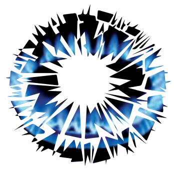
Consolidated
financial Statements
2012



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0.4 Attachments to the notes to the consolidated annual report

This is a translation of the Italian original "Relazione annuale finanziaria consolidata 2012" 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

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Consolidated financial statements

Balance sheet (1)

Assets

Millions of euro	Note	12 31 2012	12 31 2011 (*)
NON-CURRENT ASSETS			
Tangible assets	1	6,370	4,685
Intangible assets	2	1,393	1,503
Shareholdings carried according to equity method	3	210	521
Other non-current financial assets	3	53	48
Deferred tax assets	4	269	–
Other non-current assets	5	89	132
TOTAL NON-CURRENT ASSETS		**8,384**	**6,889**
CURRENT ASSETS			
Inventories	6	340	267
Trade receivables	7	1,907	1,958
Other current assets	8	318	410
Current financial assets	9	27	233
Current tax assets	10	90	30
Cash and cash equivalents	11	553	147
TOTAL CURRENT ASSETS		**3,235**	**3,045**
NON-CURRENT ASSETS HELD FOR SALE	**12**	**326**	**921**
TOTAL ASSETS		**11,945**	**10,855**

(1) As required by Consob Communication 17221 of 12 March, 2010, the effects of transactions with related parties on the consolidated accounts are indicated in the statements in section 0.2 and discussed in Note 40.
Significant non-recurring events and transactions in the consolidated financial statements are indicated in Note 41, as required by Consob Communication DEM/6064293 of July 28, 2006.

(*) 2011 values provided for comparison purposes have been remeasured to reflect application of Revised IAS 19 "Employee Benefits".

Equity and liabilities

Millions of euro	Note	12 31 2012	12 31 2011 (*)
EQUITY			
Share capital	13	1,629	1,629
(Treasury shares)	14	(61)	(61)
Reserves	15	1,018	1,622
Net profit for the year	16	260	(423)
Equity pertaining to the Group		**2,846**	**2,767**
Minority interests	17	851	826
Total equity		**3,697**	**3,593**
LIABILITIES			
Non-current liabilities			
Non-current financial liabilities	18	4,371	3,851
Deferred tax liabilities	19	–	10
Employee benefits	20	325	272
Provisions for risks, charges and liabilities for landfills	21	611	462
Other non-current liabilities	22	413	177
Total non-current liabilities		**5,720**	**4,772**
Current liabilities			
Trade payables	23	1,332	1,348
Other current liabilities	23	486	442
Current financial liabilities	24	653	675
Tax liabilities	25	8	25
Total current liabilities		**2,479**	**2,490**
Total liabilities		**8,199**	**7,262**
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**26**	**49**	**–**
TOTAL EQUITY AND LIABILITIES		**11,945**	**10,855**

(*) 2011 values provided for comparison purposes have been remeasured to reflect application of Revised IAS 19 "Employee Benefits".

Income statement (1)

Millions of euro	Note	01 01 2012 12 31 2012	01 01 2011 12 31 2011 (*)
Revenues			
Revenues from the sale of goods and services		6,281	6,029
Other operating income		199	101
Total revenues	**28**	**6,480**	**6,130**
Operating expenses			
Expenses for raw materials and services		4,559	4,364
Other operating expenses		251	294
Total operating expenses	**29**	**4,810**	**4,658**
Labour costs	**30**	**602**	**548**
Gross operating income - EBITDA	**31**	**1,068**	**924**
Depreciation, amortization, provisions and write-downs	**32**	**567**	**626**
Net operating income - EBIT	**33**	**501**	**298**
Financial balance			
Financial income		58	53
Financial expense		251	179
Portion of income and expenses when shareholdings are carried at equity		13	(132)
Total financial balance	**34**	**(180)**	**(258)**
Other non-operating income	**35**	**3**	**6**
Other non-operating expenses	**35**	**(6)**	**(10)**
Income before taxes		**318**	**36**

(1) As required by Consob Communication 17221 of 12 March, 2010, the effects on the consolidated accounts of transactions with related parties are indicated in the statements in section 0.2 and discussed in Note 40.
Significant non-recurring events and transactions in the consolidated financial statements are indicated in Note 41, as required by Consob Communication DEM/6064293 of July 28, 2006.

(*) Values provided for the purposes of comparison with the twelve months from January - December 2011 were reclassified to reflect application of IFRS5 and restated to comply with Revised IAS 19 "Employee Benefits".

Millions of euro	Note	01 01 2012 12 31 2012	01 01 2011 12 31 2011
Income taxes	**36**	**128**	**147**
Income after taxes from operating activities		**190**	**(111)**
Net result from non-current assets sold or held for sale	**37**	**81**	**(808)**
Net profit		**271**	**(919)**
Minorities		**(11)**	**496**
Group net profit for the year	**38**	**260**	**(423)**
Earnings (loss) per share (in euro):			
- basic		0.0838	(0.1367)
- basic, from operating activities		0.0579	0.1233
- basic, from assets held for sale		0.0259	(0.2600)
- diluted		0.0838	(0.1367)
- diluted, from operating activities		0.0579	0.1233
- diluted, from assets held for sale		0.0259	(0.2600)

Consolidated statement of comprehensive income

Millions of euro	12 31 2012	12 31 2011 (*)
Net income/(loss) for the period (A)	**271**	**(919)**
Actuarial gains/(losses) on employee benefits booked as net equity	(33)	4
Tax effect of other actuarial gains/(losses)	8	(1)
Total actuarial gains/(losses) net of tax effect (B)	**(25)**	**3**
Effective part of gains/(losses) on cash flow hedge	(54)	(13)
Tax effect of other gains/(losses)	18	2
Total other gains/(losses) net of the tax effect of companies consolidated on a line-by-line basis (C)	**(36)**	**(11)**
Other gains/(losses) of companies valued at equity, net of the tax effect (D)	**2**	**(11)**
Total comprehensive income/(loss) (A) + (B) + (C) + (D)	**212**	**(938)**
Total comprehensive income/(loss) attributable to:		
Shareholders of the parent company	**201**	**(453)**
Minority interests	**11**	**(485)**

(*) January - December 2011 figures provided for comparison purposes have been remeasured to reflect application of Revised IAS 19 "Employee Benefits".

Cash Flow statement

Millions of euro	**12 31 2012**	**12 31 2011**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**147**	**132**
EDIPOWER S.p.A. liquidity	**89**	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**236**	**132**
Operating activities		
Net income for the year (**)	192	(954)
Tangible assets depreciation	417	336
Intangible assets amortization	72	68
Fixed asset write-downs	10	125
Result from shareholdings in companies carried at equity (***)	(13)	979
Shareholdings write-downs		4
Net tax paid (a)	*(251)*	*(240)*
Changes in assets and liabilities, before tax (b)	*534*	*53*
Total changes in assets and liabilities (a+b) (*)	283	(187)
Cash flow (net) from operating activities	**961**	**371**
Investment activities		
Investments in tangible assets	(275)	(183)
Investments in intangible assets and goodwill	(85)	(88)
Investments in shareholdings and securities (*)	(130)	(11)
Disposal of fixed assets and shareholdings	234	79
Dividends received from shareholdings carried at equity and other shareholdings	6	17
Cash flow (net) from investment	**(250)**	**(186)**

(*) Net of balances with contra-entry in equity and other balance sheet/cash flow items.
(**) Income for the period is shown net of capital gains generated by the sale of shareholdings.
(***) This item at December 31, 2011 includes the value of shareholding TdE S.r.l. which appears under “Net profit from non-current assets held for sale” in the income statement.

Millions of euro	12 31 2012	12 31 2011
Free Cash Flow	**711**	**185**
Financing activities		
Change in financial assets (*)	151	(236)
Change in financial liabilities (*)	(324)	481
Net financial expenses paid	(173)	(111)
Dividends paid by parent company	(40)	(298)
Dividends paid by subsidiaries	(8)	(6)
Cash flow from financing activities	**(394)**	**(170)**
CHANGE IN CASH AND CASH EQUIVALENTS	**317**	**15**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**553**	**147**

Statement of changes in Group Equity

Description *Millions of euro*	**Share capital**	**Treasury shares**	**Cash Flow Hedge**
Net equity at December 31, 2010 (**)	**1,629**	**(61)**	**31**
Allocation of 2010 net income			
Distribution of dividends			
Revised IAS 19 reserve (*)			
IAS 32 and IAS 39 reserves (*)			(11)
Put option on Delmi S.p.A. shares			
Other changes			
Group and minority interests net result for the year			
Net equity at December 31, 2011 (**)	**1,629**	**(61)**	**20**
Allocation of 2011 net income			
Distribution of dividends			
Revised IAS 19 reserve (*)			
IAS 32 and IAS 39 reserves (*)			(36)
Put option on Delmi S.p.A. shares			
Put option on Aspem S.p.A. shares			
Other changes			
Group and minority interests net result for the year			
Net equity at December 31, 2012	**1,629**	**(61)**	**(16)**

(*) These form part of the statement of comprehensive income.
(**) Net equity at December 31, 2010 and at December 31, 2011 reflect application of Revised IAS 19 "Employee Benefits"; a reserve was created for the resultant actuarial gains/losses, net of the fiscal effect.

	Other reserves and retained earnings	Group net income for the year	Total Equity pertaining to the Group	Minority interests	Total net shareholders
	1,594	**308**	**3,501**	**1,344**	**4,845**
	308	(308)			
	(298)		(298)	(6)	(304)
	3		3		3
			(11)	(11)	(22)
	2		2		2
	(7)		(7)	(5)	(12)
		(423)	(423)	(496)	(919)
	1,602	**(423)**	**2,767**	**826**	**3,593**
	(423)	423			
	(40)		(40)	(8)	(48)
	(24)		(24)	(1)	(25)
			(36)	2	(34)
	(84)		(84)	(127)	(211)
				(1)	(1)
	3		3	149	152
		260	260	11	271
	1,034	**260**	**2,846**	**851**	**3,697**

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

Balance sheet

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

Assets

Millions of euro	12 31 2012	of which Related Parties (note 40)	12 31 2011	of which Related Parties (note 40)
NON-CURRENT ASSETS				
Tangible assets	6,370		4,685	
Intangible assets	1,393		1,503	
Shareholdings carried according to equity method	210	210	521	521
Other non-current financial assets	53	5	48	6
Deferred tax assets	269		–	
Other non-current assets	89		132	
TOTAL NON-CURRENT ASSETS	**8,384**		**6,889**	
CURRENT ASSETS				
Inventories	340		267	
Trade receivables	1,907	127	1,958	134
Other current assets	318		410	
Current financial assets	27	5	233	230
Current tax assets	90		30	
Cash and cash equivalents	553		147	
TOTAL CURRENT ASSETS	**3,235**		**3,045**	
NON-CURRENT ASSETS HELD FOR SALE	**326**		**921**	**921**
TOTAL ASSETS	**11,945**		**10,855**	

Equity and liabilities

Millions of euro	12 31 2012	of which Related Parties (note 40)	12 31 2011	of which Related Parties (note 40)
EQUITY				
Share capital	1,629		1,629	
(Treasury shares)	(61)		(61)	
Reserves	1,018		1,622	
Net profit for the year	260		(423)	
Equity pertaining to the Group	**2,846**		**2,767**	
Minority interests	851		826	
Total equity	**3,697**		**3,593**	
LIABILITIES				
Non-current liabilities				
Non-current financial liabilities	4,371		3,851	
Deferred tax liabilities	–		10	
Employee benefits	325		272	
Provisions for risks, charges and liabilities for landfills	611	4	462	1
Other non-current liabilities	413		177	
Total non-current liabilities	**5,720**		**4,772**	
Current liabilities				
Trade payables	1,332	34	1,348	53
Other current liabilities	486	8	442	9
Current financial liabilities	653		675	1
Tax liabilities	8		25	
Total current liabilities	**2,479**		**2,490**	
Total liabilities	**8,199**		**7,262**	
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**49**		**–**	
TOTAL EQUITY AND LIABILITIES	**11,945**		**10,855**	

Income statement

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

Millions of euro	01 01 2012 12 31 2012	of which Related Parties (note 40)	01 01 2011 12 31 2011 (1)	of which Related Parties (note 40)
Revenues				
Revenues from the sale of goods and services	6,281	761	6,029	838
Other operating income	199		101	1
Total revenues	**6,480**		**6,130**	
Operating expenses				
Expenses for raw materials and services	4,559	447	4,364	678
Other operating expenses	251	9	294	8
Total operating expenses	**4,810**		**4,658**	
Labour costs	**602**	**3**	**548**	**4**
Gross operating income - EBITDA	**1,068**		**924**	
Depreciation, amortization, provisions and write-downs	**567**	**2**	**626**	
Net operating income - EBIT	**501**		**298**	
Financial balance				
Financial income	58	7	53	6
Financial expense	251	1	179	115
Portion of income and expenses when shareholdings are carried at equity	13	13	(132)	(132)
Total financial balance	**(180)**		**(258)**	
Other non-operating income	**3**		**6**	
Other non-operating expenses	**(6)**		**(10)**	
Income before taxes	**318**		**36**	
Income taxes	**128**		**147**	
Income after taxes from operating activities	**190**		**(111)**	
Net result from non-current assets sold or held for sale	**81**		**(808)**	
Net profit	**271**		**(919)**	
Minorities	**(11)**		**496**	
GROUP NET PROFIT FOR THE YEAR	**260**		**(423)**	

(1) Values provided for the purposes of comparison with the twelve month period from January - December 2011 were reclassified to reflect application of IFRS 5 and restated to comply with Revised IAS 19 "Employee Benefits".

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Notes to the consolidated annual report

General information on A2A S.p.A.

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

A2A S.p.A. and its subsidiaries ("Group") operate both in Italy and abroad, especially following acquisitions in Montenegro in recent years.

The A2A Group mainly operates in the following sectors:

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

Consolidated annual report

The consolidated annual report (hereafter referred to as "Annual Report") at December 31, 2012 of the A2A Group are presented in millions of euro, which is also the currency of the economies in which the Group operates.

The annual report of the A2A Group at December 31, 2012 has been prepared:

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

In preparing the report, the same standards were adopted as those used in preparation of the annual report at December 31, 2011. It should be specified that, beginning with the current financial year and as a result of the customer loyalty project, the Group now follows IFRIC 13, "Customer Loyalty Programmes". This interpretation, which was endorsed on December 16, 2008, and has been applicable since July 1, 2008, establishes the accounting procedures to be adopted by entities that grant loyalty award credits to customers who buy their goods or services. In particular, the interpretation states that the fair value of the obligations tied to the granting of these awards must be separated from the revenues from the sale and deferred until the obligation towards the customer has been fulfilled.

The principles and interpretations described in detail in the paragraph below "Changes in international accounting standards" were adopted for the first time on January 1, 2012.

This report at December 31, 2012, audited by PricewaterhouseCoopers S.p.A. in accordance with their appointment by the Shareholders' Meeting of April 26, 2007 for the nine years from 2007 to 2015, was approved on March 14, 2012 by the Management Board, which authorised its publication.

The consolidated annual report for the year ended December 31, 2012, considers the business a continued, going concern.

Financial statements

The Group has adopted a format for the statement of financial position which presents current and non-current assets and current and non-current liabilities separately, as required by paragraphs 60 and following of "IAS 1 revised".

The income statement is presented in a vertical format with items classified by nature, as this is considered more representative than a classification by function. The selected format is consistent with the presentation used by the Group's major competitors and is line with international practice. The results of ordinary operations are shown in the income statement separately from income or costs deriving from non-recurring transactions that do not recur in the business's ordinary operations, such as gains or losses on the sale of shareholdings and other non-recurring income or expense; this makes 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 revised IAS 1.

The formats adopted for the financial statements are the same as those used to prepare the Consolidated annual report at December 31, 2011.

Basis of preparation

The consolidated annual report at December 31, 2012 has been prepared on a historical cost basis, with the exception of those items which under IFRS must or can be measured at fair value, as explained in more detail in the valuation criteria.

The consolidation principles, accounting principles, accounting policies and estimates used in the preparation of the report are consistent with those used to prepare the consolidated annual report at December 31, 2011.

Changes in international accounting standards

The accounting standards adopted in 2012 were the same as those used in the previous year, with the exception of the changes discussed in the paragraphs below: "Accounting principles, amendments and interpretations applied by the Group from the current period".
The subsequent paragraphs "Accounting principles, amendments and interpretations approved by the European Union and applicable after December 31,2012" and "Accounting principles, amendments and interpretations not yet approved by the European Union" provides a summary of the changes which will be adopted in future periods, indicating where possible the estimated effects on the annual report of the A2A Group.

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

Effective as of January 1, 2012, the Group has already begun applying the change to IAS 19, "Employee Benefits", which was endorsed on June 6, 2012. Such application is mandatory as of January 1, 2013; however, it may be adopted on a voluntary basis for half-year reporting as at June 30, 2012, and for annual reporting as at December 31, 2012.

The changes included in this amendment fall into three major categories:
(i) recognition and presentation in financial statements;
(ii) disclosures;
(iii)further amendments.

The first type of amendment concerns defined benefit plans. In particular, the corridor method for recognising actuarial income and losses, along with the related obligation to recognise the components related to "remeasurement" (actuarial income and losses) on the statement of comprehensive income as other comprehensive income, has been abandoned.

As concerns the presentation of financial statements, the changes in the liability related to the obligation connected with a defined-benefit plan have been split up into three components:

1. service costs, i.e. costs related to employment;
2. net finance costs;
3. remeasurement costs.

As regards disclosure, in addition to eliminating the need to provide details of deferred recognition of gains and losses (no longer necessary after the corridor method was eliminated), the amendment proposes disclosure of details of the plans and associated amounts brought to account, risk arising from the plans including a sensibility analysis of changes in demographic risk and participation in multi employer plans.

The effects of early application of this standard on the Annual Report are described in greater detail below.

As of July 1, 2012, the following changes to international accounting standards have also been applied:

IAS 1 “Presentation of Financial Statements”; the revision, which will take effect from July 1, 2012, concerns the presentation of data in the comprehensive statement of income. In particular, this amendment retains the option of presenting the Income Statement and Statement of Comprehensive Income in either a single report or in two separate reports, one following immediately after the other. The various components that will be charged to the Income Statement in future years must be grouped together in the statement of comprehensive income: these figures can be presented either with or without the net tax effect. The Group has opted to present the figures on two separate reports.

Accounting standards, amendments and interpretations approved by the European Union and applicable after December 31,2012

In future reporting periods the following principles and interpretations approved by the European Union but not yet applied by the Group can be applied if the relative conditions are met:

- IAS 12, “Income Taxes”: on December 20, 2012, the IASB issued an amendment, retroactively applicable as of January 1, 2013, that clarifies the calculation of deferred taxes on investment properties measured at fair value. This change introduces the assumption that the deferred taxes related to investment properties, which are measured at fair value in accordance with IAS 40 (“Investment Properties”), must be calculated based on the assumption that the carrying value of the asset will be recovered at the moment of the sale. As a result, SIC 21, “Income Taxes – Recovery of Revalued Non-depreciable Assets”, will no longer be applicable to this amendment;

- IFRS 10 "Consolidated Financial Statements", issued by IASB on May 12, 2011 and taking effect from January 1, 2014. Unlike IAS 27, "Consolidated and Separate Financial Statements", which defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, under IFRS 10, there is control over an investee when the investor 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. This control becomes evident when the three circumstances below occur:
  1. the power to manage key operations (relevant activities) in the shareholding (investee);
  2. exposure, or right, to receive returns from its involvement with the investee;
  3. the ability to use its power over the investee to affect the amount of the investor's returns.

  The power to influence operations that significantly affect the results of the subsidiary(so-called relevant activities) can be more easily exercised through voting rights (including potential voting rights), but also by way of contractual arrangements. Relevant activities, when control is exercised through voting rights, are represented by operating (development, purchasing and product sales) and financial management activities(obtaining and negotiating loans, acquisitions and sale of financial assets).
  Variable returns also include dividends, payment for services provided by the parent for the subsidiary's activities and tax benefits.
  This third condition to establish whether control exists regards the interaction between the first two conditions. In other circumstances, an organization can have an interest in a group of the subsidiary's assets and liabilities as part of a legal or contractual condition. IFRS 10 establishes that, to determine if an organization is a parent, these assets and liabilities can be considered a separate entity only if it is economically separate from the entity as a whole, and is therefore a subsidiary company for the purposes of the consolidated financial statements
  Following the introduction of this standard, a revised version of IAS 27 "Separate Financial Statements" was issued which remains the main reference for separate accounts, and of IAS 28 "Shareholdings in Associates and Joint Ventures"; the interpretation of SIC 12 "Consolidation - Special Purpose Entities" has also been superseded. Earlier adoption of this standard is permitted.
- IFRS 11 "Joint Arrangements", published by IASB on May 12, 2011 and taking effect from January 1, 2014. This standard establishes that in a joint arrangement, two or more parties have joint control and decisions regarding relevant activities require the unanimous consent of the parties.

IFRS 11 describes two different types of joint arrangement:

1. joint operations;
2. joint ventures.

The two types differ in the rights and obligations of each party to the joint arrangement; In a joint operation, the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas in a joint venture the parties have rights to the net assets of the arrangements. IFRS 11 establishes that the assets, liabilities, costs and revenues relating to a joint operation are recognized by the parties in line with their percentage control, whereas joint ventures are recognized by the parties using the net equity method, as laid down in IAS 28 "Shareholdings in Associates and Joint Ventures".

Joint arrangements are recognized in the same way for both separate and consolidated financial statements, with assets, liabilities, costs and revenues recognized on the basis of the percentage of control; for joint ventures and shareholdings in subsidiaries and associates on the other hand, they can be recognized in separate financial statements either at cost or as defined in IFRS 9 "Financial Instruments" (and IAS 39 "Financial Instruments: recognition and measurement"), as also specified in IAS 27 "Separate Financial Statements". As regards disclosures to be provided in the explanatory notes, for more comprehensive information you are referred to the provisions of the new IFRS 12 "Disclosures of Interests in Other Entities".

- IFRS 12 "Disclosures of Interests in Other Entities", issued by IASB on May 12, 2011 and effective from January 1, 2014. This standard establishes minimum disclosure requirements, combining them with those established by other standards, that entities must provide for all types of interests, including in subsidiaries, joint arrangements, special purpose entities and other vehicle companies not included in the consolidation area.
- IFRS 13 "Fair Value Measurement", issued by IASB on May 12, 2011 and effective from January 1, 2013. IFRS 13 determines the fair value, and provides guidelines on how to measure it, also introducing disclosure requirements.

  The standard does not specify when fair value measurement is required, but does lay down how it should be done when it is required by other standards. The new standard applies to all operations, both financial and non-financial, for which international accounting standards require or allow fair value measurements, with the exception of transactions recognized in IFRS 2 "Share-based Payments", leasing agreements governed by IAS 17 "Leasing", and transactions recognized on the basis of the "net realizable value", as described in IAS 2 "Inventories" and the "Value in use", as defined in IAS 36 "Impairment of Assets".

The standard defines the "fair value" as the consideration for which an asset could be exchanged, or a liability extinguished, in a transaction between willing, informed and unrelated parties. If transactions can be observed directly in the marketplace, the fair value can be measured fairly easily; where this is not possible, valuation techniques are used. This standard describes three of these techniques, which can be used to calculate the fair value; the first one is the market approach, which uses prices and other relevant information generated by market transactions involving comparable assets and liabilities; the second is the income approach, which converts future cash flows or income and expenses; the third method is the cost approach, which requires the entity to calculate a value that reflects the amount that would be required currently to replace the service capacity of an asset.

As regards disclosures to be provided in financial statements, IFRS 13 extends the hierarchy of three levels of fair value, which vary depending on the input used in the valuation techniques, as already provided in IFRS 7 "Financial instruments: disclosures", to all assets and liabilities within its scope of application. Several disclosure requirements vary depending on whether the fair value measurement was done on a recurring or non-recurring basis: recurring means the fair value measurements required by other accounting standards at the end of each reporting period, whereas non-recurring means fair value measurements required in special circumstances only. Earlier adoption of this standard is permitted.

- Revised IAS 27 "Separate Financial Statements", issued by IASB on May 12, 2011, effective from January 1, 2014; a revised version of the standard IAS 27 was published at the same time as principle IFRS 10 "Consolidated Financial Statements", retaining the general principle regarding separate financial statements. This standard applies to the valuation of subsidiary, associate and joint venture shareholdings in the separate accounts of the parent. Joint ventures, as is also the case for shareholdings in subsidiaries and associates, are recognized in separate financial statements at cost or as described in IFRS 9 "Financial Instruments" (and in IAS 39 "Financial instruments: recognition and measurement"). When a parent chooses not to prepare consolidated financial statements, as established by IFRS 10 "Consolidated Financial Statements", in its separate accounts, it must disclose shareholdings in subsidiaries, associates and joint ventures, the main offices (and legal premises if different), their operations, the percentage stake in each individual company and details of how the respective values are brought to account.
- Revised IAS 28 "Shareholdings in Associates and Joint Ventures", issued by IASB on May 12, 2011, effective from January 1, 2014; at the same time as principle IFRS 10 "Consolidated Financial Statements" was introduced, a revised version of this standard was published to

establish how shareholdings in associates and joint ventures should be recognized. An entity with joint control or significant interest over another body must recognize this shareholding using the net equity method.

- IFRS 7 "Financial instruments: disclosures": issued by IASB on December 16, 2011, can be retroactively applied to reporting periods starting prior to January 1, 2013. This amendment calls for disclosure of the effects or potential effects of offsetting financial assets and financial liabilities on financial standing.
- IFRS 32 "Financial instruments: presentation": issued by IASB on December 16, 2011, can be retroactively applied to reporting periods starting prior to January 1, 2014. This amendment clarifies the application of a number of parameters for the offsetting of financial assets and financial liabilities found in IAS 32.
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"; issued by IASB on October 19, 2011 and applicable from January 1, 2013. The interpretation considers when and how to account for the costs of removing waste materials in the production phase of a mine. The interpretation makes a distinction between the benefits accruing from waste removal activities. Benefits consist of the generation of usable ore and improved access to further quantities of material that will be mined in future periods.
  In the former, the materials constitute inventory and the associated costs are therefore accounted as such (in compliance with IAS 2 "Inventories"). In the latter case, the costs are accounted for as non-current stripping activity assets, provided it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity.

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

The following principles and interpretations have not been applied as the relevant EU authorities have not yet concluded the associated approval process.

- IFRS 9, "Financial Instruments": retrospectively applicable as of January 1, 2015 (applicability had previously been set for January 1, 2013), this is the first part of a multi-stage process aimed at replacing IAS 39, "Financial Instruments: recognition and measurement", in its entirety and introduces new criteria for the classification and measurement of financial assets and liabilities. The main changes introduced by IFRS 9 may be summarised as follows: Financial assets may be placed into just two categories – i.e. at fair value or at amortised cost. As such, the categories of loans and receivables, financial assets available for sale and financial assets held to maturity are to be eliminated. Classification within the two remaining categories is to be done based on the entity's business model and on the characteristics of the cash flows generated by the entities activities. A financial asset is to be measured at amortised cost if both of the following conditions are met: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (and so not to realise trading profits) and the cash flows are solely payments of principal and interest on the principal outstanding. Otherwise, the financial asset must be measured at fair value. The rules for the recognition of embedded derivatives have also been simplified, as it is no longer mandatory to recognise an embedded derivative separately from the "host" financial asset.

All equity instruments – both listed and unlisted – must be measured at fair value. Conversely, IAS 39 stated that unlisted equity instruments were to be recognised at cost if their fair value could not be reliably determined.

Entities have the option of presenting changes in the fair value of equity instruments, unless the equity instruments are held for trading. This allocation is allowed upon initial recognition, may be adopted by individual security, and is irrevocable. When this option is taken, changes in the fair value of these instruments may never be reclassified from equity to the income statement. Dividends, on the other hand, are still to be recognised on the income statement.

IFRS 9 does not allow for reclassifications between the two categories of financial asset except for in the rare case in which there is a change in the entity's business model. In such case, the effects of the reclassification are to be applied on a prospective basis.

Finally, required disclosures in the explanatory notes have been adapted to the rules and classifications introduced by IFRS 9.

- IAS 1, regarding public funding: issued on March 12, 2012, this change enables first-time IFRS preparers not to recognise the benefit resulting from government loans issued at lower than market rates as a government grant. This change is to go into effect as of January 1, 2013.

  On May 17, 2012, the IASB issued its "Annual Improvements to IFRS 2009-2011", which are retrospectively applicable beginning on January 1, 2013. The main changes concern:

  a) IAS 1, "Presentation of Financial Statements", establishes the requirements for the classification of current and non-current liabilities;
  b) IAS 16, "Property, Plant and Equipment", clarifies that servicing equipment must be classified among property, plant and equipment if used for more than one financial year or in inventories if not used for more than one financial year;
  c) IAS 32, "Financial Instruments: Presentation", clarifies that the tax effect of a distribution to holders of equity instruments and the transaction costs on equity instruments should be accounted for in accordance with IAS 12, "Income Taxes";

d) IAS 34, "Interim Financial Reporting", governs the reporting of segment information, clarifying that total assets for each segment are to be reported only if such information is regularly provided to the entity by the chief operating decision maker and there is a material change in the total assets for the segment compared to the most recent annual report.

Scope of consolidation

The annual report on operations of the A2A Group at December 31, 2012 includes the figures of the parent company A2A S.p.A. and those of its subsidiaries in which A2A S.p.A., directly or indirectly, holds a majority of the voting rights that can be exercised at the ordinary shareholders' meeting. In addition, companies in which the parent exercises joint control with other entities (joint ventures) and those over which it has a significant influence are consolidated using the equity method.

As at December 31, 2012, following the acquisition of a 70% interest in Edipower S.p.A. by Delmi S.p.A. and the related sale of a 50% interest in Transalpina di Energy S.r.l., a company that had been consolidated at equity and classified among discontinued operations in accordance with IFRS 5, Edipower S.p.A. is now consolidated on a line-item basis as of June 2012, whereas Transalpina di Energia S.r.l. is no longer a consolidated company.

As at June 30, 2012, as a result of the sale of the equity interest in A2A Coriance S.a.s., the parent company of the Coriance Group, said company, which had been classified as discontinued operations as at June 30, 2012, is no longer included on the consolidated financial statements.

Finally, after exercising the put option on the 25.7% interest in Metroweb S.p.A., this company has also been removed from the scope of consolidation.

Consolidation policies and procedures

Consolidation Policies

Subsidiaries

The scope of consolidation of the A2A Group comprises the parent company A2A S.p.A. and the companies over which it exercises direct or indirect control, even when the interest is less than 50%. Subsidiaries are consolidated from the date on which the Group effectively acquires control and are deconsolidated from the date on which control is transferred to a company outside of the Group.

Associates and Joint Ventures

Shareholdings in associates, namely those in which the A2A Group has a considerable interest and is able to exercise a significant influence, and those over which A2A S.p.A. has joint control together with other entities (joint ventures), are accounted for using the equity method. Gains and losses pertaining to the Group are recognized in the financial statements from the date on which the significant influence or joint control commenced.
In the event that the loss pertaining to the Group exceeds the book value of the shareholding, the carrying amount is reduced to zero and any excess loss is provided for to the extent that the Group has legal or implicit obligations towards the associate to cover its losses or, in any case, to make payments on its behalf.

Potential voting rights

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

Handling of put options on the shares of subsidiaries

The Group has granted put options to minority interests, which give these minority interests the right to ask the A2A Group to purchase their shares at a future date.

