR)	30,560	(849)	5,892	(3,683)	(4,241)	27,679
Employee benefits	95,437	21,988	-	(5,775)	25,231	136,881
Total employee benefits	125,997	21,139	5,892	(9,458)	20,990	164,560

Other changes mainly refer to payments made to INPS and supplementary pension funds, as well as to the recognition of actuarial differences that include the increase resulting from the service cost for 236 thousand euro, the increase resulting from the interest cost for 2,141 thousand euro and the increase resulting from actuarial gains/losses for 24,276 thousand euro.

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

	2016	2015
Discount rate	from 0.0% to 1.3%	from 0.24% to 2.03%
Annual inflation rate	from 1.5% to 2.0%	from 1.5% to 2.0%
Annual seniority bonus increase rate	2.0%	2.0%
Annual additional months increase rate	0.0%	0.0%
Annual cost of electricity increase rate	2.0%	2.0%
Annual cost of gas increase rate	0.0%	0.0%
Annual salary increase rate	1.0%	1.0%
Annual TFR increase rate	from 2.6% to 3.0%	from 2.6% to 3.0%
Average annual increase rate of supplementary pensions	1.1%	1.5%
Annual turnover frequencies	from 2.0% to 5.0%	from 2.0% to 5.0%
Annual TFR advance frequencies	from 2.0% to 2.5%	from 2.0% to 2.5%

It is noted that:

- the discount rate used by the Group varies from company to company on the basis of the average financial term of the bond. The discount rate used is that corresponding to Iboxx Corporate AA;
- the curve relative to the inflation rate under the current economic situation, which has particular volatility of the majority of economic indicators, was changed as shown in the table. This hypothesis was derived from the “Document of Economics and Finance 2015 - Update September 2015 Sect. II-Tab II.2” issued by the MEF and “The medium/long-term trends in the pension and social-health system - Report no. 16 “published by the State General Accounting Office;
- the annual rate of salary increase applied exclusively to companies with fewer than 50 employees on average in 2006 was determined on the basis of the reference data communicated by Group companies;
- the annual rate of TFR increase, according to art. 2120 of the Civil Code, is equal to 75% of inflation plus 1.5 percentage points;
- the annual advance and turnover frequencies are derived from historical experiences of the Group and the frequencies arising from the experience of the Actuary on a significant number of similar companies;
- for the demographic technical bases, it is noted that:
 - for “death”, the tables TG62 (Premungas) and AS62 (other plans) were used;
 - for “inability”, the INPS tables divided by age and gender were used;
 - for “retirement”, the 100% parameter was used upon reaching the requirements of AGO (Obligatory General Insurance).
 - for the “probability of leaving the family”, the table in the INPS model was used for projections to 2010;
 - for the “frequency of the various structures of surviving nuclei and average age of members”, the table in the INPS model was used for projections to 2010.

As required by IAS 19, the sensitivity for post-employment employee benefit obligations is outlined below:

Thousands of euro	Turnover rate + 1%	Turnover rate - 1%	Inflation rate + 0.25%	Inflation rate - 0.25%	Actualization rate + 0.25%	Actualization rate - 0.25%
Employee leaving entitlement (TFR)	27,436	27,729	27,887	27,268	27,085	28,082

Thousands of euro	Actualization rate +0.25%	Actualization rate -0.25%	Mortality table increased by 10%	Mortality table decreased by 10%
Premungas	26,332	27,337	25,584	28,221
Electricity and gas discount	72,172	76,231	76,388	72,115
Additional months	13,398	14,218	n.s.	n.s.

19) Provisions for risks, charges and liabilities for landfills

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Provisions	Releases	Utilizations	Other changes	Balance at 12 31 2016
Decommissioning provisions	25,444	(42,649)	-	-	(855)	18,060	-
Tax provisions	2,012	22,816	3,118	(12,835)	(6,029)	(5,170)	3,912
Personnel lawsuits and disputes provisions	67,212	714	1,273	-	(38,535)	977	31,641
Other risk provisions	49,645	69,936	31,834	(282)	(12,187)	5,130	144,076
Provisions for risks, charges and liabilities for landfills	144,313	50,817	36,225	(13,117)	(57,606)	18,997	179,629

“Decommissioning provisions” were equal to zero, while at December 31, 2015, they amounted to 25,444 thousand euro and included charges for costs of dismantling and recovery of production sites related to thermoelectric plants. In the first six months of the year, other changes amounted to 18,060 thousand euro were related to the adjustment of discounting rates. At July 1, 2016, these provisions due to non-recurring transactions were fully transferred to the subsidiaries A2A Energiefuture S.p.A. and A2A gencogas S.p.A..

“Tax Provisions”, which amounted to 3,912 thousand euro, refer to provisions for pending or potential litigation with the tax authorities or territorial entities for levies and direct and indirect taxes. The changes in the year were related to the effects of non-recurring transactions for 22,816 thousand euro, provisions for 3,118 thousand euro and releases for 12,835 thousand euro, mainly relating to the ICI/IMU dispute with some regional authorities. Utilizations, for 6,029 thousand euro, refer to disbursements for the year resulting from the closure of some disputes in which the company was unsuccessful. Other changes, negative for 5,170 thousand euro, refer to the reclassification under “Other current liabilities” of the portions of the provision that will be used in the early months of the following year for which payment notices have already been received.

The “Personnel lawsuits and disputes provisions” amounted to 31,641 thousand euro and refer to lawsuits pending with social security institutions, for contributions not paid for 16,085 thousand euro, to lawsuits with third parties for 14,477 thousand euro and with employees for 1,079 thousand euro, to cover the liabilities that could arise from litigations in progress. Non-recurring transactions brought a positive effect of 714 thousand euro. Provisions for the year, for 1,273 thousand euro, mainly refer to disputes pending with Social Security Institutions. Uses, for 38,535 thousand euro, mainly refer to the payment made in respect of the ongoing lawsuit with Pessina Costruzioni in relation to the dispute for Asm Novara S.p.A. as further described in the paragraph “Other information – Asm Novara S.p.A. dispute”. Other changes totalled 977 thousand euro.

“Other risk provisions”, amounting to 144,076 thousand euro, relate to the provision concerning the burden of existing bonds present in the tolling contract with the company Ergosud S.p.A. for 88,866 thousand euro (former A2A Trading S.r.l.); to provisions relating to public water derivation fees for 29,215 thousand euro; to the mobility provision relating to the charge resulting from the corporate restructuring plan related to future outgoing employees for mobility, for 545 thousand euro; to provisions for contractual charges for 14,570 thousand euro and other risk provisions for 10,880 thousand euro. Non-recurring transactions brought a positive effect of 69,936 thousand euro. Net provisions for the year amounted to 31,834 thousand euro and mainly refer to allocations to provisions relating to public water derivation fees and contractual expenses. Releases amounted to 282 thousand euro. Utilizations, amounting to 12,187 thousand euro mainly refer to outlays during the year for public water derivation fees, employee mobility provision and onerous contracts. Other changes were positive for 5,130 thousand euro.

20) Other non-current liabilities

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Other non-current liabilities	23	3,402	14,025	17,450	-	-
Non-current derivatives	27,208	-	(12,396)	14,812	27,208	14,812
Total other non-current liabilities	27,231	3,402	1,629	32,262	27,208	14,812

“Other non-current liabilities” amounted to 32,262 thousand euro, including the positive effect of non-recurring transactions for 3,402 thousand euro, and refer to:

- 14,812 thousand euro for the fair value of financial derivatives to hedge interest rate risk on variable rate mortgages and bonds;
- for 13,885 thousand euro to the payable to the minority shareholders of Linea Group Holding S.p.A. recognized according to the contractual agreements signed by A2A S.p.A., regulated by specific and clearly identified earn-out clauses, the occurrence of which is considered probable, whereby it is agreed that by the third year following the closing date of the acquisition and upon the fulfilment of certain conditions, up to a maximum of 13,885 thousand euro will be paid;
- for 3,354 thousand euro to non-current liabilities related to long-term service agreements relating to the maintenance of the plants;
- 211 thousand euro for “Other non-current liabilities”.

Current liabilities

21) Trade payables and other current liabilities

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Advances	319	(311)	(1)	7	-	-
Payables to suppliers	78,082	468,020	42,169	588,271	-	-
Trade payables to related parties:	83,612	(60,069)	55,653	79,196	-	-
- subsidiaries	83,076	(60,107)	41,477	64,446	-	-
- parent companies	456	-	23	479	-	-
- associates	80	38	14,153	14,271	-	-
Total trade payables	162,013	407,640	97,821	667,474	-	-
Payables to social security institutions	13,956	2,019	(3,292)	12,683	-	-
Current derivatives	7,474	43,697	196,201	247,372	7,474	-
Other payables:	93,709	(9,925)	(10,073)	73,711	-	-
- payables for tax consolidation	37,748	(24,032)	14,778	28,494	-	-
- payables for tax transparency	8,438	-	(1,271)	7,167	-	-
- payables to personnel	17,876	3,666	(3,701)	17,841	-	-
- payables to Cassa per i Servizi Energetici e Ambientali	3	10,558	(10,558)	3	-	-
- tax payables	12,621	(3,860)	(3,295)	5,466	-	-
- payables for liabilities of competence of the following year	1,958	(9)	(1,454)	495	-	-
- payables for collections to be allocated	3,480	573	2,115	6,168	-	-
- payables to insurance companies	1,400	-	(247)	1,153	-	-
- payables to customers for work to be performed	3,136	-	(2,853)	283	-	-
- payables for water derivation fees	116	-	(116)	-	-	-
- payables to waterway municipalities	1,250	-	(143)	1,107	-	-
- others	5,683	3,179	(3,328)	5,534	-	-
Total other current liabilities	115,139	35,791	182,836	333,766	7,474	-
Total trade payables and other current liabilities	277,152	443,431	280,657	1,001,240	7,474	-

“Trade payables and other current liabilities” amounted to 1,001,240 thousand euro (277,152 thousand euro at December 31, 2015), representing an overall increase of 280,657 thousand euro net of the effect of non-recurring transactions, positive for 443,431 thousand euro.

“Trade payables” amounted to 667,474 thousand euro and include both debt exposure to third-party suppliers (588,278 thousand euro) and trade payables to related parties (79,196 thousand euro). Trade payables at December 31, 2016 include the payables relating to the trading activities resulting from the incorporation of A2A Trading S.r.l. with effect from January 1, 2016.

“Payables to social security institutions” amounted to 12,683 thousand euro and relate to the company’s debt position with social security and pension institutions, related to contributions of the month of December 2016 not yet paid.

“Current derivative instruments” amounted to 247,372 thousand euro and refer to the fair value measurement of the commodity derivatives resulting from the incorporation of A2A Trading S.r.l. with effect from January 1, 2016.

“Other current liabilities” mainly refer to:

- payables to subsidiaries for the Group tax consolidation and VAT regime for 28,494 thousand euro;
- payables for fiscal transparency for 7,167 thousand euro to the associate Ergosud S.p.A;
- payables to employees for 17,841 thousand euro relating to payables to employees for the productivity bonus accrued during the year, as well as the expense for holidays accrued but not taken at December 31, 2016;
- tax payables for 5,466 thousand euro and mainly refer to payables to the tax authorities for excise and withholding taxes;
- payables to customers for work to be performed for 283 thousand euro and refer to estimates already collected from customers for work that has not been completed yet.

22) Current financial liabilities

Thousands of euro	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016	of which included in the NFP	
					12 31 2015	12 31 2016
Non-convertible bonds	571,586	-	(526,104)	45,482	571,586	45,482
Payables to banks	96,184	-	152,798	248,982	96,184	248,982
Financial payables to related parties	732,743	(89,585)	(80,173)	562,985	732,743	562,985
Total current financial liabilities	1,400,513	(89,585)	(453,479)	857,449	1,400,513	857,449

“Current financial liabilities” amounted to 857,449 thousand euro and showed a decrease of 453,479 thousand euro, net of the effect of non-recurring transactions (-89,585 thousand euro).

“Non-convertible Bonds” decreased by 526,104 thousand euro mainly due to the repayment of the bond with maturity in November 2016.

Interest of 45,482 thousand euro (52,861 thousand euro at December 31, 2015) accrued on the bonds at December 31, 2016.

Current “Payables to banks” increased during the year by 152,798 thousand euro, mainly due to the use of short-term lines.

“Financial payables to related parties” amounted to 562,985 thousand euro and relate to intercompany current accounts on which rates are applied at market conditions, with variable Euribor base with specific spreads for companies.

23) Tax liabilities

<i>Thousands of euro</i>	Balance at 12 31 2015	Effect of non-recurring transactions	Changes during the year	Balance at 12 31 2016
Tax liabilities	41,876	591	(16,680)	25,787

At December 31, 2016, this item amounted to 25,787 thousand euro (41,876 thousand euro at December 31, 2015) and refers to the payable for current IRES.

Net debt

24) Net debt

(pursuant to Consob Communication no. DEM/6064293 of July 28, 2006 and ESMA/2013/319)

The following table provides details of net debt.

<i>Thousands of euro</i>	Notes	12 31 2016	Effect of non-recurring transactions	12 31 2015
Bonds - non-current portion	17	2,182,566	-	2,430,953
Bank loans - non-current portion	17	739,615	-	542,977
Other non-current liabilities	20	14,812	-	27,208
Total medium/long-term debt		2,936,993	-	3,001,138
Non-current financial assets with related parties	3	(402,653)	-	(401,458)
Other non-current financial assets and other non-current assets	3-5	(3,964)	-	(96)
Total medium/long-term financial receivables		(406,617)	-	(401,554)
Total non-current net debt		2,530,376	-	2,599,584
Bonds - current portion	22	45,482	-	571,586
Bank loans - current portion	22	248,982	-	96,184
Other current liabilities	21	-	-	7,474
Financial liabilities to related parties - current portion	22	562,985	(89,585)	732,743
Total short-term debt		857,449	(89,585)	1,407,987
Other current assets	8	(65)	-	(16,096)
Financial assets with third parties - current portion	9	(1,400)	-	-
Financial assets with related parties - current portion	9	(381,245)	187,858	(605,367)
Total short-term financial receivables		(382,710)	187,858	(621,463)
Cash and cash equivalents	11	(278,207)	(28,103)	(587,050)
Total current net debt		196,532	70,170	199,474
Net debt		2,726,908	70,170	2,799,058

Notes to the income statement

As a result of the non-recurring transactions described below, the contents of the income statement at December 31, 2016 are not homogeneous and therefore not comparable with those of the previous year-end. In fact, in 2016, revenues and costs were recognized for activities that were not in the scope of A2A S.p.A. in 2015; moreover, considering that some activities produced economic effects in A2A S.p.A., only for the first half of 2016, even the income statement for 2017 will not be comparable with as recorded in 2016. The income statement at December 31, 2016 includes:

- the economic effects for the entire year 2016 of A2A Trading S.r.l., merged by incorporation into A2A S.p.A., excluding the business unit relating to energy efficiency certificates (white certificates) that produced economic effects on A2A Trading S.r.l. only for the period January/June 2016 following the demerger in favour of the subsidiary A2A Calore & Servizi S.r.l., effective July 1, 2016;
- the economic effects of Edipower S.p.A., merged by incorporation into A2A S.p.A. regarding:
 - the entire year 2016 for the management of hydroelectric plants and some staff functions;
 - the period January/June 2016 for the management of thermoelectric plants CCGT (Sermide, Piacenza and Chivasso plants) demerged in favour of the subsidiary A2A gencogas S.p.A., effective July 1, 2016;
 - the period January/June 2016 for the management of thermoelectric plants (San Filippo del Mela and Brindisi plants) demerged in favour of the subsidiary A2A Energiefuture S.p.A., effective July 1, 2016;
 - the effect recorded under “Result from non-recurring transactions” of the gain resulting from the demerger of the “Cellina Unit” in favour of Cellina Energy S.r.l., effective January 1, 2016 following the demerger deed stipulated between the parties on December 28, 2015;
- the economic effects for the period January/June 2016 for the management of thermoelectric plants CCGT (Ponti sul Mincio and Cassano d’Adda plants) transferred to the subsidiary A2A gencogas S.p.A., effective July 1, 2016;

- the economic effects for the period January/June 2016 for the management of the thermoelectric plant of the Monfalcone plant subject of a lease contract of a business unit between A2A S.p.A. and A2A Energiefuture S.p.A. for the period from July 1, 2016 to December 31, 2016 and transferred to A2A Energiefuture S.p.A., effective December 31, 2016.

25) Revenues

Revenues in 2016 amounted to 2,760,895 thousand euro (494,009 thousand euro at December 31, 2015).

Details of the most important sources of revenues are provided below:

Revenues - Thousands of euro	12 31 2016	12 31 2015	Changes
Revenues from the sale of goods	2,380,908	121,554	2,259,354
Revenues from services	173,295	344,410	(171,115)
Total revenues from the sale of goods and services	2,554,203	465,964	2,088,239
Other operating revenues	206,692	28,045	178,647
Total revenues	2,760,895	494,009	2,266,886

Details of the main items are as follows:

<i>Thousands of euro</i>	12 31 2016	12 31 2015	Changes
Sales of electricity of which:	1,658,868	7,664	1,651,204
- third-party customers	1,377,429	551	1,376,878
- subsidiaries	280,309	7,113	273,196
- associates	1,130	-	1,130
Sales of gas and fuels of which:	656,931	-	656,931
- third-party customers	312,866	-	312,866
- subsidiaries	344,065	-	344,065
Sales of heat of which:	463	303	160
- third-party customers	22	-	22
- subsidiaries	441	303	138
Sales of materials of which:	4,312	3,486	826
- third-party customers	797	329	468
- subsidiaries	3,444	3,120	324
- associates	71	37	34
Sales of emission certificates and allowances of which:	60,334	110,101	(49,767)
- third-party customers and inventory change	17,046	263	16,783
- subsidiaries	43,288	109,838	(66,550)
Total revenues from the sale of goods	2,380,908	121,554	2,259,354
Services of which:			
- third-party customers	5,365	5,201	164
- subsidiaries	129,513	299,230	(169,717)
- Municipalities of Milan and Brescia	36,959	38,629	(1,670)
- associates	1,458	1,350	108
Total revenues from services	173,295	344,410	(171,115)
Total revenues from the sale of goods and services	2,554,203	465,964	2,088,239
Other operating revenues of which:			
Other revenues from subsidiaries	9,759	7,320	2,439
Other revenues from associates	32	-	32
Reinstatement of costs plant S.Filippo del Mela (essential Unit plant - period January/May 2016)	41,755	-	41,755
Damage compensation	3,086	13,948	(10,862)
Contingent assets	20,591	4,427	16,164
Incentives for production from renewable sources (feed-in-tariff)	94,894	-	94,894
Gains on disposals of tangible assets	6,271	3	6,268
Other revenues	30,304	2,347	27,957
Total other operating revenues	206,692	28,045	178,647
Total revenues	2,760,895	494,009	2,266,886

“Revenues from the sale of goods and services” amounted to 2,554,203 thousand euro (465,964 thousand euro in 2015).

Sales revenues amounted to 2,380,908 thousand euro and mainly refer to the sale of electricity (1,658,868 thousand euro) to wholesalers and institutional operators (Gestore Mercato Elettrico S.p.A. and Terna S.p.A.), also through sales on the IPEX markets (Italian Power Exchange) as well as to subsidiaries and associates for a total of 25,577 million kWh, to the sale of gas and fuel to third parties and subsidiaries (656,931 thousand euro) from the commercialization of 1,787 million cubic meters of gas, the sale of heat and materials in particular to subsidiaries (4,775 thousand euro) and the sale of environmental certificates to third parties and subsidiaries (60,334 thousand euro).

Revenues from services amount to 173,295 thousand euro and mainly relate to revenues from provisions to subsidiaries of administrative, fiscal, legal, managerial and technical services, and revenues from the Municipality of Milan for the maintenance and management of public lighting systems.

“Other operating revenues”, equal to 206,692 thousand euro (28,045 thousand euro in the previous year), refer to the recognition, as of January 1, 2016, of incentives on net production from renewable sources (94,894 thousands euro) for the entire remaining period of right to Green Certificates after 2015 recognized by the Energy Services Operator, in implementation of the Ministerial Decree of July 6, 2012 as regards plants from renewable sources (entered into service by December 31, 2012 and that have acquired the right to benefit from Green Certificates); revenues related to the reinstatement of the costs of the thermoelectric plant in San Filippo del Mela (41,755 thousand euro) that as of the end of May 2016 has remained in essentiality regime only the 150 kV plant; revenues related to the conclusion of the mechanism as defined by Resolution 196/2013/R/gas (26,395 thousand euro); as well as rents from subsidiaries and associates, contingent assets recorded as a result of the difference of appropriations in previous years, reimbursements for damages and penalties received from customers, insurance and private entities.

26) Operating expenses

“Operating expenses” totalled 2,326,202 thousand euro (290,868 thousand euro in 2015).

The main components of this item are as follows:

Operating expenses - Thousands of euro	12 31 2016	12 31 2015	Changes
Costs for raw materials and consumables	1,882,551	100,442	1,782,109
Costs for services	201,247	120,932	80,315
Total expenses for raw materials and services	2,083,798	221,374	1,862,424
Other operating expenses	242,404	69,494	172,910
Total operating expenses	2,326,202	290,868	2,035,334

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

Expenses for raw materials and services - Thousands of euro	12 31 2016	12 31 2015	Changes
Purchases of power and fuel of which:	1,776,216	19,612	1,756,604
- third-party suppliers	1,698,592	1,181	1,697,411
- subsidiaries	77,178	18,431	58,747
- associates	446	-	446
Change in inventories of fuel	18,991	68	18,923
Purchases of water of which:	383	303	80
- third-party suppliers	317	303	14
- subsidiaries	66	-	66
Purchases of materials of which:	11,114	7,593	3,521
- third-party suppliers	11,076	7,505	3,571
- subsidiaries	38	88	(50)
Change in inventories of materials	1,582	681	901
Hedging gains on operating derivatives	(19,255)	-	(19,255)
Hedging losses on operating derivatives	4,234	-	4,234
Purchases of emission certificates and allowances of which:	89,286	72,185	17,101
- third-party suppliers	64,020	432	63,588
- subsidiaries	25,247	71,753	(46,506)
- associates	19	-	19
Total expenses for raw materials and consumables	1,882,551	100,442	1,782,109
Delivery and transmission costs of which:	65,555	8	65,547
- third-party suppliers	62,629	8	62,621
- subsidiaries	2,926	-	2,926
Maintenance and repairs	36,957	25,095	11,862
Services of which:	98,735	95,829	2,906
- third-party suppliers	68,902	59,639	9,263
- Municipalities of Milan and Brescia	101	-	101
- subsidiaries	29,433	35,881	(6,448)
- associates	299	309	(10)
Total service costs	201,247	120,932	80,315
Total costs for raw materials and services	2,083,798	221,374	1,862,424
Leasehold improvements:	173,977	13,005	160,972
- third-party suppliers	54,114	12,861	41,253
- subsidiaries	100,528	144	100,384
- associates	19,335	-	19,335
Other operating costs of which:	68,427	56,489	11,938
Other expenses from subsidiaries	3,369	7,508	(4,139)
Water derivation concession fees	35,122	22,915	12,207
Damages and penalties	731	706	25
Contingent liabilities	3,142	1,232	1,910
Losses on disposal of tangible assets	466	58	408
Sundry operating expenses	25,597	24,070	1,527
Total other operating costs	242,404	69,494	172,910
Total operating expenses	2,326,202	290,868	2,035,334

“Expenses for raw materials and services” amounted to 2,083,798 thousand euro (221,374 thousand euro in 2015).

Costs for raw materials and consumables amounted to 1,882,551 thousand euro and mainly refer to costs for purchases of electricity and fuel (1,776,216 thousand euro) from third parties and subsidiaries for both electricity production and for resale to customers and wholesalers; the change in inventories of fuels (18,991 thousand euro), net of the positive effect of gains/losses from hedging derivatives (-15,021 thousand euro); the purchase of materials and water (13,079 thousand euro including the change in inventories); and the purchase of environmental certificates (89,286 thousand euro).

Service costs amounted to 201,247 thousand euro and relate to the logistics costs for transport on the natural gas network (65,555 thousand euro), costs for maintenance and repairs (36,957 thousand euro) related to both the plants and information systems of the company, as well as costs for services from third parties and subsidiaries (98,735 thousand euro) that include costs for administrative and technical professional services, costs for certification activities, gas storage costs, expenses for insurance, monitoring, banking and other services.

“Other operating expenses” amounted to 242,404 thousand euro. This item includes the use of third-party assets for 173,977 thousand euro mainly relating to the contracting of thermoelectric production plants “tolling agreement” owned by the subsidiaries A2A Energiefuture S.p.A. and A2A gencogas S.p.A., costs related to the use of part of a portion of the electricity capacity of Ergosud S.p.A. under the “tolling” contract and administration stipulated between the parties contract and the contracting of the plant in Bertónico (Lodi) within the framework of the agreement stipulated last year with the companies Sorgenia S.p.A. and Sorgenia Power S.p.A.. Other costs amounted to 68,427 thousand euro and mainly refer to public water derivation fees, damages and penalties and contingent liabilities.

During the year, the Company paid 2,000 thousand euro in donations to the AEM and ASM Foundations.

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 - Thousands of euro	Notes	12 31 2016
Revenues	25	1,179,532
Operating costs	26	(1,192,696)
Total trading margin		(13,164)

This activity includes all the operations involved in the stipulation of contracts, physical and financial, purchase and sale, signed in order to benefit from actual or expected differences between the sale and purchase price for an additional margin than as can be achieved only with industrial activity. The contracts referred to above cover: electricity, power, transport capacity and natural gas.

27) Labour costs

Net of capitalized expenses, labour costs at December 31, 2016, amounted to 151,699 thousand euro (119,733 thousand euro in the previous year).

“Labour costs” may be analyzed as follows:

Labour costs - Thousands of euro	12 31 2016	12 31 2015	Changes
Wages and salaries	98,499	76,479	22,020
Social security charges	32,867	26,386	6,481
Employee leaving entitlement (TFR)	5,892	4,740	1,152
Other costs	15,770	13,216	2,554
Total labour costs before capitalizations	153,028	120,821	32,207
Capitalized labour costs	(1,329)	(1,088)	(241)
Total labour costs	151,699	119,733	31,966

The table below shows the average number of employees during the year, broken down by category:

	2016	2015	Changes
Managers	76	75	1
Supervisors	198	189	9
White-collar workers	866	912	(46)
Blue-collar workers	156	200	(44)
Total	1,296	1,376	(80)

At December 31, 2016, A2A S.p.A. employees totalled 1,410, including the effects of any non-recurring transactions for the year, while at December 31, 2015, they were equal to 1,360.

The item “Other labour costs” includes early retirement incentives for 598 thousand euro (2,251 thousand euro at December 31, 2015).

The item also includes the remuneration paid by A2A S.p.A. to the members of the Board of Directors in the year for a total of 2,722 thousand euro; for further details, reference is made to the specific file “Remuneration Report - 2017”.

28) Gross operating margin

Due to the effect of the dynamics explained above, “Gross operating margin” totalled 282,994 thousand euro (83,408 thousand euro in 2015).

29) Depreciation, amortization, provisions and write-downs

“Depreciation, amortization, provisions and write-downs” equalled 360,854 thousand euro (132,014 thousand euro at December 31, 2015).

The following table provides details of the individual items:

Amortization, depreciation, provisions and write-downs <i>Thousands of euro</i>	12 31 2016	12 31 2015	Changes
Amortization of intangible assets	8,429	6,664	1,765
Depreciation of tangible assets	121,489	74,161	47,328
Other write-downs of fixed assets	203,300	4,955	198,345
Total amortization, depreciation and write-downs	333,218	85,780	247,438
Bad debts provision included in current assets and cash and cash equivalents	4,528	(261)	4,789
Provisions for risks	23,108	46,495	(23,387)
Total depreciation, amortization, provisions and write-downs	360,854	132,014	228,840

In particular, “Depreciation and Amortization” totalled 129,918 thousand euro (80,825 thousand euro in 2015). This item includes, in addition to the effect of non-recurring operations, higher depreciation and amortization resulting from investments made during the year in question net of the lower depreciation and amortization following the conclusion of the process of depreciation of plant parts and disposals during the year. Depreciation is calculated on the basis of technical and economic rates considered representative of the remaining useful life of the related tangible assets.

Write-downs of assets totalled 203,300 thousand euro and include for 202,000 thousand euro the write-down of the thermoelectric plant in Monfalcone as a result of the findings of the appraisal carried out by an independent external expert and for 1,300 thousand euro the write-down carried out on some plants in the first half of 2016 by the former Edipower S.p.A..

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 company had carried out, as of June 2012, a series of simulations using ISTAT coefficients, which were found to be the only possible data that is objectively usable, and made its own estimates of the economic and technical lives of the assets. The results of these simulations led to a very wide variability range, confirming that it is currently impossible to make a reliable estimate of the surrender values at the end of the concessions. Nevertheless, for concessions close to expiry the net carrying amount of the wet works was significantly lower than the range of results obtained. As a result, therefore, 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.

The “Bad debt provision” amounted to 4,528 thousand euro (negative for 261 thousand euro in 2015), increasing by 4,789 thousand euro.

The balance of “Provisions for risks and charges” shows a net effect of 23,108 thousand euro (46,495 thousand euro at December 31, 2015) due to allocations of 36,224 thousand euro made during the year, offset by the 13,116 thousand euro of risk provisions made in previous years, released in the current year since the original disputes have ceased to exist. Provisions in the year included for 31,833 thousand euro provisions to “Other risk provisions” mainly related to public water derivation fees and contractual charges, for 1,273 thousand euro provisions to “Personnel lawsuits and disputes provision”, for 3,118 thousand euro provisions to “Tax provisions”; releases mainly refer to “Tax provisions” regarding the ICI/IMU dispute. For further details, reference is made to note 19) Provisions for risks, charges and liabilities for landfills.

30) Net operating income

The “Net Operating Income” is negative by 77,860 thousand euro (negative by 48,606 thousand euro at December 31, 2015).

31) Result from non-recurring transactions

At December 31, 2016, the item in question amounted to 48,336 thousand euro (a zero balance at December 31, 2015) and includes the income from the demerger of the “Cellina Unit” (formerly Edipower S.p.A.) in favour of Cellina Energy S.r.l., which took effect on January 1, 2016 following the demerger deed signed between the parties on December 28, 2015 as further specified in the paragraph “Significant events during the year” in the file Report on Operations.

32) Financial balance

Financial income exceeded financial expenses by 258,358 thousand euro (negative 71,807 thousand euro at December 31, 2015). Details of the most significant items are shown in the table below:

Financial income

Financial income - Thousands of euro	12 31 2016	12 31 2015	Changes
Income on derivatives	16,234	23,550	(7,316)
Income from financial assets:	475,189	275,948	199,241
Income from dividends:	449,127	236,559	212,568
- subsidiaries	446,885	234,946	211,939
- associates	1,014	1,392	(378)
- in other companies	1,228	221	1,007
Income on receivables/securities recorded as non-current assets	4	2	2
- from others	4	2	2
Income on receivables/securities recorded as current assets:	24,848	39,302	(14,454)
- from subsidiaries	17,568	34,309	(16,741)
- from associates	192	74	118
- from parent companies	6,134	3,200	2,934
- from others:	954	1,719	(765)
a) on bank accounts	484	918	(434)
b) on other receivables	470	801	(331)
Foreign exchange gains	1,210	85	1,125
Total financial income	491,423	299,498	191,925

“Financial income” totalled 491,423 thousand euro (299,498 thousand euro at December 31, 2015), and relate to income from financial assets.

In particular, Income on derivatives amounted to 16,234 thousand euro (23,550 thousand at December 31, 2015) and include the positive performance of the fair value (7,618 thousand euro) and realized gains (8,616 thousand euro) on financial derivative contracts.

Income on financial assets amounted to 475,189 thousand euro (275,948 thousand euro at December 31, 2015) and concerned:

- income on dividends in the amount of 449,127 thousand euro (236,559 thousand euro in the previous year) which refer to dividends distributed by subsidiaries, 446,885 thousand euro, associates, 1,014 thousand euro, and certain investees of A2A S.p.A., 1,228 thousand euro;
- income on receivables/securities booked under non-current assets in the amount of 4 thousand euro (2 thousand euro at December 31, 2015), relating mainly to interest on fixed-income securities and guarantee deposits;
- income on receivables/securities booked under current assets in the amount of 24,848 thousand euro (39,302 thousand euro at December 31, 2015), including 17,568 thousand euro (34,309 thousand euro at December 31, 2015) in interest income from subsidiaries on intercompany loans; 192 thousand euro in interest income from affiliates (74 thousand euro at December 31, 2015); 6,134 thousand euro (3,200 thousand euro at December 31, 2015) in income from the Municipality of Brescia, pursuant to the implementation of IFRIC 12 in connection with the public lighting system; 954 thousand euro (1,719 thousand euro at December 31, 2015) in interest on bank deposits and sundry receivables;
- foreign exchange gains in the amount of 1,210 thousand euro (85 thousand euro in the previous year).

Financial expenses

Financial expenses - Thousands of euro	12 31 2016	12 31 2015	Changes
Expenses on financial assets held for trading	60,130	221,372	(161,242)
- Shareholdings write-downs	60,130	221,372	(161,242)
Expenses on derivatives	4,609	5,174	(565)
Expenses on financial assets	168,326	144,759	23,567
- from subsidiaries	3,539	5,016	(1,477)
- from associates	-	-	-
- parent company	-	-	-
- others:	164,787	139,743	25,044
a) interest on bond loans	119,512	124,514	(5,002)
b) banks	5,784	12,822	(7,038)
c) discounting charges	2,609	1,945	664
d) sundry	36,325	462	35,863
e) foreign exchange losses	557	-	557
Total financial expenses	233,065	371,305	(138,240)

“Financial expenses” amounted to 233,065 thousand euro (371,305 thousand euro in 2015) and referred to:

- 60,130 thousand euro (221,372 thousand euro at December 31, 2015) mainly due to the write-downs of the shareholding in A2A gencogas S.p.A., and to the write-downs of shareholdings held in Rudnik Uglja Ad Pljevlja and in A2A Alfa S.r.l., as discussed in greater detail in note 3 “Shareholdings and other non-current financial assets”;
- realized losses on derivatives for 4,609 thousand euro (5,174 thousand euro at December 31, 2015);
- for 168,326 thousand euro (144,759 thousand euro at December 31, 2015) for expenses from financial liabilities, made up of:
 - interest charged by subsidiaries in the amount of 3,539 thousand euro (5,016 thousand euro in 2015) on intercompany loans extended under the Group’s cash management system;
 - other financial charges in the amount of 164,787 thousand euro (139,743 thousand euro at December 31, 2015), which relate to interest on bonds and interest on the revolving credit lines used with various banks and other financial expenses. Other financial expenses include, for 35,665 thousand euro, the charges incurred by the company for the partial buyback of bonds maturing in 2019 and 2021 for an amount respectively of 182,475 thousand euro and 70,020 thousand euro; said charges are determined by the difference between the repurchase price and the carrying value in the financial statements of the bond concerned.

The nature and content of derivatives are described in the section “Other information”.

33) Income taxes

Losses/gains for income taxes - Thousands of euro	12 31 2016	12 31 2015	Changes
Current IRES	(17,572)	(16,037)	(1,535)
Current IRAP	-	-	-
Effect of differences - taxes of previous years	3,560	(11,285)	14,845
Total current taxes	(14,012)	(27,322)	13,310
Deferred tax assets	39,617	(4,263)	43,880
Deferred tax liabilities	(70,821)	(15,341)	(55,480)
Total losses/gains for income taxes	(45,216)	(46,926)	1,710

It is noted that for IRES purposes, the company filed for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86.

To this end, a contract has been entered into with each of the subsidiaries to regulate the tax benefits and burdens transferred, with specific reference to current items.

The deferred tax assets and liabilities calculated when determining the subsidiaries' taxable income, again only for IRES purposes, are not transferred to the parent company, A2A S.p.A., but are recognized in the income statement of the individual subsidiary each time there is an effective divergence between net income calculated for tax reporting purposes and net income calculated for financial reporting purposes due to any temporary differences. The deferred tax assets and liabilities shown in the income statement of A2A are therefore calculated exclusively on the divergences between its income for taxable purposes and income for financial reporting purposes.

Current income tax (IRES) of A2A S.p.A. is calculated on its own taxable income net of the adjustments relating to the national tax consolidation filing, in accordance with appendix E of accounting standard OIC 25 of August 2014.

In compliance with accounting standard OIC 25, the "income/expense related to consolidation", which constitute the remuneration/contra-entry for the transfer to the parent company A2A of a tax loss or taxable income, are recognized in the balance sheet.

The total amount of IRAP is calculated at 5.57% of the net value of production, suitably adjusted for the items foreseen in the relevant tax legislation.

The deferred tax assets and liabilities for IRAP purposes are booked to the income statement so as to show the total tax charge for the year, taking into account the tax effects of temporary differences. The recoverability of "Deferred tax assets" recognized in the financial statements is considered likely, since future plans include IRES taxable income sufficient to absorb the temporary differences that will be reversed; for the years of the plan for which the IRAP taxable income is not provided sufficiently to absorb IRAP temporary differences, it was decided to repay the related IRAP deferred tax assets and liabilities (with a net effect of about 8,000 thousand euro of higher taxes in the current year).

No items have been excluded from the calculation of deferred taxation for IRES or IRAP purposes and deferred assets and liabilities are recognized according to the balance sheet method.

At December 31, 2016, income taxes for the year (IRES and IRAP), amounted to -45,216 thousand euro (-46,926 thousand euro at the end of the previous year) and were made up as follows:

- 12,553 thousand euro in current IRES for the year;
- -30,407 thousand euro for remuneration for the transfer of interest payable to the tax consolidation system;
- 282 thousand euro for transfer to Equity reserve of part of income taxes;
- 3,560 thousand euro related to taxes of previous years;

- -56,491 thousand euro for deferred tax liabilities for IRES purposes;
- -14,330 thousand euro for deferred tax liabilities for IRAP purposes;
- 29,599 thousand euro in deferred tax assets for IRES purposes;
- 10,018 thousand euro in deferred tax assets for IRAP purposes.

The main permanent increases in IRES include write-downs of shareholding in the amount of 60,030 thousand euro, non-deductible extraordinary expenses in the amount of 6,288 thousand euro, as well as property taxes (IMU) in the amount of 12,203 thousand euro.

The following are the statements of reconciliation between the tax expense based on the statutory tax rate and the effective tax charge for IRES and IRAP purposes.

IRES - reconciliation between theoretical and effective taxation

Pre-tax profit	228,834,245	
Theoretical tax expense		62,929,417
Permanent differences	(294,425,819)	
Income before taxes adjusted for permanent differences	(65,591,574)	
Temporary differences deductible in subsequent years	186,984,958	
Temporary differences taxable in subsequent years	(21,215,749)	
Reversal of prior year temporary differences	(54,530,133)	
Taxable income	45,647,502	
Current taxes on income for the year		12,553,063
Other income to deducted from tax consolidation		(30,407,147)
Taxes to be deducted to equity		282,175
Total current income taxes for the year		(17,571,909)

IRAP - reconciliation between theoretical and effective taxation

Difference between production value and costs	221,193,943	
Costs not relevant for IRAP purposes	318,339,973	
Total	(97,146,030)	
Theoretical tax expense (5.57%)		(5,411,034)
Temporary differences deductible in subsequent years	182,833,574	
Temporary differences taxable in subsequent years	(21,215,749)	
Reversal of prior year temporary differences	(64,471,795)	
Taxable income for IRAP purposes	-	
Current IRAP on income for the year		-

Details are provided below on the analytic situation of the deferred tax assets and liabilities which, as required by international accounting standards, also shows the changes in equity reserves.