IAS 32.23 states that a contract that includes an obligation for an entity to purchase shares in cash or in exchange for other financial assets gives rise to a financial liability equal to the present value of the option's strike price.
Therefore, should the entity not have the unconditioned right to avoid the delivery of cash or other financial instruments at the time of exercising a put option on the shares of subsidiaries, the payable must be recognised.
In the absence of specific instructions in the related accounting standards, the A2A Group: (i) considers the shares involving put options to have already been purchased, including in cases in which the risks and rewards connected with ownership of the shares remain with the minority shareholders and they remain exposed to equity risk; (ii) records a corresponding entry among equity reserves for the liability resulting from the obligation and any subsequent changes that are not related to the mere unwinding of the present value of the strike price; and (iii) recognises such changes through profit or loss.

Consolidation Procedures

General Procedure

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

In preparing the annual report, the assets, liabilities, costs and revenues of the companies being consolidated are included in their entirety on a line-by-line basis, showing the portion of equity and net income for the period pertaining to minority interests separately in the balance sheet and income statement.
The book value of the shareholding in each subsidiary is eliminated against the corresponding share of its net equity, including any adjustments to fair value at the acquisition date; any differences arising are accounted for in accordance with IFRS 3.

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

Consolidation procedure for assets and liabilities held for sale (IFRS 5).

In the case of particularly large figures and exclusively in connection with non-current assets and liabilities available for sale, and only in this case, in accordance with the requirements of IFRS 5, the related intragroup financial receivables and payables are not eliminated in order to provide a clear presentation of the financial impact of a possible disposal.

Description of the equity reorganisation of Edison S.p.A. and Edipower S.p.A.

On February 15, 2012, following the preliminary understanding reached by A2A S.p.A., EdF S.A., Delmi S.p.A., Edison S.p.A. and Alpiq S.A. on December 26, 2011, regarding the corporate reorganisation of Edison S.p.A. and Edipower S.p.A., agreements were then signed in order to execute the transaction.

The payment originally established for the sale of Transalpina di Energia S.r.l. was 704 million euro, which is equal to 0.84 euro per Edison S.p.A. share. This value was the result of negotiations between the parties and was in line with the average market price of the Edison S.p.A. share over the previous twelve months.

For the acquisition of the 70% interest in Edipower S.p.A., the price was set at a total of 804 million euro (604 million for the 50% interest held by Edison S.p.A. and 200 million for the 20% interest held by Alpiq S.A.).As for the parameters used to determine this price and the appropriateness of such parameters, Merrill Lynch International, acting as an advisor for the transaction, issued a fairness opinion on January 26, 2012, upon request of the board of directors of Delmi S.p.A..

As governed by the aforementioned contracts signed on February 15, 2012, the transaction was conditioned upon confirmation by CONSOB that the price of the mandatory public takeover bid – which, following acquisition of a controlling interest by EdF S.A., was to have been issued by said company on the ordinary shares in Edison S.p.A. that were still in circulation (some 19.37%) – was not greater than 0.84 euro per share and upon approval by the competent antitrust authorities.

The conditions related to authorisation by the antitrust authorities of both the purchases and the sales were met on April 18 and May 10, 2012, respectively.

On April 4, 2012, in its communication no. 12027130, CONSOB expressed some perplexity as to the price of 0.84 euro set for the takeover bid. Although rejecting in full the observations made by CONSOB in said communication, on April 27, 2012, Delmi S.p.A. and EdF S.A.

presented CONSOB with an enquiry into the calculation of this price, which proposed a number of changes to the agreements signed on February 15, 2012.

Finally, on May 5, 2012, following CONSOB communication no. 12036271 issued on May 3, 2012, establishing the price for the purchase of the Edison S.p.A. shares at 0.89 euro per share, the following agreements were signed which partially amended the agreement signed on February 15, 2012:

(i) an agreement between A2A S.p.A. and Delmi S.p.A., jointly, and EdF S.A., which called for the price for the sale to EdF S.A. of the 50% interest in Transalpina di Energia S.r.l. held by Delmi S.p.A. to be increased from 704 million to 784 million euro (which reflected the 0.89 euro price per Edison S.p.A. share). Furthermore, the agreement formalises the commitment for Delmi S.p.A. to pay EdF S.A. a sum equal to 50% of the greater cost that EdF S.A. would have to incur as a result of the mandatory public takeover bid on Edison S.p.A. shares at a price of 0.89 euro per share (instead of 0.84 euro per share) for a total payment of no more than 25 million euro. The entirety of this greater cost was considered to be the greater cost for the purchase of the equity interest in Edipower S.p.A. and was, following the takeover, calculated to be 24.4 million euro;

(ii) an agreement between A2A S.p.A. together with Delmi S.p.A. and Edison S.p.A. together with Alpiq S.A. which established that the price for the purchase by Delmi S.p.A. of the 50% interest in Edipower S.p.A. held by Edison S.p.A. is to be increased from 604 million to 684 million euro, thereby increasing the total payment for the 70% interest in Edipower S.p.A. from 804 million to 884 million euro.

The change in the sales price for 50% of the equity investment in TdE S.r.l. and of the purchase price for 70% of Edipower S.p.A. had no effect in terms of the financial reporting of the transaction on the consolidated annual report as at December 31, 2012.

Regarding the financing aspects, the payment for the sale of Transalpina di Energia S.r.l., in the amount of 784 million euro, was paid in full by the EdF Group as follows:

(i) 25 million euro paid to Delmi S.p.A. into an escrow account as specified in the agreement related to the price adjustment mechanism for the sale;

(ii) the remaining 759 million euro, rather than being paid directly to Delmi S.p.A. to in turn be used to make payment of the purchase price, were paid by the EdF Group under a payment authorisation in the amount of 200 million to Alpiq S.A. and of 559 million to Edison S.p.A..

Payment for the purchase of the 70% interest in Edipower S.p.A., in the amount of 884 million euro (684 million for the 50% equity interest in Edipower S.p.A. held by Edison S.p.A. and 200 million for the 20% equity interest held by Alpiq S.A.) was made as follows:

(i) 200 million euro to Alpiq S.A. and 559 million to Edison S.p.A. paid by the EdF Group by way of the payment authorisation as described above;

(ii) the remaining 125 million euro was paid to Edison S.p.A. by Delmi S.p.A. directly.

For the sake of full disclosure, on May 24, 2012, Delmi S.p.A. and Edipower S.p.A. defined a medium-term financing agreement with a number of leading Italian and international banks for a total of 1,246 million euro.

More specifically, the banks have provide term credit lines to Delmi S.p.A. for a total of 146 million euro with a duration of 5 years and on an amortising basis in order to help finance the acquisition. This was used to pay a portion of the price not covered by the payment authorisation given to the EdF Group, as described above, and by the price adjustment. The banks also granted a term credit line to Edipower S.p.A. in the amount of 1,050 million euro with a duration of 5 years and on an amortising to enable Edipower S.p.A. to repay the outstanding shareholder financing. In addition, Edipower S.p.A. was also granted a revolving line of credit with a limit of 50 million euro in order to help fund working capital.

This financing agreement calls for the merger of Delmi S.p.A. and Edipower S.p.A. to take place within 12 months of the execution date. The related deed of merger was drafted on December 18, 2012, and the merger was effective as of January 1, 2013.

It is also important to note that, in addition to the agreements finalised on May 24, 2012, the Consolidated annual report as at December 31, 2012, also shows the effects of the agreements signed by A2A S.p.A. with the financing shareholders of Delmi S.p.A., with Dolomiti Energia S.p.A. and with SEL S.p.A., which are described below.

a) Rights granted to the financing shareholders (i.e. Mediobanca, Fondazione CRT and Banca Popolare di Milano)

On May 24, 2012, A2A S.p.A., the other shareholders of Delmi S.p.A. and Iren Energia S.p.A. (a current shareholder of Edipower S.p.A.) signed a framework agreement concerning the governance of Edipower S.p.A. and its operating model. This framework agreement has a duration of 5 years and renews automatically unless expressly terminated.

Having terminated and replaced previous agreements between A2A S.p.A. and the other shareholders of Delmi S.p.A. concerning issues such as the organisation and functioning of Delmi S.p.A., this new framework agreement states that Delmi S.p.A. and Edipower S.p.A. are to be merged as soon as possible (in accordance with art. 2501-bis of the Italian civil code).The deed of merger of Delmi S.p.A. into Edipower S.p.A. was signed on December 18, 2012, and the merger was effective as of January 1, 2013.
The framework agreement also includes provisions regarding the circulation of Edipower S.p.A. shares (e.g. lock-up, pre-emptive, acceptance, right to joint sale and right to purchase clauses) and divestment by Edipower S.p.A..

As concerns this final point, beginning on the date of the third anniversary of the merger, the parties in the framework agreement shall come together to verify, in good faith, if there are

the conditions necessary in order to publicly list the shares in Edipower S.p.A., including by way of mergers with other publicly listed companies. In the event of public listing, the financing shareholders of Delmi S.p.A., i.e. Mediobanca, Fondazione CRT and BPM, shall have the right to give their own equity investments priority on the market over the other parties in the framework agreement.
Should the company not be publicly listed within 48 months of the effective date of the merger, Mediobanca, Fondazione CRT and BPM shall each have the right to liquidate their entire equity interest in Edipower S.p.A. in exchange for payment of the fair value of said investment, to be paid in kind by assigning a business unit to be selected by the board of directors of Edipower S.p.A.. Should this procedure not be completed, for whatever reason, within 50 months of the date of the merger, Mediobanca, Fondazione CRT and BPM shall each have a put option on the fair value of their share that can be exercised with the other shareholders of Edipower S.p.A. subsequent to the merger in proportion to the equity interest each shareholder owns in Edipower S.p.A..

The signing of the framework agreement and the rights consequently granted to the financing shareholders (i.e. Mediobanca, Fondazione CRT and BPM) have been deemed to be put options on non-controlling interests and have been recognised in accordance with IAS 32, paragraph.23.This standard states that a contract that includes an obligation for an entity to purchase shares in cash or in exchange for other financial assets gives rise to a financial liability equal to the present value of the option's strike price.

Therefore, the A2A Group has considered the shares involved in the put options to have already been purchased, even though others maintain the risks and benefits connected with ownership of the shares and A2A continues to be exposed to the related equity risk, and has seen to the initial recognition of the liability resulting from this obligation. Any subsequent changes in the liability that are not related to the mere unwinding of the present value of the strike price are to be recording among consolidated equity.

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

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

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

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

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

On May 24, 2012, A2A S.p.A. signed an option agreement with Società Elettrica Altoatesina (SEL) S.p.A. concerning a portion of the shares in Delmi S.p.A. or in Edipower S.p.A. as held following the merger of the two companies.

SEL S.p.A. currently holds a 10% equity interest in Delmi S.p.A. and will hold a 6.75% equity interest in Edipower S.p.A. following the merger with Delmi S.p.A..

The option agreement states that SEL S.p.A. will receive a put option and A2A S.p.A. will receive a call option on the shares held by SEL S.p.A. in Delmi S.p.A. (or in Edipower S.p.A. subsequent to the merger of the two companies).

SEL S.p.A. may exercise this put option during the 3-month period prior to May 24, 2017, and A2A S.p.A. may exercise the call option during that same 3-month period. The strike price of these options is made up of a fixed portion and a variable portion to be based on the fair value of the shares involved in the options as at the strike date.

On May 24, 2012, A2A S.p.A. and SEL S.p.A. also signed a consensual settlement and termination agreement regarding the option agreement the parties signed on July 7, 2005, as subsequently amended. As a result, the underlying carrying values shown on past financial statements have been eliminated as at December 31, 2012.

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

As a result of the agreements described under points (a), (b) and (c) above, the Annual Report as at December 31, 2012, shows a liability to Dolomiti Energia S.p.A., SEL S.p.A. and the financing shareholders of Delmi S.p.A., for the potential exercising of the put options on Delmi S.p.A. shares, totalling approximately 301 million euro. At the time of the initial recognition of the put options, the total value of 284 million was also recorded as a minority interest in equity. The subsequent increase of 17 million euro was recorded as equity attributable to the shareholders of the parent company.

d) Private agreement between A2A S.p.A., A2A Trading S.r.l., Iren S.p.A., Iren Energia S.p.A. and Iren Mercato S.p.A.

On May 15, 2012, A2A S.p.A., A2A Trading S.r.l., Iren S.p.A., Iren Energia S.p.A. and Iren Mercato S.p.A. signed a private agreement concerning the potential exit of the Iren Group from the ownership of Edipower S.p.A. and subsequently amended this agreement on May 21, 2012.Specifically, this private agreement grants A2A S.p.A. and Iren S.p.A. the right to request, during the months of January 2013 and January 2014, a spin-off from Edipower S.p.A., allocating to Iren S.p.A. and Iren Energia S.p.A. a collection of thermal and hydroelectric power generation assets of a value essentially equivalent to the share in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A..

Should execution of this spin-off not be possible, the private agreement grants a put option to Iren S.p.A. and Iren Energia S.p.A. and a call option to A2A S.p.A. regarding the equity interests in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A.. In the event that these options are exercised, Iren S.p.A. will acquire a number of thermal and hydroelectric power generation assets from Edipower S.p.A. of a value roughly equivalent to the equity interests in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A. and will transfer these equity interests to A2A S.p.A..

In accordance with this private agreement, and in order to enable Iren S.p.A. and Iren Energia S.p.A. to relinquish ownership of Edipower S.p.A., following the spin-off or the exercising of the options, A2A S.p.A. or one of its subsidiaries could be required to take over the 23% tolling share related to Iren Mercato S.p.A.. The private agreement also states that, should it not be possible to transfer the aforementioned equity interests that Iren S.p.A. and Iren Energia S.p.A. hold in Edipower S.p.A., the party not responsible for failure to carry out said transfer may also revoke the participation of Iren Mercato S.p.A. from the tolling agreement.

Regarding the recognition of this transaction, the rights granted to Iren S.p.A. and Iren Energia S.p.A. do not entail any obligation for the A2A Group to make any payment either in cash or in the transfer of other financial assets. Indeed, in the event that Iren S.p.A. exercises its rights, the A2A Group must provide a collection of assets as described in the private agreement (and a potential payment in cash of any balance) in exchange for the equity interests in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A.. For this reason, the Annual Report as at December 31, 2012, no liability has been recognised in relation to the exchange of options granted.

It should be noted that, on February 6, 2013, in conjunction with the presentation of the 2013-2015 business plan, the Iren Group announced its intention to exercise the put option that would result in the relinquishing of their shares in Edipower S.p.A. in exchange for the assignment of thermal and hydroelectric power generation assets.

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

e) Option granted to the Municipality of Varese for the sale of 9.8% of Aspem S.p.A. and 10% of Varese Risorse S.p.A.

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

Under the shareholder agreement dated January 15, 2009, between A2A S.p.A. and the Municipality of Varese, the latter had the right, but not the obligation, to sell (put option) to A2A S.p.A. 9.8% of the share capital of Aspem S.p.A. and 10% of the share capital of Varese Risorse S.p.A. (90% controlled by Aspem S.p.A.).

The Municipality of Varese could exercise its option after the expiry date of the period of non-transferability of the shares in Aspem S.p.A. and Varese Risorse S.p.A., which lasted for three years from the date of signing the shareholder agreement.

On December 19, 2012, the Municipality of Varese sold its 10% interest in Varese Risorse S.p.A to Aspem S.p.A., thereby exercising the option on those shares.

As at December 31, 2012, the Municipality of Varese still had the option to sell the 9.8% interest in Aspem S.p.A. to A2A S.p.A., and value of that option is based on the Aspem S.p.A. purchase value.

In line with paragraph 23 of IAS 32, the Group has booked to liabilities with associated counter entry under net equity, the present value of the estimated outlay which it will not be able to avoid if it exercises this option.

Highlights at December 31, 2012 and December 31, 2011 for joint ventures (consolidated at equity)

Summary figures at December 31, 2012 *Millions of euro*	Ecodeco Group companies 50% (*)	Metamer 50%
STATEMENT OF INCOME		
Revenues from the sale of goods and services	11.2	12.6
Gross operating income	**0.9**	**0.8**
% of net sales	*8.0%*	*6.3%*
Depreciation, amortization and write-downs	1.1	0.2
Net operating income	**(0.2)**	**0.6**
Net result for the year	**(3.4)**	**0.4**
Balance sheet		
Total assets	**13.6**	**6.0**
Shareholders' equity	**(1.6)**	**1.5**
Net debt	**(3.0)**	**1.7**

Summary figures at December 31, 2011 *Millions of euro*	Ecodeco Group companies 50% (*)	Metamer 50%
STATEMENT OF INCOME		
Revenues from the sale of goods and services	12.5	10.5
Gross operating income	**1.2**	**0.4**
% of net sales	*9.8%*	*3.8%*
Depreciation, amortization and write-downs	0.7	0.1
Net operating income	**0.5**	**0.3**
Net result for the year	**(0.3)**	**0.2**
Balance sheet		
Total assets	**13.6**	**6.3**
Shareholders' equity	**1.2**	**1.3**
Net debt	**(3.1)**	**2.0**

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

Accounting standards and valuation criteria

Translation of foreign currency items

The consolidated financial statements of the A2A Group are presented in euro; this is also the functional currency of the economies in which the Group operates. Transactions in other currencies are initially booked at the exchange rate applicable on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rate ruling on the annual report date.

Non-monetary items valued at historical cost in foreign currency are translated at the exchange rate ruling on the date when the transaction was first recorded. Non-monetary items shown at fair value are translated at the exchange rate ruling on the valuation date.

Tangible assets

Industrial buildings are booked under tangible assets, whereas non-industrial buildings are classified as investment property.

These are booked at historical cost, including any additional charges directly attributable to the asset and needed to bring it into service (e.g. transport, customs duty, installation and testing costs, notary and land registry office fees and any non-deductible VAT), increased by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the plant. Financial expenses, where directly attributable to the purchase or construction of the asset, are capitalised as part of the asset cost if the type of asset so warrants.

If important components of tangible assets have different useful lives, they are accounted for separately according to the “component approach”, giving each of them 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 they have 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 wholly expensed to the income statement in the year they are incurred. Maintenance costs which add to the value of an asset are attributed to it for

accounting purposes and depreciation charged in relation to the remaining useful life of the asset.
Assets held under finance leases, or by way of agreements which may not explicitly resemble a finance lease but otherwise substantially transfer all risks and benefits of ownership to the A2A Group, are recognised as group assets at either the fair value or the present value of outstanding lease instalments, whichever is the lower. The corresponding liability to the lessor is shown in the balance sheet under financial payables.
Tangible assets are shown net of accumulated depreciation and any write-downs. Depreciation is calculated from the year in which the individual asset enters service and is charged on a straight-line basis over the estimated useful life of the asset for the business. The estimated realisable value which is deemed to be recoverable at the end of their useful life is not depreciated. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.

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

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

- Buildings ____ 1.0% – 17.3%
- Production plants ____ 1.0% – 33.3%
- Transport lines ____ 1.4% – 100.0%
- Transformation stations ____ 1.8% – 33.3 %
- Distribution networks ____ 1.4% – 33.3 %
- Miscellaneaus equipment ____ 3.3% – 100.0%
- Mobile phones ____ 100.0%
- Furniture and fittings ____ 10.0% – 25.0%
- Electric and electronic office machines ____ 10.0% – 33.3%
- Vehicles ____ 10.0% – 25.0%
- Leasehold improvements ____ 12.5% – 33.3%

Tangible assets are subjected to impairment testing if there are specific signs that they have suffered a loss of value. This test will be carried out in accordance with the method explained in the paragraph below on “Impairment of assets”; any write-downs can be reversed in subsequent periods if the reasons for them no longer apply.
When an asset is disposed of or future economic benefits are no longer expected from using the asset, it is eliminated from the balance sheet and any gain or loss (i.e. the difference between the disposal value and the carrying value) is booked to the income statement in the year of the elimination.

Intangible assets

Intangible assets are identifiable non-monetary assets that cannot be seen, touched or physically measured, which are controlled by the enterprise and able to produce future economic benefits.
The fact of being identifiable is to distinguish 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 out or exchanged autonomously or as an integral part of other assets.
Control by the enterprise consists of the right to enjoy the future economic benefits deriving from the asset and the possibility of limiting access to it by others.
Intangible assets are reported in the financial statements at purchase or production cost, including ancillary charges, determined in the same way as for tangible assets. Intangible fixed assets produced internally are not capitalised but charged to income in the period in which the costs are incurred.

Intangible assets with a definite useful life are reported in the financial statements net of the related accelerated amortization and permanent loss in value 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 applied to intangible fixed assets with a definite useful life is charged to the income statement in the cost category that reflects the function of the intangible asset concerned.

Tangible assets are subjected to impairment testing if there are specific signs that they may have suffered a loss of value. This impairment test will be carried out in accordance with the method explained in the paragraph below on “Impairment of assets”; any write-downs can be reversed in subsequent periods if the reasons for them 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 specific signs that they have suffered a loss of value, using the methods explained below in the paragraph entitled “Impairment of assets”. Write-downs of goodwill cannot subsequently be written back.

Gains or losses on disposal of an intangible asset are calculated as the difference between the disposal value and the carrying value of the asset and are booked to 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, licences, and trademarks ______ 6.7 % – 33.3%

Service concession arrangements

IFRIC 12 states that, based on the characteristics of the concession arrangement, the infrastructures used in the provision of public services under concession are to be recognised among 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 government.

Impairment of tangible and intangible assets

Tangible and intangible assets are subjected to impairment testing if there are specific signs that they have suffered a loss of value.
Goodwill, other intangible assets with an indefinite useful life or assets not available for use are tested for impairment every year, or more frequently if there are signs that the assets may have suffered a loss in value.
Impairment testing consists of comparing the recoverable amount of the asset with its net book value.
The recoverable amount of an asset is the higher of its fair value, net of selling costs, 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, before tax, applying a pre-tax discount rate, which reflects current market valuations of the time value of money and the specific risks to which the asset is exposed.
If the recoverable amount of an asset is lower than the book value, a loss is booked to the income statement. If a loss has been reported for an asset, other than goodwill, is subsequently eliminated or reduced, the book value of the asset is raised up to the new estimate of recoverable value, but without it exceeding the value that the asset would have had without any impairment loss. Write-backs of impairment losses are booked immediately to the income statement.
When the recoverable value of the individual asset cannot be estimated, this value is based on the cash generating unit (CGU) or group of CGUs that the asset belongs to and/or with which it could reasonably be associated.
The CGUs have been identified according to the organisational and business structure, as homogeneous aggregations that generate independent incoming cash flows deriving from the continuous use of the assets attributed to them.

Emission quotas, Green Certificates and White Certificates

Different accounting policies are applied to quotas or certificates held for own use in the "Industrial Portfolio", and those held for trading purposes in the "Trading Portfolio".
Surplus quotas or certificates held for own use which are in excess of the company's requirements in relation to the obligations accruing at year end are booked to other intangible assets at the actual cost incurred. Quotas or certificates assigned free of charge on the other hand, are booked at a zero value. Given that they are assets for instant use, they are not amortised but subjected to an impairment test. The recoverable amount is the higher of its value in use and its 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, an estimate is made of the amount needed to meet the residual obligation based on 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 booked to inventories and measured at the lower of purchase cost and estimated realisable value based on market trends. Quotas or certificates assigned free of charge on the other hand, are booked at a zero value. Market value is established on the basis of any sales contracts, spot or forward, already signed at the balance sheet date; otherwise, on the basis of market prices.

Shareholdings in subsidiaries, associates and joint ventures

Subsidiaries are companies in which the parent company alone has the power to determine the strategic decisions of the business in order to obtain the associated benefits. Generally, this control is presumed to exist when a company holds either directly or indirectly more than half of exercisable voting rights at the general shareholders' meeting, also considering the so-called potential voting rights, i.e. voting rights deriving from convertible financial instruments.

Subsidiaries are consolidated line-by-line.

Associates are companies in which the parent has a significant influence on strategic decisions, albeit without overall control, also considering so-called potential voting rights, i.e. voting rights deriving from convertible financial instruments; a significant influence is presumed when A2A S.p.A. holds, either directly or indirectly, more than 20% of exercisable voting rights at the general shareholders' assembly.

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

Equity investments in associates and joint ventures are carried at equity in the consolidated financial statements.

Long-term construction contracts in progress

Long-term construction contracts currently in progress are valued on the basis of the contractual fees that have accrued with reasonable certainty, according to the stage of completion (known as "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 the advances received is booked respectively to the asset or liability side of the balance sheet.
In addition to the contractual fees, contract revenues include any variants, price revisions and incentive awards to the extent that probably represent actual revenues that can determined with a reasonable degree of reliability. Ascertained losses are recognised independently of the stage of completion of the contracts.

Inventories

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

Financial instruments

Financial assets and liabilities are accounted for as laid down in IAS 39 – "Financial instruments: recognition and measurement".
Financial instruments include trading investments and investments that are available for sale and non-current receivables and loans, trade and other receivables deriving from company operations, and other current financial assets such as cash and cash equivalents. They do not include investments in subsidiaries, joint ventures and associates. The latter include bank 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 recognised at the time that the contractual rights and obligations foreseen by the instrument arise.

Initially, all financial assets are recognised at fair value, including ancillary charges (purchase/issue costs) in the case of assets and liabilities not measured at fair value through profit and loss.

Measurement subsequent to initial recognition depends on which of the following categories the financial instrument is classified as:

- non-derivative financial assets and liabilities at fair value through profit and loss include:
  - financial assets and liabilities held for trading (HFT), i.e. with the intention of repurchasing or reselling them in the short term;
  - financial liabilities which on initial recognition have been designated as being at fair value through profit and loss;
- other non-derivative financial assets and liabilities, including:
  - loans and receivables (L&R);
  - investments held to maturity (HTM);
  - financial liabilities valued 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 fair value financial assets and liabilities booked to the Income Statement are measured at fair value) with any changes also booked to the income statement;
- other non-derivative financial assets and liabilities with fixed or determinable payments other than investments, are valued at amortised cost. Any transaction costs incurred during the acquisition or sale are adjusted directly on the nominal value of the asset or liability (e.g. issue premium or discount, loan acquisition costs, etc.). Financial income and charges are then re-measured on the basis of the effective interest rate method. Financial assets are assessed regularly to see if there are any signs that they have suffered impairment. In the assessment of receivables in particular, account is taken of the solvency of the creditors, as well as the characteristics of credit risk, which is indicative of the individual payment capacity of the individual debtors. Any impairment losses are booked as a cost to the income statement. This category includes the investments held with the intent and the capacity for them to be held to maturity, non-current loans and receivables, trade receivables and other receivables originated by the assets 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 and recognized in 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 booked directly to equity until they are written-down or sold, at which stage they are transferred to the income statement. Losses booked directly

to equity are in any case reversed and booked to the income statement, even if the financial asset has not been eliminated, if there is objective evidence that the asset has suffered impairment. Unlisted investments with a fair value that cannot be reliably measured, on the other hand, are valued at cost less any impairment losses. Their value is restated in future years if the reasons for the write-down no longer apply, except for write-downs of equity instruments. This category essentially includes the other investments (i.e. not subsidiaries, joint ventures or associates), except for those held for trading (trading investments);

- derivative instruments including embedded derivatives separate from the main agreement, are measured at the current value (fair value) and any changes booked to the income statement in the event they are not eligible to be classed as hedge instruments. Derivatives are classified as hedges when the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedge is high, this being checked periodically. When hedge derivatives cover the risk of fluctuation in the fair value of hedged items (fair value hedge), the derivatives are reported at their fair value and the relative effects reflected in the income statement; consistent with this, the hedged items are adapted to reflect variations in fair value of the hedged risk. When derivatives hedge the risk of changes in the cash flows generated by the instruments being hedged (cash flow hedges), the effective portion of changes in the fair value are booked to equity, while the ineffective portion is charged to the income statement. The amounts booked directly to equity are reflected in the income statement in line with the economic effects produced by the item being hedged.

If it is not possible to apply hedge accounting, any gains/losses resulting from the fair value assessment of the derivative instrument are booked to the income statement.

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

- contractual rights to receive cash flows come to an end or expire; in particular, the time frame for de-recognition is related 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) if it has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control over it.

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 over it, the Company continues to recognise the asset to the extent to which it has a continuing involvement in the asset. A continuing involvement that takes the form of a guarantee over the asset that has been transferred is measured at the lower of the initial book value of the asset and the maximum amount that the Company might have to pay. Trade receivables considered definitively unrecoverable after all the necessary recovery procedures have been completed are also eliminated from the balance sheet.

A financial liability is removed from the balance sheet when the obligation specified in the contract is either discharged, cancelled, or expired.
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 transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised 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 recognised valuation methods. The valuation of financial derivatives for electricity at fair value, in the absence of a forward market curve, 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 book value will be recovered principally by being sold off rather than being continuously used, are valued at the lower of net book value and fair value, net of selling costs. A disposal group is understood as being a series of assets and liabilities that are directly correlated and likely to be sold off as part of a single transaction. Discontinued operations, on the other hand, consist of a significant portion of the Group, such as an important independent business division representing an activity or geographical area of activity, or a subsidiary bought exclusively with a view to reselling it.
In accordance with IFRS, the figures for non-current assets held for sale, disposal groups and discontinued operations are shown on two specific lines in the balance sheet: assets held for sale and liabilities directly associated with assets held for sale.
With exclusive reference to discontinued operations, the net economic results made by them during the disposal process, any gains or losses on disposal and the corresponding comparative figures for the previous year or period are shown on a specific line in the income statement: net income (loss) on discontinued operations and assets held for sale.

Employee benefits

Severance indemnities (TFR) and pension provisions are determined using an actuarial method; the rights accrued by employees during the year are booked to the income statement under "labour cost", whereas the figurative financial cost that the company would have to bear were it to ask the market for an loan of the same amount as TFR is booked to net financial income (charges). The actuarial gains and losses, which reflect the effects of changes in the actuarial assumptions are booked to the statement of comprehensive income, taking into account the residual average useful life of the employees.
Pursuant to the Italian Finance Law No. 296 of December 27, 2006, only the portion of accrued severance indemnities that remained in the company has been valued according to IAS 19, as indemnities 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 have any obligations in connection with the services that employees will render in the future.
Guaranteed employee benefits paid on or after termination of employment through defined-benefit plans (energy discount, health care or other benefits) or long-term benefits (fidelity bonus) are recognised in the period when the right accrues.
The liability relating to defined-benefit plans, net of any assets that exist to service the plan, is determined by independent actuaries on the basis of actuarial assumptions and booked on an accrual basis in line with the work needed to be done to obtain the benefits.
Gains and losses deriving from actuarial calculation (with the exception of long-term benefits related to the fidelity bonus) are charged to the comprehensive statement of income; actuarial gains and losses generated by the fidelity bonus are charged to the statement of income under current financial investments.

Provisions for risks, charges and liabilities for landfills

The provisions for risks and charges concern costs of a determined nature that definitely or probably exist, but which at the balance sheet date are uncertain in terms of amount or timing. Such provisions are recognised when there is a current liability (legal or implicit), deriving from a past event, if it is likely that resources will have to be spent to satisfy the liability and it is possible to make a reasonable estimate of the amount of the liability.
Provisions are booked for an amount that represents the best estimate of the amount that the Company would have to pay to extinguish the liability, or to transfer it to third parties, as of the balance sheet date. If the effect of discounting is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects a current market valuation of the cost of money over time. If discounting is applied, the increase in the provision due to the passing of time is booked as a financial expense.