IRES - Deferred tax assets and liabilities for the year

Taxable temporary differences

Case description <i>Units of euro</i>	Deferred tax liabilities A2A initial	Transactions non-recurring 2016	Deferred tax liabilities previous year			Adjustments			Uses in current year		
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
Measurement differences for tangible assets	304,455,389	377,281,120	681,736,509	24.0%	163,616,762	(27,295,076)	24.0%	(6,550,818)	135,636,107	24.0%	32,552,666
Application of the leasing standard (IAS 17)	19,903,842	-	19,903,842	24.0%	4,776,922	-	24.0%	-	-	24.0%	-
Application of the financial instrument standard (IAS 39)	-	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
Measurement differences of intangible assets	23,470,724	(11,447,324)	12,023,400	24.0%	2,885,616	-	24.0%	-	-	24.0%	-
Deferred capital gains	-	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
Employee leaving entitlement (TFR)	778,641	4,330,140	5,108,781	24.0%	1,226,107	-	24.0%	-	-	24.0%	-
Amounts to be paid in 2016	5,713,974	73,314,741	79,028,715	27.5%	21,732,897	55	27.5%	15	79,028,770	27.5%	21,732,912
Other deferred tax liabilities	18,146,672	7,493,893	25,640,565	24.0%	6,153,736	(3,109,815)	24.0%	(746,356)	-	24.0%	-
Total	372,469,243	450,972,570	823,441,813		200,392,040	(30,404,836)		(7,297,159)	214,664,877		54,285,577

Deductible temporary differences

Case description <i>Units of euro</i>	Deferred tax assets A2A initial	Transactions non-recurring 2016	Deferred tax assets previous year			Adjustments			Uses in current year		
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
Taxed risk provisions	212,519,032	82,227,705	294,746,737	24.0%	70,739,217	(2,620,446)	24.0%	(628,907)	60,775,943	24.0%	14,586,226
Amortization, depreciation and write-downs	107,287,909	248,960,289	356,248,198	24.0%	85,499,568	17,836,691	24.0%	4,280,806	57,155,075	24.0%	13,717,218
Application of the financial instrument standard (IAS 39)	1,497,250	-	1,497,250	24.0%	359,340	-	24.0%	-	-	24.0%	-
Bad debt provision	7,565,781	3,015,184	10,580,965	24.0%	2,539,432	(3,415,469)	24.0%	(819,713)	-	24.0%	-
Costs for business combinations	-	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
Grants	9,644,123	-	9,644,123	24.0%	2,314,590	-	24.0%	-	-	24.0%	-
Goodwill	103,178,785	198,415,310	301,594,095	24.0%	72,382,583	(38,700,760)	24.0%	(9,288,182)	1,217	24.0%	292
Amounts to be paid in 2016	19,126,094	123,807,547	142,933,641	27.5%	39,306,751	6,623,490	27.5%	1,821,460	149,557,131	27.5%	41,128,211
Other deferred tax assets	49,303,214	8,079,563	57,382,777	24.0%	13,771,867	-	24.0%	-	1,704,783	24.0%	409,148
Total	510,122,189	664,505,598	1,174,627,787		286,913,346	(20,276,494)		(4,634,336)	269,194,149		69,841,095

Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Non-recurring transactions year-end			Total deferred tax liabilities		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
518,805,326	24.0%	124,513,278	518,805,326	24.0%	124,513,278	21,215,749	24.0%	5,091,780	-	24.0%	-	86,878,244	24.0%	20,850,779	626,899,320	24.0%	150,455,837
19,903,842	24.0%	4,776,922	19,903,842	24.0%	4,776,922	-	24.0%	-	-	24.0%	-	-	24.0%	-	19,903,842	24.0%	4,776,922
-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
12,023,400	24.0%	2,885,616	12,023,400	24.0%	2,885,616	-	24.0%	-	-	24.0%	-	-	24.0%	-	12,023,400	24.0%	2,885,616
-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
5,108,781	24.0%	1,226,107	5,108,781	24.0%	1,226,107	-	24.0%	-	-	24.0%	-	-	24.0%	-	5,108,781	24.0%	1,226,107
-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-
22,530,750	24.0%	5,407,380	22,530,750	24.0%	5,407,380	-	24.0%	-	-	24.0%	-	-	24.0%	-	22,530,750	24.0%	5,407,380
578,372,100		138,809,304	578,372,100		138,809,304	21,215,749		5,091,780	-		-	86,878,244		20,850,779	686,466,094		164,751,862

Sub-total			Changes in tax rate			Increases for the year			Increases/uses to equity			Non-recurring transactions year-end			Total deferred tax assets		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
231,350,349	24.0%	55,524,084	231,350,349	24.0%	55,524,084	63,924,985	24.0%	15,341,996	23,249,991	24.0%	5,579,998	-	24.0%	-	318,525,325	24.0%	76,446,078
316,929,814	24.0%	76,063,155	316,929,814	24.0%	76,063,155	121,078,840	24.0%	29,058,922	-	24.0%	-	(115,121,756)	24.0%	(27,629,221)	323,169,361	24.0%	77,560,647
1,497,250	24.0%	359,340	1,497,250	24.0%	359,340	-	24.0%	-	-	24.0%	-	-	24.0%	-	1,497,250	24.0%	359,340
7,165,496	24.0%	1,719,719	7,165,496	24.0%	1,719,719	1,201,133	24.0%	288,272	-	24.0%	-	-	24.0%	-	8,366,629	24.0%	2,007,991
	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-	-	24.0%	-
9,644,123	24.0%	2,314,590	9,644,123	24.0%	2,314,590	-	24.0%	-	-	24.0%	-	-	24.0%	-	9,644,123	24.0%	2,314,590
262,892,118	24.0%	63,094,108	262,892,118	24.0%	63,094,108	-	24.0%	-	-	24.0%	-	-	24.0%	-	262,892,118	24.0%	63,094,108
-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-	-	27.5%	-
55,677,994	24.0%	13,362,719	55,677,994	24.0%	13,362,719	780,000	24.0%	187,200	(28,875,093)	24.0%	(6,930,022)	-	24.0%	-	27,582,901	24.0%	6,619,896
885,157,144		212,437,715	885,157,144		212,437,715	186,984,958		44,876,390	(5,625,102)		(1,350,024)	(115,121,756)		(27,629,221)	951,677,707		228,402,650

IRAP - Deferred tax assets and liabilities for the year

Taxable temporary differences

Case description <i>Units of euro</i>	Deferred tax liabilities A2A initial	Transactions non-recurring 2016	Deferred tax liabilities previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Measurement differences for tangible assets	136,222,209	425,846,582	562,068,790	5.57%	31,307,232	59,562,145	5.57%	3,317,611	152,613,580	5.57%	8,500,576	
Application of the leasing standard (IAS 17)	14,629,909	-	14,629,909	5.57%	814,886	-	5.57%	-	-	5.57%	-	
Measurement differences of intangible assets	6,778	-	6,778	5.57%	378	2,111	5.57%	118	-	5.57%	-	
Other deferred tax liabilities	15,906,434	5,550,286	21,456,721	5.57%	1,195,139	(1,108,302)	5.57%	(61,732)	27,375,343	5.57%	1,524,807	
Total	166,765,330	431,396,868	598,162,198		33,317,634	58,455,954		3,255,997	179,988,923		10,025,383	

Deductible temporary differences

Case description <i>Units of euro</i>	Deferred tax assets A2A initial	Transactions non-recurring 2016	Deferred tax assets previous year			Adjustments			Uses in current year			
	Taxable amount	Taxable amount	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	
Taxed risk provisions	200,922,700	56,578,493	257,501,193	5.57%	14,342,816	23,104,384	5.57%	1,286,914	61,288,713	5.57%	3,413,781	
Amortization, depreciation and write-downs	108,773,616	147,922,892	256,696,508	5.57%	14,297,996	148,276,761	5.57%	8,259,016	92,944,480	5.57%	5,177,008	
Costs for business combinations		-		5.57%	-		5.57%	-		5.57%	-	
Grants	6,087,924	-	6,087,924	5.57%	339,097	-	5.57%	-	-	5.57%	-	
Goodwill	112,678,312	193,621,151	306,299,463	5.57%	17,060,880	60,507,560	5.57%	3,370,271	89,613,853	5.57%	4,991,492	
Other deferred tax assets	3,202,768	4,108,856	7,311,624	5.57%	407,257	1,735,037	5.57%	96,642	613,672	5.57%	34,182	
Total	431,665,320	402,231,392	833,896,712		46,448,047	233,623,742		13,012,842	244,460,718		13,616,462	

Sub-total			Rate adjustment			Increases for the year			Increases/uses to equity			Transactions year-end and extraordinary reversal			Total deferred tax liabilities		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
469,017,355	5.57%	26,124,267	469,017,355	5.57%	26,124,267	3,556,506	5.57%	198,097	-	5.57%	-	(94,559,836)	5.57%	(5,266,983)	378,014,026	5.57%	21,055,381
14,629,909	5.57%	814,886	14,629,909	5.57%	814,886	-	5.57%	-	-	5.57%	-	-	5.57%	-	14,629,909	5.57%	814,886
8,889	5.57%	495	8,889	5.57%	495	-	5.57%	-	-	5.57%	-	-	5.57%	-	8,889	5.57%	495
(7,026,924)	5.57%	(391,400)	(7,026,924)	5.57%	(391,400)	17,659,243	5.57%	983,620	-	5.57%	-	1,848,488	5.57%	102,961	12,480,807	5.57%	695,181
476,629,229		26,548,248	476,629,229		26,548,248	21,215,749		1,181,717	-		-	(92,711,348)		(5,164,022)	405,133,631		22,565,943

Sub-total			Rate adjustment			Increases for the year			Increases/uses to equity			Transactions year-end and extraordinary reversal			Total deferred tax assets		
Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax	Taxable amount	Rate	Tax
219,316,864	5.57%	12,215,949	219,316,864	5.57%	12,215,949	63,390,364	5.57%	3,530,843	23,249,991	5.57%	1,295,025	-	5.57%	-	305,957,220	5.57%	17,041,817
312,028,789	5.57%	17,380,004	312,028,789	5.57%	17,380,004	119,411,353	5.57%	6,651,212	-	5.57%	-	(213,371,927)	5.57%	(11,884,816)	223,132,721	5.57%	12,428,493
	5.57%	-		5.57%	-		5.57%	-		5.57%	-	-	5.57%	-		5.57%	-
6,087,924	5.57%	339,097	6,087,924	5.57%	339,097	-	5.57%	-	-	5.57%	-	-	5.57%	-	6,087,924	5.57%	339,097
277,193,170	5.57%	15,439,660	277,193,170	5.57%	15,439,660	-	5.57%	-	-	5.57%	-	(226,566,574)	5.57%	(12,619,758)	50,626,596	5.57%	2,819,901
8,432,989	5.57%	469,717	8,432,989	5.57%	469,717	31,857	5.57%	1,774	(13,636,647)	5.57%	(759,561)	-	5.57%	-	(5,171,801)	5.57%	(288,069)
823,059,736		45,844,427	823,059,736		45,844,427	182,833,574		10,183,830	9,613,344		535,463	(439,938,501)		(24,504,575)	580,632,660		32,341,239

34) Result of the year

Result of the year was positive for 274,050 thousand euro (negative for 73,487 thousand euro at December 31, 2015).

Note on related party transactions

35) Note on related party transactions

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

Relationships with parent companies and their subsidiaries

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

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

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

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

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

On October 26, 2016, the Municipality of Milan received from the Municipality of Brescia the proposal, approved by the Council of said Municipality on October 25, 2016, to partially amend

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

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

At the date of approval of these separate financial statements at December 31, 2016, the two shareholders held a shareholding of 50% plus two shares that enables the two municipalities to maintain control over the company.

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

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

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

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

On April 3, 2014, Amsa S.p.A., a subsidiary of A2A S.p.A., entered a service agreement with the Municipality of Milan covering waste management, street and green area cleaning, special

services and other services upon request (such as the removal of illegally dumped waste, reclamation and snow removal) for the period from January 1, 2014, to December 31, 2016; the finalization of the renewal of this contract is currently underway.

Relationships with subsidiaries and affiliates

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

Relations between the companies are regulated through current accounts between the parent company and the subsidiaries, on which rates are applied, at market conditions, based on variable Euribor, with specific spreads for companies.

For the financial year 2016, A2A S.p.A. and its subsidiaries have adopted the VAT procedure of the Group.

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

The parent company provides the subsidiaries and affiliates with administrative, fiscal, legal, management and technical services in order to optimize the resources available in the company and to use the existing expertise in terms of economic convenience. These services are regulated by special intercompany service contracts stipulated annually. A2A S.p.A. also provides its subsidiaries and affiliates with office spaces and operating areas, at their own sites, as well as the services related to their use. These services are regulated at market conditions.

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

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

Finally, note that pursuant to the Consob communication issued on September 24, 2010, bearing the provisions regarding related party transactions in accordance with Consob Resolution no. 17221 of March 12, 2010, as amended, on November 11, 2010, the Group had approved the procedure for related party transactions which took effect on January 1, 2011, and which aims to ensure the transparency and substantial fairness of the related party transactions executed by A2A S.p.A. directly, or through subsidiaries, identified in accordance with the IAS 24 revised

accounting standard. The Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure “Regulation of transactions with Related Parties”. The review of the procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure.

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

Balance sheet	Total 12 31 2016	Of which with related parties								
		Subsidiary companies	Associated companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	% effect on the balance sheet item
Thousands of euro										
TOTAL ASSETS OF WHICH:	7,499,593	4,831,395	64,274	15,735	3	5,510	142	-	4,917,059	65.6%
Non-current assets	5,694,815	4,253,829	46,686	-	-	3,704	139	-	4,304,358	75.6%
Shareholdings	3,901,566	3,854,880	46,686	-	-	-	-	-	3,901,566	100.0%
Other non-current financial assets	406,463	398,949	-	-	-	3,704	139	-	402,792	99.1%
Current assets	1,804,778	577,566	17,588	15,735	3	1,806	3	-	612,701	33.9%
Trade receivables	650,195	144,592	9,723	15,735	3	1,806	3	-	171,862	26.4%
Other current assets	370,736	59,594	-	-	-	-	-	-	59,594	16.1%
Current financial assets	382,645	373,380	7,865	-	-	-	-	-	381,245	99.6%
TOTAL LIABILITIES OF WHICH:	5,183,108	658,675	113,154	479	377	-	-	312	772,997	14.9%
Non-current liabilities	3,298,632	4,154	89,865	-	-	-	-	-	94,019	2.9%
Provisions for risks, charges and liabilities for landfills	179,629	4,154	89,865	-	-	-	-	-	94,019	52.3%
Current liabilities	1,884,476	654,521	23,289	479	377	-	-	312	678,978	36.0%
Trade payables	667,474	64,446	14,271	479	377	-	-	-	79,573	11.9%
Other current liabilities	333,766	28,941	7,167	-	-	-	-	312	36,420	10.9%
Current financial liabilities	857,449	561,134	1,851	-	-	-	-	-	562,985	65.7%

Income statement	Total 12 31 2016	Of which with related parties								% effect on the balance sheet item
		Subsidiary companies	Associated companies	Municipality of Milan	Subsidiaries Municipality of Milan	Municipality of Brescia	Subsidiaries Municipality of Brescia	Related parties individuals	Total related parties	
Thousands of euro										
REVENUES	2,760,895	810,819	2,691	35,781	-	1,178	10	-	850,479	30.8%
Revenues from the sale of goods and services	2,554,203	801,060	2,659	35,781	-	1,178	10	-	840,688	32.9%
Other operating revenues	206,692	9,759	32	-	-	-	-	-	9,791	4.7%
OPERATING COSTS	2,326,202	238,785	20,117	101	506	-	22	340	259,871	11.2%
Expenses for raw materials and services	2,083,798	134,888	764	101	506	-	22	340	136,621	6.6%
Other operating costs	242,404	103,897	19,353	-	-	-	-	-	123,250	50.8%
LABOUR COSTS	151,699	-	-	-	-	-	-	2,525	2,525	1.7%
AMORTIZATION, DEPRECIATION, PROVISIONS AND WRITE-DOWNS	360,854	2,439	2,332	-	-	-	-	-	4,771	1.3%
FINANCIAL BALANCE	258,358	405,883	(3,794)	-	-	6,134	-	-	408,223	n.s.
Financial income	491,423	464,453	1,206	-	-	6,134	-	-	471,793	96.0%
Financial expenses	233,065	58,570	5,000	-	-	-	-	-	63,570	27.3%

Section 0.2 of this file provides complete schedules as required under Consob Resolution no. 17221 of March 12, 2010.

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

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

The year in question has seen the following non-recurring transactions:

- the merger by incorporation of the subsidiary A2A Trading S.r.l., effective January 1, 2016, with the exception of the business unit relating to energy efficiency certificates (white certificates) demerged in favour of the subsidiary A2A Calore & Servizi S.r.l. effective July 1, 2016;
- the merger by incorporation of the subsidiary Edipower S.p.A., effective January 1, 2016, for the operation of hydroelectric plants and some staff functions, while during the year, the following were demerged from the company Edipower S.p.A.:
 - effective January 1, 2016, the "Cellina Unit" in favour of Cellina Energy S.r.l. (company wholly owned by Società Elettrica Altoatesina S.p.A.) in application of the demerger deed stipulated the parties on December 28, 2015, which led to a positive impact on the income statement of 48,336 thousand euro recorded under "Result from non-recurring transactions".
 - effective July 1, 2016, the business units relating to the thermoelectric plants CCGT (Sermide, Piacenza, Chivasso) in favour of the subsidiary A2A gencogas S.p.A. and to the other thermoelectric plants (Brindisi, San Filippo del Mela) in favour of A2A Energiefuture S.p.A.;
- the conferment of the business unit relating to the thermoelectric plants CCGT (Mincio and Cassano D'Adda) in favour of the subsidiary A2A gencogas S.p.A., effective July 1, 2016;
- the conferment to A2A Energiefuture S.p.A. of the thermoelectric plant of the Plant in Monfalcone, effective as of December 31, 2016; in the period from July 1, 2016 to December 31, 2016, a contract was in effect for the lease of a business unit between A2A S.p.A. and A2A Energiefuture S.p.A. for the same plant.

Below is the table with the effects of the non-recurring transactions described above.

Detail of non-recurring transactions
 Amounts in euro

	Note	Merger A2A Trading S.r.l. net of non-recurring transactions in 2016	Merger Edipower S.p.A. net of non-recurring transactions in 2016
ASSETS			
NON-CURRENT ASSETS			
Tangible assets	1		488,309,541
Intangible assets	2	56,493,261	1,008,940
Shareholdings	3	1,030,797	
Other non-current financial assets	3		5,000
Deferred tax assets	4	26,987,670	22,288,608
Other non-current assets	5	142,862	54,390
TOTAL NON-CURRENT ASSETS		84,654,590	511,666,479
CURRENT ASSETS			
Inventories	6	115,579,965	(6,014,261)
Trade receivables	7	469,562,633	467,265
Other current assets	8	71,724,355	15,630,352
Current financial assets	9		(2,032,195)
Current tax assets	10	6,174,918	7,543,537
Cash and cash equivalents	11	27,740,489	365,561
TOTAL CURRENT ASSETS		690,782,360	15,960,259
NON-CURRENT ASSETS HELD FOR SALE	12		
TOTAL ASSETS		775,436,950	527,626,738
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1,000,000	709,141,954
(Treasury shares)	14	0	
Reserves	15	561,338	(412,560,326)
Result of the year	16	0	48,336,439
SHAREHOLDERS' EQUITY		1,561,338	344,918,067
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	17		
Employee benefits	18	1,485,964	27,706,810
Provisions for risks, charges and liabilities for landfills	19	92,620,672	17,403,745
Other non-current liabilities	20		3,402,071
TOTAL NON-CURRENT LIABILITIES		94,106,636	48,512,626
CURRENT LIABILITIES			
Trade payables	21	504,451,654	108,421,033
Other current liabilities	21	70,778,357	25,775,012
Current financial liabilities	22	103,947,601	
Tax liabilities	23	591,364	
TOTAL CURRENT LIABILITIES		679,768,976	134,196,045
TOTAL LIABILITIES		773,875,612	182,708,671
LIABILITIES DIRECTLY ASSOCIATED TO NON-CURRENT ASSETS HELD FOR SALE		0	0
TOTAL EQUITY AND LIABILITIES		775,436,950	527,626,738

	Equity eliminations between: A2A S.p.A. A2A Trading S.r.l. Edipower S.p.A.	A2A S.p.A. Transfer of business unit CCGT plants to A2A gencogas S.p.A. 07/01/16	A2A S.p.A. Lease of business unit Monfalcone Plant to A2A Energiefuture S.p.A. 07/01/2016 - 12/31/2016	A2A S.p.A. Transfer of business unit Monfalcone Plant to A2A Energiefuture S.p.A. 12/31/2016	Effect of non-recurring transactions
		(163,411,652)	(13,570,532)	(103,002,185)	208,325,172
		(10,501)	33,559	(44,060)	57,481,199
	(341,691,630)	164,756,000		133,100,000	(42,804,833)
					5,000
		(1,790,898)	201,047	(53,259,759)	(5,573,332)
					197,252
	(341,691,630)	(457,051)	(13,335,926)	(23,206,004)	217,630,458
		(36,417)	(209,068)	(4,183,303)	105,136,916
	(204,921,541)				265,108,357
	(59,352,785)	(440,328)	(21,446)		27,540,148
	(193,532,766)	(5,471,180)	13,385,154	(206,969)	(187,857,956)
					13,718,455
		(1,900)	(1,250)		28,102,900
	(457,807,092)	(5,949,825)	13,153,390	(4,390,272)	251,748,820
	(799,498,722)	(6,406,876)	(182,536)	(27,596,276)	469,379,278
	(710,141,954)				
	401,800,910	762,569		683,105	(8,752,404)
					48,336,439
	(308,341,044)	762,569		683,105	39,584,035
		(4,270,578)	(169,647)	(3,613,010)	21,139,539
	(33,350,586)	(1,771,456)	(484,671)	(23,601,170)	50,816,534
					3,402,071
	(33,350,586)	(6,042,034)	(654,318)	(27,214,180)	75,358,144
	(204,921,541)	(311,000)			407,640,146
	(59,352,785)	(816,411)	471,782	(1,065,201)	35,790,754
	(193,532,766)				(89,585,165)
					591,364
	(457,807,092)	(1,127,411)	471,782	(1,065,201)	354,437,099
	(491,157,678)	(7,169,445)	(182,536)	(28,279,381)	429,795,243
	(799,498,722)	(6,406,876)	(182,536)	(27,596,276)	469,379,278

Guarantees and commitments with third parties

<i>Thousands of euro</i>	2016	2015
Guarantees received	199,495	81,725
Guarantees provided	278,706	169,358

Guarantees received

Guarantees received amounted to 199,495 thousand euro (81,725 thousand euro at December 31, 2015) and include 63,270 thousand euro for sureties and security deposits issued by subcontractors to guarantee the proper execution of the work assigned and 136,225 thousand euro for sureties and security deposits received from customers to guarantee the regularity of payments.

Guarantees provided and commitments with third parties

Guarantees provided amounted to 278,706 thousand euro (169,358 thousand euro at December 31, 2015), of which for obligations undertaken in the loan agreements of 118,996 thousand euro. Said guarantees include bank sureties for 148,653 thousand euro, insurance for 13,152 thousand euro and parent company guarantees related to associated companies for 116,901 thousand euro.

Other information

1) Significant events after December 31, 2016

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, 2016, A2A S.p.A. held 23,721,421 treasury shares (26,917,609 at December 31, 2015), representing 0.757% of the share capital consisting of 3,132,905,277 shares. In the first three months of the year, there was an increase in the number of treasury shares compared to December 31, 2015 of 35,000,000 shares purchased between February 16 and March 31, 2016 for a counter value of approximately 37 million euro. In August, a portion of 38,196,188 treasury shares for a counter value of 47 million euro were sold for the acquisition of the majority stake of Linea Group Holding S.p.A..

At December 31, 2016, 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)

The item “Non-current assets held for sale” at December 31, 2016, shows a zero balance, while at December 31, 2015, it was 469 thousand euro and referred to the reclassification of the shareholding in SEASM S.r.l., held 67% by A2A S.p.A., since this is a discontinued operation in accordance with IFRS 5 as a result of management’s decision to divest it; in 2016, the shareholding was recognized in the item “Shareholdings in subsidiaries” as the disposal was not finalized.

4) Financial risk management

The parent company, A2A S.p.A., provides centralized risk management for Group companies.

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

- a) commodity risk;
- b) interest rate risk;
- c) exchange rate risk not related to commodities;
- d) liquidity risk;
- e) credit risk;
- f) equity risk;
- g) default and covenant non-compliance risk.

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

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

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

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

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

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

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

Details on the risks to which A2A S.p.A. is exposed are provided below.

a. Commodity risk

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

A2A S.p.A. is exposed to price risk, including the related exchange rate risk, on all of the energy commodities that it handles, namely electricity, natural gas, heat, coal, fuel oil, and environmental certificates; the financial performance of production, purchasing and sales activities is affected by the related price fluctuations. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

To stabilize cash flows and to assure the Group's economic and financial stability, A2A S.p.A. has an Energy Risk Policy that sets out clear guidelines to manage and control the above risks, based on guidance by the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and the Group on Risk Management of Euroelectric. Reference was also made to the Accords of the Basel Committee on bank supervision approved in June 2004 ("Basel 2") and the requirements laid down in international accounting standards on how to recognize the volatility of commodity price and financial derivatives in the income statement and balance sheet.

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

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

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

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

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

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

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

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

a.2) Commodity derivatives, analysis of transactions

Derivatives of the industrial portfolio considered hedges

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

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

The fair value at December 31, 2016 was 8,114 thousand euro (-5,523 thousand euro at December 31, 2015⁽¹⁾).

Derivatives of the industrial portfolio not considered hedges

Also as part of its optimization of the industrial portfolio, contracts have been entered into by A2A S.p.A. to hedge the fee for the use of electricity transport capacity within the areas of the IPEX market (CCC contracts), as well as Forward contracts on the market price of EUA environmental certificates (ECX ICE). These do not qualify as hedging transactions from an accounting point of view as they fail to meet the requirement set out in the accounting standards.

The fair value at December 31, 2016 was -248 thousand euro (3 thousand euro at December 31, 2015⁽¹⁾).

Derivatives of the Trading Portfolio

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

The fair value at December 31, 2016 was 5,130 thousand euro (498 thousand euro at December 31, 2015⁽¹⁾).

(1) Values of A2A Trading S.r.l. at December 31, 2015, incorporated in A2A S.p.A. as of January 1, 2016.

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

PaR⁽²⁾ or Profit at Risk, is the change in the value of a financial instruments portfolio within set probability assumptions as the result of a shift in the market indices. The PaR is calculated using the Montecarlo Method (at least 10,000 trials) and a 99% confidence level. It simulates scenarios for each relevant price driver depending on the volatility and correlations associated with each one, using as the central level the forward market curves at the balance sheet date, if available. By means of this method, after having obtained a distribution of probability associated with changes in the result of outstanding financial contracts, it is possible to extrapolate the maximum change expected over a time horizon given by the accounting period at a set level of probability. Based on this methodology, over the time horizon of the accounting period and in the event of extreme market movements and at a 99% confidence level, the expected maximum negative change in financial derivatives outstanding at December 31, 2016 was 10,688 thousand euro (50,789 thousand euro at December 31, 2015).

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

Thousands of euro	12 31 2016		12 31 2015 ^(*)	
Profit at Risk (PaR)	Worst case	Best case	Worst case	Best case
Confidence level 99%	(10,688)	13,551	(50,789)	62,560

(*) Values of A2A Trading S.r.l. at December 31, 2015, incorporated in A2A S.p.A. as of January 1, 2016.

This means that with a 99% probability, A2A S.p.A. expects not to have changes in fair value exceeding 10,688 thousand euro in its entire portfolio of financial instruments at December 31, 2016 due to commodity price fluctuations in the 12 months following. If there are any negative changes in the fair value of derivatives, these would be compensated by changes in the underlying as the result of changes in market prices.

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

VaR (Value at Risk)⁽³⁾ is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by A2A S.p.A. that are attributable to the trading portfolio. It is the negative change in the value of a financial instruments portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. VaR is calculated using the RiskMetrics method with a holding period of 1 day and a confidence level of 99%. Alternative methods are used for contracts where it is not possible to perform a daily estimate of VaR such as stress test analysis.

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

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

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 1,709 thousand euro at December 31, 2016 (1,067 thousand euro at December 31, 2015).

In order to ensure closer monitoring of activities, VaR and Stop Loss limits are also set, understood as the sum of VaR, P&L Realized and P&L Unrealized.

The following are the results of the assessments:

Thousands of euro	12 31 2016		12 31 2015 ^(*)	
Value at Risk (VaR)	VaR	Stop Loss	VaR	Stop Loss
Confidence level 99%, holding period 1 day	(1,709)	(13,139)	(1,067)	(1,067)

(*) Values of A2A Trading S.r.l. at December 31, 2015, incorporated in A2A S.p.A. as of January 1, 2016.

b. Interest rate risk

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

Bank borrowings and other financing may be analyzed as follows at December 31, 2016:

Millions of euro	December 31, 2016			December 31, 2015		
	Without derivatives	With derivatives	% with derivatives	Without derivatives	With derivatives	% with derivatives
Fixed rate	2,228	2,362	73%	3,003	3.155	87%
Floating rate	989	855	27%	639	487	13%
Total	3,217	3,217	100%	3,642	3.642	100%

At December 31, 2016, the following are the hedging instruments for interest rate risk:

Millions of euro		December 31, 2016		December 31, 2015	
Hedging instrument	Hedged asset	Fair value	Notional	Fair value	Notional
IRS+Collar	Fixed rate loan	-	-	8.6	503.4
Collar	Floating rate loan	(14.8)	133.3	(17.1)	152.4
Total		(14.8)	133.3	(8.5)	655.8

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

Millions of euro

Accounting treatment	Derivatives	Notional		Fair Value assets		Notional		Fair Value liabilities	
		at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015
Cash flow hedge	Collar	-	-	-	-	133.3	152.4	(14.8)	(17.1)
Fair value hedge	IRS	-	503.4	-	16.2	-	-	-	-
Fair value	Collar	-	-	-	-	-	503.4	-	(7.6)
Total				-	16.2			(14.8)	(24.7)

The table below illustrates the underlying of outstanding derivatives at December 31, 2016:

Loan	Derivative	Accounting
A2A S.p.A. loan with BEI: expiring in November 2023, residual balance at December 31, 2016 amounting to 133.3 million euro, at floating rate interest.	Collar to fully cover the loan and the same maturity, with a floor on Euribor rate 2.99% and 4.65% cap. At December 31, 2016, the fair value was negative for 14.8 million euro.	The loan is measured at amortized cost. The collar is a cash flow hedge, with 100% recognized in a specific equity reserve.

In order to analyze and manage the risks relating to interest rate risk the company has developed an internal model enabling the exposure to this risk to be calculated using the Montecarlo method, assessing the effect that fluctuations in interest rates may 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 2017 together with a comparison with 2016:

Millions of euro

	Year 2017 (base case: -90.8)		Year 2016 (base case: -117.6)	
	Worst case	Best case	Worst case	Best case
Change in expected cash flows (including hedge flows) Confidence level 99%	(0.3)	0.3	(0.3)	0.3

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 2016 (base case: -14.8)		12 31 2015 (base case: -8.5)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(2.6)	2.4	(3.3)	3.0
(of which cash flow hedges)	(2.6)	2.4	(3.3)	3.0
(of which fair value hedges)	-	-	1.4	(1.4)

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

c. Exchange rate risk not related to commodities

In relation to the exchange rate risk other than the one included in the price of commodities, A2A decides whether to enter into hedging actions from the risk of exchange rate.

At December 31, 2016, the following are the hedging instruments for exchange rate risk:

Millions of euro					
Hedging instrument	Hedged asset	December 31, 2016		December 31, 2015	
		Fair value	Notional	Fair value	Notional
Cross Currency IRS	Fixed rate loan in foreign currency	3.9	98.0	(10.1)	98.0
Currency Forward	Future purchases in foreign currency	0.1	0.8	-	-
Total		4.0	98.8	(10.1)	98.0

The accounting treatment of the derivatives indicated above is as follows:

Millions of euro									
Accounting treatment	Derivatives	Notional		Fair Value assets		Notional		Fair Value liabilities	
		at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015	at 12/31/2016	at 12/31/2015
Cash flow hedge	CCIRS	98.0	-	3.9	-	-	98.0	-	(10.1)
Fair value	Currency forward	0.8	-	0.1	-	-	-	-	-
Total				4.0	-			-	(10.1)

In particular:

1) Cross Currency IRS

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

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

At December 31, 2016, the fair value of the hedge was positive for 3.9 million euro. This fair value would improve by 20.5 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 16.8 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (depreciation of the yen). The sensitivity analysis was performed with the aim of calculating the effect of changes in the forward curve of the euro/yen exchange rate on the fair value ignoring any impact on the adjustment due to the bCVA.

2) Currency Forward

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

This derivative is accounted as fair value as the underlying is held by the subsidiary A2A gencogas S.p.A., while the derivative is contractualized by A2A S.p.A..

d. Liquidity risk

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

The profile of the gross debt maturities of A2A is as follows:

Thousands of euro	Accounting balance 12 31 2016	Portions maturing within 12 months	Portions maturing after 12 months	Portion maturing by				
				12 31 2018	12 31 2019	12 31 2020	12 31 2021	After
Bonds	2,228,048	45,482	2,182,566	-	565,330	-	426,903	1,190,333
Bank loans	988,597	248,982	739,615	46,585	51,506	57,683	79,956	503,885
TOTAL	3,216,645	294,464	2,922,181	46,585	616,836	57,683	506,859	1,694,218

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

At December 31, 2016, the company had a total of 1 billion euro, as follows: (i) revolving committed credit lines for 800 million euro, with maturity 200 million euro in 2017 and 600 million euro in 2019, used for 100 million euro; (ii) unused long-term financing for a total of 20 million euro; (iii) cash and cash equivalents totalling 280 million euro.

A2A also maintains a Bond Issue Program (Euro Medium Term Note Programme) of 4 billion euro, of which 1,902 million euro still available.

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

12 31 2016 <i>Millions of euro</i>	1-3 months	4-12 months	After 12 months
Bonds	45	40	2,627
Payables and other financial liabilities	104	151	801
Total financial flows	149	191	3,428
Payables to suppliers	194	1	1
Total trade payables	194	1	1
12 31 2015 <i>Millions of euro</i>	1-3 months	4-12 months	After 12 months
Bonds	48	566	3,004
Payables and other financial liabilities	50	54	601
Total financial flows	98	620	3,605
Payables to suppliers	40	1	-
Total trade payables	40	1	-

e. Credit risk

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

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

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

Trade receivables are recognized on the balance sheet net of any write-downs. It is felt that the amount shown provides an accurate representation of the fair value of the trade receivables portfolio.

For the aging of trade receivables, reference is made to note 7) Trade receivables.

f. Equity risk

A2A S.p.A. was not exposed to equity risk at December 31, 2016.

At December 31, 2016, A2A S.p.A. held 23,721,421 treasury shares, representing 0.757% 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 income statement.

g. Covenants non-compliance risk

Bonds (book value at December 31, 2016 equal to 2,228 million euro), loans (book value at December 31, 2016 equal to 892 million euro) and revolving committed bank lines (book value at December 31, 2016 equal to 97 million euro) present Terms and Conditions in line with the market for each type of instrument. In particular, they envisage: (i) negative pledge clauses under which A2A S.p.A. undertakes not to pledge, with exceptions, guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross- default/ acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain direct subsidiaries.

Bonds include (i) 2,128 million euro issued as part of the EMTN Programme, which provide to investors a Change of Control Put in the event of a change of control of the company resulting in a rating downgrade at sub-investment grade level in the following 180 days (if within said 180 days, the company's rating should return to investment grade, the option may not be exercised); (ii) 100 million euro relating to the private bond in yen with maturity 2036 with a Put right clause in favour of the investor in the event that the rating is lower than BBB- or equivalent level (sub-investment grade).

The loans stipulated with the European Investment Bank, with book value of 765 million euro contain a Credit Rating clause (if rating below BBB- or equivalent level to sub-investment grade), of which 632 million euro - due after 2024 - also include a change of control clause of A2A S.p.A., with the right for the bank to invoke, upon notice to the company containing indication of the reasons, the early repayment of the loan.

Lastly, the loan signed with UniCredit, brokered by the EIB, for a book value of 11 million euro and falling due in June 2018, contains a credit-rating clause that provides for a commitment by the company to maintain an investment grade rating for the whole loan term. In the event of non-compliance there are a number of annual financial covenants to be respected based on the ratios of debt to equity, debt to gross operating income and gross operating income to interest expense.

With reference to the bank lines revolving committed available, the line for 600 million euro with maturity November 2019 and the bilateral ones for a total of 200 million euro with maturity 2017 used at December 31, 2016 for 100 million euro, include a Change of Control clause which in the event of a change of control of the company causing a Material Adverse Effect allows the banks to request the facility to be extinguished and early repayment of any amounts drawn. The line for 600 million is also subject to the financial covenant NFP/EBITDA.

At December 31, there was no situation of non-compliance with the covenants of A2A S.p.A..

A2A S.p.A. - Financial covenants at December 31, 2016

Company	Bank	Level of reference	Level recognized	Date of recognition
A2A	Pool RCF	NPF/Ebitda <=4.2	2.5	12/31/2016

Analysis of forward transactions and derivatives

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

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

- 2) transactions not considered as hedges for the purposes of IAS 39, can be:
- a. margin hedges: for all hedging transactions of cash flows or the market value in line with internal risk policies, the accrued result and future value are included in gross operating income for commodity derivatives and in the financial balance for interest rate and currency derivatives;
 - b. trading transactions: the accrued result and future value are recognized above gross operating income for commodities transactions and in financial income and expense for interest rate and currency transactions.

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

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

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

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

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

- the CVA is a negative component and contemplates the probability that a counterparty defaults and, at the same time, A2A S.p.A. has a claim against the counterparty;
- the DVA is a positive component and contemplates the probability that A2A S.p.A. defaults and, at the same time, a counterparty has a claim against A2A S.p.A..

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

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

Instruments outstanding at December 31, 2016

A) On interest and exchange rates

The following analyses show the outstanding amounts of derivative contracts stipulated and not expired at the balance sheet date, by maturity.

Thousands of euro

	Notional value (a) due within 1 year		Notional value (a) due within 1 and 5 years		Notional value (a) due over 5 years	Amount reported in balance sheet (b)	Progressive effect to the income statement at 12 31 2016 (c)
	to be received	to be paid	to be received	to be paid			
Interest rate risk management							
- cash flow hedges as per IAS 39		19,048		76,190	38,095	(14,812)	
- not considered hedges as per IAS 39							
Total derivatives on interest rates	-	19,048	-	76,190	38,095	(14,812)	-
Exchange rate risk management							
- considered hedges as per IAS 39 On commercial transactions On financial transactions					98,000	3,868	
- not considered hedges as per IAS 39 On commercial transactions On financial transactions					846	65	
Total exchange rate derivatives	-	-	-	-	98,846	3,933	-

- (a) Represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.
 (b) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value.
 (c) Represents the adjustment of derivatives to fair value recognized progressively over time in the income statement from the stipulation of the contract to the present day.