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

Treasury shares

Treasury shares are booked as a reduction of equity. The par value of the treasury shares is booked as a separate item as a reduction of shareholders' equity.

Grants

Grants, both from public entities and from external private entities, are booked at fair value when there is reasonable certainty that they will be received and that the Company will be able to comply with the terms and conditions for obtaining them.
Contributions received to help cover the cost of specific items of tangible assets are booked as a direct reduction of the assets concerned and credited to the income statement over the period of depreciation of the assets to which they refer.
Operating grants (given to provide the company with immediate financial aid or as compensation for costs or losses incurred in a previous accounting period) are charged in their entirety to the income statement as soon as the conditions for booking the grants are satisfied.

Revenues and costs

Revenues from sales 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 be enjoyed, with the transfer of all significant risks and benefits normally deriving from the asset or on completion of the service. . Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognised at the time that the energy is supplied or the service rendered, even if they are still to be invoiced, and determined by integrating those based on pre-established meter-reading calendars with suitable estimates of consumption. These revenues are based, when applicable, on the tariffs and related tariff restrictions foreseen by current law and by the Italian Authority for Electricity and Gas and equivalent organisation abroad, in force during the period of reference;
- connection contributions paid by users, if not for costs incurred to extend the network, are book to income on collection and shown under "revenues from services";

- the revenues billed to users for an extension of the gas network are accounted for as a reduction in the value of tangible assets, being recognised to the income statement as a reduction in depreciation over the useful life of the cost capitalised 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 foreseen in the related purchase or sale contract;
- revenues from the provision of services are recognised according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to establish the value of revenues on a reliable basis, they are recognised up to the amount of the costs incurred, providing they are expected to be recovered;
- revenues from the sale of certificates are booked at the time of sale.

Revenues are booked net of returns, discounts, allowances and bonuses, as well as directly related taxes.
The costs relate to goods or services sold or consumed during the year or as a result of systematic allocation; if it is not possible to see any future use for them, they are charged directly to income.

Financial income and expenses

Financial income is recognised pro-rata when interest income arises using the effective interest method, i.e. at the rate which discounts the expected future financial flows exactly, based on the expected life of the financial instrument.
Financial expenses are recognised on an accrual basis and booked to the income statement at the amount of the effective interest.

Dividends

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

Income taxes

Current taxes

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

Deferred tax assets and liabilities

Prepaid and deferred tax is calculated on the basis of temporary timing differences between the values given to assets and liabilities in the balance sheet and the corresponding values recognized for tax purposes, with the exception of goodwill which is not deductible for the purposes of tax and any differences resulting from investments in subsidiaries which are expected to remain in future years. . The rates applied as those expected at the time of the temporary timing differences. Deferred tax assets are recognised to the extent that there will probably be sufficient taxable income in the future to absorb them. The book value of deferred tax assets is reduced to the extent that it is no longer probable that the tax benefit will be realised. The valuation of deferred tax assets takes account of the planning period for which corporate plans are available.
When the results are booked directly to equity, the current taxes, deferred tax assets and deferred tax liabilities are also booked directly to equity. The deferred tax liabilities on profits not distributed by Group companies are only provided for if there is a genuine intention to distribute such profits and, in any case, if the taxation is not offset against a consolidated tax loss.
Assets generated through advance taxation and liabilities arising from deferred taxation are posted as non-current assets and liabilities.
Taxes can be offset when they are levied by the same tax authority, when there is legal entitlement to compensation and when liquidation of the net balance is expected.

Use of estimates

Preparing the financial statements and notes required the use of estimates and assumptions both in the recognition of certain assets and liabilities and in the measurement of contingent assets and liabilities. The actual results after the event could differ from such estimates.
Estimates have been used in impairment testing, to determine certain sales revenues, in provisions for risks and charges, in provisions for receivables and other write-downs, amortization and depreciation, the valuation of derivatives, employee benefits and taxes. The underlying estimates and assumptions are regularly revised and the impact of any change is booked immediately to 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 subsequently have a material impact on the results.

Impairment Testing

The book value of non-current assets (including goodwill and the other intangible assets) and of the assets available for sale is checked periodically and any time the circumstances or events require them to be checked more often. If it is felt that the book value of a group of non-current assets has suffered an impairment, it is written down to its recoverable value, which is estimated according to its use and future sale, depending on what was established in the company's latest plans. Management is of the opinion that the estimates of these recoverable values are reasonable, even though possible changes in the factors underlying the estimates on which these recoverable values have been calculated could produce different assessments. For further details on the methods of carrying out impairment testing and its results, reference should be made to the specific paragraph below.

Revenue recognition

Revenues from sales to retail and wholesale customers are recognised on an accruals basis. Revenues from sales of electricity, gas and water to customers are recognised when the supply takes place, based on periodic meter readings; they also include an estimate of the value of electricity and gas consumption from the date of the last reading to the end of the period of reference. Revenues from the date of the last reading and the end of the period are based on estimates of customers' daily consumption, according to their historical profile and adjusted to reflect weather conditions or other factors that may affect the consumption being estimated.

Provisions for risks and charges

In certain circumstances, it is not at all easy to identify whether a current (legal or implicit) obligation exists. The directors evaluate these situations case by case, together with an estimate of the resources required to fulfil 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 indicated in the section on commitments and contingent liabilities, without making any provision.

Bad debts provision

The provision for receivables write-downs reflects estimated losses in the Group's receivables portfolio. Provisions have been made to cover specific cases of insolvency as well as estimated losses expected on the basis of past experience with credits of similar credit risk.

Even though the provision is considered adequate, the use of different hypotheses or changes in prevailing economic conditions, even more so in this period of recession, could give rise to changes in the provision receivables write-downs.

Depreciation and amortization

Depreciation and amortization are a significant cost for the Group. Non-current assets are depreciated or amortised each year on a straight-line basis over the useful life of the assets. The useful life of the Group's non-current assets is established by the directors, with the assistance of expert assessors, at the time they are purchased. The Group periodically evaluates technological and sector developments, dismantling/closure charges and the recovery value as assets to update their residual useful life. This periodic update could entail a change in the period of depreciation or amortization and hence also the depreciation/amortization charge in future years.

Valuation of derivatives

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 offer official, liquid forward prices. If the market does not offer forward prices, forecast price curves are used based on simulation models developed by group companies internally. However, the effective results of derivatives could differ from the initial estimates made.
The serious turbulence in markets for the energy commodities traded by the Group, as well the fluctuations in exchange and interest rates could lead to greater volatility in cash flows and in expected results.

Employee benefits

The calculations of these expenses and the related liabilities are based on actuarial assumptions. The effects of any changes in these actuarial assumptions are recognised in a specific equity reserve, with the exception of employee benefits related to loyalty bonuses, the changes in which are recognised through profit or loss.

Business combination

Reporting the operations of business combinations is done in accordance with revised IFRS 3 and entails attributing the difference between the purchase cost and net book value to the assets and liabilities of the acquired company. For the majority of assets and liabilities, this difference is attributed by reporting the assets and liabilities at fair value. If positive, and assuming the proper conditions are met, the portion not attributed is recognised as goodwill.

If negative, it is recognised on the income statement. The A2A Group bases its attributions on information available and, for key business combinations, on external assessments. For information on the business combinations carried out during the year, see the section "Other information".

Current taxes and the future recovery of deferred tax assets

The uncertainties that exist regarding the correct way of applying certain tax regulations have involved the Group taking an interpretative stance when providing for current taxes in these 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 income expected to be generated in future years. The measurement of expected income for the purpose of accounting for deferred taxation depends on factors that can vary over time and lead to significant effects on the measurement of deferred tax assets.

Earnings per share

Earnings per share is calculated by dividing the income/(loss) attributable to the shareholders of the parent company by the weighted-average number of shares outstanding during the year. In order to calculate diluted earnings per share, the weighted-average number of shares outstanding is adjusted by assuming the conversion of all shares and other financial instruments that could have a diluting effect.

Consolidated Annual Report for 2012

Accounting standards and valuation criteria

Areas of activity

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

Sectors of the A2A Group

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

This breakdown into sectors reflects the structure of the reports that are regularly examined by management and the Management Board to manage and plan the Group's business.

Results sector by sector

Millions of euro	Energy		Environment	
	01 01 12 12 31 12	**01 01 11 12 31 11**	**01 01 12 12 31 12**	**01 01 11 12 31 11**
Revenues	**5,306**	**4,905**	**810**	**823**
- of which inter-sector	*185*	*155*	*59*	*34*
Gross industrial operating income	541	336	267	287
Impact of legislation and regulations			(48)	
Gross operating income	**541**	**336**	**219**	**287**
% of revenues	*10.2%*	*6.9%*	*27.0%*	*34.9%*
Depreciation, amortization, provisions and write-downs	**(320)**	**(248)**	**(75)**	**(108)**
Net operating income	**221**	**88**	**144**	**179**
% of revenues	*4.2%*	*1.8%*	*17.8%*	*21.7%*
Financial balance				
Non-operating income/expense				
Income before taxes				
Income taxes				
Result after taxes from operating activities				
Net result from non-current assets held for sale				
Minority interests				
Group net profit for the year				
Gross investments ([1])	**2,216 (a)**	**32**	**48**	**35**

The table above shows changes in the gross operating income for each business sector, as well as the impact on each sector of prudential adjustments to earnings as a result of recent amendments (or proposed amendments) to legislation and regulations.

(1) See "Tangible Assets" and "Intangible Assets" in Notes to the balance sheet.

(*) January - December 2011 values provided for comparison purposes have been reclassified to reflect application of IFRS5 and remeasured after application of Revised IAS 19 "Employee benefits".

(a) Includes the effect of first-time consolidation of the EPCG Group for 2,113 million euro.

(b) Include the acquisition of Tecnovalore business assets for 7 million euro.

Millions of euro	Energy		Environment	
	12 31 12	**12 31 11**	**12 31 12**	**12 31 11**
Tangible assets	3,960	2,171	460	477
Intangible assets	63	57	36	37
Trade receivables and current financial assets	1,578	1,903	272	256
Trade payables and current financial liabilities	1,265	1,606	209	176

Heat & Services		Networks		Other Services and Corporate		Eliminations		Total Group	
01 01 12 12 31 12	01 01 11 12 31 11	01 01 12 12 31 12	01 01 11 12 31 11	01 01 12 12 31 12	01 01 11 12 31 11	01 01 12 12 31 12	01 01 11 12 31 11	01 01 12 12 31 12	01 01 11 12 31 11 (*)
326	**298**	**685**	**684**	**250**	**237**	**(897)**	**(817)**	**6,480**	**6,130**
42	*33*	*381*	*374*	*230*	*221*	*(897)*	*(817)*		
69	67	252	259	(7)	(25)			1,122	924
4		(10)						(54)	
73	**67**	**242**	**259**	**(7)**	**(25)**			**1,068**	**924**
22.4%	*22.5%*	*35.3%*	*37.9%*	*(2.8%)*	*(10.5%)*			*16.5%*	*15.1%*
(34)	**(33)**	**(107)**	**(113)**	**(31)**	**(30)**	**-**	**(94)**	**(567)**	**(626)**
39	**34**	**135**	**146**	**(38)**	**(55)**	**-**	**(94)**	**501**	**298**
12.0%	*11.4%*	*19.7%*	*21.3%*	*(15.2%)*	*(23.2%)*			*7.7%*	*4.9%*
								(180)	**(258)**
								(3)	**(4)**
								318	**36**
								(128)	**(147)**
								190	**(111)**
								81	**(808)**
								(11)	**496**
								260	**(423)**
56 (b)	**57**	**123**	**119**	**30**	**28**	**-**	**-**	**2,473**	**271**

Heat & Services		Networks		Other Services and Corporate		Eliminations		Total Group	
12 31 12	12 31 11	12 31 12	12 31 11	12 31 12	12 31 11	12 31 12	12 31 11	12 31 12	12 31 11
492	471	1,343	1,456	221	220	(106)	(110)	**6,370**	**4,685**
38	163	1,364	1,364	83	79	(191)	(197)	**1,393**	**1,503**
148	182	401	341	113	309	(578)	(800)	**1,934**	**2,191**
114	174	275	305	702	560	(580)	(798)	**1,985**	**2,023**

Notes to the balance sheet

Changes in the scope of consolidation since December 31, 2011

The scope of consolidation at December 31, 2012 differs from that at December 31,2011 due to the purchase by Delmi S.p.A. of 70% of the share capital of Edipower S.p.A., and the simultaneous sale of the 50% shareholding in Transalpina di Energia S.r.l.. More specifically, Edipower S.p.A., which was previously consolidated using the equity method, was consolidated on a line-by-line basis at December 31, 2012 while Transalpina di Energia S.r.l., which was previously classified in accordance with IFRS 5 as “Non-current assets held for sale”, has left the consolidation scope.

Other changes in the scope of consolidation include the sale of the shareholding in A2A Coriance S.a.s., previously consolidated line-by-line, which resulted in the Coriance Group leaving the consolidation area; the sale of the shareholding in e-Utile S.p.A., carried at equity in the consolidated accounts; the sale of the shareholding in Metroweb S.p.A., also carried at equity for the purposes of consolidation and part of the put option on the shareholding held in the company resulting from the conversion of the convertible bond loan held by A2A S.p.A , exercised at the same time as the first portion of shares were sold.

ASSETS

Non-current assets

1) Tangible assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes during the year						Balance at 12 31 2012
			Invest-ments/ Acquisi-tions	Other changes	Disposals and sales	Write-downs	Deprecia-tion	Total changes	
Land	244		4	1				5	249
Buildings	818	305	4	(21)	(1)	(1)	(40)	(59)	1,064
Plant and machinery	3,130	1,300	110	649	(22)		(351)	386	4,816
Industrial and commercial equipment	39	2	5	(1)			(5)	(1)	40
Other Assets	59	2	10	3	(1)		(15)	(3)	58
Landfills	11		5	1			(3)	3	14
Assets held under concession	297	418		(715)				(715)	
Construction in progress and advances	66	80	133	(168)	(1)	(1)		(37)	109
Leasehold improvements	12		3				(2)	1	13
Leased assets	9		1	(2)			(1)	(2)	7
Total	**4,685**	**2,107**	**275**	**(253)**	**(25)**	**(2)**	**(417)**	**(422)**	**6,370**
of which:									
Historical cost	7,658	2,107	275	(253)	(48)	(2)		(28)	9,737
Accumulated depreciation	(2,973)				23		(417)	(394)	(3,367)

"Tangible assets" amounted to 6,370 million euro (4,685 million euro at December 31, 2011), an increase of 1,685 million euro.

The following changes were seen during the year:

- an increase of 2,107 million euro resulting from the first-time consolidation of Edipower S.p.A.;
- increase of 275 million euro due to investments during the year, as described in more detail later;
- decrease of 253 million euro due primarily to the reclassification of Edipower S.p.A. assets held for sale, as explained in more detail at note 12 "Non-current assets held for sale";
- reduction of 25 million euro due to alienation after depreciation, 1 million euro of which arose from the sale of A2A Coriance S.a.s., which owns 100% of the share capital of the Coriance Group;
- decrease of 2 million euro due to write-downs in the period;
- reduction of 417 million euro, attributable to depreciation in the period.

Investments may be analyzed as follows:

- 99 million euro for the energy sector, which included: 16 million euro for work on the Monfalcone power station and Calabria plants; 35 million euro for work on the Cassano d'Adda, Braulio, Premadio, Lovero, Stazzona and Grosio power stations; 4 million euro for work on the Gissi plant; 38 million euro for investments by Edipower S.p.A.; 6 million euro for investments by the EPCG Group;

- investments of 52 million euro in the heat sector concerned the development of the district heating networks (37 million euro), the acquisition of "Tecnovalore" business assets by the subsidiary A2A Calore e Servizi S.r.l. (3 million euro), and extraordinary maintenance and development on the plants in Milan, Brescia and Bergamo (12 million euro);
- investments in the environmental sector, totalling 48 million euro, involved work on the waste-to-energy plants (9 million euro), development and maintenance work on other waste processing and disposal plants (27 million euro), as well as the acquisition of waste collection equipment (3 million euro) and vehicles (9 million euro);
- investments in the networks sector totalled 70 million euro (of which 24 million euro by the EPCG Group) and focused primarily on the development and maintenance of electricity distribution systems, the extension and reconstruction of medium and low-voltage network, the installation of new electronic meters, the upgrading of primary plants, and work on the gas transportation network;
- investments in the services sector amounted to 6 million euro, 4 million of which was for optic fiber cabling, maintenance work on buildings in Milan, Brescia and Bergamo and the purchase of office equipment and furnishings; 2 million euro was invested by the EPCG Group.

Tangible assets include "Leased Assets" totalling 7 million euro, recognised in accordance with IAS 17. The residual principal due to leasing companies at December 31, 2012 amounted to 4 million euro.

2) Intangible assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes during the year						Balance at 12 31 2012
			Invest-ments/ Acquisi-tions	Other changes	Reclass.	Disposals and Sales	Write-downs	Total changes	
Industrial patents and intellectual property rights	21	4	10	19			(19)	10	35
Concessions, licences, trademarks and similar rights	864		51	3	(116)		(50)	(112)	752
Assets in progress	25	2	20	(23)				(3)	24
Other intangible assets	13			3			(3)		13
Goodwill	580		4	(4)	(11)			(11)	569
Total	**1,503**	**6**	**85**	**(2)**	**(127)**		**(72)**	**(116)**	**1,393**

"Intangible assets" amounted to 1,393 million euro at December 31, 2012 (1,503 million euro at December 31, 2011) which was a decrease of 110 million euro compared to the figure reported at the end of the previous year.

Note that with the application of IFRIC 12 from the start of the 2010 financial year, intangible assets also include the value of third party assets held in concession for the distribution of gas, the integrated water cycle and district heating networks.

The following changes were seen during the year being reported:

- increase of 6 million euro resulting from the first-time consolidation of Edipower S.p.A.;
- increase of 85 million euro due to investments in the period;
- decrease of 2 million euro for other variations;
- decrease of 127 million euro due to alienation after amortization, 126 million euro of which arose from the sale of A2A Coriance S.a.s., which wholly owns the Coriance Group;
- reduction of 72 million euro, attributable to amortization charged off in the period.

More specifically, investments relate to the following items:

- "Industrial patents and intellectual property rights" for 10 million euro, mainly relating to the new project to physically separate databases, CRM software, the receivables management system, expansion and integration of information systems of A2A Group companies and the revamping of the A2A S.p.A. website.
- "Concessions, licences, trademarks and similar rights" amounting to 51 million euro, and involving:
  - development and maintenance work on gas distribution plants in order to connect new users, and to replace medium and high pressure underground pipes for a total of 39 million euro;
  - work on the water transportation and distribution network as well as sewerage and treatment plants, totalling 9 million euro;
  - other investments totalling 3 million euro;
- "Assets in progress" for 20 million euro, 2 million of which represents investments made by Edipower S.p.A. primarily to develop newIT projects and the development and maintenance of water cycle supply networks;
- The year-end figure disclosed for "Goodwill" does not include any investments, as the 4 million euro resulting from the acquisition by the subsidiary A2A Calore & Servizi S.r.l. of "Tecnovalore" business assets and shown in A2A Group interim reports, was booked under tangible assets are required by IFRS3.

"Other intangible assets" also include the value of Customer Lists, which refer to customer portfolios acquired by Group companies. These balances are amortized on the basis ofthe estimated benefits expected to be obtained in future years. More specifically, the reported value of 8 million euro relates mainly primarily to the amount paid in previous years by subsidiaries for the acquisition of customers of the business acquired from ENEL in 2003 relating to a portion of the networks and customers of the city and province of Brescia, the value of the customers acquired in the gas sector and the valuation of the customer portfolio of the subsidiary Aspem Energia S.r.l..

Goodwill

Millions of euro	Balance at 12 31 2011	Changes during the year				Balance at 12 31 2012
		Invest-ments	Other changes	Write-downs	Total changes	
Goodwill	580	4	(15)		(11)	569
Total	**580**	**4**	**(15)**	**-**	**(11)**	**569**

"Goodwill" decreased by 11 million euro over December 31, 2011 as a result of the Coriance Group's departure from the scope of consolidation.

In identifying Cash Generating Units, we took into consideration the operating stucture and strategic reporting analysed by the company's management in order to understand the operational performance of the A2A Group.

In preparing the impairment tests for each Cash Generating Unit, we took into consideration both the balance sheet figures of each Cash Generating Unit at December 31, 2012 as well as the figures included in the Group strategic plan drawn up by management.

Two different methods were used as alternatives in the impairment test to determine the recoverable value of the assets or CGUs, as described in more detail in the section entitled "Accounting Standards and Valuation Criteria":

- the "value in use", which was determined by discounting the future cash flows of the Cash Generating Unit relating to:
  a) the ongoing use of the Cash Generating Unit up to the end of its useful life;
  b) the decommissiong of the Cash Generating Unit at the end of its useful life.
  These cash flows were discounted at the date of the financial statements using an appropriate discount rate, which is shown below for each Cash Generating Unit;
- the fair value of the Cash Generating Unit, which was determined using the following methods:
  a) discounted cash flow (DCF), as a basis, as this is the method used for any valuation of a company or transaction; this approach has the advantage of being neutral with respect to contingent situations that may be found in the ambit of specific transactions;
  b) as a control method, we used the estimates provided by the analysts of international investment bankers and brokers as part of their equity research on A2A S.p.A..

"Goodwill" at December 31, 2012 may be analyzed as follows:

CGU - *Millions of euro*	
Electricity networks	271
Environment	232
Gas networks	38
Gas	7
Heat Italy	21
Total goodwill at 31 December, 2012	**569**

Impairment test in accordance with IAS 36 on the value of goodwill and tangible and intangible assets

The impairment test carried out as required by IAS 36 did not result in the need to make any write-downs. The impairment test was carried out for the value of goodwill by verifying the relative Cash Generating Units (CGU).

The decision was taken to extend impairment testing to the other main Cash Generating Units in the Group with no goodwill from the start of 2012. This decision to extend testing was made in the interests of prudence, to reflect in particular the stock exchange values which have been showing a lower overall capitalization from late 2011 compared to the associated book net equity value, not to mention the general downturn in the national economy. More specifically, the most significant group assets are the Electricity CGU and EPCG, as described in more detail later in this report.

IAS 36 says that goodwill, being an intangible asset with an indefinite useful life, is not to be amortised systematically, but submitted to an impairment test at least once a year. Given that goodwill does not generate independent cash flows nor can it be sold independently, IAS 36 states that the recoverable value of goodwill shown in the balance sheet can be estimated on a residual basis, using - depending on the situation - the lower of the fair value, net of selling costs, or the value in use of a series of assets that make up the Cash Generating Unit(s) to which they belong.

The fair value, net of selling costs, of a cash generating unit (or groups of CGUs) is the amount, based on the best information available, that would be obtainable from the sale of the unit in a bargained transaction between knowledgeable, willing parties.

The "value in use" of a cash generating unit (or groups of CGUs) is the discounted present value of estimated future cash flows expected to arise from the continuing use of the unit, and from its disposal at the end of its useful life. Value in use is calculated by using the discounted Cash Flow method, which provides for an estimate of the future cash flows, discounting them at an appropriate discount rate.

Management has prepared its gross margin forecasts on the basis of reasonable and tenable assumptions that reflect the value of the cash generating unit (or groups of CGUs) in its current conditions, which also represent the best possible estimate of the economic conditions that are likely to exist over its residual useful life.

The following elements were taken into consideration in determining the value in use:

- future cash flows for a period not exceeding five years estimated by management, based on the most recent forecasts, that represent the best possible estimate of the economic conditions that are likely to exist over its residual useful life;
- the cash flows after this time horizon, estimated by assuming a zero rate of growth, unless a higher rate is justified (though it should in any case be lower than the average medium to long-term rate of growth of the products, industrial sectors, countries and markets in which the company operates;
- the terminal value, in other words the cash flow deriving from disposal at the end of the useful life of the asset, estimated in the interests of prudence for each of the cases examined, as zero or the sum of the net book value of tangible assets, net working capital and provisions, or as the current value of cash flows;
- future cash flows are based on the medium term industrial plan for 2013-2015, approved in November 2012, and on long-term forecasts made by company management considering future economic and operating conditions. In a number of cases, forecasts were made over longer periods, extending beyond 5 financial years to take into account the specific nature of some CGUs;
- the discount rate is set to reflect current market valuations for the present value of money and specific risks related to the business. It has been estimated on a consistent basis with the cash flows being considered by determining the weighted average cost of capital (WACC).

In keeping with the current regulations governing the Robin Hood Tax, from 2014 the additional affect of IRES, amounting to 4% for 2013, has been deducted from these rates; the decision was also taken to stop accounting for the effect of this additional charge from 2021. The different structure of the cost of debt arising from the corporate restructuring was also taken into consideration when calculating discount rates.

These rates were raised further to allow for the estimated amount recoverable from cash flows generated by operations for which country risk is recognized differentially as compared to Italy: for operations in Montenegro in particular.

The following is a summary of the goodwill attributable to the individual Cash Generating Units, specifying for each the type of recoverable value considered, the discount rates and the time scale of the relative cash flows.

CGU with Goodwill *Millions of euro*	**Value at 12 31 2012**	**Recoverable amount**	**WACC 2012 (1)**	**Value at 12 31 2011**	**WACC 2011 (1)**
Electricity networks (*)	271	Value in use	8.86%	271	10.03%
Environment	232	Value in use	8.47%	232	10.09%
Gas networks (*)	38	Value in use	5.88%	38	7.87%
Gas (*)	7	Value in use	9.91%	7	10.64%
Heat - Italy	21	Value in use	8.60%	21	9.49%
Heat France	–	Fair value	–	11	7.44%
	569			**580**	

(1) Pre-tax discount rate applied to future cash flows.
(*) For years 2012-2013, the WACC values considered include the effect of the so-called Robin Hood tax.

Figures for the Electricity CGU are provided below along with the relative discount rates used.

CGU without Goodwill *Millions of euro*	**Values in at 12 31 2012**	**WACC 2013**	**WACC 2014-2020**	**WACC after 2020**	**Recoverable amount**
Electricity	3,636	6.60	6.75	7.00	Value in use

"Electricity Networks" Cash Generating Unit

The goodwill arising on the acquisition of ENEL Distribuzione S.p.A.'s business units by A2A Reti Elettriche S.p.A., totalling 271 million euro, was subjected to impairment testing to calculate the recoverable amount on the basis of the value in use.

In the interests of full disclosure, we would like to point out that when determining value in use, we took into consideration a time horizon up to the expiry date foreseen in the concession for the distribution of electricity in the Municipalities of Milano, Rozzano and municipalities in the province of Brescia. This Cash Generating Unit has also been allocated the goodwill relating to the public illumination contracts with the Municipality of Bergamo for a value of 4 million euro, which is part of the goodwill that arose on the merger between BAS S.p.A. and A2A S.p.A..

No impairment loss was identified as a result of this test as the maximum recoverable amount is higher than the book value of the goodwill posted.

"Environmental" Cash Generating Unit (previously Ecodeco and Aprica Cash Generating Unit)

Under the new strategic guidelines approved in November 2012 by the Group's executive body, A2A S.p.A decided to start integrating operations carried out in the waste sector.

The intention is to bring together waste collection and disposal, and energy recovery into the same company which will wholly own all companies working in these fields.

Management believes this will create a number of opportunities and benefits, as well as present much potential for synergies.

The A2A Group's list of Cash Generating Units then had to be changed to include the Environmental Cash Generating Unit, which replaces and incorporates the previous Ecodeco and Aprica Cash Generating Units.

The new organisation, which did not make any major difference to the outcome of the impairment test, simplified the criteria used to define Cash Generating Units in the Environmental Sector, and introduced a more operations-based rationale.

Indeed, as a result of this integration, A2A S.p.A inevitably had to review CGUs linked to the related waste management activities; this led to the decision to identify a single Environmental CGU incorporating all activities carried out in this sector. In this regard, the A2A Group made a number of change to the internal organisational structure during 2012 (setting up specific committees, procedures and reports) in order to integrate the operations and capitalize on the associated benefits.

The A2A Group Environmental CGU therefore provides waste collection and street-sweeping services, and waste processing, disposal and conversion through the Ecodeco Group; it also builds waste processing plants as an external contractor.

Furthermore, the Group has operations in the solid urban waste (SUW) sector, also handling special and hazardous waste, waste collection and street-sweeping in the cities of Milan, Brescia and Bergamo, and in some smaller towns in the provinces of the same name. The Group owns five waste-to-energy plants (in the cities of Milan, Brescia, Bergamo, Filago and Corteolona) and manages the waste-to-energy plant in Acerra., It also has several waste processing plants and a number of landfills.

In terms of the organisational structure, at December 31,2012, the Environmental CGU Ambiente comprised AMSA S.p.A., Aprica S.p.A., Ecodeco S.r.l. and its subsidiaries (Ecodeco Group), as well as Partenope Ambiente S.p.A..

Goodwill of 232 million euro, after impairment testing as required under IAS 36, was booked for this CGU in the A2A Group consolidated financial statements at December 31,2012. This figure is the product of 227 million euro generated by the acquisition of the Ecodeco Group between 2005 and 2008 (previously the Ecodeco Cash Generating Unit) and 5 million euro resulting from the merger of ASM S.p.A. (subsequently merged with AEM S.p.A. which changed its name simultaneously to A2A S.p.A.) and BAS S.p.A. which produced goodwill of approximately 55 million euro, 5 million of which was attributed to BAS Power S.r.l., which later merged with Aprica S.p.A. (previously Aprica Cash Generating Unit Aprica).

"Gas Network" Cash Generating Unit

Goodwill, amounting to 38 million euro, arose on the various acquisitions made by A2A Reti Gas S.p.A. in recent years, of companies acting as gas distributors in around 200 Italian municipalities. Its activity is mainly concentrated in Lombardy and Piedmont. The above mentioned goodwill has been attributed to the Gas Networks Cash Generating Unit, the recoverable amount was determined on the basis of its value in use.

In the interests of full disclosure, we would like to point out that when determining value in use, we took into consideration a time horizon up to the early expiry date foreseen in the current regulations governing the concessions outstanding.

No impairment loss was identified as a result of this test as the maximum recoverable amount is higher than the book value of the goodwill posted.

"Heat Italy" Cash Generating Unit

The goodwill arising on line-by-line consolidation of the Heat Italy sector, of 21 million euro, which is split between various A2A Group companies, which operate in the production, distribution and sale of district heating, has been tested for impairment. The value of this goodwill was attributed to the Heat Italy cash generating unit, the recoverable amount of which was determined on the basis of its value in use over a 30-year time horizon. In particular, this CGU includes, and 18 million portion of goodwill arising on the merger of BAS S.p.A. and A2A S.p.A..

No impairment loss was identified as a result of this test as the maximum recoverable amount is higher than the book value of the goodwill posted.

"Heat France" Cash Generating Unit

Goodwill of 11 thousand euro was reported for this CGU at December 31, 2011; it resulted from the consolidation of the Coriance Group and was cleared during the year following the sale of this shareholding.

"Gas" Cash Generating Unit

The goodwill resulting from line-by-line consolidation of the Gas sector equalled 7 million euro, and relates to the sector that sells gas to end-customers (both civil and industrial) and to wholesalers; it has been tested for impairment. The recoverable amount was determined on the basis of its value in use over an indefinite time horizon. In particular, this CGU includes the 7 million portion of goodwill arising on the merger of BAS S.p.A. and A2A S.p.A..

No impairment loss was identified as a result of this test as the maximum recoverable amount is higher than the book value of the goodwill posted.