B) On commodities

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

	Unit of measurement of the notional value	Notional Value thousands of euro	Notional value expiring within 1 year	Notional value expiring within 2 years	Notional value expiring within 5 years	Balance sheet value (*) thousands of euro	Progressive effect to income statement (**) thousands of euro
Energy product price risk management							
A. Cash flow hedges as per IAS 39, including:						8,113.8	-
- Electricity	TWh	107,161.4	3.4			4,357.4	
- Oil	Bbl						
- Coal	Tons						
- Natural Gas	TWh	823.9				91.5	
- Natural Gas	Millions of cubic metres	4,891.7	26.2			280.9	
- Exchange rate	Millions of dollars						
- CO ₂ Emission rights	Tons	10,065.3	2,052,000			3,384.0	
B. Considered fair value hedges as per IAS 39						-	-
C. Not considered hedges as per IAS 39 of which:						4,881.6	4,380.8
C.1 Hedge margin						(248.1)	(250.8)
- Electricity	TWh	104.0	0.1			(0.3)	(3.0)
- Oil	Bbl						
- Natural Gas	MWh						
- Natural Gas	Millions of cubic metres						
- CO ₂ Emission rights	Tons	541.0	120,000			(247.8)	(247.8)
- Exchange rate	Millions of dollars						
C.2 Trading transactions						5,129.8	4,631.5
- Electricity	TWh	1,907,354	56.9	3.6		4,513.4	3,977.1
- Natural Gas	TWh	453,503.2	27.0	0.6		614.0	445.1
- CO ₂ Emission rights	Tons	1,098.4	200,000			2.4	209.3
- Environmental Certificates	MWh						
- Environmental Certificates	Tep						
Total						12,995.4	4,380.8

(*) Represents the net receivable (+) or payable (-) recognized in the balance sheet following the measurement of derivatives at fair value. Values of A2A Trading S.r.l. at December 31, 2015, incorporated in A2A S.p.A. as of January 1, 2016.

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

C) On investments

At December 31, 2016, there are no derivatives on shareholdings like in the previous year.

Financial and operating results for derivative transactions in 2016

The following table shows the balance sheet figures at December 31, 2016, for derivative transactions.

Balance sheet figures

<i>Thousands of euro</i>	Notes	Total
ASSETS		
NON-CURRENT ASSETS		3,868
Other non-current assets - Derivatives	5	3,868
CURRENT ASSETS		260,433
Other current assets - Derivatives	8	260,433
TOTAL ASSETS		264,301
LIABILITIES		
NON-CURRENT LIABILITIES		14,812
Other non-current liabilities - Derivatives	20	14,812
CURRENT LIABILITIES		247,372
Trade payables and other current liabilities - Derivatives	21	247,372
TOTAL LIABILITIES		262,184

Economic data

The following table sets out the income statement figures at December 31, 2016 arising from the management of derivatives.

Thousands of euro	Notes	Realised during the year	Change in fair value during the year	Amounts recognized in the income statement
REVENUES	25			
Revenues from the sale of goods				
<i>Energy product price risk management and commodity exchange risk management</i>				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		27,362	(285,115)	(257,753)
Total revenues from the sale of goods		27,362	(285,115)	(257,753)
OPERATING EXPENSES	26			
Expenses for raw materials and services				
<i>Energy product price risk management and commodity exchange risk management</i>				
- considered hedges as per IAS 39		9,628	-	9,628
- not considered hedges as per IAS 39		(52,128)	289,496	237,368
Total expenses for raw materials and services		(42,500)	289,496	246,996
Total booked to gross operating income (*)		(15,138)	4,381	(10,757)
FINANCIAL BALANCE	32			
Financial income				
<i>Interest rate risk management and equity risk management</i>				
Income on derivatives				
- considered hedges as per IAS 39		-	-	-
- not considered hedges as per IAS 39		8,616	7,618	16,234
Total		8,616	7,618	16,234
Total financial income		8,616	7,618	16,234
Financial expense				
<i>Interest rate risk management and equity risk management</i>				
Expenses on derivatives				
- considered hedges as per IAS 39		(4,609)	-	(4,609)
- not considered hedges as per IAS 39		-	-	-
Total		(4,609)	-	(4,609)
Total financial expenses		(4,609)	-	(4,609)
TOTAL BOOKED TO FINANCIAL BALANCE		4,007	7,618	11,625

(*) The figures do not include the effect of the “net presentation” of the negotiation margin of trading activities.

Classes of financial instruments

To complete the analyses required by IFRS 7 and IFRS 13, the following table sets out the various types of financial instrument that are to be found in the various balance sheet items, with an indication of the accounting policies used and, in the case of financial instruments measured at fair value, an indication of where changes are recognized (income statement or equity). The last column of the table shows the fair value of the instrument at December 31, 2016, where applicable.

Thousands of euro

Criteria to measure the reported amount of financial instruments

	Notes	Financial instruments measured at fair value with changes recognized in:			Financial instruments measured at amortized cost	Shareholdings / Securities convertible into unlisted shareholdings measured at cost	Amount as stated in the balance sheet at 12 31 2016	Fair value at 12 31 2016 (*)
		Income statement	Equity					
		(1)	(2)	(3)				
ASSETS								
Other non-current financial assets:								
Shareholdings / Securities convertible into shareholdings available for sale of which:								
- unlisted				3,714			3,714	n.a.
- listed							-	-
Financial assets held to maturity					96		96	96
Other non-current financial assets					402,653		402,653	402,653
Total other non-current financial assets	3						406,463	
Other non-current assets	5		3,868		586		4,454	4,454
Trade receivables	7				650,195		650,195	650,195
Other current assets	8	252,314	8,119		110,303		370,736	370,736
Current financial assets	9				382,645		382,645	382,645
Cash and cash equivalents	11				278,207		278,207	278,207
Assets held for sale	12						-	-
LIABILITIES								
Financial liabilities								
Non-current bonds	17				2,182,566		2,182,566	2,182,566
Current bonds (**)	22				45,482		45,482	45,482
Other non-current and current financial liabilities	17 and 22				1,551,582		1,551,582	1,551,582
Other non-current liabilities	20		14,812		17,450		32,262	32,262
Trade payables	21				667,474		667,474	667,474
Other current liabilities	21	5	247,367		86,394		333,766	333,766

(*) 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.

(**) Including accrued interest.

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

(2) Cash flow hedges.

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

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

(5) Available-for-sale financial assets 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 and IFRS 13 require that fair value classification of financial instruments to be based on the quality of the input source used to calculate the fair value.

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

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

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

Thousands of euro	Note	Level 1	Level 2	Level 3	Total
Available-for-sale assets measured at fair value	3		3,714		3,714
Other non-current assets	5		3,868		3,868
Other current assets	8	258,299	346	1,788	260,433
TOTAL ASSETS		258,299	7,928	1,788	268,015
Other non-current liabilities	20		14,812		14,812
Other current liabilities	21	247,185		187	247,372
TOTAL LIABILITIES		247,185	14,812	187	262,184

5) Concessions

The following tables show the main concessions obtained by A2A S.p.A.:

Hydroelectric concessions

Generation and Trading		Hydroelectric plants	Concession expiry	Concessionaire
	Valtellina	Premadio II	12/31/2043	Region/Province
		Premadio I ⁽¹⁾	12/31/2017	
		Braulio ⁽¹⁾	12/31/2017	
		San Giacomo ⁽¹⁾	12/31/2017	
		Nuovo Canale Viola ⁽¹⁾	12/31/2017	
		Grosio ⁽²⁾	12/31/2017	
		Lovero ⁽³⁾	12/31/2017	
		Stazzona ⁽³⁾	12/31/2017	
		Grosotto ⁽³⁾	12/31/2017	
		Sernio ⁽³⁾	12/31/2017	
		Boscaccia	01/30/2037	
		Calabria Unit (9 concessions)	12/31/2029	
		Mese Unit (16 concessions)	03/31/2029	
		Udine Unit (3 concessions)	03/31/2029	

- (1) extension of the temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/4225 of 10/23/15
(2) in temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/5823 of 11/18/16
(3) extension of the temporary continuation regime until 12/31/2017 pursuant to Regional Council Decree no. X/4595 del 12/17/15

Other concessions for use of water resources not classified as hydroelectric

Generation and Trading		Hydroelectric plants	Concession expiry	Concessionaire
	Mese plant	3 concessions water for sanitary and related use	12/31/2027	Lombardy Region
		2 concessions State Area	03/31/2029	Authorities of Bacino lacuali
	Valtellina	1 concession water for industrial use	renewal process underway	Lombardy Region

Urban lighting and traffic light concessions

Networks and Heat	Geographical area		Concession expiry	Concessionaire
	Milan Brescia		Indefinite duration (duration equal to company term)	Municipalities
	Bergamo		2023	
	another 4 municipalities		- two municipalities respectively in 2017 and 2028 - two municipalities with tacit renewal	

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

Adequate provisions are provided where necessary for the disputes and litigation described below. It is noted that if there is no explicit reference to the presence of a provision, the company assessed the corresponding risk as possible without appropriating provisions in the financial statements.

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 paragraph 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 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 European 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. The company has made an appearance before the court and filed a brief; the Italian State and the European Commission have done the same, taking a position in opposition to the company. The related proceedings are registered under number C-89/14.

As of today, therefore, the question concerning the quantification of the interest due on the amounts to be recovered is still pending in cassation (whether the interest is compound or simple interest), related to the Second and Third recovery. On this point, the interpretation made by the European Court of Justice is binding on national courts. On March 26, 2015, the Attorney General at the Court of Justice, Melchior Wathelet, submitted his non-binding conclusions to the Court. According to the Attorney General, European legislation does not preclude that national legislation provides for the application of compound interest to a recovery action for illegal aid. However, the same Attorney General found that before 2008, neither European nor national legislation envisaged the application of compound interest for recovery activities.

By sentence ruled on September 3, 2015, the EU Court substantially transposed the opinion of the Attorney General, considering that a national legislation regarding interest on the recovery of State aid, which provides for the application of compound interest, is not contrary to European law. However, the Court highlighted that – before 2008 – no legislation (European and national) provided for the application of compound interest for the recovery of State aid relating to Decisions issued – as in this case – before the entry into force of Reg. no. 794/2004.

Following this binding sentence on the national court, the proceedings in cassation on the Third recovery suspended following the prejudicial referral to the Court of Justice, resumed its course. The defence of the Company filed a statement pointing out that - according to a correct reading of the EU court ruling - the application of compound interest can only occur from November 2008. The hearing was held March 18, 2016; the Attorney General concluded for the dismissal of the appeal of the party. The sentence has not yet been filed.

In any case, concerning the position of A2A, as all the amounts requested were settled some time ago, 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.

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

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

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

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

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

The Court convened the parties in a council chamber which was held December 18, 2014 to verify the conditions of a conciliation or transaction; following the discussion, the Court has set a new discussion session for February 19, 2015 and then a new mediation hearing on September 27, 2016 as well as one on December 27, 2016 and, in consideration of the non-definition of settlement agreement, one on February 21, 2017. At the hearing, the parties informed the judge of the advanced state of negotiation and the need for additional time to define payment details. The settlement solution will be accepted, in order to settle the dispute, without recognition of debt.

Over time, Redengas, a subsidiary of HISA whose shares have been foreclosed in guarantee for the payment by A2A, by Consult Latina, has rooted actions to demand the removal of such encumbrances, even foretelling due compensation against A2A S.p.A. and Consult Latina. Said damages would result in additional costs for A2A S.p.A..

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

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

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

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

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

The judge found the bankruptcy of S.F.C. S.A. was legitimate and therefore set the end of the proceedings and the hearing for December 19, 2012, declaring the need to execute an expert opinion, setting May 23, 2013 as the date for the hearing to appoint the court's expert witness. At that hearing the judge, changed in the meantime, confirmed the questions already formulated on December 19, 2012 and appointed the court experts Messrs. Pompili and Caroli, setting a term for the parties to appoint their own consultants. A2A S.p.A. and Ergosud S.p.A. appointed as their experts Mr. Massardo and Mr. Gioffrè, persons who over the years have already drawn up reports on the matters to which the questions refer. After postponements requested by the experts, on July 31, 2014, the CTU was filed with the Court. The hearing for the expert's examination was held after postponement on April 1, 2015 and the hearing for clarification of conclusions has been scheduled for November 30, 2016. At this hearing, filing of the award issued by the Arbitration Court of Milan was admitted in March 2016, and the terms were set for the final statements and replication before arriving to the sentence.

The Group has not allocated any provisions as it does not deem as probable the risk related to this lawsuit.

Monfalcone Plant investigation

This investigation was initiated with a report filed in March 2011 by the management of the A2A Group against A2A employees and third party businessmen suspected of being responsible for fraud carried out to the harm of the company itself, who - for the payment of conspicuous sums of money - were responsible for illegal trafficking, the falsification of forms identifying the waste and certificates of analysis, in relation to the supply of biomasses and the certification of their calorific value. More specifically, biomass quantities were recorded on entry at figures higher than the real ones, with the relative calorific values also being increased.

This implies damage to the A2A Group and in particular to A2A Trading S.r.l. (now A2A S.p.A.). The current risk considered possible is for the higher costs incurred for undelivered biomass and higher costs incurred for counterfeiting (others) of the calorific capacity of the biomass delivered and not delivered. This is in addition to the increased use of coal instead of biomasses could have as a consequence an increase in the environmental costs relating to the second half of 2009 and the whole of 2010, as well the need to reimburse the additional income or Green Certificates recognized with respect to the real income. The company could have submitted, without fault and with reference to the years 2009 and 2010, generating statements of environmental rights greater than those actually produced.

To date, the GSE, as it blocked the issuing of licenses for subsequent years, did not address return requests for previous annuities of competence of the A2A Group (second half of 2009-full-year 2010). If the GSE were to take action against the A2A Group, it will evaluate

the appropriate actions, including damages, considering also the amount withheld from third-party suppliers. A2A Trading S.r.l. (now A2A S.p.A.) filed a request with the GSE, in accordance with the procedures and modalities required, to obtain Green Certificates relating to 2011 in which the calculation has been made on the basis of the real quantities of biomasses delivered to the power station and, in agreement with the Public Prosecutor, by taking into account a possible false (not of A2A) increase of 20% in the calorific values of such. Despite the fact that the GSE has acknowledged to A2A Trading S.r.l. (now A2A S.p.A.) the correctness of the calculations made for 2011, as of today the above-mentioned 2011 Green Certificates have not yet been issued.

In criminal proceedings, some sentencing measures have been adopted in the context of alternative rites to some of the defendants, with recognition of minimum compensation and recasts of expenses in favour of A2A.

The proceeding passed, for local jurisdiction, before the Court of Gorizia.

The dispute is ongoing. At the last hearing of February 23, 2017, some texts of the PM were heard. The next hearing is scheduled for May 18, 2017 also for preliminary investigation.

The Group has not allocated any provisions as it considers being the aggrieved party in the proceedings.

ASM Novara S.p.A. dispute

Conduct of the arbitration proceedings and filing of the award

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 fulfilment 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-fulfilment 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.

The appointed arbitrators are the Lawyers Bruna Gabardi Vanoli, Marco Praino (designated by Pessina) and Salvatore Sanzo (designated by A2A S.p.A.); the hearing for the formal constitution of the board was on July 1st, 2013. After this preliminary fulfilment, the parties will specify the applications for arbitration. As a result of the hearing, by means of a summary order, the board fulfilled the requirements for it to be formally established and be able to commence work, setting the deadlines for briefs and preliminary motions and the date of the

first hearing. The dates set are October 15 and December 20, 2013 and February 21, 2014 for the submission of briefs and March 5, 2014 for the first hearing. By order of October 8, 2013, the Arbitration Board postponed the deadline for the submission of briefs respectively to October 9, 2013, January 21, 2014 and March 25, 2014. Consequently, the hearing set for March 2014 was postponed to April 10, 2014. The location for the arbitration was set as the offices of the President of the Arbitration Board in Milan. At the hearing of April 10, 2014, preceded by the submission of the parties' briefs, the Board set three new deadlines for the briefs (May 20 for A2A, June 17 for Pessina and June 26 for A2A) and set the date of the merit hearing as July 11, 2014. During the hearing, the plaintiff requested to fix a hearing for conclusions that by order outside the hearing filed on July 22 was set for September 16, 2014. At that hearing, the board set the terms for the filing of the final statements and the date of final hearing; at the request of the parties, such terms were postponed to December 3 and January 7, 2015 for the briefs and February 3, 2015 for the hearing. At that hearing, the board ordered an extension of the deadline for filing the award to 120 days. At the end of May 2015, A2A, having had news of habitual familiarity and commensality elements between the Chair of the Arbitration Board and the lawyer of the claimant, filed at the court of Milan application for recusal of the Chair of the Arbitration Board.

In view of the news of the appeal, with Ordinance 6 issued outside the hearing on June 3, 2015, the Board suspended the filing of the award until the end of the proceeding, or until the day following the notification of the outcome of the proceeding conducted by the most diligent party.

The Delegated Chair issued an order rejecting the request condemning A2A to litigation costs to the Chair of the Board and to Pessina.

On June 30, 2015, Pessina notified the Board, in execution of Ordinance 6/15, requesting the board to summarize the pending arbitration process.

On June 30, 2015, the Board, with the dissenting opinion of the arbitrator appointed by A2A filed its award that deems A2A responsible for violation of the shareholders' agreement signed on August 4, 2007 and, consequently, the order to pay damages of 37,968,938.95 euro plus legal fees and arbitration expenses.

Appeal of the award

The company challenged the Award pursuant to art. 829 CPC before the Milan Court of Appeal. The appeal concerns: 1) nullity of the Award for violation of art. 829, paragraph 1, no. 2, CPC, in light of the lack of impartiality of the Chair of the Arbitration Board, the lawyer Bruna Gabardi Vanoli; 2) the nullity of the Award, pursuant to art. 829, no. 4, CPC, as the arbitration board pronounced outside the limits of the arbitration agreement; 3) nullity of the Award for

violation of the adversarial principle, pursuant to art. 829, no. 9 CPC, in so far as the arbitration board based its decision on art. III of the Shareholders' Agreement; 4) failure to state reasons under art. 829, no. 5 and 823, no. 5 CPC, and violation of the adversarial principle pursuant to art. 829, no. 9 CPC, as the arbitration board took its decision, excluding, for no reason, the evaluation of the documentation filed in court by A2A; 5) nullity of the Award for violation of the adversarial principle, pursuant to art. 829, no. 9 CPC, as the arbitration board decided on the basis of accepting the importance of the office of an equitable settlement of the damage, without submitting the issue to a hearing of the parties; 6) nullity of the Award pursuant to art. 829, no. 5 and 823, no. 5 CPC, as the arbitration board assessed the damages on an equitable basis pursuant to art. 1226 Civil Code, without justifying the existence of the condition for the applicability of said provision, and without justifying the existence of the damage; 7) nullity of the Award pursuant to art. 829, no. 3, as the arbitration board assessed the damages on an equitable basis pursuant to art. 1226 Civil Code, without the necessary conditions, in violation of public order. Pessina made a cross appeal before the court. After the first hearing held on December 16, 2015, a hearing was scheduled for the final judgement on May 3, 2016. At said hearing, the parties specified the conclusions and A2A also formulated a reasoned request for relief in terms. The Court adjourned the hearing to June 14. At said hearing, the Court granted the terms for the filing of final claims and objections respectively for September 5 and September 26, 2016, stating that the request for relief in terms will be examined and assessed in the final conclusions. Within the terms, the parties filed the conclusion brief and related reply reiterating and clarifying the respective requests and arguments. On November 23, 2016, the Court of Appeal filed the sentence 4337/16 declaring the reasons for appeal inadmissible and unfounded, resulting in absorption of incidental requests; the terms are pending for appeal in Cassation.

Effectiveness and execution of the award

In July 2015, contextually to the appeal, A2A filed an appeal for the suspension of enforceability of the Ruling. The Court of Appeal by a decree issued by the Chair of the 1st Civil Section on July 10, 2015, without hearing the parties, suspended the enforceability of the Award until the hearing before the Board set for September 15, 2015. On joint request of the parties on September 11, 2015, said hearing was postponed to November 10, 2015. By order issued outside the hearing on November 19, 2015, the decree issued on July 10 was revoked. By decision 3378 of December 18, 2015, the Court of Milan granted the enforceability of the Award requested by Pessina, immediately suspended the same day by order issued by the President of the First Section of the Court of Appeal at the request of A2A, scheduling a hearing on January 19, 2016. By order of January 26, 2016 notified on February 4, 2016, the Court of Appeals revoked the Presidential Decree of December 18, 2015 and rejected the request for suspension of the contested measure. On February 24, 2016, Pessina notified injunction

and on March 7, 2016 notified garnishment (with a leading banking institution with which A2A opened a specifically dedicated bank account), with the simultaneous assumption by the garnishee of the obligations that the law imposes on the keeper. On March 23, 2016, the garnishment was registered and the hearing for the third-party statement was fixed by the Court of Brescia for May 23, 2016. On April 15, the lawyers of Pessina notified A2A and the third-party bank garnishee the hearing anticipation decree issued on April 6, 2016 by the Court of Brescia, on the request of Pessina, which brought forward to April 27, 2016 the hearing for third-party declaration. Following said hearing, on May 2, 2016, Pessina notified to the third-party garnishee identification of the credit that was paid on May 11, 2016 for the value of 38,524,290.56 euro.

Dispute over public water derivation fees

Derivations of public water for the production of hydroelectricity in Lombardy

With Regional Law no. 22/2011, Lombardy essentially doubled the fee for hydroelectric use of public water, thereby infringing the principles of gradualism and reasonableness in the determination of fees, already recognized by the case law, and also violating the principle of equal competition between operators in the national territory.

Faced with the payment requests made by the Region for the years 2012 and 2013, Edipower S.p.A. (now A2A S.p.A.) therefore paid the fee considering solely the increase arising from the planned inflation rate as compared to the previous year. As a consequence, for 2012 and 2013 the Region issued injunctions for the payment of the amount not paid by the company; Edipower S.p.A. (now A2A S.p.A.) appealed against these injunctions before the Regional Court of Public Waters ("TRAP") of Milan, proposing the exception of unconstitutionality of the regional provision.

Same conduct was adopted by Edipower (now A2A S.p.A.) for the annuities of the 2014, 2015 and 2016 fees.

However, given the consolidation of unfavourable law and contrary to the thesis of Edipower S.p.A. (now A2A S.p.A.) (ref. sent. TSAP no. 138/2016 and sent. Const. Court no. 158/2016), there was the extinction of almost all the appeals established by Edipower S.p.A. (now A2A S.p.A.) and payment the amount originally ordered pursuant to art. 309 Code of Civil Procedure, in order to avoid the increase of legal interest and the risk of condemnation to significant legal fees, as happened to other operators, while keeping intact its right to recover any amounts overpaid. Against this background, the injunctions for payment of October 2016 relating to the years 2014-2015 have not been opposed by Edipower S.p.A. (now A2A S.p.A.), which undertook to pay, with reserve of repetition in the event of a favourable judicial outcome, the

quantum state fee not yet paid. The only judgement (“pilot”) still pending before the TRAP Milan is related to the state property fee for 2013 related to the Liro Auction.

The same issue also concerns the large-scale derivations in Lombardy of A2A, which, since the outset, in view of its specific circumstances, fully pays, but with reservation of repetition, the fee demanded by the Region and then sues for excess repetition. In December 2016, the only case pending for A2A before the TRAP Milan on the “doubling” of the state fee was also concluded, with partial loss of A2A in this respect.

In addition, the D.G.R. (Regional Council Resolution) of Lombardy no. 5130-2016 ordered, by implementing paragraph 5 of art. 53-bis of Regional Law 26/2003 introduced by Regional Law 19/2010, the subjection of the Lombardy hydroelectric concessions already expired to an “additional fee” established “provisionally” at 20 €/kW of nominal power of concession, subject to the request for settlement at the outcome of the assessments underway by the regional offices regarding the profitability of expired concessions. It is noted that said additional fee is imposed retroactively from the original expiry of each concession, and therefore for Grosotto, Lovero and Stazzona from January 1, 2011, for Premadio 1 from July 29, 2013 and for Grosio from November 15, 2016.

A2A, which has always challenged even in court the legitimacy - in the first place constitutional - of the aforementioned paragraph 5, challenged, like other operators, the D.G.R. 5130-2016 before the Superior Court of Public Waters.

For disputes relating to public water derivation fees, at December 31, 2016, the Group set aside risk provisions for the total amount of 29,215 thousand euro equal to the entire claim of the counterparties.

Carlo Tassara: lawsuit for damages against EDF and A2A S.p.A. on the reorganization of Edison

On March 24, 2015, Carlo Tassara S.p.A. notified A2A, Electricité de France (EDF) and Edison a summons requesting the Court of Milan to condemn A2A and EDF to compensation for damages allegedly suffered by Carlo Tassara, in its capacity as minority shareholder of Edison, in relation to the mandatory tender offer launched by EDF on Edison shares consequently to the transaction by which, in 2012, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

Until 2012, in fact, A2A and EDF held joint control of Edison S.p.A. Edison, in turn, held 50% of Edipower S.p.A. (the remaining capital of Edipower was held 20% by Alpiq, 20% by A2A and the remaining 10% by Iren).

In the 2012 transaction, A2A sold its indirect shareholding in Edison to EDF and simultaneously acquired 70% of the capital of Edipower from Edison and Alpiq.

In the summons notified, Carlo Tassara complained that, in the transaction, EDF and A2A agreed on a mutual “discount” on the price paid by EDF for the purchase of Edison shares, on the one hand, and on the price paid by A2A for the purchase of 70% of Edipower, on the other. This discount was expected to be the result of abusive conduct by EDF and A2A as shareholders of Edison and the violation, among other things, of the regulations on transactions with related parties. This - according to Carlo Tassara - was expected to allow maintaining artificially low the price of the Edison shares paid to A2A and consequently the tender offer price paid to minorities of Edison (which by law was expected to be equal to that paid to A2A).

However, in 2012, A2A and EDF had voluntarily subjected the Transaction to the prior examination of Consob precisely in order to confirm the correctness of the tender offer price. Following extensive examinations, Consob had deemed that a compensatory mechanism could be detected in the transaction as a whole (i.e. between the sale of Edipower on the one hand and the sale of Edison shares on the other) and that therefore the tender offer price was to be increased from 0.84 euro to 0.89 euro per share.

In light of said decision, the parties had increased the sale price of the shareholding in Edison based on the price of 0.89 euro per share, for a total increase of around 84 million euro. EDF launched the tender offer at 0.89 euro per share.

Carlo Tassara resorted to Consob in order to further increase the price of the tender offer, but Consob rejected the request.

In addition, pending the tender offer, Carlo Tassara challenged before the TAR the tender offer document and the related resolution of approval by Consob requesting suspensions thereof for reasons of urgency. However, the TAR postponed the decision on the suspension to a date following the closing of the tender offer and, as a result of this, Carlo Tassara adhered to the tender offer and waived the cautionary request.

The writ of summons did not quantify the damage allegedly suffered by Carlo Tassara as a result of such transactions. However, with brief on February 20, 2017, Carlo Tassara requested that the court have an expert witness to calculate them (specifying that it be quantified in the alleged difference between the tender offer price and the market value that the Edison shares had previously). Carlo Tassara also filed an appraisal in which such damages were quantified in a total amount between 197 and 232 million euro, amount to calculate the compensation due from each of the companies that will be considered responsible by the judge.

The parties will discuss the admissibility and relevance of their respective preliminary requests at the next hearing of September 26, 2017. Upon completion of the discussion, the judge will

decide on the preliminary motions and, in particular, on the opposing request to have an expert witness.

The Group, having fulfilled the requirements of the regulations in force, does not consider likely the risk for which it has not allocated any provisions.

* * *

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

A2A S.p.A. - Registration tax for transfer of business unit and sale of the investment Chi.na.co. S.r.l.

On April 4, 2016, the Provincial Directorate I of Milan - Regional Office of Milan 1 - notified the invitation to appear to provide clarifications on a business transfer in the company Chi.na.co. S.r.l. and the subsequent sale of the investment held in it under control for registration tax purposes. The invitation was followed by a contradictory with the Office and subsequent notification by the latter of the notice of liquidation to the acquiring counterparty, which filed an appeal on September 28, 2016. The risks provision recognized for 1.4 million euro was fully used for the payment of the amounts requested with the liquidation notice.

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A2A S.p.A. (merging company of AMSA Holding S.p.A.) - VAT Tax assessments for tax years from 2001 to 2005

In early 2006, the Italian Finance Police – Lombardy Regional Unit, Milan – carried out a tax audit of AMSA Holding S.p.A. (now A2A S.p.A.) for VAT purposes for tax years 2001 to 2005.

The audit ended with the issue of a final report contesting the legitimacy of the ordinary VAT rate, in place of the special rate applied by suppliers for waste disposal and plant maintenance, as well as the subsequent deduction made after the invoices issued for these services were duly paid.

The report was followed by formal notices of assessment from the Tax Revenue Office (Milan 3 Office) for each year audited; appeals were then filed with the Provincial Tax Commission within the term provided by law.

The appeals for 2001 and for 2004 and 2005 were discussed on January 25, 2010 and on February 17, 2010 respectively, with a favorable outcome for the company in all cases. The Tax Revenue Office appealed against the verdict of the first court. The Regional Tax Commission rejected this appeal for all three years, 2001, 2004 and 2005.

For 2011, the Tax Revenue Office filed an appeal with the Supreme Court against which AMSA Holding S.p.A. 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 by way of a sentence lodged on February 2, 2011 the Milan Regional Tax Commission overturned the sentence of the first court, upholding the Tax Revenue Office's appeal on almost all counts with the exception of the hazardous waste category. The Company filed an appeal with the Supreme Court for 2002. For 2003 the appeal made by the Tax Revenue Office was discussed on November 7, 2011 before the Regional Tax Commission which rejected it with a sentence filed on November 11, 2011. The Tax Revenue Office has not appealed to the Supreme Court for 2003, 2004 and 2005 and the sentence has become final, thereby closing the litigation. For 2001 and 2002, the hearing dates for discussion before the Supreme Court have not yet been set. The company has set aside a risk provision for 1.6 million euro.

A2A S.p.A. (formerly A2A Trading S.r.l.) - VAT assessments Green Certificates 2004 – 2010

On December 23, 2009 the Milan Tax Revenue Office served A2A Trading S.r.l. (now A2A S.p.A.) with a VAT tax assessment regarding fiscal 2004. This notice cited the company's failure to invoice taxable transactions and required the company to pay additional VAT as well as penalties and interest amounting to a total of 3.3 million euro.

In particular, under this assessment the Tax Revenue Office served a penalty on A2A Trading S.r.l. (now A2A S.p.A.) for not having invoiced the Tollees (Edipower S.p.A.) for the Green Certificates allegedly transferred between the two.

After appropriate examination, which also included the other Tollers, it was considered that the Tax Revenue Office's conclusions could not be accepted. In fact, under Tolling arrangements Tollers are on the one hand the owners of the raw materials, including fuel, that they supply to the Tollees to produce electricity, and on the other are the "ab origine" owners of the electricity produced. The delivery of Green Certificates to Tollees by Tollers can in no way be considered to be the transfer of title of such.

A2A Trading S.r.l. (now A2A S.p.A.) has therefore not committed any breach of law and accordingly no risk provision has been made in the financial statements for this matter.

On December 16, 2010, the Milan Tax Revenue Office served notice of a VAT tax assessment regarding fiscal 2005 and on October 31, 2011 notice of a VAT tax assessment regarding fiscal 2006 for the same reasons, with the resulting demands for additional value added tax plus penalties and interest totalling 5.2 million euro and 11.2 million euro respectively. As in the case of 2004, and also for 2005 and 2006, A2A Trading S.r.l. (now A2A S.p.A.) has not committed any breach of law accordingly no risk provision has been made in the financial statements for this matter.

A2A Trading S.r.l. (now A2A S.p.A.) has filed an appeal with the relevant bodies against both notices, requesting that the claim for additional taxes be fully annulled.

The Milan Provincial Tax Commission upheld the company's appeals for all years under dispute.

On March 12, 2013 the Tax Revenue Office stated its acceptance, for 2006, of the sentence for the part relating to the dispute regarding the green certificates and filed an appeal with respect to the remaining findings (283,454.16 euro). The Regional Tax Commission rejected the appeal and the Office filed an appeal against this decision with the Supreme Court on August 5, 2014, which was followed by a cross appeal by the company. On May 6, 2013 the Tax Revenue Office notified that it was waiving its appeal and applying for a dismissal of the case for 2004 and 2005.

Note that following the request for documentation regarding Green Certifications for the same Tolling contract in tax years from 2007 to 2010, on October 28, 2011 the Italian Guardia di Finanza - Milan Office served notice of the Report on Findings, highlighting the same failure to bill taxable transactions for the years 2007, 2008 and 2010. No assessment notices have yet been notified.

No provision was ever allocated as the company considered unfounded the claims of the financial administration.

7) Contingent assets arising from environmental certificates

At December 31, 2016, A2A S.p.A. had a surplus of environmental certificates.

8) Auditors' fees

In accordance with Article 2427, paragraph 16-bis, of the Italian civil code, it is hereby reported that the company paid EY S.p.A. total fees for the legally required auditing of the annual accounts and for other services provided during the year in the amount of 290 thousand euro.

9) Registered office

The registered office of the company is in Brescia in Via Lamarmora 230.

10) Investigation related to EPCG service contracts

A2A S.p.A. acquired the shareholding - currently of 41.7% - in EPCG by means of the international tender held in 2009, and under the so-called "EPCG Agreement" dated September 3, 2009, it acquired the right to manage the company, appointing the Executive Director (CEO) and Executive Manager.

As part of the management of EPCG by A2A S.p.A., also in order to meet the specific indicators provided by the EPCG Agreement, with effect from 2010, A2A S.p.A. and, as of 2011, Unareti S.p.A. (formerly A2A Reti Elettriche S.p.A.), have provided in favour of EPCG services designed to improve the organization and performance of EPCG. Within the broader set of services provided, consulting services were also included provided for the benefit of EPCG by specialized companies outside the A2A Group, the costs of which were first invoiced to A2A S.p.A. as part of more complex and organic consulting services provided in favour of the entire A2A Group and subsequently by A2A S.p.A. charged to EPCG for the activities carried out in favour of the same.

In view of the synergistic importance of intra-group services requested by EPCG to A2A, EPCG applied for and obtained, by the State Commission for the Control of Public Procurement Procedures, a formal exemption - dated September 6, 2010 - by which the non-necessity is enshrined for EPCG to apply the procedures provided by law on Public Procurement in order to purchase services from A2A S.p.A., A2A Reti Elettriche and certain other (identified by name) companies controlled by A2A S.p.A..

From a different perspective, service contracts between EPCG and A2A S.p.A. - which, while benefiting from the aforementioned exemption, would have needed the approval of the EPCG Board of Directors - were not explicitly approved by the Board, which nonetheless approved the budget of each annuity that includes the aforementioned costs. Therefore, the service contracts related to the years 2010, 2011 and 2012 were signed by the CEO pro tempore of EPCG. Pursuant to said contracts, A2A S.p.A. invoiced with regard to the aforementioned annuities a total of 7.75 million euro to EPCG, which has only paid a portion of 4.34 million euro.

For the years 2013, 2014, 2015 and 2016, in the absence of a specific agreement between the shareholders regarding the formalization of a specific service contract, A2A did not proceed with invoicing, although a broad set of services was indeed provided to EPCG also in said years, and A2A incurred the related charges.

Also, certain consulting services are disputed, related to the period 2011 and 2012 and amounting to about 2 million euro, acquired by EPCG directly from external consulting firms of the A2A Group.

At the beginning of 2014, the local “Party of People with Disabilities and Pensioners” proposed a parliamentary interpellation and filed a complaint to the Special Attorney in relation to service contracts entered into by EPCG with A2A and external consulting firms of the A2A Group. Subsequently, in November 2014, the Montenegrin police sent EPCG a request for documents and data that was fully acknowledged by the management of EPCG in the following month. Two further requests for additional information and documentation were then subjected to EPCG directly by the Special Attorney in August 2015 and February 2016, and in both cases the management of EPCG responded comprehensively to the requests of the investigators.

Until said moment, therefore, EPCG had registered only requests for documentation to which it promptly replied, and EPCG as well as A2A had therefore not - until April 15, 2016 - deemed that said requests could result in actions such to configure a risk if not remote - personal or capital - at the expense of its employees and/or the companies.

On April 15, 2016, the former Italian CFO appointed by A2A in EPCG, who resigned from said office only a few days before for reasons completely unrelated to the issue under consideration, was arrested by the Montenegrin police on order of the Special Attorney. Investigative measures are still covered by investigation confidentiality. Based on as currently known, the former CFO is accused - along with two previous EPCG Italian managers appointed by A2A, and three Montenegrin officials of EPCG - of abuse of office in the management of service contracts stipulated by EPCG. On May 6, 2016, the former CFO was released on payment of a bail deposit and withdrawal of the passport. On December 7, 2016, the passport was returned and the CFO returned to Italy. Given the fact that in Montenegro there is a law on liability of legal persons for offences committed by their managers in their own interest and a possible extension of the investigation to A2A S.p.A. cannot be excluded.

Based on the assessments made, the foregoing and the information available to date, and also considering the fact that A2A and other Group companies are currently not recipients of any measure, A2A believes that the risk of potential penalties applicable and/or claims for compensation or indemnity actions, can be assessed as “possible.” Considering the state of the proceedings and for the same reasons outlined herewith, it is also impossible to quantify in reliable terms the amount of said indemnities or penalties, direct or indirect.

In view of the above, the company - in accordance with IAS 37 - considered it correct to handle the case in question providing adequate information and not allocating specific risks provision.