"Electricity" Cash Generating Unit Impairment test

Impairment testing was commenced on the Electricity Cash Generating Unit from January 2012.

The Electricity Cash Generating Unit reports to the Energy Sector of the A2A Group, whose operations focus on the generation and wholesale/ retail sale of electricity. Support for the commercial areas is ensured by the supply of fuel, planning and dispatch of plants for generating electrical energy, and optimization of industrial portfolio management..

More specifically, Electricity Cash Generating Unit activities include:

- **electricity generation:** management of power plants through an energy-generation system composed of hydroelectric and thermoelectric plants with an installed power of 10.5 GW;
- **energy management*:*** the purchase and sale of electricity, gas and non-gas fuels on national and international wholesale markets; the management of environmental certificates and supply of fuel needed to cover the needs of thermoelectric plants and customers; planning, programming and dispatch of plants that generate electricity;
- **sale of electricity:** sale of electricity on the market of suitable customers.

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

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

The impairment test of the Electricity Cash Generating Unit refers solely to electricity-related activities, and not those related to the Gas Cash Generating Unit which is subject to its own specific impairment test, as described earlier.

The following are not included in the scope of the Electricity Cash Generating Unit:

- EPCG, a company producing electricity in Montenegro, is not included because it is not interconnected and the electricity is dispatched outside its national borders;
- the San Filippo del Mela power plant, owned by Edipower S.p.A. and operating as an "Essential Unit" (*);
- protected category services (**) delivered by A2A Energia S.p.A.;
- trading carried out by A2A Trading S.r.l..

After impairment testing, the value of the Electricity Cash Generating Unit was 3,636 million euro and no losses in value were found during the test as the value of recoverable invested capital was greater than the value of the assets booked to accounts at December 31,2012.

The recoverable amount was determined on the basis of the value of the Cash Generating Unit in use over an indefinite time horizon.

Further analysis and sensitivity tests were carried out for the electricity CGU in the interests of prudence, with simulations performed using different estimated values for the Capacity Payment; the amended value of the latter expected in forthcoming changes to legislation was used in long-term forecasts. None of the hypothesized situations would change the results obtained.

(*) *The San Filippo power plant was admitted to the reimbursement regime by AEEG (Italian Authority for Electricity and Gas) in December 2010. The power plant is therefore considered an "Essential Unit" and all electricity generated is sold to Terna at a price set in accordance with AEEG rules.*

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

3) Shareholdings and other non-current financial assets

Millions of euro	Balance at 12 31 2011	Changes during the year	Balance at 12 31 2012	*of which included in the NFP*	
				12 31 2011	*12 31 2012*
Shareholdings in companies carried at equity	521	(311)	210	-	-
Other non-current financial assets	48	5	53	34	44
Total shareholdings and other non-current financial assets	**569**	**(306)**	**263**	**34**	**44**

The value of "Shareholdings in companies carried at equity" decreased by 311 million since December 31, 2011.

Details of movements are shown in the table below:

Shareholdings carried at equity - *Millions of euro*	**Total**
Values at December 31, 2011	**521**
Changes during the year	
- acquisitions and increases in capital	6
- valuation at equity	13
- dividends received from shareholdings in companies carried at equity	(6)
- sales	(24)
- other changes	2
- reclassifications	(302)
Total changes in the year	**(311)**
Balance at December 31, 2012	**210**

The overall decrease of 311 million euro was determined by: 302 million euro for the reclassification of Edipower S.p.A., which is now consolidated on a line-by-line basis, to "Shareholdings in subsidiaries"; 24 million euro for the sale of the shareholding in Metroweb S.p.A; 6 million euro for the decrease generated by dividends received; 13 million euro for the increase generated mainly by the valuation of the directly-own portion, booked prior to line-by-line consolidation, of Edipower S.p.A. and other increases totalling 2 million euro.

"Other non-current financial assets" show a balance of 53 million euro at December 31, 2012, which is 5 million euro more than at December 31,2011.

4) Deferred tax assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012
Other non-current receivables	**-**	**293**	**(24)**	**269**

"Deferred tax assets" amounted to 269 million euro (no figure reported at December 31, 2011). This item comprises the net effect of deferred tax liabilities and assets (IRES and IRAP) resulting from variations and provisions made exclusively for tax purposes.

The figures posted at December 31, 2012 for deferred tax assets and liabilities are shown at their net values (so-called offsetting), in accordance with IAS 12.

Millions of euro **Analysis of deferred tax assets and liabilities**	Consoli-dated accounts 12 31 2011	Edipower first-time consoli-dation	Provisions (A)	Utilisa-tion (B)	Total (A+B)	IAS 39 a Net equity	IAS 19 *Revised* to equity	Other changes /reclass/ mergers	Deferred tax income/ liabilities relating to Assets held for sale	Consoli-dated accounts 12 31 2012
Deferred tax liabilities										
Value differences in tangible assets	294	917	1	(59)	(58)			(12)	(46)	1,095
Adoption of the finance lease standard (IAS 17)	8									8
Adoption of the financial instruments standard (IAS 39)	17					(17)				-
Value differences in intangible assets	14			(11)	(11)			(1)		2
Capital gains instalments	4							(4)		-
Employee leaving entitlement (TFR)	3		1		1			(1)		3
Goodwill	80		14		14					94
Other deferred tax liabilities	72			(4)	(4)			1		69
Deferred tax liabilities (A)	**492**	**917**	**16**	**(74)**	**(58)**	**(17)**		**(17)**	**(46)**	**1,271**
Deferred tax assets										
Taxed risk provisions	85	25	24	(32)	(8)	1			(12)	91
Value differences in tangible assets	127	790	22	(45)	(23)				(77)	817
Adoption of the financial instruments standard (IAS 39)	12					5				17
Bad debt provision	31		10	(7)	3					34
Grants	16		1		1					17
Goodwill	153	387	1	(44)	(43)			(10)		487
Other deferred tax assets	58	16	16	(17)	(1)		7		(3)	77
Deferred tax assets (B)	**482**	**1,218**	**74**	**(145)**	**(71)**	**6**	**7**	**(10)**	**(92)**	**1,540**
NET DEFERRED TAX ASSETS/ LIABILITIES (A-B)	**(10)**									**269**

The net balance of deferred tax assets/liabilities following the consolidation of Edipower S.p.A. rose from a negative balance of 10 million euro in 2011 to a positive balance of 269 million in 2012.

5) Other non-current assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Non-current derivatives	113		(43)	70	*113*	*70*
Other non-current assets	19	11	(11)	19	-	-
Total other non-current assets	**132**	**11**	**(54)**	**89**	***113***	***70***

"Other non-current assets" amounted to 89 million euro (132 million euro at December 31, 2011) and comprise:

- 70 million euro relating to "Derivatives" hedging non-current financial items regarding mainly Interest Rate Swap (IRS) contracts hedging the risk of an adverse change in interest rates on bonds and long-term loans. This item has decreased by 43 million euro compared to December 31, 2011, mainly as the result of the fair value measurement of the financial instruments;
- 19 million euro for"Other non-current assets", mostly relating to guarantee deposits and expenditure incurred but relating to future years.

Current assets

6) Inventories

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012
Inventories	**267**	**113**	**(40)**	**340**

"Inventories" amounted to 340 million euro (267 million euro at December 31, 2011) which was an increase of 73 million euro which can be broken down as follows:

- 54 million euro relating to the increase in fuel stocks, which at the balance sheet date totalled 231 million euro compared to 177 million euro at December 31, 2011; this increase is due to the combined effect of an increase of 88 million euro arising from the first-time consolidation of Edipower S.p.A. and from other changes during the year which caused inventories to drop by 34 million euro;
- 20 million euro relating to an increase in materials which totalled 72 million euro compared to 52 million euro at December 31, 2011; this increase is due to the first-time consolidation of Edipower S.p.A. for 25 million euro and decrease of 5 million euro for the year;

- 6 million euro relates to the increase in other inventories which, at the reference date, totalled 34 million euro compared with 28 million at December 31, 2011;
- 7 million relates to the decrease in advance payments, which at December 31, 2012 amounted to 3 million compared to the 10 million euro reported at the end of the previous financial year.

7) Trade receivables

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012
Trade receivables	2,285	279	(344)	2,220
(Bad debt provision)	(327)		14	(313)
Total trade receivables	**1,958**	**279**	**(330)**	**1,907**

"Trade receivables" amounted to 1,907 million euro at December 31, 2012 (1,958 million euro at December 31, 2011), representing a net decrease of 51 million euro. This figure comprises decreases during the year totalling 330 million euro, and 279 million euro from the first-time consolidation of Edipower S.p.A.. In more detail:

- 45 million euro decrease in receivables from customers: this account showed a balance of 1,805 million euro at the end of the reporting period, (279 million euro of which was generated by the consolidation of Edipower S.p.A.) which compares to 1,850 million euro reported in the financial statements dated December 31, 2011;
- the 9 million euro drop in amounts receivable from the Municipalities of Milan and Brescia, which have an overall balance of 85 million euro (94 million euro at the end of the previous year);
- 3 million euro increase in receivables from associates; a balance of 11 million euro was reported for this item at the end of the reporting period, which compares to the 8 million euro reported in the financial statements dated December 31, 2011.

During the reporting period under review, the Group sold receivables without recourse for 517 million euro to a factoring company. 131 million euro of this amount had not been collected at the balance sheet date.

The "Bad debt provision" equals 313 million euro (327 million euro at December 31, 2011). Accruals of 32 million euro were made during the period while utilizations and other changes amounted to 46 million euro.

8) Other current assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Current derivatives	36		(9)	27	-	8
Other current assets	374	21	(104)	291	-	-
Total other current assets	**410**	**21**	**(113)**	**318**	**-**	**8**

"Other current assets" amounted to 318 million euro compared with 410 million euro at December 31, 2011, representing a decrease of 92 million euro which may be broken down as follows:

- a decrease of 9 million euro for "Derivatives" which resulted primarily from the decrease in commodity derivatives caused mainly by fair value measurements made during the year;
- a decrease of 41 million euro in advances to suppliers, which at the year-end date totalled 3 million euro (44 million euro at December 31, 2011);
- an decrease of 78 million euro in VAT receivables which at December 31, 2012 totalled 53 million euro (131 million euro at the end of the previous year);
- an increase of 10 million euro in receivables from the Electricity Sector Equalisation Fund which at December 31, 2012 amounted to 63 million euro, compared to the 53 million euro reported at the end of the previous year;
- an increase in other receivables of 28 million euro which totalled 155 million euro (127 million euro at December 31, 2011), of which 5 million euro from the first-time consolidation of Edipower S.p.A.;
- a decrease of 2 million euro in assets relating to future years which amounted to 16million euro (18 million euro at December 31, 2011), of which 16 million euro arose from the first-time consolidation of Edipower S.p.A..

9) Current financial assets

Millions of euro	Balance at 12 31 2011	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
				12 31 2011	*12 31 2012*
Other financial assets	2	20	22	2	22
Financial assets due from related parties	231	(226)	5	231	5
Total current financial assets	**233**	**(206)**	**27**	**233**	**27**

This item had a balance of 27 million euro at the balance sheet date (233 million euro at December 31, 2011).

10) Current tax assets

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012
Current tax assets	30	1	59	90

"Current tax assets" amounted to 90 million euro (30 million euro at December 31, 2011) which was an increase of 60 million euro compared with the previous year. The increase includes the effects resulting from the IRES reimbursement application request for IRAP not deducted for employee and similar expenses (art. 4, sub-section 12, Leg. Decree 16/2012) in previous years.

11) Cash and cash equivalents

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Cash and cash equivalents	147	89	317	553	*147*	*553*

"Cash and cash equivalents" at December 31, 2012 amounted to 553 million euro, compared with 147 million euro at the start of the financial year; this therefore created an increase of 406 million euro which includes the 89 million euro effect of the first-time consolidation of Edipower S.p.A..

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

12) Non-current assets held for sale

Millions of euro	Balance at 12 31 2011	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
				12 31 2011	*12 31 2012*
Non-current assets held for sale	921	(595)	326	*3*	-

"Non-current assets held for sale" had a balance of 326 million at December 31, 2012 (921 million euro at December 31, 2011).

The decrease during the period of 595 million euro can be traced to:

- decrease of 918 million euro resulting from the sale of the shareholding in Transalpina di Energia S.r.l.;

- decrease of 3 million euro deriving from the alienation of shareholdings in e-Utile S.p.A. and Brescia Mobilità S.p.A.;
- increase of 326 million euro in a number of assets and items booked as assets for Edipower S.p.A. which were reclassified following the call option exercised by the Iren Group on a branch of the company containing generation assets which are partly thermoelectric and partly hydroelectric, and of the same value as the shareholding the Iren Group owns in Edipower S.p.A..

EQUITY AND LIABILITIES

Equity

"Equity", which at December 31, 2012 amounted to 3,697 million euro (3,593 million euro at December 31, 2011) is set out in the table below:

Millions of euro	Balance at 12 31 2011	Changes in the year	Balance at 12 31 2012
Equity pertaining to the Group:			
Share capital	1,629	-	1,629
(Treasury shares)	(61)	-	(61)
Reserves	1,622	(604)	1,018
Group net result for the year	(423)	683	260
Total equity pertaining to the Group	**2,767**	**79**	**2,846**
Minority interests	826	25	851
Total equity	**3,593**	**104**	**3,697**

The overall change in group equity, which equalled an increase of 104 million euro, resulted from the recognition of 260 million euro profit for the period, cash flow hedges measured as prescribed in IAS 32 and 39, the effects of the early application of Revised IAS 19, the first-time consolidation of Edipower S.p.A., the first distribution of dividends and the change in interest attributable to minority interests.

In application of Revised IAS 19, the value of net equity at December 31, 2011 was restated in relation to the figure published on December 31, 2011, as it represents the net profit for the period and reserves.

Your attention is drawn to the fact that net equity at December 31, 2012 was higher than the stock market capitalization value. This does not appear to have arisen for reasons that would suggest the company's net equity value is no longer sustainable; instead we believe it is due to the difficult economic situation we are facing.

13) Share capital

"Share capital" amounts to 1,629 million euro which consists of 3,132,905,277 shares with a unit value of 0.52 euro each.

14) Treasury shares

"Treasury shares" amount to 61 million euro (no change from December 31, 2011) and comprise the 26,917,609 treasury shares held by the parent company A2A S.p.A..

15) Reserves

Millions of euro	Balance at 12 31 2011	Changes in the period	Balance at 12 31 2012
Reserves	**1,622**	**(604)**	**1,018**
of which:			
Change in fair value of Cash flow hedges	31	(54)	(23)
Tax effect	(11)	18	7
Cash flow hedge reserves	**20**	**(36)**	**(16)**

"Reserves" totalling 1,018 million euro (1,622 million euro at December 31, 2011), comprise the legal reserve, extraordinary reserves arising on consolidation, and the retained earnings of subsidiaries. The item also includes the cash flow hedge reserve, which is the value of derivatives, a negative balance of 16 million euro in this case, that comply with hedge accounting requirements at the end of the year.

Another 24 million euro represents the effects of the early application of changes to Revised IAS 19 - Employee Benefits, whereby actuarial gains and losses must be reported as net equity reserves. For more details, you are referred to note 20 "Employee benefits".

This item includes the effects of applying IAS 32 paragraph 23 to the put options A2A S.p.A. stipulated with Società Elettrica Altoatesina S.p.A. (SEL) and the effects arising from the "Framework Agreement" and "Exchange Agreement "entered into between the parent A2A S.p.A. and the financial shareholders of Delmi S.p.A. (Mediobanca, Fondazione CRT and Banca Popolare di Milano) and Dolomiti Energia S.p.A., whose object is the shares of Delmi S.p.A.. As explained in detail in the section on "Consolidation Policies and Procedures", the difference between the present value of the strike price of these put options and the book value of the minority interests is booked as a reduction in Group equity (if positive) or as an increase in Group equity (if negative). The effect of the put options on shares in Delmi S.p.A. was to push net equity down by 84 million euro at December 31, 2012: 66 million of this was due to the elimination of the put options stipulated previously with minority shareholders of Delmi S.p.A., and 18 million to the difference between the book value of the new put options subscribed during the current year and minority interests.

For the accounting treatment of these transactions reference should be made to the sections "Consolidation Policies" and "Consolidation Procedures".

Reconciliation between A2A S.p.A. net income and the net income of the Group

Millions of euro	2012	2011 (*)
Net income for the year A2A S.p.A.	**183**	**(464)**
Intragroup dividends eliminated from the consolidated financial statements	(241)	(205)
Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	233	(210)
Subsidiary shareholdings written down in A2A S.p.A.'s financial statements	5	485
Write-downs of fixed assets in the consolidated financial statements	-	(57)
Other consolidation adjustments	80	28
Group net result for the year	**260**	**(423)**

(*) Values provided for the purposes of comparison with the January - December 2011 were reclassified to reflect application of Revised IAS 19 "Employee Benefits".

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

Millions of euro	12 31 2012	12 31 2011 (*)
Equity pertaining to A2A S.p.A.	**2,537**	**2,435**
- Elimination of the residual portion of the equity reserve resulting from intragroup profit on the transfer of business assets	(434)	(446)
- Retained earnings/(accumulated losses)	659	630
- Intragroup dividends eliminated from the consolidated financial statements	(241)	(205)
- Result of subsidiaries, associates and joint ventures not included in the financial statements of A2A S.p.A.	233	(210)
- Subsidiary shareholdings written down in A2A S.p.A.'s financial statements	5	485
- Write-downs of fixed assets in the consolidated financial statements	–	(57)
- Other consolidation adjustments	87	135
Equity pertaining to the Group	**2,846**	**2,767**

(*) Values provided for the purposes of comparison with the twelve months from January - December 2011 were reclassified to reflect application of Revised IAS 19 "Employee Benefits".

16) Net profit for the year

This consists of a profit of 260 million euro representing the result for the reporting year.

17) Minority interests

Millions of euro	Balance at 12 31 2011	Changes in the year	Balance at 12 31 2012
Minority interests	**826**	**25**	**851**

"Minority interests" amounted to 851 million euro (826 million at December 31, 2011) and represent the portion of capital, reserves and net profit pertaining to minority shareholders.

The increase for the period of 25 million euro relates to the following:

- allocation of the share of 11 million of net profit pertaining to minority shareholders, 5 million euro of which is the amount allocated to minority shareholders of Plurigas S.p.A., 6 million euro to minority shareholders of Delmi S.p.A., 2 million euro to minority shareholders of Edipower S.p.A., and a loss of 2 million euro pertaining to the minority shareholders of the EPCG Group;
- increase of 152 million euro resulting from the first-time consolidation of Edipower S.p.A.;
- negative adjustments of 129 million euro attributable to changes in equity items during the period, pertaining to minority shareholders of Delmi S.p.A. and Aspem S.p.A. and resulting from put options;
- reduction of 9 million euro resulting mainly from the distribution of 8 million euro in dividends.

LIABILITIES

Non-current liabilities

18) Non-current financial liabilities

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the period	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Non-convertible bonds	2,186		276	2,462	2,186	2,462
Due to the banks	1,429	959	(684)	1,704	1,429	1,704
Due to other providers of finance	223		(21)	202	223	202
Finance lease payables	13		(10)	3	13	3
Total non-current financial liabilities	**3,851**	**959**	**(439)**	**4,371**	**3,851**	**4,371**

"Non-current financial liabilities" amounted to 4,371 million euro (3,851 million euro at December 31, 2011) following an increase of 520 million euro. This increase was due the combined effect of the 439 million euro decrease for the year and the 959 million euro increase generated by the first-time consolidation of Edipower S.p.A..

More specifically, "Non-convertible bonds" are four bonds issued by the Group which relate to:

- a thirty-year bond in yen issued on August 10, 2006 bearing interest at a nominal fixed rate of 5.405% and having a carrying amount, calculated at amortized cost, of 98 million euro;

- a ten-year bond having a nominal value of 500 million euro issued on May 28, 2004 bearing interest at a nominal fixed rate of 4.875% and having a carrying amount, calculated at amortized cost, of 499 million euro;
- a seven-year bond with a nominal value of 1,000 million euro issued on November 2, 2009 bearing interest at a nominal fixed rate of 4.50% which qualifies for fair value hedge accounting. As a result, this bond is measured at amortized cost adjusted by changes in the fair value of the underlying risk. Its value at December 31, 2012 was 1,095 million euro;
- a seven-year bond having a nominal value of 750 million euro issued on November 28, 2012 bearing interest at a fixed rate of 4.50% and having a carrying amount at December 31, 2012, calculated at amortized cost, of 744 million euro.

A ten-year bond having a nominal value of 500 million euro issued on October 30, 2003 was reclassified to "Current financial liabilities".

The end-of-period measurement of the fair value and amortized cost of the non-convertible bonds led to a decrease of 5 million euro in "Non-current financial liabilities".

Interest of 26 million euro had accrued on bonds at December 31, 2012.

The different accounting treatment used for the bonds is the result of the different options selected during the stage of transition to IAS/IFRS by the companies merged on January 1, 2008.

Non-current amounts "Due to banks" increased by 275 million euro over the period. This is due to the combined effect of the decrease of 684 million euro when less use was made of committed credit lines payable after 12 months, and the reclassification of the amount due within 12 months to "Current financial liabilities", in part offset by the use of two new medium and long-term BEI loans repayable in 2027, and the increase of 959 million euro arising from the first- time consolidation of Edipower S.p.A..

The total of 202 million euro "Due to other proveders of finance" was a drop of 21 million euro on the figure reported at the end of the previous year; this was due to the reclassification to current liabilities of loans payable within 12 months.

"Finance lease payables" amounted to 3 million euro whereas the figure reported at December 31, 2011 was 13 million euro.

19) Deferred tax liabilities

Millions of euro	Balance at 12 31 2011	Changes in the year	Balance at 12 31 2012
Deferred tax liabilities	**10**	**(10)**	**-**

At December 31, 2012, this item consisted of the net effect of IRES and IRAP deferred tax assets and liabilities arising from changes, and accruals made solely for fiscal purposes and showing a credit balance, while there was a debit balance of 10 million euro on this item at December 31, 2011.

The figures posted at December 31, 2012 for deferred tax assets and liabilities are shown at their net values (so-called offsetting), in accordance with IAS 12.

20) Employee benefits

The A2A Group decided to apply Revised IAS 19 (published in the Official Journal of the Italian Republic on June 6, 2012) from 2012, ahead of the effective date.

The Revised IAS 19 - Employee Benefits no longer allows actuarial gains and losses to be recognized using the corridor method; instead, the associated deficit or surplus in the provision must be disclosed in full in the balance sheet. Labour costs must be indicated separately from net financial expense in the statement of income, and actuarial gains and losses resulting from the recalculation of assets and liabilities every year must be reported in the statement of comprehensive income. Yields on assets reported as net financial expense must be calculated using the discount rate for liabilities, and no longer using the expected yield.

The revision also introduces new supplementary information that must be provided in the notes to the accounts.

More specifically:

- when international accounting standards were applied for the first time, the Group decided from the options provided by IAS 19, to recognize actuarial gains and losses in the Statement of Income (for the parent and subsidiaries); the revised version of the standard, approved by the European Commission, states that, in order to provide reliable and more relevant information, these components must be booked under “Valuation Reserves” in net equity, and recognized in the “Statement of Comprehensive Income”;
- bearing in mind that IAS 8 requires changes to be retroactively applied, the aforementioned revision led to the restatement of net equity and income statement for the previous year, more specifically, modifying items reported as financial expense and income tax; this in turn led to the adjustment of the value originally published for net profit, and reporting of both in the Statement of Comprehensive Income, and in net equity reserves.

The effects of the application of Revised IAS 19 are summarised below:

Millions of euro	Employee benefits	Effect on equity, before tax	Effect on equity of deferred tax assets and liabilities	Financial income /(expense)	Income tax	Net profit	Overall result
December 31, 2010 published	276			1		308	(110)
December 31, 2010 restated	276	1				308	(110)
Effect of restatement (comparison)		1		(1)			
December 31, 2011 published	272			4		(420)	(938)
December 31, 2011 restated	272	4	(1)		(1)	(423)	(938)
Effect of restatement (comparison)		4	(1)	(4)	1	(3)	
December 31, 2012	325	(24)	7			260	246

Technical assessments were based on the following assumptions:

	2012	2011
Actualization rate	3.5%	4.75%
Annual inflation rate	2.0%	2.0%

The Group selected these rates on the basis of the yields of premium fixed-income securities, the amounts and maturities of which reflect the amounts and maturities of the pension entitlements and other benefits accrued and payable to employees on termination of their employment.

At the balance sheet date, this item equalled 325 million euro (272 million euro at December 31, 2011), 48 million of which was generated by the first-time consolidation of Edipower S.p.A.. The following changes took place:

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Provisions	Utilisation	Other changes	Balance at 12 31 2012
Severance entitlement	138	25	24	(11)	(8)	168
Employee benefits	134	23		(11)	11	157
Total employee benefits	**272**	**48**	**24**	**(22)**	**3**	**325**

21) Provisions for risks, charges and liabilities for landfills

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Provisions	Utilisation	Other changes	Balance at 12 31 2012
Provisions for risks, charges and liabilities for landfills	462	126	43	(21)	1	611

These provisions totalled 611 million euro at December 31, 2012 (462 million euro at the previous year end), of which 126 million euro arising from the first-time consolidation of Edipower S.p.A. Accruals had a net effect of 43 million euro, resulting from charges for the period of 76 million euro, less the release of provisions of 33 million euro, recognized in previous years for disputes that no longer subsist. The utilizations of 21 million euro refer mainly to the amount used for payments made during the period. Other changes totalled 1 million euro.

The Italian Authority for Electricity and Gas (AEEG), in its decision no. 535/12 dated December 13, 2012, proposed the "non-discriminatory application of the economic conditions for services regulated by the Authority to natural gas supplied to thermoelectric utilities producing electricity as part of measure CIP 6/92" and therefore, to "update the average price of conventional fuel" in the calculation of CEC, bearing in mind recent developments in the natural gas market to make sure the average price of conventional fuel is always consistent with the current cost structure of the natural gas market.

In fact, art. 30, sub-section 15 of Law 99/09 states that "the Ministry of Economic Development accepted the Italian Authority for Electricity and Gas's proposal, and the Avoided Cost of Fuel is updated on a quarterly basis, as specified in the measure issued by the Inter-ministerial Price Committee no. 6/91 of April 29, 1992, published in the Official Journal of the Italian Republic no. 109 of March 12, 1992; this cost shall be recognized in advance payments until the actual annual figure is established. These amendments are based on quarterly reports of the prices of the commodities in the reference basket for the conventional value of natural gas, as stated in point 3 of the AEEG ruling no. 154/08 of October 21, 2008, in order to accurately reflect changes in the oil prices and developments in conversion efficiency, without prejudice to the criteria used to calculate the Avoided Cost of Fuel, as laid down in AEEG decision no. 249/06 of November 15, 2006".

Based on these elements, i.e. (i) progressive erosion of the CEC in recent years, (ii) the continuation of this downwards trend in 2010 and 2011 due to the Ministry of Economic Development transposing in full the PAS 09/10 by way of a ministerial decree on November 20, 2012, and considering that (ii) the Ministry will have to follow the same procedure for 2012 and subsequent years (ministerial decree based on AEEG's proposal), (iv) AEEG has already formulated its proposal for these years in judgement 535/12, and (v) the continuing economic recession has made it impossible to implement government actions to cut public spending (spending review) also by cutting incentives, the management believed it was extremely likely that the expected ministerial decree, adopting in full AEEG proposal 535/12, will translate that latter into legislation of external legal effect, i.e. binding for market operators affected by it from the 2012 financial year.

For these reasons and also based on the analysis carried out by relevant internal functions, the Group allocated a risk provision of 22 million euro, in accordance with IAS 37, which was offset by a reduction in sales revenues.

It should be noted that some provisions were affected by the actualization rate applied in 2012, which was lower than the one used in 2011.

22) Other non-current liabilities

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the period	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Other non-current liabilities	152	3	210	365	-	-
Non-current derivatives	25		23	48	25	48
Total other non-current liabilities	**177**	**3**	**233**	**413**	**25**	**48**

An increase of 236 million euro was reported for this item at December 31, 2012, compared with the previous 12-month period; this can be accounted primarily for by the change in amounts payable to third parties caused by the valuation of put options on Delmi S.p.A. shares.

Current liabilities

23) Trade payables and other current liabilities

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Advances	20	1	(14)	7	-	-
Trade payables	1,328	106	(109)	1,325	-	-
Total trade payables	**1,348**	**107**	**(123)**	**1,332**	**-**	**-**
Payables to social security institutions	36	4	2	42	-	-
Other current liabilities	375	19	40	434	-	-
Current derivatives	31	-	(21)	10	-	2
Total other current liabilities	**442**	**23**	**21**	**486**	**-**	**2**
Trade payables and other current liabilities	**1,790**	**130**	**(102)**	**1,818**	**-**	**2**

"Trade payables and other current liabilities" amounted to 1,818 million euro (1,790 million euro at December 31, 2011), representing an overall decrease of 102 million euro which is stated after an effect of 130 million euro caused by the first-time consolidation of Edipower S.p.A.; this effect is reflected mainly in the decrease in "Trade payables" and "Current Derivatives", which are offset by the increase in "Other current liabilities". "Other current liabilities" refer primarily to amounts payable to employees, to the Electricity Sector Equalisation Fund and to the Revenues Agency for VAT and withholding tax.

24) Current financial liabilities

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012	*of which included in the NFP*	
					12 31 2011	*12 31 2012*
Non-convertible bonds	-		518	518	*-*	*518*
Due to banks	620	89	(601)	108	*620*	*108*
Due to other providers of finance	43		(17)	26	*43*	*26*
Finance lease payables	10		(9)	1	*10*	*1*
Financial payables to related parties	2		(2)	-	*2*	*-*
Total non-current financial liabilities	**675**	**89**	**(111)**	**653**	***675***	***653***

"Current financial liabilities" amounted to 653 million euro, as compared to 675 million euro at the end of the previous 12-month period. The decrease can be accounted for by the combined effect of the 111 million euro drop for the period, caused mainly by the decrease in amounts payable to banks when less use was made of committed credit lines; this was partly offset by the reclassification of the 518 million euro portion of the bond booked to accounts at year end and payable within 12 months, and the 89 million euro increase generated by the first-time consolidation of Edipower S.p.A..

More specifically, the figure reported for “Non-convertible bonds” includes 500 million euro for a ten-year bond issued on October 30, 2003 at a nominal fixed rate of 4.875%; the fair value of this bond at December 31, 2011, following the exercise of the fair value option on transition to IAS/IFRS, was 514 million euro. Interest of 4 million euro had accrued on this bond at December 31, 2012.

25) Tax liabilities

Millions of euro	Balance at 12 31 2011	Edipower first-time consolida-tion	Changes in the year	Balance at 12 31 2012
Tax liabilities	25	54	(71)	8

“Tax liabilities” amounted to 8 million euro (25 million euro at December 31, 2011), representing a net decrease of 17 million euro as a result of the combined effect of the drop of 71 million euro for the period and increase of 54 million euro generated by the first-time consolidation of Edipower S.p.A..

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

This item showed a balance of 49 million euro at December 31, 2012 (nil at the end of the previous 12-month period) which can be accounted for by a number of liabilities associated with Edipower S.p.A. and held for sale, and directly linked to the assets described earlier in note 12, to which you are referred.

Net debt

27) Net debt

(pursuant to Consob resolutions no. DEM/6064293 of 28 July 2006)

The following table gives details of net debt.