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Attachments

1 - Statement of changes in tangible assets

Tangible assets
Thousands of euro

	Balance at 12 31 2015				Effect of non-recurring transactions				
	Gross value	Accumulated depreciation	Provision write-down	Residual value	Gross value	Accumulated depreciation	Provision write-down	Residual value	
Land	35,092	(5,170)	(250)	29,672	7,293	2,425	(5,691)	4,027	
Buildings	555,189	(277,197)	(14,664)	263,328	(81,420)	99,559	7,637	25,776	
Plant and machinery	2,746,299	(1,708,684)	(127,660)	909,955	(544,539)	744,218	(24,707)	174,972	
Industrial and commercial equipment	22,084	(20,703)	(8)	1,373	(3,974)	4,269	7	302	
Other assets	31,733	(29,431)	(18)	2,284	332	(321)	18	29	
Construction in progress and advances	35,707		(461)	35,246	95		3,124	3,219	
Leasehold improvements	27,691	(2,855)		24,836				-	
Total tangible assets	3,453,795	(2,044,040)	(143,061)	1,266,694	(622,213)	850,150	(19,612)	208,325	

Tangible assets
Thousands of euro

Tangible assets Thousands of euro	Balance at 12 31 2014			Changes during the year				
	Gross value	Accumulated depreciation	Residual value	Acquisitions	Changes in category	Reclassifications		
						Gross value	Accumulated depreciation	
Land	34,805	(5,170)	29,635		39			
Buildings	540,290	(264,997)	275,293	704	1,177			
Plant and machinery	2,598,382	(1,651,154)	947,228	475	21,387			
Industrial and commercial equipment	21,923	(20,374)	1,549	161				
Other assets	31,634	(29,285)	2,349	362	160			
Construction in progress and advances	26,669		26,669	31,377	(22,763)			
Leasehold improvements	21,237	(1,178)	20,059	6,454				
Total tangible assets	3,274,940	(1,972,158)	1,302,782	39,533	-	-	-	

1 - Statement of changes in tangible assets

Changes during the year									Balance at 12 31 2016			
	Acquisitions	Changes in category	Others changes	Disposals		Depreciation	Write-downs	Total changes for the year	Gross value	Accumulated depreciation	Provision write-down	Residual value
				Gross value	Accumulated depreciation							
2						(1,009)		(1,007)	42,387	(2,745)	(6,950)	32,692
	1,029	423	(3)	(2,744)	1,116	(24,358)	(16,003)	(40,540)	472,474	(192,525)	(31,385)	248,564
	1,962	34,774	17,354	(31,072)	30,627	(175,270)	(101,532)	(223,157)	2,224,778	(1,035,371)	(327,637)	861,770
	254			(178)	178		(593)	(339)	18,186	(16,849)	(1)	1,336
	644		(2)	(471)	471		(1,152)	(510)	32,236	(30,433)		1,803
	17,789	(35,201)	70	(20)		(2,663)		(20,025)	18,440	-	-	18,440
	5,888						(2,209)	3,679	33,579	(5,064)	-	28,515
	27,568	(4)	17,419	(34,485)	32,392	(203,300)	(121,489)	(281,899)	2,842,080	(1,282,987)	(365,973)	1,193,120

Changes during the year							Balance at 12 31 2015			
	Others changes	Disposals		Write-downs	Depreciation	Total changes for the year	Gross value	Accumulated depreciation		Residual value
		Gross value	Accumulated depreciation							
		(2)				37	34,842	(5,170)		29,672
		(1,362)	604	(284)	(12,804)	(11,965)	540,525	(277,197)		263,328
	3,339	(1,228)	1,228	(3,716)	(58,758)	(37,273)	2,618,639	(1,708,684)		909,955
		(8)	8		(337)	(176)	22,076	(20,703)		1,373
		(441)	439		(585)	(65)	31,715	(29,431)		2,284
	(37)					8,577	35,246	-		35,246
					(1,677)	4,777	27,691	(2,855)		24,836
	3,302	(3,041)	2,279	(4,000)	(74,161)	(36,088)	3,310,734	(2,044,040)		1,266,694

2 - Statement of changes in intangible assets

Intangible assets
Thousands of euro

	Balance at 12 31 2015			Effect of non-recurring transactions			
	Gross value	Accumulated depreciation	Residual value	Gross value	Accumulated depreciation	Residual value	
Industrial patents and intellectual property rights	83,187	(79,048)	4,139	20,884	(17,794)	3,090	
Concessions, licences, trademarks and similar rights	34,961	(25,432)	9,529	(547)	526	(21)	
Goodwill	37,480		37,480				
Assets in progress	1,323		1,323	8		8	
Other intangible assets	1,307	(1,173)	134	54,404		54,404	
Total intangible assets	158,258	(105,653)	52,605	74,749	(17,268)	57,481	

Intangible assets
Thousands of euro

Intangible assets <i>Thousands of euro</i>	Balance at 12 31 2014			Changes during the year				
	Gross value	Accumulated depreciation	Residual value	Acquisitions	Changes in category	Reclassifications		
						Gross value	Accumulated depreciation	
Industrial patents and intellectual property rights	81,285	(75,730)	5,555	1,940				
Concessions, licences, trademarks and similar rights	31,846	(22,136)	9,710	2,247	872			
Goodwill	38,435		38,435					
Assets in progress	473		473	1,722	(872)			
Other intangible assets	1,307	(1,123)	184					
Total intangible assets	153,346	(98,989)	54,357	5,909	-	-	-	

	Changes during the year					Balance at 12 31 2016		
	Acquisitions	Changes in category	Others changes	Amortization	Total changes for the year	Gross value	Accumulated depreciation	Residual value
	2,475	1,506	(10)	(4,246)	(275)	108,042	(101,088)	6,954
	4,361	737	(175)	(4,152)	771	39,337	(29,058)	10,279
						37,480	-	37,480
	3,814	(2,239)			1,575	2,906	-	2,906
			3,660	(31)	3,629	59,371	(1,204)	58,167
	10,650	4	3,475	(8,429)	5,700	247,136	(131,350)	115,786

Changes during the year							Balance at 12 31 2015		
	Others changes	Disposals/Sales		Write-downs	Amortization	Total changes for the year	Gross value	Accumulated depreciation	Residual value
		Gross value	Accumulated depreciation						
	(38)				(3,318)	(1,416)	83,187	(79,048)	4,139
	(4)				(3,296)	(181)	34,961	(25,432)	9,529
				(955)		(955)	37,480	-	37,480
						850	1,323	-	1,323
					(50)	(50)	1,307	(1,173)	134
	(42)	-	-	(955)	(6,664)	(1,752)	158,258	(105,653)	52,605

3/a - Statement of changes in investments in subsidiaries

Shareholdings <i>Thousands of euro</i>	Balance at financial statements 12 31 2015	Changes in 2016			
		Increases	Decreases	Effect of non-recurring transactions	
FINANCIAL ASSETS					
Subsidiaries:					
Edipower S.p.A.	737,552			(737,552)	
A2A Trading S.r.l.	34,449			(34,449)	
Unareti S.p.A.	696,280			685,601	
A2A Reti Elettriche S.p.A.	668,333			(668,333)	
A2A Logistica S.p.A.	17,268			(17,268)	
Unareti servizi metrici S.r.l.	10		(10)		
A2A Ambiente S.p.A.	634,894				
Elektroprivreda Cnre Gore AD (EPCG)	279,017				
A2A Calore & Servizi S.r.l.	334,477			140	
A2A Ciclo Idrico S.p.A.	167,000				
A2A gencogas S.p.A.	98,971			465,346	
A2A Energiefuture S.p.A.	-	50		262,680	
A2A Energia S.p.A.	98,743				
Retragas S.r.l.	30,105				
Aspem S.p.A.	26,508				
A2A Smart City S.p.A.	9,222				
Proaris S.r.l.	3,557				
Camuna Energia S.r.l.	1,467				
Ecofert S.r.l. in liquidation	802				
Plurigas S.p.A. in liquidation	560				
SEASM S.r.l.	-				
A2A Alfa S.r.l.	-			1,030	
Linea Group Holding S.p.A.	-	112,779			
A2A Illuminazione Pubblica S.r.l.	-	100			
A2A Montenegro d.o.o.	102				
Mincio Trasmissione S.r.l.	10				
Ostros Energia S.r.l. in liquidation	-				
Total subsidiaries	3,839,327	112,929	(10)	(42,805)	
Equity investments held for sale					
SEASM S.r.l.	469				

Changes in 2016		Balance at financial statements 12 31 2016	Share of equity		
Write-downs	Others changes		% shareholding	Equity at 12 31 2016	Pro rata amount
		-	-	-	-
		-	-	-	-
		1,381,881	100.00%	1,466,882	1,466,882
		-	-	-	-
		-	-	-	-
		-	-	-	-
		634,894	100.00%	490,091	490,091
		279,017	41.75%	740,269	309,062
		334,617	100.00%	349,647	349,647
		167,000	100.00%	213,273	213,273
	(54,000)	510,317	100.00%	521,694	521,694
		262,730	100.00%	308,181	308,181
		98,743	100.00%	190,957	190,957
		30,105	87.27%	40,699	35,518
		26,508	90.00%	9,134	8,221
		9,222	100.00%	13,736	13,736
		3,557	60.00%	5,919	3,551
		1,467	74.50%	1,062	791
		802	47.00%	1,706	802
		560	70.00%	3,210	2,247
		469	67.00%	730	489
	(1,030)	-	70.00%	1,428	1,000
		112,779	51.00%	195,615	99,764
		100	100.00%	43	43
		102	100.00%	102	102
		10	100.00%	303	303
		-	80.00%	4,315	3,452
	(55,030)	469		4,558,996	4,019,806
		(469)	-		

3/b - Statement of changes in investments in affiliates

Shareholdings <i>Thousands of euro</i>	Balance at financial statements 12 31 2015	Changes in 2016			
		Increases	Decreases	Effect of non-recurring transactions	
FINANCIAL ASSETS					
Affiliates:					
ACSM-AGAM S.p.A. ^(**)	34,051				
Rudnik Uglja Ad Pljevlja ^(*)	12,067				
Azienda Servizi Valtrompia S.p.A.	3,383				
Sviluppo Turistico Lago d'Iseo S.p.A. ^(**)	837				
SET S.p.A. ^(**)	466				
Serio Energia S.r.l. ^(**)	400				
Ge.S.I. S.r.l.	380	86			
Visano Società Trattamento Reflui S.c.a.r.l. ^(**)	10				
Centrale Termoelettrica del Mincio S.r.l. in liquidation	6				
Ergon Energia S.r.l. in liquidation ^(**)	-				
Total affiliates	51,600	86	-	-	

(*) Amounts at December 31, 2014

(**) Amounts at December 31, 2015

Changes in 2016			Balance at financial statements 12 31 2016	Share of equity		
	Write-downs	Others changes		% shareholding	Equity at 12 31 2016	Pro rata amount
			34,051	23.94%	173,064	41,432
	(5,000)		7,067	39.49%	19,517	7,707
			3,383	48.77%	12,981	6,331
			837	24.29%	3,178	772
			466	49.00%	1,396	684
			400	40.00%	1,950	780
			466	47.00%	4,941	2,322
			10	40.00%	26	10
			6	45.00%	3,855	1,735
			-	50.00%	(143)	(72)
	(5,000)	-	46,686		220,765	61,701

3/c - Statement of changes in investments in other companies (AFS)

Company name <i>Thousands of euro</i>	Shareholding %	Shareholder	Carrying amount at 12 31 2016
Available-for-sale financial assets (AFS)			
Infracom S.p.A.	0.44%	A2A S.p.A.	155
Immobiliare-Fiera di Brescia S.p.A.	1.21%	A2A S.p.A.	280
Azienda Energetica Valtellina e Valchiavenna S.p.A. (AEVV)	9.39%	A2A S.p.A.	1,846
Altre:			
AQM S.r.l.	7.52%	A2A S.p.A.	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo dell'Oglio e del Serio s.c.	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	0.25%	A2A S.p.A.	
Consorzio DIX.IT in liquidation	14.28%	A2A S.p.A.	
Consorzio L.E.A.P.	8.57%	A2A S.p.A.	
Consorzio Milan Sistema in liquidation	10.00%	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.	
Isfor 2000 S.c.p.A.	4.94%	A2A S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
DI.T.N.E.	1.45%	A2A S.p.A.	
SIRIO S.C.P.A.	0.02%	A2A S.p.A.	
ORIONE S.C.P.A.	0.22%	A2A S.p.A.	
Total other financial assets			1,433
Total available-for-sale financial assets			3,714

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.

4/a - List of investments in subsidiaries

Company name <i>Thousands of euro</i>	Registered office	Currency	Share capital at 12 31 2016	
Subsidiaries:				
Unareti S.p.A.	Brescia	Euro	965,250	
A2A Ambiente S.p.A.	Brescia	Euro	220,000	
Elektroprivreda Cnre Gore AD (EPCG) (*)	Nikšić (Montenegro)	Euro	1,003,666	
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000	
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000	
A2A gencogas S.p.A.	Gissi (CH)	Euro	450,000	
A2A Energia S.p.A.	Milan	Euro	2,000	
Retragas S.r.l.	Brescia	Euro	34,495	
Aspem S.p.A.	Varese	Euro	174	
A2A Smart City S.p.A.	Brescia	Euro	3,000	
Proaris S.r.l.	Milan	Euro	1,875	
Camuna Energia S.r.l.	Cedegolo (BS)	Euro	900	
SEASM S.r.l.	Brescia	Euro	700	
Ecofert S.r.l. in liquidation	S.Gervasio Bresciano (BS)	Euro	100	
Plurigas S.p.A. in liquidation	Milan	Euro	800	
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	100	
Mincio Trasmissione S.r.l.	Brescia	Euro	10	
A2A Energiefuture S.p.A.	Milan	Euro	50,000	
Ostros Energia S.r.l. in liquidation	Brescia	Euro	350	
Linea Group Holding S.p.A.	Brescia	Euro	189,494	
A2A Illuminazione Pubblica S.r.l.	Brescia	Euro	100	

(*) Amounts at December 31, 2015

	Equity at 12 31 2016	Result at 12 31 2016	% held	Pro rata amount (a)	Balance at financial statements (b)	Delta (a-b)
	1,466,882	92,835	100.00%	1,466,882	1,381,881	85,001
	490,091	86,949	100.00%	490,091	634,894	(144,803)
	740,269	37,474	41.75%	309,062	279,017	30,045
	349,647	16,537	100.00%	349,647	334,617	15,030
	213,273	41,916	100.00%	213,273	167,000	46,273
	521,694	21,313	100.00%	521,694	510,317	11,377
	190,957	77,289	100.00%	190,957	98,743	92,214
	40,699	1,927	87.27%	35,518	30,105	5,413
	9,134	7,932	90.00%	8,221	26,508	(18,287)
	13,736	3,706	100.00%	13,736	9,222	4,514
	5,919	460	60.00%	3,551	3,557	(6)
	1,062	88	74.50%	791	1,467	(676)
	730	38	67.00%	489	469	20
	1,706	-	47.00%	802	802	-
	3,210	(16)	70.00%	2,247	560	1,687
	102	-	100.00%	102	102	-
	303	56	100.00%	303	10	293
	308,181	46,696	100.00%	308,181	262,730	45,451
	4,315	(36)	80.00%	3,452	-	3,452
	195,615	(3,037)	51.00%	99,764	112,779	(13,015)
	43	(57)	100.00%	43	100	(57)

4/b - List of investments in affiliates

Company name <i>Thousands of euro</i>	Registered office	Currency	Share capital at 12 31 2016	
ACSM-AGAM S.p.A. ^(**)	Monza	Euro	76,619	
Rudnik Uglja Ad Pljevlja ^(*)	Pljevlja (Montenegro)	Euro	21,493	
Azienda Servizi Valtrompia S.p.A.	Gardone Val Trompia (BS)	Euro	6,000	
Sviluppo Turistico Lago d'Iseo S.p.A. ^(**)	Iseo (BS)	Euro	1,616	
SET S.p.A. ^(**)	Toscolano Maderno (BS)	Euro	104	
Serio Energia S.r.l. ^(**)	Concordia sulla Secchia (MO)	Euro	1,000	
Ge.S.I. S.r.l.	Brescia	Euro	1,000	
Visano Società Trattamento Reflui S.c.a.r.l. ^(**)	Brescia	Euro	25	
Centrale Termoelettrica del Mincio S.r.l. in liquidation	Ponti sul Mincio (MN)	Euro	11	
Ergon Energia S.r.l. in liquidation	Milan	Euro	600	

(*) Amounts at December 31, 2014

(**) Amounts at December 31, 2015

	Equity at 12 31 2016	Result at 12 31 2016	% held	Pro rata amount (a)	Balance at financial statements (b)	Delta (a-b)
	173,064	13,367	23.94%	41,432	34,051	7,381
	19,517	(19,840)	39.49%	7,707	7,067	640
	12,981	1,154	48.77%	6,331	3,383	2,948
	3,178	11	24.29%	772	837	(65)
	1,396	120	49.00%	684	466	218
	1,950	526	40.00%	780	400	380
	4,941	1,004	47.00%	2,322	466	1,856
	26	-	40.00%	10	10	-
	3,855	(5,143)	45.00%	1,735	6	1,729
	(143)	(222)	50.00%	(72)	-	(72)

Key data of the financial statements of the main subsidiaries and affiliates prepared according to IAS/IFRS (pursuant to article 2429.4 of the Italian Civil Code)

SUBSIDIARIES	A2A gencogas S.p.A.		A2A Energiefuture S.p.A.		A2A AMBIENTE S.p.A.	
	Euro	450,000,000	Euro	50,000,000	Euro	220,000,000
Share capital:						
% held:	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%
Description - Thousands of euro	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
Revenues	97,390	34,512	112,297	-	371,988	382,849
Gross operating income	50,982	19,491	47,521	-	150,341	133,730
Net operating income	(53,537)	(1,309)	67,030	-	103,083	96,998
Result before taxes	(60,593)	(6,861)	66,790	-	123,949	115,407
Result of the year	(42,125)	(6,710)	46,697	-	86,949	83,242
Assets	1,110,062	278,911	447,448	-	867,167	933,300
Liabilities	588,368	179,057	139,267	-	377,076	348,249
Equity	521,694	99,854	308,181	-	490,091	585,051
Net financial position	(359,045)	(160,620)	74,946	-	253,958	343,365

AFFILIATES	G.E.S.I. S.r.l.		AZIENDA SERVIZI VALTROMPIA S.p.A.		ERGON ENERGIA S.r.l. in liquidation	
	Euro	1,000,000	Euro	6,000,000	Euro	600,000
Share capital:						
% held:	A2A S.p.A.	47.00%	A2A S.p.A. Unareti S.p.A.	48.77% 0.38%	A2A S.p.A.	50.00%
Description - Thousands of euro	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
Revenues	6,573	5,087	13,800	15,850	5	84
Gross Operating Income	699	688	2,874	4,810	(149)	(49)
Net operating income	390	339	1,982	3,350	(214)	(49)
Result before taxes	1,122	366	1,762	3,250	(222)	(62)
Result of the year	1,004	288	1,154	2,189	(222)	(62)
Assets	8,077	6,673	29,238	28,602	6,855	7,218
Liabilities	3,136	2,518	16,257	16,760	6,998	7,138
Equity	4,941	4,155	12,981	11,842	(143)	80
Net financial position	1,851	931	(9,287)	(7,525)	(694)	(900)

	A2A Smart City S.p.A.		RETRAGAS S.r.L.		SEASM S.r.L.		EPCG		Linea Group Holding S.p.A.	
	Euro	3,000,000	Euro	34,494,650	Euro	700,000	Euro	1,003,666,058	Euro	189,494,116
	A2A S.p.A.	100.00%	A2A S.p.A. Unareti S.p.A.	87.27% 4.33%	A2A S.p.A.	67.00%	A2A S.p.A.	41.75%	A2A S.p.A.	51.00%
	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
	26,398	22,706	7,670	7,787	357	378	232,232	241,806	23,167	23,626
	6,501	5,174	4,987	4,469	290	306	66,830	52,618	205	(188)
	5,415	2,970	2,813	2,349	124	141	32,376	18,899	(6,626)	(7,247)
	5,338	2,845	2,835	2,356	64	70	41,204	24,588	(6,744)	1,019
	1,837	1,837	1,927	1,486	38	11	37,474	21,874	(3,037)	4,457
	29,999	23,177	43,602	44,187	1,884	2,102	954,485	1,154,218	635,200	670,693
	16,263	11,274	2,903	4,007	1,154	1,410	214,216	240,027	439,585	467,970
	13,736	11,903	40,699	40,180	730	692	740,269	914,191	195,615	202,723
	(1,509)	(639)	7,610	8,406	(1,124)	(1,374)	192,288	147,408	(172,841)	(160,739)

Key data of the financial statements of the main subsidiaries and affiliates prepared according to ITALIAN GAAP

(pursuant to article 2429.4 of the Italian Civil Code)