Millions of euro	Note	12 31 2012	12 31 2011
Bonds - non-current portion	18	2,462	2,186
Bank loans - non-current portion	18	1,704	1,429
Amounts due to other providers of finance - non-current portion	18	202	223
Finance leases - non-current portion	18	3	13
Other non-current liabilities	22	48	25
Total medium/long-term debt		**4,419**	**3,876**
Non-current financial assets with related parties	3	(5)	(6)
Financial assets - non-current portion	3	(39)	(28)
Other non-current assets	5	(70)	(113)
Medium/long-term loans		**(114)**	**(147)**
TOTAL NON-CURRENT NET DEBT		**4,305**	**3,729**
Bonds - current portion	24	518	-
Bank loans - current portion	24	108	620
Amounts due to other providers of finance - current portion	24	26	43
Finance leases - current portion	24	1	10
Current financial liabilities with related parties	24	-	2
Other current liabilities	25	2	
Financial payables in liabilities held for sale	26	-	-
Total short-term debt		**655**	**675**
Other current financial assets	9	(22)	(2)
Current financial assets with related parties	9	(5)	(231)
Other current assets	9	(8)	-
Financial receivables in assets held for sale	12	-	(3)
Total short-term financial receivables		**(35)**	**(236)**
Cash and cash equivalents	11	(553)	(147)
TOTAL CURRENT NET DEBT		**67**	**292**
NET DEBT		**4,372**	**4,021**

Notes to the statement of income

Changes in the scope of consolidation since December 31, 2011

The following changes have taken place in the scope of consolidation in the twelve months ended December 31, 2012:

- Edipower S.p.A. has been consolidated on a line-by-line basis since June 1, 2012 and Transalpina di Energia S.r.l. left the scope following the acquisition by Delmi S.p.A. of 70% of the share capital of Edipower S.p.A. and the simultaneous sale of the 50% shareholding in Transalpina di Energia S.r.l., as discussed in the section "Other information". As a consequence, the income statement for the year ended December 31, 2012 includes the positive effects of the consolidation of Edipower S.p.A. from June, while the income statement for the year ended December 31, 2011 includes the effects of the consolidation on an equity basis of the shareholding in Transalpina di Energia S.r.l.;
- the shareholding in A2A Coriance S.a.s., the parent of the Coriance Group was sold in September 2012;
- the shareholding in e-Utile S.p.A. was sold;
- the put option on our 27.5% shareholding in Metroweb S.p.A. was exercised. The shares exchanged in the option resulted from the conversion, on October 6, 2011, of the bond that A2A S.p.A held in its portfolio when the first portion of shares in Metroweb S.p.A. was released.

As a result of the aforementioned operations, the figures reported in the income statement at December 31, 2012 are not consistent with their equivalents in the statements for the year ended on December 31, 2011.

28) Revenues

Revenues for the period totalled 6,480 million euro (6,130 million euro for the year ended December 31, 2011), of which 639 million euro, gross of intragroup eliminations, relates to the consolidation of Edipower S.p.A., representing an increase of 350 million euro.

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

Revenues -*Millions of euro*	**12 31 2012**	**12 31 2011**
Revenues from the sale of goods	5,465	5,233
Revenues from services	791	788
Revenues from long-term contracts	25	8
Total revenues from the sale of goods and services	**6,281**	**6,029**
Other operating income	**199**	**101**
Total revenues	**6,480**	**6,130**

Revenues from the sale of goods and services totalled 6,281 million euro (6,029 million euro in 2011), 530 million euro of this is accounted for by the consolidation of Edipower S.p.A., which led to an increase of 252 million euro. This change reflects the higher revenues (232 million euro) generated from the sale of goods, the increase in revenues from services (3 million euro) and the increase in revenues from long-term contracts (17 million euro).

"Other operating income" amounted to 199 million euro, which was an increase of 98 million euro since the twelve month period ended on December 31, 2011.

The principal items are analyzed in detail below:

Millions of euro	**12 31 2012**	**12 31 2011**
Sale and distribution of electricity	3,441	3,306
Sale and distribution of gas	1,652	1,589
Sale of heat	188	163
Sale of materials	1	1
Water and utilities sold to civil customers	45	45
Hedging income on operating derivatives	-	1
Hedging charges on operating derivatives	(1)	(4)
Sales of emission certificates and allowances	108	100
Connection contributions	31	32
Total revenues from the sale of goods	**5,465**	**5,233**
Services to customers	791	788
Total revenues from services	**791**	**788**
Revenues from long-term contracts	**25**	**8**
Total revenues from the sale of goods and services	**6,281**	**6,029**
Other operating income	**199**	**101**
Total revenues	**6,480**	**6,130**

Revenues were influenced by AEEG judgement no. 535/12, as described in more detail in note 21 "Provisions for risks, charges and liabilities for landfills" and in the management report on operations.

29) Operating expenses

Operating expenses for the year totalled 4,810 million (4,658 million in the previous 12-month period), 399 million of which can be accounted for by the consolidation of Edipower S.p.A., before intragroup eliminations, which led to an increase of 152 million euro.

The main components in this balance are outlined below:

Operating expenses - *Millions of euro*	**12 31 2012**	**12 31 2011**
Raw materials and consumables used	3,758	3,569
Services	801	795
Total expenses for raw materials and services	**4,559**	**4,364**
Other operating expenses	**251**	**294**
Total operating expenses	**4,810**	**4,658**

"Expenses for raw materials and services" amounted to 4,559 million euro (4,364 million euro at December 31, 2011), 368 million euro of which can be accounted for by the consolidation of Edipower S.p.A. which generated an increase of 195 million euro.

This increase was caused by:

- a 142 million euro rise in purchases of raw materials and consumables, attributable to the 115 million euro rise in power and fuel costs, the 20 million euro increase in charges associated with emission certificates and allowances, and the 4 million euro increase in material purchase costs, less the effect of hedging income/expense on operating derivatives which generated an increase of 3 million euro;
- the rise in electricity delivery charges, subcontracted work and service delivery of 6 million euro;
- the increase in inventories of fuel and materials amounting to 47 million euro.

The main items are analyzed in more detail below:

Millions of euro	**12 31 2012**	**12 31 2011**
Purchases of power and fuel	3,603	3,488
Purchases of materials	74	70
Purchases of water	4	4
Hedging charges on operating derivatives	7	7
Hedging income on operating derivatives	(17)	(20)
Purchases of emission certificates and allowances	54	34
Total raw materials and consumables used	**3,725**	**3,583**
Electricity delivery charges, subcontracted work and services	801	795
Total services	**801**	**795**
Change in fuel and material inventories	33	(14)
Total expenses for raw materials and services	**4,559**	**4,364**
Other operating expenses	**251**	**294**
Total operating expenses	**4,810**	**4,658**

Trading margin

The table below shows the income/expense generated by trading portfolios, or more specifically the electrical energy, gas and environmental certificates trading portfolios.

Trading margin - *Millions of euro*	Note	12 31 2012	12 31 2011
Revenues	28	1,176	1,022
Operating expense	29	(1,175)	(1,014)
Total trading margin		**1**	**8**

30) Labour costs

The balance of labour costs at December 31, 2012, net of capitalized costs, totalled 602 million euro (548 million euro at December 31, 2011).

"Labour costs" consist of the following components:

Labour costs - *Millions of euro*	12 31 2012	12 31 2011
Wages and salaries	399	359
Social security charges	145	135
Employee leaving entitlement (TFR)	24	22
Other costs	34	32
Total labour costs	**602**	**548**

The A2A Group had an average workforce at December 31, 2012 of 12,771, of which 1,035 derived from the consolidation of Edipower S.p.A..

31) Gross operating income

As a result of the above changes, "Gross Operating Income" at December 31, 2012 equalled 1,068 million euro (924 million euro at December 31, 2011), 194 million euro of which was generated by the consolidation of Edipower S.p.A..

For more details, you are referred to the contents of the "Results sector-by-sector" section.

32) Depreciation, amortization, provisions and write-downs

The balance of "Amortisation, depreciation, provisions and write-downs" at December 31, 2012 totalled 567 million euro (626 million euro at December 31, 2011), 127 million euro of which can be accounted for by the consolidation of Edipower S.p.A.. An overall decrease of 59 million euro was reported.

These charges are analysed in the following table:

Depreciation, amortization, provisions and write-downs- *Millions of euro*	**12 31 2012**	**12 31 2011**
Amortization of intangible assets	72	67
Depreciation of tangible assets	417	336
Total amortisation and depreciation	**489**	**403**
Provisions for risks and charges	44	32
Bad debt provision (receivables recognized as current assets)	32	73
Other write-downs of fixed assets	2	118
Total depreciation, amortization, provisions and write-downs	**567**	**626**

More specifically, “Depreciation and amortization” amounted to 489 million euro (403 million euro in the previous 12-month period), which was an increase of 86 million euro, brought about mainly by greater depreciation and amortization resulting from the consolidation of Edipower S.p.A..

As regards the transposition of the so-called Development Decree (Law 179 of October 18, 2012), which lays down calculation procedures for the cash surrender value of the water system works used to supply water under concession to hydroelectric power plants, it should be noted that the relative calculation criteria (revaluation and useful life coefficients) needed to quantify the surrender value at the end of the relative concessions have not been set yet by the relevant authorities. In the lack of any regulatory framework, the A2A Group did its own simulations using ISTAT coefficients that were found to be the only possible data available and the estimated economic and technical lives of the assets. These simulations resulted in very wide variability range, confirming that it is currently impossible to make any valid estimate of the surrender values at the end of a concession. Nevertheless, the value brought to account for water system works used to supply water under concession to hydroelectric power plants, for which the concession is close to expiry, was very much lower than the range of results obtained. For this reason, depreciation and amortization was stopped at June 30, 2012 only for concessions nearing expiry and the same valuation methods applied to all remaining concessions.

“Provisions for risks and charges” amounted to 44 million euro (32 million euro for the previous 12-month period) and relate to the provisions made in the period for disputes in course and pending litigation. The difference with the previous 12-month period can be accounted for primarily by the consolidation of Edipower S.p.A., and simultaneous adjustment of estimated risks.

The “Bad Debt Provision” amounted to 32 million euro (73 million euro at December 31, 2011), consisting of the accrual for the period. The decrease over the previous 12-month period is due to the release of funds from the bad debt provision since the collectibility risk for certain customer receivables no longer exists.

The balance of "Other write-downs of fixed assets" equalled 2 million euro and resulted primarily from the consolidation of Edipower S.p.A.; the figure for the previous 12-month period was 118 million euro, deriving mainly from the 94 million euro write-down of goodwill for the EPCG Group and write-down of some intangible assets brought to account for 16 million euro when the Aspem Group was acquired.

33) Net operating income

"Net operating income" amounted to 501 million euro (298 million euro at December 31, 2011).

34) Financial balance

The "Financial Balance" shows a negative balance of 180 million euro (-258 million euro at 31 December, 2011).

Details of the more significant items of this balance are provided below:

Financial balance - *Millions of euro*	**12 31 2012**	**12 31 2011**
Financial income	58	53
Financial expense	(251)	(179)
Portion of income and expenses deriving from the valuation at equity of shareholdings	13	(132)
Total financial balance	**(180)**	**(258)**

"Financial income" amounted to 58 million euro, which was a rise on the figure reported at December 31, 2011; the increase can be traced to the effect of the positive contribution of the badwill brought to account following the first-time consolidation of Edipower S.p.A. and other financial income which offset the reduction in the fair value and realized income from financial derivative agreements which had had a positive effect the previous year.

"Financial expense" amounted to 251 million euro, which was an increase of 72 million euro on the figure reported at December 31, 2011. It is made up of the following elements:

- costs of 42 million euro (5 million euro at December 31, 2011) from financial derivatives;
- costs of 4 million euro from charges levied on shareholdings (4 million euro at December 31, 2011);
- costs of 205 million levied on financial liabilities (170 million euro at December 31, 2011), 35 million euro of which relates to the consolidation of Edipower S.p.A., described in detail below:

Charges from financial liabilities - *Millions of euro*	**12 31 2012**	**12 31 2011**
Interest on bond loans	104	101
Interest charged by banks	66	42
Interest on loans by Cassa Depositi e Prestiti	7	1
Decommissioning	2	2
Other financial expenses	26	23
Total charges from financial liabilities	**205**	**169**

The "Portion of income and charges when shareholdings are carried at equity" shows a positive balance of 13 million euro (-132 million euro at December 31, 2011).

35) Other non-operating income/expense

A negative net value of 3 million euro was reported for "Other non-operating income/expense" (-4 million euro at December 31, 2011), which reflects charges incurred by the subsidiary EPCG.

36) Income taxes

Income tax payable - *Millions of euro*	**12 31 2012**	**12 31 2011**
Current taxes	124	198
Deferred tax assets	79	(57)
Deferred tax liabilities	(75)	6
Total income taxes	**128**	**147**

Tax expense for the period was 128 million euro (147 million euro at December 31, 2011).

The difference with the previous 12-month period can be traced mainly to the consolidation of Edipower S.p.A. and the 30 million euro benefit generated by the IRES reimbursement for taxes not deducted in previous years, by IRAP relating to labour costs and similar expenses (Leg. Decree 16/2012, Art. 4, sub-section 12).

The reconciliation between the tax burden posted in the consolidated financial statements and theoretical tax liabilities, calculated on the basis of theoretical rates applicable in Italy, is as follows:

TAX RATE TABLE- *Millions of euro*	**2012**	**2011 (*)**
Profit before tax	**318**	**36**
Theoretical rates based on applicable tax rates (1)	121	14
Temporary differences	(12)	(56)
Long-term differences	18	190
Fiscal benefits from previous years	(30)	–
Differences between international tax rates and theoretical Italian rates	3	(22)
Differences for companies not subject to IRES surtaxes	(17)	(23)
Total taxes charged to Income statement (excluding IRAP)	**83**	**103**
IRAP (regional production tax)	45	44
Total taxes charged to Income statement	**128**	**147**

(1) Taxes were calculated using a theoretical rate of 38% for 2012 and 2011.
(*) Values provided for the purposes of comparison with the twelve month period from January - December 2011 were reclassified to reflect application of IFRS 5 and Revised IAS 19 "Employee Benefits".

37) Net result from non-current assets sold or held for sale

The balance for this item at December 31, 2012 was 81 million euro (it was -808 million at December 31, 2011); it includes the positive effects of the sale of the Coriance Group, e-Utile S.p.A. and the shareholding in Metroweb S.p.A. which resulted from the conversion, on October 6, 2011, of the bond that A2A S.p.A held in its portfolio when the first portion of shares in Metroweb S.p.A. was released. The balance for the previous 12-month period mainly represented the negative effect of the valuation of the shareholding in Transalpina di Energia S.r.l., adjusted to remove the gains generated by the sale of the shareholding in Metroweb S.p.A..

Millions of euro	**12 31 2012**	**12 31 2011**
Assets held for sale (IFRS 5)	43	(808)
Assets sold (*)	38	
Net result from non-current assets sold or held for sale	**81**	**(808)**

(*) the value in 2012 includes gains generated by the sale of Metroweb S.p.A.

38) Group net profit for the year

Consolidated group income, net of the 11 million portion pertaining to non-controlling interests (496 million euro at 31 December 31, 2011), amounted to 260 million euro (-423 million euro at December 31, 2011).

39) Earnings per share

	01 01 2012 12 31 2012	**01 01 2011 12 31 2011**
Earnings (loss) per share (€)		
- basic	0.0838	(0.1367)
- basic, from operating activities	0.0579	0.1233
- basic, from assets held for sale	0.0259	(0.2600)
- diluted	0.0838	(0.1367)
- diluted, from operating activities	0.0579	0.1233
- diluted by assets held for sale	0.0259	(0.2600)
Weighted average number of shares in circulation for the calculation of earnings (loss) per share		
-basic	3,105,987,497	3,105,987,497
-diluted	3,105,987,497	3,105,987,497

Notes on related party transactions

40) Notes on related party transactions

The definition of “related parties” is indicated in the international accounting standard describing disclosures which must be made on related party transactions (revised IAS 24) in financial statements.

Relations with Parent companies and their subsidiaries

On October 5, 2007, the Municipalities of Milan and Brescia signed a shareholder agreement to regulate the ownership structure and governance of A2A S.p.A.; this gave the Municipalities joint control over the company by means of a dual system of administration and control.

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

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

Likewise, the A2A Group has commercial relations with the companies controlled by Milan and Brescia city councils, such as Metropolitana Milanese S.p.A., Brescia Mobilità S.p.A., Brescia Trasporti S.p.A. and Centrale del Latte di Brescia S.p.A., supplying them with electrical energy, gas, heat, sewerage and purification services at the same market tariffs appropriate to the terms of the supply, and providing services as requested by these companies. We would emphasise that these companies are considered related parties in the summary schedules prepared according to Consob Resolution 17221 of March 12, 2010.

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

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

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

Transactions with subsidiaries and associates

The parent A2A S.p.A. provides centralised treasury services for all of its subsidiaries.

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

In 2012, A2A S.p.A. and its subsidiaries again filed their VAT return on a group basis.

For IRES purposes, A2A S.p.A. files for tax on a consolidated basis, together with its main subsidiaries, in accordance with arts. 117-129 of DPR 917/86. To this end, a contract has been stipulated with each of the subsidiaries involved in the Group tax return to regulate the tax benefits and burdens transferred, with specific reference to current items. These contracts also govern the transfer of any excess ROL as provided in applicable legislation.

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

The parent company provides subsidiaries and associates with administrative, tax, legal, managerial and technical services, in order to optimise the resources available within the company and to make the best use of existing know-how in the most economical way possible. These services are governed by specific service contracts stipulated annually. A2A S.p.A. also makes office space and operating areas at its own premises available to subsidiaries and associates, as well as associated services. These are provided at market conditions.

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

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

Following the line-by-line consolidation of subsidiary Edipower S.p.A. in June 2012, all economic relations between group companies and Edipower S.p.A. from January to May were considered relations with an associate company, as in the previous year.

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

Intragroup transactions and balances are summarised in the following tables, as required by Consob Resolution 17221 of March 12, 2010:

Balance Sheet	**Total**	**of which with related parties**								
Millions of euro	**12 31 2012**	**Associated companies**	**Related companies**	**City of Milan**	**Subsidiaries City of Milan**	**City of Brescia**	**Subsidiaries City of Brescia**	**Related physical persons**	**Total related parties**	**% effect on the balance sheet item**
TOTAL ASSETS OF WHICH:	**11,945**	**194**	**56**	**77**	**8**	**11**	**1**	**-**	**347**	**2.9%**
Non-current assets	*8,384*	*183*	*29*	-	-	*3*	-	-	*215*	*2.6%*
Shareholdings	210	183	27	-	-	-	-	-	210	100.0%
Other non-current financial assets	53	-	2	-	-	3	-	-	5	9.4%
Current assets	*3,235*	*11*	*27*	*77*	*8*	*8*	*1*	-	*132*	*4.1%*
Trade receivables	1,907	7	26	77	8	8	1	-	127	6.7%
Current financial assets	27	4	1	-	-	-	-	-	5	18.5%
TOTAL LIABILITIES OF WHICH:	**8,199**	**9**	**20**	**7**	**1**	**9**	**-**	**-**	**46**	**0.6%**
Non-current liabilities	*5,720*	-	*4*	-	-	-	-	-	*4*	*0.1%*
Provisions for risks and charges	611	-	4	-	-		-	-	4	0.7%
Current liabilities	*2,479*	*9*	*16*	*7*	*1*	*9*	-	-	*42*	*1.7%*
Trade payables	1,332	1	16	7	1	9	-	-	34	2.6%
Other current liabilities	486	8	-	-	-	-	-	-	8	1.6%

Statement of comprehensive income *Millions of euro*	Total 12 31 2012	of which with related parties								
		Associated companies	Related companies	City of Milan	Subsidiaries City of Milan	City of Brescia	Subsidiaries City of Brescia	Related physical persons	Total related parties	% effect on the balance sheet item
REVENUES	**6,480**	**2**	**372**	**338**	**9**	**38**	**2**	**-**	**761**	**11.7%**
Revenues from the sale of goods and services	6,281	2	372	338	9	38	2	-	761	12.1%
Other operating income	199	-	-	-	-	-	-	-	-	0.0%
OPERATING EXPENSES	**4,810**	**-**	**441**	**4**	**3**	**8**	**-**	**-**	**456**	**9.5%**
Expenses for raw materials and services	4,559	-	441	1	3	2	-	-	447	9.8%
Other operating expense	251	-	-	3	-	6	-	-	9	3.6%
LABOUR COSTS	**602**	**-**		**-**	**-**	**-**	**-**	**3**	**3**	**0.5%**
DEPRECIATION, AMORTIZATION AND WRITE-DOWNS	**567**		**2**						**2**	**0.4%**
FINANCIAL BALANCE	**(180)**	**13**	**(1)**	**-**	**-**	**7**	**-**	**-**	**19**	**(10.6%)**
Financial income	58		-	-	-	7	-	-	7	12.1%
Financial expense	(251)	-	(1)	-	-	-	-	-	(1)	0.4%
Portion of income and expenses deriving from the valuation at equity of shareholdings	13	13		-	-	-	-	-	13	100.0%

The financial statements are shown in section 0.2 of this report, pursuant to Consob Resolution 17221 of March 12, 2010.

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

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

The subsidiary Edipower S.p.A. was consolidated on a line-by-line basis from June 1, 2002, as described in more detail in the sections “Scope of consolidation” and “Other information”.

Guarantees and commitments with third parties

Millions of euro	**12.31.2012**	**12.31.2011**
Guarantee deposits received	552	462
Guarantees given	1,485	1,268

Guarantee deposits received

The guarantees deposited by subcontractors and guarantees issued by credit institutions to ensure proper execution of work amount to 552 million euro (462 million euro at December 31, 2011).

Guarantees and commitments with third parties

These amount to 1,485 million euro (1,268 million euro at December 31, 2011) and refer to guarantee deposits lodged as security for commitments to third parties.

Secured guarantees given

The shareholdings in Edipower S.p.A. and Delmi S.p.A. have been pledged to the financing banks.

Group companies hold third party assets worth 66 million euro under concession.

Other information

1) Significant events after December 31, 2012

You are referred to the "Report on operations" for an explanation of significant events after year end.

2) Information on treasury shares

At December 31, 2012, A2A S.p.A. held 26,917,609 treasury shares, equal to 0.859% of the share capital which consists of 3,132,905,277 shares, the same as at the end of the previous reporting period. At December 31, 2012 no treasury shares were held through subsidiaries, finance companies or nominees.

3) IFRS3 revised operations

During the first half of 2012, the Group completed the acquisition of a 70% interest in Edipower S.p.A. by Delmi S.p.A.. This operation qualifies as a business combination in accordance with IFRS 3 (revised), "Business Combinations".

IFRS 3 revised states that all business combinations must be recognised using the acquisition method. As such, the acquirer recognises all identifiable assets, liabilities and contingencies at their respective fair values as of the acquisition date as well as any goodwill, which is then subject to impairment testing rather than being amortised.

In particular, the revised IFRS 3 establishes the following definitions:

- "business combination": the transaction by which a single entity (the "acquirer") obtains control over one or more entities or distinct businesses (the "acquiree");
- "control": the power to determine the financial and operating policies of an entity or business so as to obtain a financial benefit;
- "acquirer": the combining entity that obtains control of the other entities or businesses;
- "acquisition costs": the sum of (i) the fair value, as at the date of transfer, of the assets acquired, the liabilities assumed and the equity instruments issued by the acquirer in exchange for control of the acquiree and (ii) any costs directly attributable to the business combination;

- "fair value": the consideration for which an asset may be acquired or a liability extinguished in a free transaction between informed, willing parties;
- "acquisition date": the date on which the acquirer obtains control of the acquiree;
- "transfer date": the date of each on which each transfer takes place.

The market price on the transfer date of a publicly listed equity instrument is the best proof of the fair value of that instrument.

The revised IFRS 3, applicable as of July 1, 2009, introduces the following main changes compared to the previous version of the standard:
a) the handling of step acquisitions of subsidiaries;
b) the option of measuring any non-controlling interests obtained in a partial acquisition at fair value;
c) acquisition costs in a business combination are expensed in profit or loss;
d) recognition of contingent considerations at the acquisition date.

Edipower S.p.A. business combination

On May 24, 2012, Delmi S.p.A., a subsidiary in which A2A S.p.A. holds a 51% interest, sold a 50% interest in Transalpina di Energia (TdE) S.r.l. to WGRM 4 Holding S.p.A., a wholly owned subsidiary of EdF S.A., in exchange for payment of 783,748,900 euro and, at the same time, acquired a 70% interest in Edipower S.p.A. from Edison S.p.A. (50%) and Alpiq S.A. (20%) for a total price of 883,748,900 euro.

The 783,748,900 euro received for the 50% interest in Transalpina di Energia S.r.l. is subject to an adjustment mechanism by which this amount would be reduced by up to 25,100,000 euro based on the outcome of the mandatory public takeover bid by EdF S.A. on the ordinary shares of Edison S.p.A.. This resulted in an adjustment in the price of 24,400,123 euro, which had already been prudently assumed and accounted for in its entirety on the interim half-year report.

The effects of these transactions, which were substantially defined as at December 31, 2011, had already been recognised on the consolidated annual report for the A2A Group as at December 31, 2011.

Recognition of these transactions was done in a single accounting transaction so as to better represent the essence of the agreement. For further details on this matter, as well as for an analysis of the motivations underlying the transaction, see the notes to the consolidated financial statements for the A2A Group as at December 31, 2011.

Upon completion of the transactions described above, Delmi S.p.A. and, consequently, A2A S.p.A. obtained control of Edipower S.p.A..

Being a business combination, the Group consolidated this subsidiary using the acquisition method as envisaged under IFRS 3, effective as of May 31, 2012, a date near to that of the execution of the agreement that coincides with when control was obtained.

By applying the acquisition method, the assets and liabilities acquired have been recognised at fair value, which was determined, in part, based on an independent appraisal (by an expert appointed by Delmi S.p.A.) that looked at the projected cash flows over a seven-year period (2012-2019) as estimated by management in order to calculate the fair value of the plant owned by Edipower S.p.A..

In light of all of the above, the effects of the transaction are summarised below:

millions of euros	**05 31 2012**
ASSETS ACQUIRED AND LIABILITIES ASSUMED	
Assets	
Non-current assets	**2,417**
Tangible assets	2,107
Intangible assets	6
Deferred tax assets	293
Other non-current assets	11
Current Assets	**503**
Inventories	113
Trade receivables	279
Other current assets	21
Current tax assets	1
Cash and cash equivalents	89
Total assets	**2,920**
Liabilities	
Non-current liabilities	**1,136**
Non-current financial liabilities	959
Employee benefits	48
Provisions for risks and charges	126
Other non-current liabilities	3
Current liabilities	**273**
Trade payables	107
Other current liabilities	23
Current financial liabilities	89
Tax liabilities	54
Total liabilities	**1,409**
Net assets acquired	**1,511**

millions of euros	**05 31 2012**
Consideration transferred	
Investment in TdE S.r.l.	(915)
Cash	(100)
Difference on public tender offer	(24)
Previously held interest	
Investment in Edipower S.p.A.	(302)
Non controlling interest	
Third parties	(151)
Total	**(1,492)**
Net assets acquired	**1,511**
Badwill	**19**
of which, A2A Group	***16***

As can be seen, the main impact of the transaction on the consolidated financial statements for A2A S.p.A. concerned:

- the consideration transferred:
  - the equity interest in TdE S.r.l. that Delmi S.p.A. sold to EdF S.A. measured at fair value less cost to sell, as described in greater detail in the notes to the consolidated financial statements for the A2A Group as at December 31, 2011;
  - the cash payment for the remaining balance paid to EdF S.A. by Delmi S.p.A. for the difference in price between the sale of TdE S.r.l. (784 million euro) and the acquisition of Edipower S.p.A. (884 million);
  - the creation of a 25 million euro escrow account for EdF S.A. for the greater cost of the mandatory public takeover bid for Edison S.p.A. due to the price adjustment required by CONSOB. Following the outcome of the takeover bid, this amount was set at 24.4 million euro. It should be noted that, on the half-year report, the entirety of this outlay had already been prudently considered to be the increase in cost for the purchase of the equity interest in Edipower S.p.A. assuming full participation in the takeover bid. The reduction of 0.7 million euro was, therefore, considered to be a reduction in the cost for the purchase of the equity interest, which resulted in an increase in negative goodwill recognised on the consolidated income statement as financial income.
- the previously held interest:
  - the 20% direct equity interest in Edipower S.p.A. held by A2A S.p.A. for a total value of 302 million euro.

For the purposes of disclosure, the table below provides as summary of the contribution that Edipower S.p.A. has made to financial performance since its initial consolidation as at December 31, 2012.

Edipower S.p.A. - Economic values *millions of euros*	**06 01 2012 12 31 2012**
Total Revenues	639
Gross operating income	194
Net operating income	67
Net income	15

It should be noted that recognition of the business combination is provisional and that, as allowed by IFRS 3, adjustments may be made for up to 12 months from the acquisition date.

4) Information relating to non-current assets held for sale and discontinued operations (IFRS 5)

As at December 31, 2012, non-current assets held for sale and liabilities directly associated with discontinued operations include the reclassification of a number of Edipower S.p.A. assets and related liabilities as a result of agreement signed on May 21, 2012, by the A2A Group and the Iren Group.

On January 17, 2013, Iren S.p.A. announced that the Iren Group intended to relinquish its ownership of Edipower S.p.A.. Specifically, Iren S.p.A. requested a non-proportionate spin-off from Edipower S.p.A., allocating to Iren S.p.A. and Iren Energia S.p.A. a collection of thermal and hydroelectric power generation assets of a value essentially equivalent to the share in Edipower S.p.A. held by Iren S.p.A. and Iren Energia S.p.A.. The thermal power generation assets are those related to the Turbigo plant, while the hydroelectric power generation assets are those of the Tusciano site.

In accordance with IFRS 5, the figures related to the assets and liabilities of Turbigo and Tusciano are shown on the financial statements as at December 31, 2012, under two specific aggregates, i.e. on-current assets held for sale and liabilities directly associated with discontinued operations.

Key balance sheet and income statement figures for the aforementioned assets/liabilities are presented below.

Figures at december 31, 2012

Assets and liabilities of companies held for sale *Millions of euro*	***Asset* Edipower S.p.A.**
Non-current assets	314
Current Assets	12
Total assets	**326**
Non-current liabilities	47
Current liabilities	2
Total liabilities	**49**

5) Risks and uncertainties

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

a) Commodity price 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 risk

Commodity price risk is the market risk linked to changes in the price of raw energy (such as natural gas, electricity, coal and fuel oil, etc) and environmental securities (EU ETS emission allowances, green certificates, white certificates, etc). This consists of the potentially adverse effects that a change in the market price of one or more commodities could have on the company's cash flow and earnings prospects.

Commodity exchange rate risk is related to changes in cash flows generated by commodity and share contracts in the portfolio. It is caused by fluctuations in foreign currency exchange rates and is an integral part of commodity risk.

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

Exchange rate risk not related to commodities is the possibility of incurring losses 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 counter parties.

Equity risk is the possibility of incurring losses based on 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 counter parties, both banks or bondholders, to ask the debtor for immediate reimbursement of the amounts lent if certain events take place.

a. Commodity Risk

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

The Group is exposed to price risk, including the related exchange rate risk, on all of the energy commodities that it handles, namely electricity, natural gas, coal, crude oil and refined products and Environmental Certificates; likewise economic performance of production, purchases and sales is affected by fluctuations in the prices of such energy commodities. These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

In order to stabilise cash flows and to guarantee the Group's economic and financial equilibrium, A2A has introduced an Energy Risk Policy which lays down clear guidelines for the management and control of the above risks. It also includes the recommendations of the Committee of Chief Risk Officers Organizational Independence and Governance Working Group ("CCRO") and of Euroelectric's Group on Risk Management. Reference was also made to the Accords of the Basel Committee for Interbank Supervision approved in June 2004 (Basel 2) and the rules laid down in international accounting standards, which require any volatility in commodity prices and financial derivatives to have a direct impact on the related income statement and balance sheet items.

In the A2A Group, assessment of this kind of risk is centralised at the parent company under the responsibility of the General Manager's Office (Corporate and Market Area), which has set up a Risk Management Unit as part of the Planning, Finance and Control Department. Its task is to handle and monitor market and commodity risk, to elaborate and evaluate structured energy products, to propose financial energy risk hedging strategies and to support top management and the Risk Management Committee in defining the Group's Energy Risk Management policies.

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

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

For the purpose of monitoring risks, industrial and trading portfolios have been segregated and managed in different ways. The industrial portfolio consists of the physical and financial contracts directly related to the Group's industrial operations, i.e. 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 industrial activities, i.e. all contracts related but not strictly necessary to our industrial operations.

In order to identify the trading activity, the A2A Group follows the Capital Adequacy Directive and the definition given in International Accounting Standard (IAS) 39 of "assets held for trading": i.e. assets held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking (without being for hedging purposes).

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

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

a.2) Commodity derivatives , fair value measurement

Derivatives of the industrial portfolio considered hedges

The hedging of price risk by means of derivatives focuses on protection against high volatility of energy prices on the power exchange (IPEX), on stabilising electricity margins on the wholesale market with particular attention being paid to fixed price energy sales and purchases, and on stabilising price differences deriving from various indexing mechanisms for the price of gas and electricity. To that end, hedging contracts were executed during the year on electricity purchase agreements and on fees for the use of electricity transport capacity so as to protect sales margins and bring the risk profile to within the limits set by the Group's energy risk policy.

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

Derivatives of the industrial portfolio not considered hedges

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

Further optimization operations included forward contracts on the price of electricity with delivery in Italy (OTC wholesale power Italy). Some of these transactions are not considered hedging transactions from an accounting point of view as they do not possess the requisites laid down in accounting standards.

Derivatives of the trading portfolio

As part of its trading activity, the A2A Group has taken out forward contracts on the price of electricity with delivery in Italy and neighbouring countries, such as France, Germany and Switzerland. The Group has also signed interconnection contracts with the operators in neighbouring countries, which are considered purchases of options. Futures have been stipulated on the ICE ECX market price of EUA (EU Allowance Unit, representing one tonne of CO2), CER (Certified Emission Reductions) and ERU (ECX ICE) environmental certificates, which permit delivery of the allowances at the contract price as well as cash settlement of the differential between the market price and the contract price. The Group has also taken out forward contracts on OTC markets on the price of environmental certificates that provide for the delivery of allowances at the contract price. As part of our trading activities, forward contracts were also stipulated for the market price of gas (APX-Endex).

a.3) Energy derivatives, assessment of risks

PaR (Profit at Risk) is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the industrial portfolio. This is a tool that gives the positive or negative change in the value of the derivatives portfolio within set probability assumptions as the result of a favourable or unfavourable shift in the market indices. ([1]) 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 loss expected over a given time horizon with a set level of probability. Based on this methodology, the period of time of the current accounting period and in the event of extreme market movements,

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

corresponding to a confidence interval of 99% of probability, the expected maximum loss on financial derivatives outstanding at December 31, 2012 comes to 7.990 million euro (1,405 million euro at December 31, 2011).

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

Millions of Euro	**12 31 2012**		**12 31 2011**	
Profit at Risk (PaR)	***Worst case***	***Best case***	***Worst case***	***Best case***
Confidence level 99%	**(7.990)**	**11.480**	**(1.405)**	**1.718**

This means that the A2A Group expects, with a 99% probability, not to lose more than 7.990 million euro on the fair value of its entire portfolio of financial instruments at December 31, 2012 due to commodity price fluctuations.

VaR (2) (Value at Risk) is used to assess the impact that fluctuations in the market price of the underlying have on the financial derivatives taken out by the A2A Group that are attributable to the trading portfolio. This is a tool that gives the negative change in the value of the derivatives portfolio within set probability assumptions as the result of an unfavourable shift in the market indices. The VaR is calculated using the RiskMetrics method with a holding period of 1 day and a confidence level of 99%. Alternative methods, such as stress test analysis, are used for contracts where it is not possible to perform a daily estimate of the VaR.

Under this method, in the case of extreme market movements, corresponding to a confidence interval of 99% probability and a holding period of 1 day, the maximum estimated loss on the derivatives in question at December 31, 2012 was 1.08 million euro (3.57 million at December 31, 2011).

a.4) Fair Value hierarchy

IFRS 7 requires that the fair value classification of financial instruments is based on the quality of the input source used to calculate the fair value.

In particular, IFRS 7 lays down three levels of fair value:

- Level 1:this level includes the financial assets and liabilities for which fair value is based on (unmodified) prices quoted for similar instruments on active official or over-the-counter markets;
- Level 2:this level includes the financial assets and liabilities for which fair value is based on directly observable market inputs other than Level 1 inputs;

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

- Level 3:this level includes the financial assets and liabilities for which fair value is calculated using inputs not based on observable market data. This category includes instruments that are valued on the basis of internal estimates, made using proprietary methods, based on sector best practices.

For a breakdown of the assets and liabilities into the various levels of the fair value hierarchy, see the table below.

b. Interest rate risk

The A2A Group's exposure to interest rate risk is mainly related to the volatility of finance costs connected with variable-rate debt.

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

As at December 31, 2012, bank borrowings and other financing obtained by the A2A Group may be broken down as follows:

Millions of Euro	12 31 2012			12 31 2011		
	No derivatives	**With derivatives**	**% with derivatives**	**No derivatives**	**With derivatives**	**% with derivatives**
Fixed rate	3,079	3,938	78%	2,325	3,181	70%
Floating rate	1,945	1,086	22%	2,201	1,345	30%
	5,024	**5,024**		**4,526**	**4,526**	

Derivatives relate to the following loans:

Loan	Derivative	Accounting
A2A loan with BEI, expiry 2023, residual balance at December 31, 2012, amounting to 200 million euro, at floating rate.	Collar due to run until 2023; the fair value at December 31, 2012 was -22.9 million euro.	The loan is valued at amortised cost. The collar is a cash flow hedge, booking the effective part of the hedge to a specific equity reserve.
A2A bond loan with a nominal value of 1,000 million euro, expiry 2016 with a fixed coupon of 4.5%.	IRS on the full nominal amount, same duration as the loan; fair value at December 31, 2012 was 102.5 million euro.	*Fair value hedge* The valuation based on the fair value hedge of the bond loan will be equal to the book value of the financial liability (as foreseen by IAS and relative doctrine), which includes the financial expenses and a portion of the accrual relating to the premium and issue costs. The accumulated changes in the fair value of the risk being hedged, i.e. the interest flow differentials booked to the income statement, are added to this value.
	Collar on half of the nominal amount, same duration as the loan; the fair value at December 31, 2012 was -34.8 million euro.	The collar is valued at fair value with changes booked to the income statement.
	Collar on 350 million euro due to run until 2016; the fair value at December 31, 2012 was -14.5 million euro.	The collar is valued at fair value with changes booked to the income statement.
	Collar with double cap of 150 million euro, expiring in 2016; the fair value at December 31, 2012 was -4.4 million euro.	The collar is valued at fair value with changes booked to the income statement.
A2A bond loan with a nominal value of 500 million euro, expiry 2013 with a fixed coupon of 4.875%.	IRS with double cap and same duration as the loan; the fair value at December 31, 2012 was 7.8 million euro.	The fair value option has been applied to the loan. The collar is valued at fair value with changes booked to the income statement.
A2A loan from Cassa Depositi e Prestiti, maturity 2025, residual balance at December 31, 2012 of 200 million euro, floating rate.	Collar due to run until June 2017; the fair value at December 31, 2012 was -6.2 million euro.	The loan is valued at amortised cost. The collar is valued at fair value with changes booked to the income statement.
A2A Reti Elettriche loan from Cassa Depositi e Prestiti, maturity 2013, residual balance at December 31, 2012 of 21.2 million euro, floating rate.	Collar with double cap and same duration as the loan, residual balance of 15.9 million euro (75% of loan amount hedged); the fair value at December 31, 2012 was -0.1 million euro.	The loan is valued at amortised cost. The collar is valued at fair value with changes booked to the income statement.
Leasing Ecolombardia with Locat, maturity 2013, residual balance at December 31, 2012 of 0.6 million euro, at floating rate.	Fixed rate swaps with the same duration as the leasing agreement; the fair value at December 31, 2012 was -0.01 million euro.	The lease is accounted for as a finance lease. The swap is a cash flow hedge, booking the effective part of the hedge to a specific equity reserve.
Delmi-Edipower loan, expiry May 017, residual balance at December 31, 2012, amounting to 978.5 million euro, at floating rate.	Fixed-rate swap with the same duration as the loan and residual balance of 442.8 million euro (hedge on 40% of the notional value of 1,196 million less the repayment instalments of 89 million euro as at December 2012). The fair value of the hedge at December 31, 2012 was a -1.5 million euro.	The loan is valued at amortised cost. The swap is a cash flow hedge, booking the effective part of the hedge to a specific equity reserve.

A structured model has been developed internally to analyze and manage interest rate risk. The methodology used to calculate the exposure to this risk is based on the Montecarlo method, which enables the effect that fluctuations in interest rates have on future cash flows to be calculated. 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 are 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 the year 2013 and the comparison with 2012:

Millions of euro	2013 (base case: -175.5)		2012 (base case: -132.4)	
	Worst case	***Best case***	***Worst case***	***Best case***
Change in expected cash flows (including hedge flows) Confidence level 99%	(0.8)	0.6	(5.0)	3.5

A sensitivity analysis is also shown for potential changes in the fair value of the derivatives (excluding the cross currency swap) on shifting the forward rate curve by +/50 bps:

Millions of Euro	12 31 2012 (base case: 25.9)		12 31 2011 (base case: 40.0)	
	-50 bps	+50 bps	-50 bps	+50 bps
Change in fair value of derivatives	(14.4)	9.4	(0.1)	(3.4)
(of which cash flow hedges)	(13.3)	12.7	(5.9)	5.4
(of which fair value hedges)	21.3	(20.8)	25.3	(24.6)

c. Exchange rate risk not related to commodities

As regards the exchange rate risk on purchases and sales other than of commodities, A2A SpA does not consider it necessary at the present time to take out specific hedges as the amounts involved are quite small, they are paid or collected within a short period of time and any imbalance is immediately offset by a sale or purchase of foreign currency.

The only case of hedging exchange rate risk that was not related to commodities is the fixed-rate bullet bond of 14 billion yen with maturity 2036 issued in 2006.

A cross currency swap contract was stipulated for the entire duration of this loan, which transform the principal and interest payments from yen into euro. This derivative is accounted for as a cash flow hedge, booking the effective part of the hedge to a specific equity reserve.

At December 31, 2012 the fair value of the hedge was 2.5 million euro. This fair value would improve by 18.3 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 15 million euro in the event of a 10% rise in the forward curve of the euro/yen exchange rate (devaluation of the yen).

d. Liquidity risk

Liquidity risk concerns the Group's capacity to meet its payment commitments through self-financing, funding from banks and on the financial markets, and cash on hand.

Given the current economic landscape, marked by growing volatility and potential uncertainty on the financial markets, the Group now places particular emphasis on constantly managing liquidity risk, thereby ensuring adequate funds are available to meet expected commitments over a given period of time along with a liquidity buffer sufficient to meet any unexpected needs.

Within this view, the Group also seeks to diversify the various deadlines for debt and other sources of financing. Of note in that regard is the use of the Euro Medium-Term Note Programme for a total of up to 2 billion euro as approved by the Management Board on September 19, 2012. On November 28, 2012, bonds were issued for a total of 750 million euro with a duration of seven years and intended for institutional investors for pre-financing purposes and to lengthen the average duration of debt.

Therefore, as at December 31, 2012, the Group had unused revolving lines of committed credit in the amount of 1,785 million, approved and unused medium and long-term financing for a total of 71 million euro and cash and cash equivalents totalling 552 million, 301 million of which held by the parent company mainly resulting from the bond issue of November 28, 2012.

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.

Loans are generally included on the basis of their contractual maturity when they will be repaid, whereas revocable loans have been considered redeemable at sight.

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

2011 - *Millions of euro*	**1-3 months**	**4-12 months**	**After 12 months**
Bonds	3	77	2,427
Payables and other financial liabilities	164	558	1,875
Total financial flows	**167**	**635**	**4,302**
Trade payables	490	31	6
Total trade payables	**490**	**31**	**6**

e. Credit risk

The Group's exposure to credit risk is principally linked to its commercial activity. In order to control this risk, which is handled by the Credit Management function located centrally as part of the Administration Department and relative departments in our operating companies, a credit policy has been implemented to regulate the assessment of customers' credit standing, grant extended credit terms or exceptions if necessary, possibly backed by adequate guarantees.

The credit terms granted to most customers vary according to local regulations and market practice. In cases of delayed payment, default interest in charged as explicitly foreseen in the underlying supply contracts or in current law (application of the default rate as per Leg. Decree No. 231/2002).

Trade receivables are shown in the balance sheet net of any write-downs; it is felt that the amount shown is a reasonable reflection of the fair value of the receivables portfolio. The situation can be understood better with the help of the following analysis of gross trade receivables and the related bad debt provision.

Millions of euro	**12 31 2012**	**12 31 2011**
Trade receivables from third parties (gross)	2,220	2,285
Bad debt provision (-)	(313)	(327)
Trade receivables	**1,907**	**1,958**
Of which:		
Receivables past due for 9-12 months	**51**	**58**
Receivables past due for more than 12 months	**348**	**331**

Trade receivables past due by more than 12 months amount 348 million euro. The year-on-year increase can be traced primarily to the increase in accounts past-due by more than 12 months from EPCG. The bad debt provision represents the estimated amount that may be difficult to collect.

f. Equity risk

At December 31, 2012 A2A S.p.A. was not exposed to equity risk.

Note that, at December 31, 2012, A2A S.p.A. holds 26,917,609 treasury shares, which is 0.859% of the share capital made up of 3,132,905,277 shares.

As laid down in 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 the income statement.

g. Default and covenant risk

The following are all of the figures for the A2A Group relating to bank borrowings and amounts due to other providers of finance, excluding financial payables relating to derivatives:

Millions of euro	**Book value 12 31 2012**	**Portions maturing within 12 months**	**Portions maturing after 12 months**	**Portion maturing by**				
				12 31 2014	**12 31 2015**	**12 31 2016**	**12 31 2017**	**After**
Bonds	2,980	518	2,462	514	–	1,102	–	846
Other lenders	228	26	202	–	18	19	19	146
Finance lease payables	4	1	3	1	1	1	–	–
Bank loans	1,812	108	1,704	183	230	309	557	425
TOTAL	**5,024**	**653**	**4,371**	**698**	**249**	**1,431**	**576**	**1,417**

The parent company issued bonds to the public for a total nominal value of 2,750 million euro as follows 500 million in October 2003 and May 2004 with maturities of October 2013 and May

2014, respectively; 1 billion in November 2009 with a maturity of November 2016; and 750 million in November 2012 with a maturity of November 2019.

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

The financing received through the European Investment Bank (specifically, loans with original balances of 100 million euro expiring in 2014-2016, 200 million expiring in 2023, 200 million expiring in 2025-2026, 95 million expiring in 2026, and 70 million, 30 million of which used, expiring on 2027) includes a credit rating clause guarding against a rating of below BBB or an equivalent thereof. Following the downgrade by Moody's to Baa3 in November 2012, talks were initiated with the EIB as required under the financing agreements.

It should also be noted that the EIB financing agreements of 200 million expiring in 2025, 95 million expiring in 2026 and 70 million (30 million used) expiring in 2027 grant the bank the right, providing notice to the company and an explanation of the reasons, to invoke early repayment of the financing in the event of change in control of the parent company.

The variable-rate loan of 85 million euro expiring in June 2018 that the parent company received from Unicredit, and intermediated by the EIB includes a credit rating clause that requires the company to maintain an investment-grade rating throughout the duration of the loan. In the event of a breach of contract in this regard, there are, on an annual basis, a number of covenants to be respected based on the ratios of debt to equity, debt to gross operating profit, and gross operating profit to finance costs.

There is also a credit rating clause on the loan from CassaDepositi e Prestiti with an original balance of 200 million and expiring in 2025 protecting against the company's rating falling below investment grade (BBB-).

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

For the variable-rate loan granted in May 2012 to Edipower S.p.A. and Delmi S.p.A. with an original balance of 1,196 million euro and expiring in May 2017, there are financial covenants based on the ratio of net financial position to EBITDA, the debt service cover ratio, and the upper investment limit. This loan is also backed by a pledge on the shares of Edipower S.p.A. and Delmi S.p.A..

As mentioned above, the A2A Group has received various lines of revolving committed credit from a number of financial institutions for a total of 1,785 million euro (1,735 million of which granted to A2A S.p.A.) which are not subject to covenants, with the exception of the revolving line of credit granted to Edipower S.p.A. in the amount of 50 million euro (and currently unused), for which there are the same covenants as for the primary financing.

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

The loan to the subsidiary Abruzzoenergia S.p.A. is backed by a secured guarantee (mortgage) for a maximum of 264 million euro.

Regarding the subsidiary EPCG, the 35 million euro loan granted by the European Bank for Reconstruction and Development (EBRD), used in the amount of 19.5 million as at December 31, 2012, includes a number of financial covenants that were not entirely met as at December 31, 2012. An agreement is currently being drawn up, and will soon be signed with the funding bank; the agreement suspends the effects of these covenants for a backdated period of time to be agreed.

As things stand, the A2A Group had not defaulted on any loan or breached any of the aforementioned covenants.

Analysis of forward transactions and derivatives

As regards their classification in the financial statements, these transactions meet the compliance requirements as per International Accounting Standard IAS 39 for the application of hedge accounting.

More specifically:

1) Transactions considered hedges for the purposes of IAS 39: can be split into transactions to hedge future cash flows (cash flow hedges) and transactions to hedge assets or liabilities (fair value hedges). For the cash flow hedges, the accrued result is included in gross operating income when realised on commodity derivatives and among net finance costs for interest rate and exchange rate derivatives, whereas the future value is shown among equity.
2) Transactions not considered hedges for the purposes of IAS 39can be split between:
    a. Margin hedges: for all hedging transactions that meet internal risk policy compliance requirements, the accrued result and future value are included in gross operating

income for commodity derivatives and in the financial balance for interest and exchange rates;

b. Trading: the accrued result and future value are recognised through profit or loss above the level of gross operating income for commodities trading and among financial income and expense for interest rate and currency transactions.

The use of financial derivatives is governed by a coordinated set of procedures (Energy Risk Policy, Deal Life Cycle) which are based on sector 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 used at December 31, 2012 are measured at fair value based on the forward market curve at the balance sheet date, if the underlying of the derivative is traded on markets that have a forward pricing structure. Their valuation at fair value, in the absence of a forward market curve, has been estimated internally, using models based on industry best practice.

The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts in accordance with IAS 39.

Instruments outstanding at December 31, 2012

A) On interest and exchange rates

millions of euro	Notional value (a) maturity within 1 year		Notional value (a) maturing in 2 to 5 years		Notional value (a) maturing after 5 years	Value Balance sheet (b)	Effect over time on the statement of income 12 31 2012 (c)
	To be received	To be paid	To be received	To be paid			
Interest rate risk management							
– cash flow hedges as per IAS 39	–	47	–	482	114	(24)	–
– not considered hedges as per IAS 39	–	516	–	1,046 (d)	–	50 (e)	50 (e)
Total derivatives on interest rates	**–**	**563**	**–**	**1,528**	**114**	**26**	**50**
Exchange rate risk management							
– Considered hedges as per IAS 39							
On commercial transactions	–	–	–	–	–	–	–
On financial transactions	–	–	–	–	98	3	–
– not considered hedges as per IAS 39							
On commercial transactions	–	–	–	–	–	–	–
On financial transactions	–	–	–	–	–	–	–
Total exchange rate derivatives	**–**	**–**	**–**	**–**	**98**	**3**	**–**

(a) This represents the sum of the notional value of the elementary contracts that derive from any dismantling of complex contracts.
(b) This represents the net receivable (+) or payable (-) shown in the balance sheet/income statement after measuring the derivatives at fair value.
(c) This represents the adjustment of derivatives to fair value booked over time to the income statement from stipulation of the contract to the present day.
(d) Includes derivative instruments with underlying bond worth 1,000 million euro, maturing in 2016, and IRS with notional value of 1,000 million euro, with no economic effect, as a result of the fair value measurement. Hedges and two collars of a notional value of 1,000 million euro, not considered hedges under IAS 39.
(e) Includes the effect on collars, with overall notional value of 1000 million euro, not considered hedges under IAS 39.

B) On commodities

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

Energy product price risk management	Unit of measurement of the notional value	Notional value maturing within 1 year	Notional value maturing within 2 years	Notional value maturing within 5 years	Balance sheet-income statement value (*) (millions of euro)	Progressive effect on income statement (**) (millions of euro)
A. Cash flow hedges as per IAS 39, including:					**(1.3)**	**-**
– Electricity	TWh	5.3			0.1	
– Oil	Bbl	–	–	–	–	–
– Fuel oil	Tons	–	–	–	–	–
– Natural gas	Millions of cubic metres	–	–	–	–	–
– Exchange	Millions of dollars	–	–	–	–	–
– Emission rights	Tons	2,757,000	129,000	2,000	-1.4	
B. Considered fair value hedges as per IAS 39	**-**	**-**	**-**	**-**	**-**	
C. Not considered hedges as per IAS 39, including:					***12.1***	***6.3***
C.1 Margin hedges					**(0.8)**	**(3.6)**
– Electricity	TWh	4.1	0.1		(0.7)	(2.2)
– Oil	Bbl	–	–	–	–	–
– Fuel oil	Tons	–	–	–	–	–
– Natural gas	Millions of cubic metres	3,440.0	–	–	0.1	0.1
– CO_2 emission rights	Tons	164,000			(0.1)	(1.3)
– Exchange	Millions of dollars	–	–	–	–	–
C.2 Trading transactions					**12.9**	**9.9**
– Electricity	TWh	17	2.2		11.8	6.2
– Natural gas	TWh	1.8			(0.1)	1.2
– CO_2 emission rights	Tons	528,940			1.1	2.4
– CO_2 emission rights	MWh	26,000			0.1	0.1
Total					**5.2**	**8.0**

(*) Represents the net credit (+) or debit (-) booked to the balance sheet-income statement when derivatives are recognized at fair value

(**) This represents the adjustment of derivatives to fair value booked over time to the income statement from stipulation of the contract to the present day.

Balance sheet and income statement effects of derivative trading at December 31, 2012

The following table shows the balance sheet figures for the management of derivatives at December 31, 2012.

Effects on the balance sheet

millions of euro	Note	
ASSETS		
Non-current assets		**70**
Other non-current assets - Derivatives	5	70
Current assets		**27**
Other current assets - Derivatives	8	27
Total assets		**98**
Liabilities		
Non-current liabilities		**48**
Other non-current liabilities - Derivatives	22	48
Current liabilities		**10**
Trade payables and other current liabilities - Derivatives	23	10
Total liabilities		**58**

Effects on the income statement

The following table includes an analysis of the economic results generated through derivative trading at December 31, 2012.

millions of euro	Note	Realised during the year	Change in fair value during the year	Amounts booked to the statement of comprehensive income
INCOME				
Revenues from the sale of goods	28			
Energy product price risk management and commodity exchange risk management				
– considered hedges as per IAS 39		(1)	–	(1)
– not considered hedges as per IAS 39		29	(12)	17
Total revenues from sales		**28**	**(12)**	**16**
OPERATING EXPENSE	29			
Expenses for raw materials and services				
Energy product price risk management and commodity exchange risk management				
– considered hedges as per IAS 39		19	–	19
– not considered hedges as per IAS 39		(16)	18	2
Total expenses for raw materials and services		**3**	**18**	**21**
Total booked to gross operating income (**)		**31**	**6**	**37**
FINANCIAL BALANCE	34			
Financial income				
Interest rate risk management and equity risk management				
Gains on derivatives				
– considered hedges as per IAS 39		–	–	–
– not considered hedges as per IAS 39		–	–	–
Total		**–**	**–**	**–**
Total financial income		**–**	**–**	**–**
Financial expenses				
Interest rate risk management and equity risk management				
Charges on derivatives				
– considered hedges as per IAS 39		(4)	–	(4)
– not considered hedges as per IAS 39(*)		13	(51)	(38)
Total		**9**	**(51)**	**(42)**
Total financial expenses		**9**	**(51)**	**(42)**
TOTAL BOOKED TO FINANCIAL BALANCE		**9**	**(51)**	**(42)**

(*) This includes the fair value of the bond loan of A2A S.p.A..
(**) These figures are not affected by the so-called net presentation of the trading margin.

Classes of financial instruments

To complete the analyses required by IFRS 7, the following table shows the various types of financial instruments that are present 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 posted (Income Statement or Balance Sheet).

The last column of the table shows the fair value of the instrument at December 31, 2012, where applicable.

millions of euro — Accounting policies used to measure financial instruments in the financial statements

	Note	Financial instruments measured at fair value with changes booked to:			Financial instruments valued at amortized cost.	Share-holdings/ securities convertible into unlisted shareholdings valued at cost	Consolidated balance sheet value at 12 31 2012	Fair value at 12 31 2012 (*)
		Statement of Income	Equity					
		(1)	(2)	(3)	(4)	(5)		
ASSETS								
Other non-current financial assets								
Shareholdings/ securities convertible into shares available for sale, including:								
–unlisted				9			9	n.a.
–listed							–	–
Financial assets held to maturity							–	–
Other non-current financial assets					44		44	44
Total other non-current financial assets	**3**						**53**	
Other non-current assets	5	67	3		19		89	89
Trade receivables	7				1,907		1,907	1,907
Other current assets	8	27			291		318	318
Current financial assets	9				27		27	27
Cash and cash equivalents	11				553		553	553
Assets held for sale	12				326		326	n.a.
LIABILITIES								
Financial liabilities								
Current and non-current bonds	18 e 24	1,620			1,360		2,980	2,980
Other non-current and current financial liabilities	18 e 24				2,044		2,044	2,044
Other non-current liabilities	22	25	23		365		413	413
Trade payables	23				1,332		1,332	1,332
Other current liabilities	23	7	3		476		486	486

(*) The fair value has not been calculated for receivables and payables not related to derivative contracts and loans as the corresponding book value comes close to it.
(1) Financial assets and liabilities at fair value with any changes in this fair value booked to the income statement.
(2) Hedging derivatives (Cash Flow Hedge).
(3) Financial assets available for sale measured at fair value with gains/losses booked to equity.
(4) Loans & receivables and financial liabilities valued at amortised cost.
(5) Financial assets available for sale made up of unlisted shareholdings the fair value of which is not reliably measurable are carried at either cost or fair value, whichever is the lower, written down for losses if necessary.

Fair value hierarchy

millions of euro	Note	Level 1	Level 2	Level 3	Total
Assets available for sale measured at fair value	3	–	9	–	**9**
Other non-current assets	5	–	–	70	**70**
Other current assets	8	19	-	8	**27**
TOTAL ASSETS		**19**	**9**	**78**	**106**
Non-current financial liabilities	18		1,102	–	**1,102**
Other non-current liabilities	22	–	–	48	**48**
Current financial liabilities	24	518	–	–	**518**
Other current liabilities	23	18	1	(9)	**10**
TOTAL LIABILITIES		**536**	**1,103**	**39**	**1,678**

6) Concessions

The following table shows the main concessions obtained by the A2A Group:

	Number
Hydroelectric concessions	90
District heating concessions	10
Electricity distribution concessions	48
Gas distribution concessions	213
Solid urban waste concessions (“SUW”) (*)	90
Water service management concessions (**)	114
Urban illumination and traffic lights management agreements	13
Other concessions	15

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

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

EC infringement procedure

On June 5, 2002, the European Commission published decision 2003/193/EC declaring that the three-year exemption from income tax (under art. 3.70 of Law 549/95 and art. 66.14 of Decree 331/1993, converted into Law 427/93) and the advantages deriving from loans (pursuant to art. 9-bis of Decree Law 318/1986, converted into Law 488/96) granted to publicly-owned companies formed under Law 142/90 were incompatible with EC law, since they were deemed to represent State aid which is banned by art. 87.1 of the EC Treaty. The Commission did not consider the tax exemption on business contributions under Art. 3.69 of Law 549/95 to be State aid.

This decision was notified on June 7, 2002 to the Italian State, which appealed against it to the Court of Justice. Subsequently, by order of the Court of Justice dated June 8, 2004, the case was transferred to the Court of First Instance with reference number T-222/04, following the expansion of that court's functions by the Treaty of Nice.

In July 2002, the Commission communicated the decision to the companies concerned, which appealed against it to the Court of First Instance of the European Community on September 30, 2002, pursuant to art. 230.4 of the EC Treaty; Further appeals against this decision have also been filed by other public-sector commercial companies and by Confservizi.

The Italian State did not ask the Court of Justice to suspend execution of the Commission's June 2002 Decision so as not to prejudice the resolution of merit in the event of a refusal. In fact, it is rare for the Court to concede a stay of execution, above all in matters regarding State aid.

The decision is therefore fully effective and binding on the Italian State, which is obliged to recover the aid granted.

On the invitation of the Commission and while continuing to pursue action to overturn the decision, the Italian State has therefore activated a recovery procedure. This process has involved preparation of a survey questionnaire to identify the public-sector commercial companies that have benefited from the above tax exemption, and from loans granted by Cassa Depositi e Prestiti in the years under consideration.

The Italian State's recovery initiatives continued with the predisposition of an amendment to the EC law, which was approved by the Senate on April 13, 2005 (art. 27, Law 62 of April 18, 2005). The measure envisages detailed recovery procedures based on ordinary tax rules to adjust any recovery to the effective existence of recoverable aid (considering the specific circumstances of each position and bearing in mind any outstanding disputes with the tax authorities). In particular, this measure envisages certain declarations on the part of the taxpayer and presumes certain official acts specifying the application methods and guidelines for a correct evaluation of cases of non-application. The guidelines were then amended to make them more precise by Art. 1, sub-section133 of Law 266 of March 23, 2006 (Budget Law 2006).

Subsequently, following Italy's condemnation by the Court of Justice for the delay in recovering the "aid" (ruling June 1, 2006, case C – 207/05), Decree 10 of February 15, 2007 (converted into Law 46 of April 6, 2007) made further amendments to the existing recovery procedures.

In this connection, new instructions were issued for the implementation of European Commission Decision 2003/193/EC, with a view to the recovery of aid equivalent to the unpaid taxes and related interest resulting from application of the tax exemption regime envisaged in art. 3.70 of Law 549 dated December 28, 1995, and art. 66.14 of Decree no. 331 of August 30, 1993, a converted with amendments into Law no. 427 of October 29, 1993.

In the first half of 2007, the Tax Authorities sent notices to AEM S.p.A. and ASM S.p.A. - pursuant to Decree no. 10/2007 - in the form of a "communication-injunction"- concerning the alleged State aid enjoyed during the moratorium period.