SUBSIDIARIES	Unareti S.p.A.		A2A CALORE & SERVIZI S.r.l.		A2A ENERGIA S.p.A.	
Share capital:	Euro	965,250,000	Euro	150,000,000	Euro	2,000,000
% held:	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%	A2A S.p.A.	100.00%
Description - Thousands of euro	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
Revenues	519,477	211,177	223,257	231,828	1,325,981	1,300,743
Gross operating Income	222,077	104,142	75,675	71,255	138,008	99,494
Net operating income	141,778	77,453	34,073	40,679	114,846	80,448
Result before taxes	139,137	77,403	27,838	34,997	116,063	81,407
Result of the year	92,835	48,971	16,537	25,030	77,289	54,659
Assets	2,046,944	856,416	748,113	688,397	586,918	616,070
Liabilities	580,062	146,874	398,466	331,799	395,961	445,335
Equity	1,466,882	709,542	349,647	356,598	190,957	170,735
Net financial position	24,211	49,314	(260,363)	(194,468)	34,630	48,929

AFFILIATES	PREMIUMGAS S.p.A.	
Share capital:	Euro	120,000
% held:	A2A Alfa S.r.l.	50.00%
Description - Thousands of euro	12 31 16	12 31 15
Revenues	91,914	11,558
Gross operating income	1,353	(890)
Net operating income	1,345	(898)
Result before taxes	1,345	(898)
Result of the year	1,125	(831)
Assets	12,164	20,756
Liabilities	5,199	14,916
Equity	6,965	5,840
Net financial position	2,121	244

A2A CICLO IDRICO S.p.A.		ASPEM S.p.A.		A2A ALFA S.r.l.		PROARIS S.r.l.		PLURIGAS S.p.A. in liquidation	
Euro	70,000,000	Euro	173,785	Euro	100,000	Euro	1,875,000	Euro	800,000
A2A S.p.A.	100.00%	A2A S.p.A.	90.00%	A2A S.p.A.	70.00%	A2A S.p.A.	60.00%	A2A S.p.A.	70.00%
12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15	12 31 16	12 31 15
129,812	76,494	44,426	41,378	-	-	1,757	2,728	18	2,527
79,948	24,247	5,921	6,288	(54)	(49)	117	295	(25)	1,043
64,443	11,800	4,382	4,986	(54)	(49)	82	260	(25)	1,043
62,626	9,893	4,559	4,413	(54)	(49)	87	269	(9)	1,146
41,916	7,781	3,048	2,993	(39)	(36)	27	205	(16)	869
362,424	298,065	36,712	38,509	1,511	1,527	7,113	7,139	5,662	20,951
149,151	126,708	27,578	28,423	83	60	1,194	1,052	2,452	2,517
213,273	171,357	9,134	10,086	1,428	1,467	5,919	6,087	3,210	18,434
(70,165)	(60,271)	3,640	2,906	105	134	2,353	2,312	3,578	18,735

Certification of the financial statements pursuant to article 154-bis, paragraph 5 of Legislative Decree no. 58/98

1. The undersigned Luca Camerano, in the name and on behalf of the entire Board of Directors of A2A S.p.A., and Andrea Eligio Crenna, as manager in charge of preparing the corporate accounting documents of A2A S.p.A., certify, also taking into account the contents of article 154-bis, paragraphs 3 and 4, of Legislative Decree 58 February 24, 1998:

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

of administrative and accounting procedures for the preparation of financial statements in the year 2016.

2. It is also certified that:

2.1 the financial statements:

- a) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002;
- b) correspond to the information contained in the accounting ledgers and records;
- c) provide a true and fair representation of the equity, economic and financial situation of the issuer;

2.2 the report on operations includes reliable analysis on the performance, result of operations and the business of the issuer, as well as description of principal risks and uncertainties to which is exposed.

Milan, April 3, 2017

Luca Camerano
(For the Board of Directors)

Andrea Eligio Crenna
(Manager in charge of
preparing the corporate
accounting documents)

0.5

Independent
Auditors' Report

Independent Auditors' Report



EY S.p.A.
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Independent auditor's report in accordance with articles 14 and 16 of
Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
A2A S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of A2A S.p.A., which comprise the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of A2A S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of A2A S.p.A. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Other matters

The financial statements of A2A S.p.A. for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2016.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of A2A S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of A2A S.p.A. as at 31 December 2016.

Milan, 12 April 2017

EY S.p.A.
Signed by: Massimo Antonelli, Partner

This report has been translated into the English language solely for the convenience of international readers.

0.6

Report of the
Board of Auditors

Report of the Board of Auditors



REPORT OF THE BOARD OF AUDITORS

TO THE SHAREHOLDERS' MEETING OF A2A S.P.A.

(pursuant to art. 153 Legislative Decree 58/1998)

Dear Shareholders,

Pursuant to article 153, paragraph 1 of Legislative Decree no. 58 of February 24, 1998, we wish to inform you that, during the year ended December 31, 2016, we carried out the supervisory and control activities according to the rules of the Civil Code, of articles 148 et seq of the CFA of Legislative Decree January 27, 2010 no. 39 and the indications contained in CONSOB communications, taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

As auditing body, we:

- participated in the Shareholders' Meeting held June 7, 2016;
- attended all the meetings of the Executive Committee for a total of 11 sessions;
- attended all the meetings of the Board of Directors, for a total of 20 sessions, during which we were informed about the activities carried out and the most significant transactions made by the company and its subsidiaries. In this context, we systematically received from the Chairman and CEO the information regarding the exercise of proxies;
- conducted 12 meetings of the Board of Auditors during which information was also exchanged with the independent auditors and with the CEO, in order to ensure that no transactions were carried that were imprudent, risky, in potential conflict of interest, in contrast with the law,

by-laws or the resolutions of the Shareholders' Meeting or such to affect the integrity of the company's assets;

- constantly collected information on the organizational structure of the company and any changes thereto, also conducting meetings with the related managers of the company;
- attended 12 meetings of the Remuneration and Appointments Committee, acquiring information on the work it performed during the year;
- received from the Audit and Risk Committee, the Director in charge of the internal control and risk management system and the head of the Internal Audit function information regarding risk mapping of the activities in progress, verification programs and implementation projects of the internal control system, even through participation in 15 meetings of the Committee, during which we took cognizance of the activity carried out by the Committee (also in its function as Related Party Committee);
- examined periodically, as part of the supervision of the effectiveness of the internal control and risk management system adopted by the company, the updated mapping of risks relating to the company and its subsidiaries prepared by the Director in charge of the internal control and risk management system and submitted by the latter to the Board of Directors for review;
- examined the periodic reports prepared every six months by the Head of Internal Audit function, which contain information on the activities carried out by the latter during the reference period, the risk management procedures within the company, respect for plans defined for their reduction, strategic goals for reduction and efficiency, as well as the positive assessment of the same Head of the Internal Audit function on the suitability of the internal

control and risk management system of the company with respect to the characteristics of the company and the profile of risk undertaken. In particular, on July 26, 2016 and March 28, 2017, the Board (i) expressed a favourable opinion on the adequacy, effectiveness and effective functioning of the internal control and risk management system of the company with respect to the same characteristics and profile of risk undertaken; (ii) expressed a favourable opinion on the organizational, administrative and accounting structure of A2A and its subsidiaries with strategic importance, with particular reference to the internal control and risk management system;

- verified the activities carried out under the coordination of the Manager in charge of preparing the corporate accounting documents, for the purpose of the requirements of Law 262/2005 “Provisions for the protection of savings and regulation of financial markets”, and s.m.i. The Board was, among other things, informed on the outcome of the test and positively evaluated as illustrated by the head of the Internal Audit function and the Manager in charge of preparing the corporate accounting documents concerning the administrative and accounting procedures referred to in the aforementioned Law 262/2005, discussing as emerged from the illustration and requesting, where deemed necessary, the Audit and Risk Committee to provide information to the Board of Directors;
- verified that the company has an organizational, management and control Model (“Model”) consistent with the principles contained in Legislative Decree 231/01 and in line with the guidelines established by industry Associations.

In the Half-Year Report to the Board of Auditors, the Supervisory Board of the company

reported on the activities carried out during the first half of 2016 and thereafter, by special report at December 31, 2016, informed the same on the activities carried out during 2016 confirming that there were no situations of misconduct or violations of the Model.

On July 29, 2016, the Board of Directors of A2A S.p.A. resolved the update of the Organization, Management and Control Model pursuant to Legislative Decree 231/01 with respect to the cases of crime related to self-laundering (Law 186/2014), environmental crimes (Law 68/2015) and False Communications (Law 69/2015);

- verified that the company complies with the Corporate Governance Code for listed companies approved in March 2006 and last amended in July 2015. The Annual Report on Corporate Governance and Ownership Structures adequately illustrates the corporate governance system and the choices adopted.

Moreover, the Board:

- expressed its positive opinion in relation to the approval of the 2017 audit plan prepared and illustrated by the head of internal audit function and approved by the Board of Directors;
- monitored the actual implementation of corporate governance rules in the Corporate Governance Code, including the assessment of the Board of Directors and its internal Committees;
- certified, on the basis of statements made by the Directors and took note of the assessments expressed by the Board, that the criteria and procedures adopted by the Board to assess the independence of its members were correctly applied;
- took note of the procedures adopted and instructions issued by A2A S.p.A. for the preparation

of the Annual Financial Report of the A2A Group at December 31, 2016, the Half-Year Financial Report of the A2A Group at June 30, 2016 and the Interim Reports on Operations of the A2A Group at March 31 and September 30, 2016;

- successfully verified compliance with the criteria of independence with regard to each of its members, as required by the Corporate Governance Code. Said verification was conducted on December 20, 2016, as part of the annual verification of permanence of said requirements. The Board acknowledged that the outcome of said audits is outlined in the Annual Report on Corporate Governance and Ownership Structures prepared for the year 2016;
- reviewed the annual report prepared by the Audit and Risk Committee and the Annual Report on Corporate Governance and Ownership Structures prepared by the company, ensuring that it contains the information required by article 123-*bis* of Legislative Decree 58/98;
- examined the text of the Remuneration Report prepared by the company which was approved by the Board of Directors at its meeting of April 3, 2017, and verified that the same contains the information required by article 123-*ter* of Legislative Decree 58/98 and article 84-*quater* of the Issuers' Regulation;
- verified that the information flows between the Parent Company and other companies of the A2A Group occurred and occur in a timely manner and that the provisions provided to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree 58/98 are adequate;
- ascertained, on the basis of verifications carried out and the information received by the company, the existence of an adequate administrative and accounting system, and the additional conditions required by article 36 of Consob Resolution no. 16191/2007, relating to

subsidiaries with significant relevance established and regulated under the laws of non-EU countries;

- confirmed that it was not required to communicate to Consob and the management company of the market any circumstances involving non-compliance with the provisions of art. 36 of the Market Regulation;
- examined the documentation regulating financial, industrial and support intergroup transactions that can reasonably be considered compliant with the principles of good administration, compatible with the by-laws of the company and consistent with the spirit of the law;
- found that there were no atypical and/or unusual transactions as defined by Consob Communication DEM/6064293 of July 28, 2006, intergroup or with third parties; this was confirmed by the indications of the Board of Directors, Independent Auditors and Director in charge of the Internal Control and Risk Management System;
- found that the internal structures showed that from the analyses carried out on transactions conducted up to 12/31/2016, there were no transactions with Related Parties to bring to the attention of the Audit and Risk Committee in its capacity as the Related Party Committee;
- carried out the tasks entrusted to the Board of Auditors in light of the amendments introduced by article 19, paragraph 1 of Legislative Decree 39/2010, by which the Board itself was attributed supervision, among other things, of the statutory audit of annual accounts and consolidated accounts and the independence of the statutory auditor or the independent auditors, in particular as regards the provision of non-audit services to the company;

- monitored, pursuant to art. 19, paragraph 1 of Legislative Decree 39/2010, the financial reporting process and effectiveness of internal control, internal audit and risk management systems;
- met regularly with the independent auditors:
 - a) to exchange information on the verifications carried out by the latter pursuant to Legislative Decree 39/2010 and article 150, paragraph 3 of Legislative Decree 58/98 on the regular accounting and correct reporting of events in the accounting records. During these meetings, there were no reports of problems or abnormalities;
 - b) for the examination and evaluation of the preparation process, including the evaluation of the correct application of accounting standards and homogeneity of the same, the Half-Year Financial Report of the A2A Group at June 30, 2016 and the Annual Financial Report of the A2A Group at December 31, 2016, as well as the outcomes of the audit and evaluation of this document.
- on April 12, 2017, it received from the Independent Auditors, the unqualified reports in accordance with articles 14 and 16 of Legislative Decree 39/2010, in the version in force at December 31, 2016, respectively, for the annual financial statements and the consolidated financial statements at December 31, 2016, prepared in accordance with International Financial Reporting Standards - IFRS - adopted by the EU. The reports show that the financial statements and the consolidated financial statements of A2A S.p.A. provide a true and fair view of the financial position of A2A S.p.A. and the A2A Group at December 31, 2016, of the financial performance and cash flows for the year ended on that date. With reference to the

annual financial statements and consolidated financial statements, the Independent Auditors stated that the Report on Operations and the Report on Corporate Governance and Ownership Structures, with reference to the information indicated in art. 123-*bis*, paragraph 4, of Legislative Decree February 24, 1998 no. 58, are consistent with the financial statements;

- received from EY, pursuant to art. 19, paragraph 3 of Legislative Decree 39/2010, the report of the independent auditors, illustrating the key issues arising from the statutory audit and any significant weaknesses identified in the internal control system in relation to the financial reporting process, in which no significant weaknesses were identified;
- received, pursuant to art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, from the independent auditors of the company PricewaterhouseCoopers S.p.A., confirmation of its independence until the date of termination of office (June 7, 2016) as well as the timely disclosure of non-audit services provided to the company by the independent auditors and entities belonging to the same network;
- received, pursuant to art. 17, paragraph 9, letter a) of Legislative Decree 39/2010, from the independent auditors of the company EY S.p.A., confirmation of its independence as of January 1, 2016, as well as the timely disclosure of non-audit services provided to the company by the independent auditors and entities belonging to the same network;
- discussed, pursuant to art. 17, paragraph 9, letter b) of Legislative Decree 39/2010, with the independent auditors PWC first and EY subsequently, the risks relating to the independence of the same and the measures adopted by the independent auditors to mitigate said risks.

In this regard, we report that, in 2016, we had no evidence of the assignment of tasks other than the statutory audit of annual and consolidated accounts to the companies PricewaterhouseCoopers S.p.A. and EY S.p.A. (or to entities/persons belonging to their networks), with the sole exception of the following appointments conferred with the approval of the Board of Auditors:

PricewaterhouseCoopers S.p.A.

Group company to which the service was provided	Description of activities	Fees
ASVT S.p.A. and Bellisolina S.r.l.	Verifications of compliance and subsequent tax declarations for the tax claims (year 2015)	6,000
A2A Energia S.p.A.	Statutory audit of data included in the file “Data Request” annexed to the request for admission to the cost compensation mechanism for the non-payment of end customers pursuant to Resolution 659/2015 AEEGSI for the period October 1, 2011 - September 30, 2012	30,000

EY S.p.A.

Group company to which the service was provided	Description of activities	Fees
A2A S.p.A.	Certification activities relating to the updating of the EMTN program of A2A S.p.A. carried out in November 2016	30,000
Unareti S.p.A.	Agreed upon procedures on the statement “Form C - Financial Statements” relating to the program “Seventh research framework - FP7”	7,500

- we have also taken note of the direct conferment of an audit appointment to PricewaterhouseCoopers S.p.A. as described below:

Group company to which the service was provided	Description of activities	Fees
A2A S.p.A. and subsidiaries	Performance of verifications on regular accounting concerning the first 2 quarters of 2016 up to the date of termination of the statutory audit assignments for A2A (12,000 euro) and Italian subsidiaries (82,000 euro)	94,000

- the company also recognized an integration of fees amounting to 77,000 euro for the audit of the annual financial statements and consolidated financial statements of A2A, with reference to additional activities relating to the subsidiary EPCG in Montenegro;
- drafted the summary sheets of the control activities carried out by the Board of Statutory Auditors in 2016 according to as provided in Consob Communication no. 1025564 of April 6, 2001.

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It is also specified that the Auditors:

- communicated any offices held – as members of the Board of Directors or the Board of Auditors – in companies other than A2A S.p.A.;
- have expressed to be in favour, according to art. 2389, paragraph 3 of the Civil Code, of the remuneration of directors with special offices.

No complaints were received pursuant to art. 2408 Civil Code nor reports of any kind by third parties.

In the course of the supervisory activity, no significant omissions or reprehensible facts or irregularities whatsoever were identified.

Finally, the Board of Auditors:

- met with the Board of Auditors of the subsidiaries Aprica S.p.A., A2A Smart City S.p.A., Ecolombardia4 S.p.A. to verify, among other things, the status of implementation by said companies of the directives issued by the parent. The Board noted that the subsidiaries were in line with the directives received. The meeting allowed for an exchange of information regarding, among other things, the functioning of corporate activity, the characteristics of the

internal control system, the business organization of the subsidiaries, the composition and activities of the Supervisory Body, the Committees, Internal Audit function and the changes in the organizational structure of the company during the year 2016;

- received from the Board of Directors the draft financial statements for the year 2016 and the report on operations of A2A S.p.A. as well as the consolidated financial statements 2016 of the A2A Group under the agreed terms;
- ascertained that the Directors, in compliance with the provisions of CONSOB, outlined in the report on operations the transactions with Group companies and related parties;
- noted that, following the favourable opinion issued by the Audit and Risk Committee, in accordance with the recommendations made by the European Securities and Markets Authority (“ESMA”) on January 21, 2013, the joint document Bank of Italy/Consob/ISVAP no. 4 of March 3, 2010 and Consob Communication no. 3907 of January 19, 2015, the Board of Directors on February 18, 2015 approved the impairment test procedures applied by the company in preparing the financial statements at December 31, 2016, while on February 27, 2017, the Board of Directors approved the 2016 impairment test of the A2A Group.

Providing the foregoing and to the extent of our expertise, we:

- verified compliance with the law and the by-laws and the standards by which proper administration shall be uniformed;
- verified the adequacy of the company’s organizational structure, the internal control system and the administration and accounting system, in their actual functioning;
- verified compliance with the laws governing the preparation and format of the Financial

Statements of the company and the Consolidated Financial Statements of the Group and the reports on operations regarding year 2016, also through direct verifications and information obtained by the independent auditors;

- verified that, in accordance with Regulation (EC) no. 1606/2002 and Legislative Decree no. 38/2005, the financial statements of A2A S.p.A. and the consolidated financial statements of the A2A Group at December 31, 2016 are prepared in accordance with IAS/IFRS international accounting standards approved by the European Commission, supplemented by the related interpretations issued by the International Accounting Standards Board (IASB);
- monitored compliance of the Procedure for Transactions with Related Parties, prepared by the company pursuant to Consob Regulation 17221 of March 12, 2010, adapted following the adoption of the “traditional” governance on June 22, 2015 and submitted for periodic review by the Board of Directors on June 20, 2016;
- verified the adequacy of the provisions provided by the company to subsidiaries.

In view of the above, we kindly request that you approve the financial statements at December 31, 2016 presented by the Board of Directors along with the report on operations and the proposed allocation of the result for the year.

* * *

Dear Shareholders,

with the approval of the financial statements at December 31, 2016, is expiry of the mandate of the Board of Statutory Auditors appointed by the Shareholders’ Meeting on June 13, 2014. You are

therefore required to appoint the new Board of Statutory Auditors for the next three years, in accordance with the law and the by-laws.

We wish to take this opportunity to thank you for your trust during these years of mandate.

Milan, April 13, 2017

THE BOARD OF AUDITORS

(Giacinto Sarubbi) - Chairman

(Cristina Casadio) - Standing Auditor

(Norberto Rosini) - Standing Auditor