On April 30, 2009, as explained in greater detail below, the Tax Office notified five further assessments in connection with the position of the former AEM S.p.A. and the former ASM S.p.A. pursuant to Art. 27, Decree No. 185 of November 29, 2008, as converted with amendments into Law No. 2 of January 28, 2009, for around 64 million euro, including interest.

Decree no. 135 of September 25, 2009 (art. 19) introduced new instructions regarding recovery of the aid mentioned, essentially involving (i) the possible notification of further repayment assessments, (ii) the non-recoverability of any realised capital gains. As a result, on October 2, 2009, the company received six further assessments from the competent offices for the recovery of amounts additional to those already claimed totalling about 220 million euro.

On this basis, the Italian Tax Authorities activated the recovery procedure by means of a fiscal-type assessment without offering any chance to defer or suspend payment.

The guidelines for recovery can be found in the Agenda of the Chamber of Deputies no. 9/01972/071, which was approved at the session held on January 14, 2009. In the guideline, it is explained that the recovery "cannot take the form of a simple tax assessment, without any specific criteria; instead, it has to determine if and how much aid has to be recovered, clarifying in particular that it is recoverable only if actually enjoyed and verifying case by case whether the company has effectively made use of illegitimate state aid that has altered the principles of free competition and companies' freedom of establishment". In line with this concept, "those resources that have already been involved in forms of reimbursement" have to be considered "excluded from the recovery measure".

In exercising the powers granted, the Tax Authorities should have identified, in the specific circumstances, the actual enjoyment of illegitimate state aid that has not already been reimbursed.

Given that the lawsuits involving the merging company AEM S.p.A. (now A2A S.p.A.) and the merged company ASM S.p.A. are the subject of separate proceedings at the Court of First Instance of the European Community and have different positioning in relation to the "communication-injunction" and other assessments, the two situations are explained separately for the sake of clarity.

Former AEM S.p.A. (now A2A S.p.A.)

In the proceedings raised by AEM S.p.A., on January 6, 2003, the Commission filed an objection claiming that it could not accept the appeal. AEM promptly replied before the legal deadline. The Court set the meeting concerning the objection claiming that it could not accept the appeal by order dated August 5, 2005. On March 15, 2006, AEM filed a brief in relation to the judgement pending before the Court of First Instance. On February 28, 2008, the Court of First Instance communicated to AEM its intention to combine (only for the oral phase) the various lawsuits being brought by AEM S.p.A., Confservizi, other public-sector commercial companies and the Italian Government, asking for the opinions of the parties concerned.

On March 6, 2008, AEM S.p.A. communicated to the Court that it would welcome a move to combine the various lawsuits and, apparently, the other appellants also responded in the same way. The final hearing was held on April 16, 2008 and, by a ruling dated June 11, 2009, the Court of First Instance declared that the appeal presented by AEM S.p.A. was admissible, but rejected it on merit - as for those presented by the other appellants - taking the view that the measure in question constituted State aid that was banned under art. 87.1 of the EC Treaty, and therefore confirming the decision made by the Commission. AEM S.p.A. impugned this ruling on a timely basis before the European Court of Justice. With ruling C 320/09 P, published on 21 December 2011, the European Court of Justice rejected the appeal made by A2A S.p.A. (similar appeals proposed by other former municipal utilities were also rejected).

With reference to Art. 27 of Law 62 of April 18, 2005, AEM S.p.A. has carefully complied with the obligations placed on the former municipal utilities that are contained in the recovery regulations and related enabling instructions.

On October 27, 2005 the Tax Authorities visited the head office of AEM S.p.A. to acquire documentation to check the correctness of the figures declared in the tax returns presented in accordance with art. 27 of Law 62. The visit was merely to ascertain and finalise the amount of any taxes that were to be reimbursed. AEM S.p.A. gave the inspectors an ample statement on how the tax returns were compiled. Even if all possible forms of legal protection failed, it was deemed reasonable to assume that the Italian government's recovery actions would have involved revoking the benefits granted in different ways, depending on the public service sectors concerned. In particular, it was assumed that such action would have taken account of the actual degree of competition during the period of the measures being contested and, therefore, of the extent to which it may have been distorted.

In this regard, AEM's appeal explained that, during the 1996-1999 period examined by the Commission, the Company operated in sectors such as electricity and gas that were not opened up to competition, and in which AEM S.p.A. did not take part in any tenders for provision of the related services (an observation that has subsequently been repeated to the Court of Justice).

In light of the uncertainty regarding the outcome of the recourses and the ways in which the Commission's decisions would be applied, the Company thinks it possible, but not probable, that it risks having to hand back all of the aid received if the result of the entire appeal procedure turns out to be negative: consequently, no provisions were made for this matter in any of the financial statements approved up to December 31, 2006. This decision took account of objective uncertainties that make it impossible to obtain a sufficiently reasonable estimate of the charges that would be borne by AEM S.p.A. as a consequence of the above Decision.

Lastly, the majority of the profits distributed by AEM S.p.A. during the tax moratorium period were paid to the Municipality of Milan, which is part of the Public Administration. AEM S.p.A. did not receive any assisted loans from Cassa Depositi e Prestiti (Italian Deposits and Loan Fund) under the laws mentioned during the period considered by the Commission.

On March 30, 2007, the Milan I Tax Office notified four assessments, or "communication-injunctions" under Decree no. 10/2007, relating to the aid alleged to have been used during the periods 1996, 1997, 1998 and 1999.

The amounts requested in these assessments, totalling 4.8 million euro inclusive of interest, were based on the Company's declaration made July 2005, except for the disallowance of the effect of applying the so-called "tombstone" tax amnesty under Law no. 289/2002.

Pursuant to Decree 10/2007, the amounts established but not paid over are subject to forcible collection via inclusion on the tax roll; the rules do not permit any extended payment terms or suspensions, not even in the event of appeal.

Having taken note of these communications, and considered Decree Law 10/2007 and related conversion law and checked that the amounts requested agree with those originally declared, the Company decided on April 27, 2007 to pay. .

As a result of the above, the amounts paid were included in the 2007 accounts under "Financial expenses" and "Other non-operating expenses".

To protect its interests, the Company decided to appeal against these "communication-injunctions" to the competent tax jurisdiction. The Provincial Tax Commission of Milan - Section 21 rejected these appeals in ruling no. 8 of January 25, 2008 and the ruling that establishes the amount of the recoverable aid is now definitive.

On April 30, 2009, the Tax Authorities notified three assessments, issued under art. 24 of Decree 185/2008, for the recovery of alleged State aid that conflicts with EC regulations and the earlier decision of the European Commission. Appeals against these assessments have been filed with the Milan Provincial Tax Commissioners. The case was discussed on September 19, 2011 and the appeals presented were all rejected, after a meeting, in ruling No. 222/09/11. The company filed a timely appeal against this ruling.

Based on current law, the amount requested, namely a total of 23 million euro, had to be paid within thirty days of notification of the provision, so A2A S.p.A. made the payment on May 8, 2009.

As mentioned, on October 2, 2009, the Tax Authorities notified four assessments, issued under art. 19 of Decree 135/2009, for the further recovery of alleged State aid to the former AEM S.p.A. that conflicts with EC regulations.

Having paid a total of 184 million euro on October 22, 2009 - to avoid the charges involved in being entered on the tax rolls and the accrual of further interest - the Company appealed against these notices before the Milan Provincial Tax Commission, which first met with ASM S.p.A. - discussed the merit of the case on January 19, 2010 and declared itself in favour with ruling 137/01/10.

Following the ruling, A2A S.p.A asked the Tax Office to refund the amounts paid to return alleged “government aid” received, but received no reply.

By way of this ruling, on April 9, 2010 an appeal was submitted by the Regional Headquarters of the Revenues Agency and Milan 1 Tax Office.

Former ASM S.p.A. (from January 1, 2008 absorbed by A2A S.p.A.)

As regards ASM S.p.A.’s position, the company has also impugned the decision before the Court of First Instance in Luxembourg with an appeal filed on its own account on January 2, 2003 and “ad adiuvandum” in support of AEM S.p.A. and AMGA S.p.A..

ASM felt that the European Commission’s decision 2003/293/CE of July 5, 2002 could not be applied to it because of the particular nature of its situation: during the period under consideration, the services provided by ASM S.p.A. in its areas of operations were not open to the market and to free competition.

On January 6, 2003 the Commission filed an objection claiming that it could not accept the appeal. ASM S.p.A. promptly replied before the legal deadline. The Court set the meeting concerning the objection claiming that it could not accept the appeal by order dated August 5, 2005.

On February 28, 2008, the Court of First Instance communicated to ASM S.p.A. its intention to combine (only for the oral phase) the various lawsuits being brought by ASM S.p.A., Confservizi, other public-sector commercial companies and the Italian Government, asking for the opinions of the parties concerned. ASM S.p.A. communicated to the Court that it would welcome such a move to combine the various lawsuits.

The final hearing was held on April 16, 2008 and, by a ruling dated June 11, 2009, the Court of First Instance declared that the appeal presented by ASM S.p.A. was admissible, but rejected it on merit - as for those presented by the other appellants - taking the view that the measure in question constituted State aid that was banned under art. 87.1 of the EC Treaty, and therefore confirming the decision made by the Commission. With ruling C 320/09 P, published on 21 December 2011, the European Court of Justice rejected the appeal made by A2A S.p.A. (similar appeals proposed by other former municipal utilities were also rejected).

The companies of the ASM Group involved in the recovery procedure(ASM S.p.A., also on behalf of BAS S.p.A. and Azienda Servizi Valtrompia S.p.A.), in accordance with the request contained in art. 27 of Law 62 of April 18, 2005, sent the declaration required by art. 27 of the said law for each of the periods affected by the tax moratorium.

BAS S.p.A. Bergamo, which was absorbed with effect from May 18, 2005, and Azienda Servizi Valtrompia S.p.A had negative taxable income during the years in which the moratorium applied, so it is probable that no tax will be due.

In April 2007, ASM received a communication-injunction under art. 1 of Decree 10/2007 from the Brescia Tax Office for the periods 1998 and 1999.

Based on the opinion of its own tax consultants and experts in EC law, ASM S.p.A. pointed out to the Brescia Tax Office that the communication-injunction that it had received was contrary to the provisions of this decree both in content and in amount.

At the same time, ASM S.p.A. appealed to the Brescia Court for this injunction to be declared null and void; it also asked for a court order suspending payment.

On May 23, the Tax Office acknowledged that ASM's arguments were correct and cancelled the communication-injunction to pay. In light of the uncertainty regarding the outcome of the recourses and the ways in which the Commission's Decisions would be applied, the Company thinks it possible, but not probable, that it risks having to hand back all of the aid received if the result of the entire appeal procedure turns out to be negative: consequently, no provision has been made for this matter in any of the financial statements.

While waiting for the question to be decided, the Shareholders' Meeting of ASM S.p.A. has resolved not to consider distributable an amount of 13 million euro representing a portion of the free reserves formed during the period of the "tax moratorium".

On April 30, 2009, the Tax Authorities notified two assessments, issued under art. 24 of Decree 185/2008, for the recovery of alleged State aid to the former ASM S.p.A. that conflicts with EC regulations. Appeals against these assessments have been filed with the Milan Provincial Tax Commissioners. The case was discussed on September 19, 2011 and the appeals presented were all rejected, after a meeting, in ruling No. 222/09/11. The company filed a timely appeal against this ruling.

Under current regulations, the amount requested, 41.6 million euro, had to be paid within thirty days of the provision being notified, so A2A S.p.A. paid on May 8, 2009.

As mentioned, on October 2, 2009, the Tax Authorities notified two assessments, issued under art. 19 of Decree 135/2009, for the further recovery of alleged State aid to the former ASM S.p.A. that conflicts with EC regulations.

Having paid a total of 35.8 million euro on October 22, 2009 - to avoid the charges involved in being entered on the tax rolls and the accrual of further interest - the Company appealed against these notices before the Milan Provincial Tax Commission, which first met with AEM S.p.A. - discussed the merit of the case on January 19, 2010 and declared itself in favour with ruling 137/01/10. Following the ruling, A2A S.p.A asked the Tax Office to refund the amounts paid to return alleged "government aid" received, but received no reply.

By way of this ruling, on April 9, 2010 an appeal was submitted by the Regional Headquarters of the Revenues Agency and Milan 1 Tax Office.

* * *

Judgement on the appeal presented by the Revenues Agency regarding ruling no.137/01/10, and the positions of the former AEM S.p.A. and former ASM S.p.A.

Following the appeal presented, A2A S.p.A lodged an appeal, submitting counter claims and subsequent brief.

On July 5, 2010, the Revenue Agency's appeal was discussed before the Regional Revenue Tribunal, who accepted it.

Without delay, the company presented an appeal to the Court of Cassation, describing the flaws in the appeal ruling; a date for the hearing to discuss the case has not been set yet.

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Judgement on the appeal presented by the Revenues Agency regarding ruling no.222/09/11, and the positions of the former AEM S.p.A. and former ASM S.p.A.

Following the appeal presented, A2A S.p.A lodged an appeal, submitting counter claims and subsequent brief.

On June 13, 2012, the Revenue Agency's appeal was discussed before the Regional Revenue Tribunal, who accepted it.

A2A is assessing its option of filing a counter claim with the Court of Cassation so the court might assess the flaws in the appeal ruling.

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

The purchase of the investment in HISA by BAS was made through a local consultant called Consul Latina.

Given that the wording of the contract was not totally clear and the fact that BAS S.p.A. on its own did not buy 100% of HISA, BAS S.p.A. did not pay the fee due to Consul Latina, which sued for payment in 1998.

The lawsuit is still in underway with various procedural objections, some recent, such as the fact that all court proceedings after May 18, 2005 were declared null and void for lack of right of attorney; a problem that has been resolved subsequently.

In the appeal ref. EXP 82218, ruling 3697/3000 dated May 9, 2008, Consul Latina requested that the proceedings be declared void given that the lawyers had no powers and claiming damages due to a delay in the filing of documents by BAS S.p.A.. The court refused the claims, recognising that ASM S.p.A. took over from BAS S.p.A..

We have been informed by the lawyer, Mr De Florio, that, according to Consul Latina, the amount payable on May 10, 2007 was USD 1,872,000, calculated on a principal of USD 720,000 plus interest of 1% from April 1999.

As of that date, a possible offer by ASM S.p.A. to settle the dispute for USD 400,000 was not considered acceptable.

In a communication dated November 18, 2008, the lawyer reiterated that the coefficient to be applied to the value of the principal to understand the sum due by BAS S.p.A. in the event of losing the lawsuit is 27.22%. He also confirmed that, over the last two years, the interest rate applicable to commercial settlements has remained at 1.55%.

On July 30, 2010, notification of an international rogatory letter was received, requesting a formal cross-examination of A2A S.p.A on the facts and witness questions formulated by the

Buenos Aires Court; the hearing was held on September 17, 2010 and the report was sent to the Court of Appeal at the Buenos Aires court for their subsequent ruling.

The legal team assisting A2A S.p.A believes A2A S.p.A.'s testimony went well, but have no prediction to make as regards a date or outcome of the possible ruling.

The attorneys' opinion about the outcome of the case laid out in their report at month-end March 2012 predicts a 25% chance that the ruling allows all the demands of Consult Latina (principal amount of USD 720,000 plus accrued interest at 1% per month, plus expenses in the amount of 30% of the principal and interest); a 55% chance that the ruling reduces the claims of Consult Latina (to USD 131,521 plus accrued interest at 1% per month, plus expenses in the amount of 30% of the principal and interest); a 10% chance that the ruling reduces the claims of Consult Latina (to USD 82,855 plus accrued interest at 1% per month, plus expenses in the amount of 30% of the principal and interest); and 10% chance that the judge finds A2A S.p.A. fully exonerated and does not order it to make any payment.

In motion No. 82220, Consult Latina demanded a pledge on Redengas S.A. shares; the Court allowed the claim on June 21, 2001.

As regards the claim named EXP 90779, Ruling 5317534 dated May 20, 2005, in which Consul Latina raised objection regarding the absence of locus standi of attorney De Florio in the action held in August 2005 resulting from the merger of BAS S.p.A. into ASM S.p.A., the judge dismissed the case (in a ruling issued on October 6, 2009) due to the plaintiff's failure to respond.

On November 10, 2008, attempted to file a new claim against BAS S.p.A., EXP 095148, requesting information about Enerfin S.r.l. in liquidation, designed to find out if ASM S.p.A. was still a shareholder and, if not, the selling price obtained. In different proceedings (No. 95148), on November 16, 2009, the judge condemned A2A S.p.A. to pay a fine of 300 pesos per day from May 6, 2009 for not having provided the information required about the sale; our legal team appealed immediately against this sentence and for this reason no fine has yet been paid. On June 30, 2011, the Court of Appeals revoked the interlocutory appeal which found A2A S.p.A. to be noncompliant; as a result, A2A S.p.A., which had never paid the daily penalty, was declared not obligated to make this payment.

In February 2010, A2A S.p.A. renewed the mandate of the Garrido Law Office to find a way of settling the original lawsuit brought by Consult Latina and take the necessary steps to revoke the pledge filed by Consul Latina on HISA's subsidiaries. In late September 2011, the attorneys communicated a settlement proposal, without elaborating on the details of its terms, filed by Consult Latina for a value of USD 3.9 million. A2A S.p.A. communicated that this would not be acceptable, reconfirming our willingness to settle for a figure of around 750 thousand dollars. We have no information on the formal response of Consult Latina.

The company is assisted by Studio Garrido in Buenos Aires.

ENEL / AEM Elettricità S.p.A. (now A2A Reti Elettriche S.p.A., controlled by A2A S.p.A.)

Via a writ served in 2001, ENEL requested annulment of the decision made by the Board of Arbitrators appointed in accordance with Leg. Decree 79 of March 16, 1999 (the so-called "Bersani Decree"), which set at 820 billion lire the price to be paid to ENEL for the sale to AEM Elettricità S.p.A. (now A2A Reti Elettriche S.p.A.) of the power distribution business in the municipalities of Milan and Rozzano. AEM Elettricità S.p.A. asked for ENEL's request to be rejected, as the arbitrators' decision could not be considered manifestly unfair or erroneous in accordance with art. 1349 of the Italian Civil Code. AEM Elettricità S.p.A. in turn filed a claim asking for ENEL to be ruling to pay compensation for the damages caused by the delay with which ENEL implemented the sale of the business, as imposed by the law.

AEM Elettricità S.p.A. believes the judge would only be able to change the arbitrators' decision if it appeared to be "manifestly unfair or erroneous", as confirmed by an expert witness's report which the judge has ordered.

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

By a ruling issued on June 9, 2008, the Milan Court set a new price for the business based on the indications of the expert witness (990.8 billion lire) and rejected the claim for damages made by AEM Elettricità S.p.A.. According to the Court, the difference between the expert witness's valuation and that carried out by the Board of Experts was such as to make the latter blatantly unfair. In other words, the Judge felt that he could fully trust the conclusions reached by the expert witness appointed by the Court, even though some of the choices made appeared to be the result of exercising in a different way the technical discretion that is inherent in valuations, leading to a very different result from that reached by the Board of Experts. The Judge also based his decision on certain affirmations made by the expert witness regarding the "inappropriate nature" of certain parameters used by the Board of Experts.

Considering the price established by the Board of Experts to be unfair, the Judge also rejected the claim made by AEM Elettricità S.p.A. for damages caused by the delay in transferring the business. In fact, according to the Judge, ENEL was justified in not transferring the business as the price was unfair.

There are various objections that can be made to this ruling.

To start with, we do not accept that the price established by the Board of Experts was affected by errors, or that it was unfair. The Board consisted of illustrious professors with years of experience in company valuations, so the fact that the Judge simply replaced their calculation with the one performed by the expert witness is totally unsatisfactory. From another point of view, there appears to be no justification for rejecting the request for damages because of the delayed transfer of the business, given that EN EL could quite easily have handed it over - as in fact it did - while at the same time asking for a fairness review of the price set by the Board of Experts. A2A has appealed against the Court ruling with a writ served on October 23, 2008; the hearing for the statement of the conclusions is expected on April 5, 2011. Subsequently, with a writ served on May 28, 2009, ENEL has sued A2A S.p.A., based on this ruling by the Milan Court (which was not a ruling of condemnation), asking that A2A should be condemned to pay 88,244,342 euro, as well as interest at the legal rate and monetary revaluation from October 31, 2002. At the first hearing of this case on November 24, 2009, the plaintiff waived the injunction and the parties are now waiting for the above appeal to go ahead.

An agreement was negotiated in 2009 with the counterpart allowing any costs to be paid in instalments and eliminate the risk of the company having to pay out a sizeable amount at the one time.

When preparing the 2009 annual report, it was decided, for prudence sake, to maintain the balance sheet book value of goodwill relating to the business transferred at 88 million euro, booking the contra-entry to a provision for risks and charges under balance sheet liabilities of the same amount and ancillary charges of 24 million euro.

During the reorganisation of roles, the case was postponed and the hearing to decide on the conclusions, originally set for April 5, 2011, has been postponed until September 18, 2012.

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

Adriano Propersi was appointed by the court to act as its expert, while A2A S.p.A. designated Angelo Provasoli as its own expert witness.

Investigation on gas measuring devices

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

The investigation was initiated by the Milan Judicial Authority but then transferred to Brescia for a question of territorial jurisdiction. After the notification of the "Conclusion of Preliminary Questioning - Art. 415 bis of the Italian Penal Code" dated February 7, 2011, notification of the "Preliminary Hearing Date" was received on June 9, 2011 regarding the committal for trial presented by the Public Prosecutor. The preliminary hearing was held before the Brescia Preliminary Investigations Magistrate on November 8, 2011. The defence for the accused raised a preliminary exception annulling the notification of the decree containing the notification advising of the "Date of Preliminary Hearing" given that it did not include the CD with the list of "indicted" meters indicated in the decree as "attachment forming a material part of the charge". The Examining Judge accepted the exception and declared the notification annulled. As a result, the Public Prosecutor had to reissue the "Notification of Conclusion of Preliminary Investigations - Art.-415 bis Italian Penal Code" and return to the previous stage in the proceedings. On January 4-9, 2012, the "Notification of Conclusion of Preliminary Investigations - Art. 415-bis Italian Penal Code" was reissued, along with the CD.

The preliminary hearing was held on October 18, 2012. At this time, the Public Prosecutor raised an exception in accordance with article 11 of the Code of Civil Procedure, noting that at least two judges, whose judiciary offices are located in the district of the Appeals Court of Brescia, would seem to have the quality of "aggrieved parties" in the proceedings and asked the Preliminary Investigations Magistrate the Honorable Nappo, to declare the absence of jurisdiction of the Court of Brescia. The respondents agreed with the petition. The judge subsequently declared the absence of jurisdiction and ordered the documents submitted to the Public Prosecutor's Office of Venice. Subsequent to this order, the proceedings returned to the initial phase.

Buzzi Arturo/A2A S.p.A.

Mr. Buzzi sued AEM S.p.A. (now A2A S.p.A.) before the Milan Court in a writ served on May 24, 2001.

Mr. Buzzi challenged before the Milan Court the resolutions by which the Shareholders' Meeting approved the financial statements and authorised the sale by AEM S.p.A. to e.Biscom

S.p.A. of the 30.8% stake then held by AEM in Fastweb S.p.A.; at the same time, AEM S.p.A. bought e.Biscom S.p.A.'s 33% interest in Metroweb S.p.A. and subscribed a bond loan.

AEM S.p.A. appeared at the hearing on November 19, 2003, filing a defence statement.

The hearing at which the parties made an appearance was held on April 20, 2004, whereas the hearing at which the case was debated was held on November 9, 2004. The parties' legal counsel exchanged statements in accordance with arts. 183.5 and 184 of the Code of Civil Procedure. Mr. Buzzi's counsel asked the Judge to admit evidence from witnesses, to request an expert witness's report and to order the acquisition "of the assessment carried out at the time by Morgan Stanley on the valuation of Fastweb S.p.A. and Metroweb S.p.A. for the purposes of the share exchange between e.Biscom S.p.A. and AEM S.p.A. and collateral transactions and Metroweb S.p.A.'s financial statements at December 31, 2002 and December 31, 2003". AEM S.p.A.'s legal counsel opposed this and at the hearing of February 28, 2005, the Investigating Judge dismissed Mr. Buzzi's requests. Then, considering that the case was ready for a final decision, he set April 4, 2006 as the date for the hearing at which the conclusions would be heard.

With a ruling filed on June 7, 2007, the Judge of the Milan Court rejected the plaintiff's requests, sentencing him to pay all of the legal expenses.

Mr. Buzzi appealed against the Court ruling, and while it is impossible to predict the outcome of the appeal, the risk of the sentence of first instance being reviewed appears to be relatively minor. The Court of Appeals ruled in favour of the company.

Arbitration initiated by Ecovolt due to violation of the Investment Agreement – Shareholders' Agreement of Ostros Energia S.r.l. in liquidation (Arbitration 6309 filed by Ecovolt)

On May 25, 2009, the minority shareholders of Ostros Energia S.r.l., in liquidation, Ecovolt, filed a petition for arbitration in execution of the arbitration clause present in the Investment Agreement signed with ASM S.p.A. (now known as A2A S.p.A.) on January 30, 2007 with a view to seeking a declaration of violation of the Agreement by A2A S.p.A., in its part of the Shareholders' Agreement, for not financing development of Ostros Energia S.r.l., in liquidation and failing to carry out the obligations set forth, especially those under art. 2.5 of the same Agreement.

These matters were first examined by the parties towards the end of 2008, and legal opinions were obtained.

The Board of Arbitration is made up of Prof. N. Irti, Prof. G. Sbisà and Prof. M. Cera. During the first meeting on March 4, 2010, convened to make the obligatory attempt at reconciliation, the

Board took note of the absence of the parties as the conditions did not exist for a settlement and scheduled for April 26, 2010 the hearing to cross-examine the parties, to this end inviting their legal representatives or informed persons with right of attorney. The Board also established November 20, 2010 as the deadline to conclude the arbitration proceedings.

Following the aforementioned free examination, the Board issued order no. 6309/20 on June 3, 2010, asking the Chamber of Arbitration to appoint an expert witness to qualify the difference between the projects mentioned in the investment agreement dated January 31, 2007, in particular the San Biagio project and projects described in the Baltic agreement.

By way of a provision issued by the Board of Arbitration on July 1, 2010, the German research institute Deutsches Windenergie GmBH Institute Branch DeEI Italia was appointed as the independent court expert; the Board then scheduled the hearing for September 23, 2010 to confirm arbitration proceedings and set a date to commence the expert examination (October 15, 2010), submission of the report (January 10, 2011) and to allow the parties to appoint their own technical expert witnesses.

At that hearing, A2A S.p.A. appointed the firm D'Apollonia as its expert witness, and Ecovolt appointed Professor Zaninelli.

On September 28, 2010, the Chamber of Arbitration advised the parties that their appointed expert witness had withdrawn, with relative written notice.

On October 13, 2010, the Chamber of Arbitration announced its new order no. 1611/21 dated October 12, 2010, naming Professor Villacci from Sannio University as the new expert technical witness. On December 23, 2010, the expert technical witness applied to the Arbitrators for the term set for submitting the expert report to be extended until February 25, 2011; the term was further extended to April 6, 2011.

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

The Board of Arbitration requested an extension of the term to submit the award until May 20, 2012 selected then set a date for the hearing, before both lawyers and the technical experts, on October 6, 2012.

The Board of Arbitration set December 14, 2011 as the date for the obligatory attempt at reconciliation.

A few days prior to this date, Ecovolt filed a new opinion by an external third party, with no relation to the arbitration procedure, in an attempt to quantify the damage caused by A2A S.p.A.'s conduct.

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

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

On February 2, 2012, the Board of Arbitration appointed a new expert witness, Mario Massari, charged with answering a number of new questions in a view to determining the value at December 31, 2008 of the Ostros Energia S.r.l. stock, in liquidation, owned by Ecovolt. At the following hearing on February 14, 2012, after extensive discussion, Ecovolt appointed its own expert witness, Mr. Brugger and A2A S.p.A. appointed Mr. Dallocchio and the deadline was set as June 15, 2012 for filing the report which already incorporated the expert witnesses of each party.

Further to the appeal of the expert witness, Mr. Massari, at the end of the brief and the consultants' meetings, a hearing was held in which the Board clarified again the questions posed and updated the deadline for drawing up the expert's report as June 15, 2012 filing of the first expert's report, June 29, 2012 as the last date for making remarks to the parties' experts, and July 16, 2012 for the final report filing.

On July 24, 2012, Ecovolt came up with other preliminary petitions and on July 30, 2012, subsequent to Mr. Massari filing the expert's report, A2A revised the settlement offer it had already filed.

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

On October 5, 2012, the Board of Arbitration set October 16, 2012 as the hearing date for negotiation.

At the October 16, 2012 hearing, the deadline for filing the decision was postponed further to May 20, 2013; the deadlines for filing each parties' briefs were set respectively at October 31, 2012, December 1, 2012, January 31, 2013 and the final hearing was set as February 14 , 2013. During the hearing, following the discussion by the parties' attorneys, the arbitrators reserved the right to issue an order and demanded and obtained an extension of the deadline for filing its decision. Pursuant to article 36 of the regulations for Board of Arbitration, the deadline for filing was set at June 28, 2013.

The company is defended by the Chiomenti legal firm.

Arbitration initiated by S.F.C. S.A. and Eurosviluppo Industriale S.p.A. against A2A S.p.A. and E.ON Europa S.L. for an alleged breach of a private agreement to purchase shares in Eurosviluppo Industriale S.p.A. (now called ERGOSUD S.p.A.)

On May 2 and 3, 2011, the Milan Chamber of Arbitration sent A2A S.p.A. (owner of 50% of the share capital of Ergosud S.p.A.) and E.ON Europa S.L. (former shareholder of Ergosud S.p.A. - currently the share is owned by E.ON Italia S.p.A) respectively an arbitration request, whereby Société Financiere Cremonese S.A. together with Eurosviluppo Industriale S.p.A. had raised arbitration proceedings against the aforementioned companies, requesting the following: 1) to verify E.ON Europa S.L.'s and A2A S.p.A.'s breach of contract and failure to fulfil the obligations assumed in the agreements dated December 16, 2004, October 15, 2004 and July 25, 2007 inter partes, and 2) to sentence them to the payment of the remaining portion of the cost of the asset sale, consisting of the entire share capital of Ergosud S.p.A, equal to 10,000,000 euro, as well as compensation for damages incurred by Société Financiarie Cremonese S.A. and Eurosviluppo Industriale S.p.A., to cover both the consequential loss and loss of profits, amounting to 126,496,496 euro, save any further enumeration, as well as damages incurred to site stoppage, interest and revaluation.

E.ON Europa S.L. and A2A S.p.A. duly appeared before the court to ask for the opposing request to be rejected in full, forwarding a counter-claim requesting that the counter parties be forced to pay compensation for the damages incurred by the defendants as a result of the numerous breaches of contract; these were initially quantified in the sum of 30,500,000, i.e. the larger or smaller sum considered to be equitable by the court, quantified in accordance with Article 1226 of the Italian Civil Code, including interest (as under Article 1283 of said code) and monetary revaluation (as under Article 1224, sub-section 2).

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

Lawyers for A2A S.p.A and E.ON Europa S.L. have checked if arbitration can be continued only for the counter-claim, without having to take responsibility for the payment of the plaintiff's expenses.

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

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

Pursuant to the regular formation of the Board, the first hearing was held on February 1, 2012. The Board reiterated that SFC S.A. and Eurosviluppo Industriale S.p.A. had lapsed from the claims originally filed. Furthermore, deadlines were assigned to the parties for filing their briefs and responses and for defining the items of evidence. In particular, E.ON Europa S.L. and A2A S.p.A., having become plaintiffs on the substance of the case (intending to continue the proceedings for the counterclaim, pursuant to the aforementioned lapse of the counterparties), were asked to specify their queries and indicate the items of evidence no later than the deadline of March 15, 2012; the subsequent deadlines for submitting the briefs were established as April 16, 2012, May 8, 2012 and May 31, 2012.

Furthermore, the date of the upcoming hearing was set as June 12, 2012 for personal appearance of the parties to attempt a reconciliation and for cross-examination. At the hearing, adjourned to June 19, 2012, the Board of Arbitration acknowledged the interceding bankruptcy of Eurosviluppo Industriale S.p.A. and established the deadline of October 30, 2012 for establishing the guardianship while also setting November 20, 2012 for the hearing for the attempt a reconciliation and an opportunity for cross-examination for the parties.

In view of the interceding bankruptcy of Eurosviluppo Industriale and the process concerns raised during such declaration, the Board issued a decision dated November 13, 2012 and ordered that the hearing set for November 20, 2012 should not be devoted to an attempt for reconciliation and therefore, would not include the presence of the parties. At the hearing on November 20, 2012, the Board set the deadline as July 4, 2013 for filing the award; also, the deadlines for the parties to file the briefs were set as December 20, 2012 and January 31, 2013, and February 20, 2013 was set for the hearing date for discussion, to hold at the office of the chairman of the Board.

The company is defended by Studio Chiomenti and Studio Simmons & Simmons.

Consorzio Eurosviluppo Scarl / Ergosud S.p.A. and A2A S.p.A. – Rome Civil Court

On May 27, 2011, Consorzio Eurosviluppo Industriale Scarl sent Ergosud S.p.A. and A2A S.p.A. a writ of summons, appealing for the following: (i) contractual and non-contractual damages claim, jointly or severally, amounting to 35,411,997 euro (1,065,529 euro of which for the remaining expenses payable); (ii) damages claim for site stoppage and failure to return areas pertaining to the Consortium.

When they appear before the court, Ergosud S.p.A. and A2A S.p.A. will ask for the claim to be rejected in full being unfounded and basically highlighting: (i) The Consortium does not have the legal status to institute legal proceedings, being in bankruptcy, (ii) the Consortium does not have the legal status to claim the damages allegedly incurred by Fin Podella for “advance contract schedule” and amounting to 6,153,437 euro, and for damages allegedly incurred by Conservificio Laratta S.r.l. amounting to 359,000 euro.

The hearing date was set as October 30, 2011. These proceedings were assigned to the Second Civil Section of the Court, heard by the magistrate Lorenzo Pontecorvo. The first hearing at which the parties made an appearance was held on November 30, 2011, where the magistrate reserved judgement on the merit of the legal authority of the Consortium to raise proceedings.

At that time, Ergosud S.p.A. and A2A S.p.A. will not be able to place counter-claims as this falls under the authority of the Bankruptcy Judge.

SFC S.A. filed an act of joinder on November 8, 2011, in accordance with Art. 105 of the Italian Code of Civil Procedure; this will allow a third party to add a new and different claim to the original proceedings, and asked for Ergosud S.p.A. alone to be forced to pay damages, more specifically the same amount as those claimed by the Consortium, quantified at 27,467,031 euro.

The authority of SFC S.A. to institute legal proceedings is independent of that of the Consortium, the original plaintiff, and if the latter’s claim is declared non-processable due to an insufficient premise, i.e. the onset of bankruptcy, the case would continue between S.F.C. S.A. and Ergosud S.p.A. In this context, A2A S.p.A may ask to be excluded insomuch as no claims have been raised against the company, although the judge will most likely to adjourn the case until the final ruling.

Within the term of the first hearing, the lawyers formulated conclusions for Ergosud S.p.A regarding the claim raised by SFC S.A., to be rebutted more conclusively in subsequent pre-trial statements, following Art. 183, sub-section 6, Italian Code of Civil Procedure.

The judge found the Bankruptcy was legitimate as SFC S.A. and therefore, established the proceedings end and the hearing as December 19, 2012, declaring the need to execute an expert opinion on a number of points, indicating the questions to pose to the expert, establishing as May 23, 2013 for the hearing to appoint the court’s expert witness.

The company is defended by Simmons&Simmons.

CIP 6 auxiliary services

We have learned that some plants in Tuscany party to CIP6/92 conventions have been inspected by GSE (Electricity Services Operator), i.e. appointed by AEEG (Italian Authority for Electricity and Gas) to determine the amount of electricity (produced by plants powered by renewable sources) consumed by auxiliary plant services, as defined by AEEG. It seems that the inspections were followed by an AEEG provision contesting that the amount of electricity used by auxiliary services was greater than the level indicated in the relevant conventions; it also appointed the Electricity Sector Equalisation Fund (Cassa Conguaglio del Settore Elettrico) to recover amounts unduly paid to the two companies. These amounts equal - according to AEEG's calculations - the difference between the energy that the plants received CIP 6 incentives for, and the energy that (again according to AEEG) was actually delivered into the grid. The two companies contested the provision with TAR (Regional Administrative Court) of Lombardy, and as a result it has been suspended. The first ruling will be discussed at the hearing on March 12.

AMSA S.p.A.

The CIP 6 convention agreed by AMSA S.p.A. set electricity consumption for auxiliary plant services at 5% of gross output (of the actual energy generated). It may also be useful to know that the convention also provides that this value "can be replaced by a new value to be calculated on the basis of jointly defined technical inspections".

AMSA S.p.A. has already received an inspection from CCSE (Electricity Sector Equalisation Fund), on December 19, 2006. The visit led to a note (September 19, 2007) according to which the amount of electricity produced by the plant and consumed by auxiliary plant services, is greater than the flat rate indicated in the convention, having been found to reach an upper limit of 16% to 23%. To date, AEEG has not taken any particular stance regarding AMSA S.p.A, having also received the CCSE note.

Although we have been aware of the CCSE inspection for some time, the possibility that this could create potential liabilities only emerged when we learned of the measures that AEEG applied to the aforementioned Tuscan companies.

Should AMSA S.p.A. be the subject of AEEG measures, similar to those levied on the aforementioned companies, the potential liability that may derive for AMSA S.p.A is difficult to estimate. Assuming the worst, the estimated liability could amount to approximately 40 million euro. As things stand, we believe however that this liability is only a remote possibility, given the lack of measures against the company and defensive objections that could be raised.

Ecodeco Group

The CIP 6 convention agreed by Ecodeco S.r.l. and Ecolombardia 4 S.p.A. set electricity consumption for auxiliary plant services at 3% and 5.5% of gross output respectively (of the actual energy generated).

It may also be useful to know that the conventions also provide that this value "can be replaced by a new value to be calculated on the basis of jointly defined technical inspections". For Ecolombardia 4 S.p.A., this value has already been reviewed, communicated and accepted by AEEG, after the plants became fully operational (from 1 January, 2004).

Ecolombardia 4 S.p.A. received an inspection from GSE (Electricity Service Operator) in September 2011. The inspection led to a note by the Operator (January 4, 2012) according to which the amount of electricity produced by the plant and consumed by auxiliary plant services, is greater than the flat rate indicated in the convention, having been found to reach 19.4% to 25.5%.

Ecolombardia 4 S.p.A. filed an objection to this note, filing on April 17, 2012 with the AEEG a request for review consisting in a technical note aimed at demonstrating the accuracy of the assessments made at that time, applying the reference standards, including by reason of the specific features of the waste-to-energy systems used.

On October 10, 2012, Ecolombardia 4 S.p.A. received a copy of the resolution of the Authority on the administrative consequences as a result of the inspection done, in which it deems that "........the quantity of electricity actually used by the system auxiliary services is significantly higher than the estimated amount established in the sale convention ..." On this finding, the AEEG concluded by stating that "underestimation of the energy used by the auxiliary services has led over the years involved in the audit (i.e. from 2003 to 2010) payment by the GSE of special incentive prices provided under CIP 6/92 for quantities of energy higher than what was actually distributed into the network" and that "....CCSE........ should initiate an administrative collection .... of the amounts unduly disbursed."

The company appointed an attorney to file the petition with the request to suspend the preliminary action. While petition is currently pending before the Administrative Court of Milan, the interim petition was awarded with decision 1718/12 and the discussion of the merits of the judgement was adjourned until May 21, 2013.

Ecodeco S.r.l. also received an inspection visit of the waste-to-energy plant and the biogas plants in Corteolona, respectively on May 10-11, 2012 and July 5-6, 2012. The conclusions of the inspection area were similar to the assessments made on an earlier occasion at Ecolombardia 4 S.p.A.; in other words, objections were filed against the consumption attributed to the auxiliary services which were higher compared to those defined in the CIP 6 convention. To date, GSE has not taken steps to submit any note to the AEEG.

Management believes that the potential liabilities that could originate against the Ecodeco Group would be difficult to estimate. Assuming the worst, the estimated liability could amount to approximately 31 million euro.

Based on the technical evidence supporting the Ecodeco Group's conduct in identifying auxiliary services and other valid defensive objections of a legal and contractual nature that could be raised in the event of a legal dispute, the liability may occur.

Finally, note that on February 7, 2013, resolution 47/2013/R/EFR was issued in relation to the criteria for identifying the actual consumption of the auxiliary services of the production plant which benefit from the incentives set forth by the interministerial decrees issued on July 5 and 6, 2012. This resolution, including with reference to the separate systems using incentives under the indicated decrees, appears to project its effects only into the future.

Giussago bioreactor

The Casarile town council (and other councils) presented an appeal against Lombardy Regional Council and the Province of Pavia to obtain the cancellation of integrated environmental authorization (AIA in Italian) and positive environmental impact assessment (EIA) measures expressed by entities regarding the building of a bioreactor (by Ecodeco S.r.l.) for non-hazardous waste in Cascina Maggiore - Giussago (PV). The appeal proposed additional reasons to extend the appeal to other acts related to the proceedings and broaden the list of bans. The Province of Milan intervened voluntarily in the case to support the claims of Casarile Town Council. After the hearing on December 5, 2011, where the provisional motion submitted by the local councils was discussed, public order no. 1818 of December 6, 2011 was initially pronounced then ruling no. 67 of January 11, 2012 published. This ruling rejected the part of the appeal opposing the positive environmental impact assessment of the plant, on account of it being late. The Regional Administrative Court then, in order to determine the part of appeal filed against the integrated environmental authorization, ruled that verification was necessary.

The judge assigned verification actions to the "Director of the headquarters for environmental impact assessment of the Ministry of the Environment" (or "a trained official delegate"), ordering the aforementioned operations to be completed "no later than 90 days after notice or the administrative communication" of the ruling. Ecodeco S.r.l. appointed Prof. Adami of the Politecnico as its expert witness. The date of discussion on the petition was established for November 20, 2012.

The expert witness's report was filed on July 6, 2012 which essentially confirms that:

1. the guarantees provide adequate coverage meeting the standards;
2. the waste will not rot;
3. the coverages are effective.

These elements/assessments are in agreement with the position of Ecodeco S.r.l..

Following the January 2012 sentence, the petitioning towns also formulated a further document listing additional reasons to appeal against ruling no. 155384 of November 18, 2011 whereby ARPA itself, having verified the plant's compliance with the prescriptions laid down in the relative authorization documents, gave its permission, pursuant to Art. 9 of Leg. Decree No. 26/03, to the start of disposal operations at the bioreactor, further extending the thema decidendum.

The hearing to discuss the above petition was set for November 20, 2012. Subsequently, the first instance ruling is expected to be issued.

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

Despite that an appeal is still pending, at the present time, Ecodeco S.r.l. believes the risk of losing the judgement on the merits is possible but not likely, based on the information available and by virtue of the assessments of the consultant of the Ministry and affirmed by its legal consultants. Losing the lawsuit would mean the value of the asset in question would have to be written down, currently booked to account at 2,743 thousand euro, along with any related charges to restore the area.

Furthermore, as regards this same plant, Lacchiarella town council presented an appeal against Lombardy Regional Council and the Province of Pavia to obtain the cancellation of integrated environmental authorization (AIA in Italian) and environmental impact assessment (positive) measures expressed by entities regarding the building of a bioreactor (by Ecodeco S.r.l.) for non-hazardous waste in Cascina Maggiore - Giussago (PV). The appeal proposed additional reasons to extend the appeal to other acts related to the proceedings and broaden the list of bans. The Province of Milan intervened voluntarily in the case to support the claims of Lacchiarella Town Council. After the hearing on December 5, 2011, where the provisional motion submitted by the local council was discussed, public order no. 1826 of December 6, 2011 was initially pronounced then ruling no. 68 of January 11, 2012 published. The ruling rejected the appeal (and the additional reasons presented in association with it) on account of it being late. An appeal for this ruling was filed with the Italian Council of State (n.r.g. 2364/12) but no date has been set yet for the relative hearing.

On January 19, 2012, Lacchiarella Town Council therefore notified that a new appeal had been placed against ARPA Lombardia, Lombardy Regional Council and other public authorities (and against Ecodeco S.r.l.) to appeal against ruling no. 155384 of November 18, 2011 whereby ARPA itself, having verified the plant's compliance with the prescriptions laid down in the relative authorization documents, gave its permission, pursuant to Art. 9 of Leg. Decree No. 26/03, to the start of disposal operations at the bioreactor.

Monfalcone Plant Inquiry

In November 2011, the Trieste Judicial Authority issued restrictive measures in the Regions of Veneto, Friuli Venezia Giulia and Lombardy against several individuals, including an employee of the Monfalcone Thermoelectric Plant, charging them with organised crime with the objective of defrauding the government, causing detriment to private enterprise and falsification of official documents, in addition to illegally trafficking of special waste and its disposal.

This inquiry was initiated when the A2A Group management, in March 2011, reported A2A employees and third party business people for aggravated fraud against A2A S.p.A; these individuals are suspected of securing large sums of money for illegally trafficking special waste, falsifying waste identification documents and analysis certificates regarding the supply of biomass and the certification of their heat-generating potential. Specifically, quantities of incoming biomass higher than the real values were recorded, in addition to recorded increases in the heating power thereof.

A2A S.p.A., as owner of the production site, ordered preliminary suspension of the employee involved as well as the stop in payments of the invoices issued by the biomass suppliers which appear to be involved in the inquiries.

The investigation initiated by the Trieste Judicial Authority has not been completed yet hence, the information needed to determine the effect of any criminal conduct found is not yet available. In any event, proven detriment was found exclusively against the A2A Group and specifically against A2A Trading S.r.l. as regards the quality and quantity discrepancies in the biomass, since the latter, as the tollers and ultimately responsible for control of the plant, is subject to the potential risk upon completion of the preliminary phase that it may be impacted by higher costs incurred for the biomasses not delivered and higher costs incurred for illegal trafficking of the heat power of the biomasses delivered and not delivered.

In addition to this, the use of more carbon in place of biomasses could lead to a worsening of the environmental charges related to the second half of the financial year 2009 and for all of 2010, as well as a refund of the higher revenue or the environmental credits recorded over the real values (i.e. green certificates). The company may have filed declarations of generation of environmental credits higher than those actually produced with reference to 2009 and 2010, since the tally may have been affected by the error of considering a higher than true percentage of biomass energy than energy from conventional sources.

In this case, the company should submit the corrections to the aforementioned previous statements, as well as reimburse any higher revenue or the environmental credits that might have been paid pursuant to the error.

Furthermore, A2A Trading S.r.l. filed an application with the GSE, in accordance with the procedures and methods in use, to obtain the Green Certificates related to the year 2011, whose calculation was made based on the real quantities of biomass delivered to the plant. In accordance with the Public Prosecutor, it also considered a possible falsified increase in the heat producing powers by 20%. While GSE has recognised A2A Trading S.r.l. for the accuracy of the computations made for 2011, to date, the Green Certificates 2011 have not been issued as yet.

At the present time, in view of the fact that the inquiries have not been completed and there is not yet sufficient information as to illicit conduct, it is not possible to come up with an estimate of the potential liability.

Finally, the A2A Group, as the aggrieved party, shall protect its interests in any appropriate venue, including by seeking recompense for damages incurred.

ASM Novara S.p.A. dispute

Regional Administrative Court of Piedmont 79/2010 EdilCastello S.r.l. and Errevi S.r.l. vs. the Province of Novara toward ASM Novara S.p.A., A2A S.p.A. and Pessina Costruzioni

EdilCastello S.r.l. and Errevi S.r.l. - as the companies owning real estate property located in the immediate vicinity of the area intended for locating the plant of the remote heating project of the city of Novara - have filed appeal against: a) the ruling no. 4213 of November 9, 2010, with which the Province of Novara expressed a positive opinion on the compatibility of the plan to build the remote-heating plant; b) the resolution of the Town Council of Novara no. 326 dated August 1, 2005, declaring the public interest of the project proposal; c) the ruling of the Urban Mobility Service of the Municipality of Novara no. 17 of July 13, 2006, awarding the license to build and operate the remote-heating plant. The awarding process was found to be flawed due to subjective errors of the contractors and the opinion of environmental compatibility was erroneous due to the lack of preliminary study since it did not account for the plant’s residential location as a result of the previously approved building recovery process, with the failure to evaluate the public and private interest of all parties.

On January 21, 2010, the Regional Administrative Court issued order no. 5 in which it enjoined the Province to file the municipal records subject to appeal. After the Province fulfilled the preliminary obligation, no other actions were posed.

The shareholders did not enter an appearance and the company was represented by Attorney B. Savorelli.

Court of Ferrara general docket 3707/2012 in opposition to Injunction no. 930/12 general docket 2300/12

On June 27-28, 2012, the Court of Ferrara issued injunction no. 930/12 in which it enjoined ASM Novara S.p.A. to pay INCICO S.p.A. (an engineering company hired to handle design work) the amount of 44,673.20 euro plus interest and charges for 2,590 euro. Notice of the injunction was served to ASM Novara S.p.A. on July 24, 2012; in turn, the company served timely notice of the summons in opposition, within the prescribed terms, to seek dismissal of the injunction due to the absence of jurisdiction of the Court of Ferrara, by virtue of the exclusive jurisdiction of the Court of Milan as per the contract, and the statement of inadmissibility of the petition for injunction. The amount of receivable held by INCICO S.p.A. is equal to the last payment instalment set forth by contract. However, the contract stipulates that full payment is contingent on approval of the working plan by the Municipality of Novara, an event that has not yet occurred.

The hearing date is set as February 14, 2013, which was postponed to March 7, 2013 due to the absence of the judge; at this hearing, the parties' attorneys insisted on approving the conclusions and the judge reserved the right to make a decision at a later time.

The company is represented by Attorney B. Savorelli of Milan.

Court of Brescia summons to appeal the resolution taken by the Board of Directors of ASM Novara S.p.A. on October 26, 2012

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

The petition will examine the motives illustrated in the memorandum of appearance in the civil action filed by Pessina Costruzioni and by its outgoing directors Massimo Pessina and Guido Stefanelli, noting the errors of irregularity in composition of the Board of Directors passing the resolution and the errors in the certification of the causes of liquidation, allegedly not present.

The date of the hearing for discussion was set for May 7, 2013. By this date, the company will assess its composition.

Court of Brescia in Council Chambers, general docket 4321/2012, petition to appoint an official receiver in accordance with art. 2487 of the Civil Code.

The directors of ASM Novara S.p.A. - Paolo Rossetti, Michele De Censi and Lorenzo Spadoni - and the shareholder A2A S.p.A. filed a petition at the Court of Brescia to appoint an official receiver after having certified with resolution on October 26, 2012 the existence of the reasons for the liquidation of the company, under art. 2484 of the Civil Code, section 1 no. 3) (inability of the shareholders' meeting to function) and no. 4 (decrease below the minimum legal requirements of share capital for losses).

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

The directors of ASM Novara S.p.A. - Paolo Rossetti, Michele De Censi and Lorenzo Spadoni - and the shareholder A2A S.p.A. filed a claim pursuant to art. 739 of the Civil Code to revoke the decree and seek certification of the reasons for the liquidation of the company, while determining with recourse the number of official receivers.

The date of the hearing was set for March 20, 2013.

The company and the shareholder were represented by Attorney Zimmitti.

Charges for water derivation

The Region of Lombardy demanded payment from Edipower S.p.A. of the public water utility charges, payable in relation to derivations for cooling the thermoelectric plant condensers located in Sermide and Turbigo. The total contested amount (in the amount of 50% of the charges) for the years from 2003 to 2011 amount to some 50 million euro.

Against these demands, Edipower S.p.A. continues to claim its right to payment based on the actual amounts drawn and claims to be entitled to seek legal satisfaction in order to obtain payment of half of the charges, in accordance with art. 18 of the Galli Law, emanated in 1994.

This is why Edipower S.p.A. made the decision to allocate a risk provision in the amount of 50% of the charges not paid by the Region. In the meantime, an action was brought before the Regional Court of Public Water (TRAP), the Supreme Court of Public Water (TSAP), and is currently pending, in a view to obtain recognition of the fifty-percent reduction of the charges payable. The aforementioned dispute is still pending, while the claims relating to the years from 1998 to 2001 have lapsed due to the statute of limitations.

Specifically, the TRAP issued the ruling no. 2359/09 upholding the right of Edipower S.p.A. to obtain a 50% reduction in the bill. The decision was immediately appealed by the Region of Lombardy before the Supreme Court of Public Water (TSAP). The TSAP issued ruling no. 97/2011 dismissing the claim filed by Edipower S.p.A. for reduction by half of the amount relating to the year 2003, both with respect to the Sermide and the Turbigo plants; Edipower S.p.A. decided to appeal this decision before the Court of Cassation.

A decision similar to ruling no. 2359/09 was adopted by the TRAP (ruling no. 2360/09) as regards the petition filed by Edipower S.p.A. against the payment notice relating to the year 2006 for the Sermide plant. In this case, the Region of Lombardy immediately filed an appeal against the ruling before the TSAP. With ruling no. 98/2011, the TSAP essentially upheld the petition to reduce by half the amount payable by Edipower S.p.A. for the year 2006 with respect to the Semide plant. Against this ruling, the Region of Lombardy filed a petition before the Court of Cassation.

With issue of ruling no. 14259 on August 8, 2012, the Court of Cassation dismissed the appeal filed by the Region against the TSAP ruling no. 98/2011: the Cassation thus provided final verification of the existence of the right to decrease by half the bill for water derivation relating to the Sermide plant, for the year 2006. With note dated January 15, 2013, the Region acknowledged – pursuant to the decision by the Cassation – the right of Edipower S.p.A. to pay only 50% of the bill: the amount claimed of 216,225.23 euro corresponds to the difference not paid by Edipower S.p.A., which used a different calculation method for determining the total. As a result, the amount provisioned for in the related risk provision was subject to partial refund: a provision was maintained, calculated considering the "modules" (numbering 26), resulting from the difference between the modules actually absent and equal to 500 and the modules recalculated in accordance with art. 18 of the Galli Law (no. 36/1994) and numbering 526.

In 2011, the Region of Lombardy significantly increased the amounts due for use of public water; specifically, as regards "derivation charges", Legislative Decree 112/1998 transferred to the Regions the related administrative function (calculation and collection) and, as a result, the Region of Lombardy adopted Law no. 26 of 2003, Law no. 34 of 1998 and Law no. 10 of 2009, this latter amended with Law no. 19/2010 and with Law no. 22/2011.

Art.1 of the Region of Lombardy Law no. 22 issued on December 28, 2011 essentially included the ability to double the charges related to public water utilities; in particular, it established that "as from the year 2012, the unit amount of the annual charges payable to the Region for public water utilities, pursuant to section 1, is determined as follows:

a) for the large water derivations for hydroelectric use, the price is set at 30 euro per kilowatt of average annual nominal power;

b) for water derivations with flow greater than 30 modules (3,000 litres per second) used for industrial use, including therein cooling of thermoelectric plants, the price is set at 34,000 euro per water module;
c) for derivations that refer to the uses of the water described in article 3 and the examples under article 34, section 10, of the Regional Regulation issued March 24, 2006, no. 2 (governance of the use of ground water and surface water, the use of water for domestic use, water conservation, and reuse of water in implementation of article 52, section 1, letter c) of Regional Law no. 26 emanated on December 12, 2003), not falling under the cases set forth under letters a) and b), the unit charges prevailing in 2001 have increased by 1.5%."

This regional law specifies that the aforementioned increase in the charges "also applies to licensing relations in effect and the utilities underway, including cases of temporary continuation of the operation of the plant under article 53-bis, section 4, of Regional Law no. 26 of December 12, 2003, (governance of the local service of general economic interest. Regulations concerning waste management, energy management, use of the subsoil and water resources), laying down the automatic adjustment of the charges to a corresponding degree."

As a result, with issue of Decree no. 12929 of December 29, 2011, the Region of Lombardy established:

1. two different rates for hydroelectric use:
   - charge for small derivations: 14.90 €/KW (rate for 2011 = 14.68 €/KW);
   - charge for large derivations: 30.00 €/KW (rate for 2011 = 14.68 €/KW);
2. two different rates for industrial use:
   - rate for utilities with flow < 3 m3/s: 16,866.29 €/module;
   - rate for utilities with flow > 3 m3/s: 34,000.00 €/module (rate for 2011 = 16,617.03 €/module).

As a result, as concerns the Sermide plant for industrial use, the Regional Administration requested payment of the charge for public water utilities with reference to the year 2012, according to the new calculation of the charges set forth by Regional Law no. 22 of December 28, 2011; the total amount claimed was defined as 8,500,000 euro, or 34,000 €/module for 250 modules, as set forth under D.D.S. no. 12929 of December 29, 2011. On the other hand, with respect to the Turbigo plant, the total amount sought was found to be 13,770,000 euro, equal to 34,000 €/module for 405 modules, as set forth under D.D.S. no. 12929 of December 29, 2011.

For hydroelectric use, the Regional Administration demanded payment of the charge for public water utilities for the year 2012 with respect to the Mese – Chiavenna unit, according to the new calculation criteria of the charges set forth by Regional Law no. 22 of December 28, 2011; the total amount claimed was found to be 688,311.90 euro, equal to 30 €/KW for 22,943.73 KW, as set forth by D.D.S. no. 12929 of 2011. Similarly, for 2012, with respect to the Mese – Gravedona unit, the total amount claimed was calculated by the Region as 218,704.20 euro, equal to 30 €/KW per 7,290.14 KW, while with respect to the Mese - Asta Liro unit, the total amount claimed was calculated by the Region as 3,114,648 euro, equal to 30 €/KW per 103,821.60 KW,

Objections will be filed against the above regional orders before the TRAP in Milan to certify the right to reduce by half the amount payable and at the same time, the TRAP will be asked to raise the issue of the constitutional legitimacy of Regional Law no. 22/2011 before the Constitutional Court.

With respect to the hydroelectric plants, before the entry into force of the Lombard Regional Law no. 22/2011, between the end of 2008 and the early part of 2009, several citations were received from the Region of Lombardy which demanded payment of the charges for use of public water allegedly not paid on the hydroelectric plant located within the Region. Objection was filed against all of these citations. Following this, the Region recognised the legitimacy of the claims of Edipower S.p.A. in 23 disputes out of 28, invalidating the related actions. In November 2009, the Region of Lombardy served notice of another three payment injunctions, against two of which appeal was filed before the TRAP where the related judgements are currently pending, while one was revoked by the Region pursuant to the company submitting defensive contentions.

Between October and November 2010, the Region of Lombardy served notice of seven documents (six tax inspection notices - and one injunction) for the alleged lack of payment of the charge in addition to the regional surcharge, five of which were invalidated by the Region subsequent to receiving objections filed in a timely manner by the company. Appeals were filed against the other documents. The total amount concerned in the disputes was approximately 0.3 million euro.

With the tax statement, notice of which was served on November 25, 2011, Equitalia (acting on behalf of the Region of Lombardy) enjoined Edipower S.p.A. to make payment of the amount of 26,742,461.21 euro. Indeed, since a large part of the tax liabilities were found to refer to payment injunctions and audit notices (with respect to the derivation charges) which the Region had already revoked, while in other cases, the amount was found to be already paid to the Region, upon a request of revocation filed independently by Edipower S.p.A., the Region partially reduced the amount payment in the aforementioned tax statement (except for the injunction related to the audit for regional surcharge for the year 2005 for an amount of 798,445.73 euro: a petition was filed against this injunction before the tax commission).

The TRAP of Venice, in three separate decisions, rejected the petitions filed by Edipower S.p.A. for the verification on the correct identification of when the updates need to be made in the amount of the hydroelectric surcharges, subject to disapplication of the related ministerial decrees. Specifically, with the ruling no. 577 of March 1, 2012 (revision of the amount of the surcharges payable between 2004 and 2009), the TRAP ordered Edipower S.p.A. to pay the amount of 131,792.36 euro to the Consortium formed between the municipalities of the BIM of Livenza Pordenone, plus interest and compensation for legal charges in favor of the Ministry of the Environment, for a total of 2,800 euro, and in favour of the aforementioned Consortium for a total of 5,090 euro. With ruling no. 580 of March 1, 2012 (revision of the amount of surcharges due between 2004 and 2009), the TRAP sentenced Edipower S.p.A. to payment of a total of 3,200 euro as legal expenses in favour of the State Property Office. With ruling no. 959 of April 17, 2012, (revision of the amount of surcharges due between 2004 and 2008) the TRAP sentenced Edipower S.p.A. to payment of a total of 13,100 euro as legal expenses in favour of the BIM Tagliamento, the National Federation of BIM Consortia and the Ministry of the Environment and Territorial and Sea Protection. These rulings were all appealed before the competent TSAP of Rome.

Note that calculation of the amount allocated to the Provision for Risks and Charges of Edipower S.p.A. includes presumed charges that could arise pursuant to legal disputes or other disputes arising against the company in the year, as well as updates of the estimates on the positions arising in previous years, including against Eurogen S.p.A. (incorporated as from December 1, 2002 into Edipower S.p.A.), after taking into consideration the release of liability provided by Enel S.p.A. in the contract for acquisition of Eurogen S.p.A. executed between Edipower S.p.A. and Enel S.p.A. on March 27, 2002. This refers in particular to the dispute with the Ministry of Public Works/Ministry of Finance and the State Property Office of Bergamo in relation to the demand for payment on August 25, 2000 for 30,683,082.000 Italian lire in water charges. These releases of liability were confirmed by the outcome of the compromise agreement reached and signed in 2006 between Edipower S.p.A. and Enel S.p.A..

Coal bunker of Brindisi

As regards seizure of the coal bunker in Brindisi (property of Enel), the investigations which led to the seizure have formally ended; among others, the head of the Brindisi plant was committed for trial. In the related proceedings, Edipower S.p.A. was called into the proceedings by the civil parties filing an appearance as the entity with civil responsibility. On May 13, 2010, the order of release from seizure was issued as part of the criminal proceedings.

Preliminary investigations in San Filippo del Mela

With order dated March 8, 2005, the Public Prosecutor of Barcelona P.G. ordered the personal appearance of the representatives of Edipower S.p.A. of the S. Filippo del Mela plant for March 11, 2005, at the plant to perform the testing procedures. Tests were ordered done in the presence of the court-appointed technical consultants in order to make the verifications in relation to the emissions and intakes resulting from company operations (and the refinery location), their nature and toxicity, as well as any effects of the toxins on the soil, agriculture, and general health, as well as any measures to bring the emissions down to the limits of normal tolerance. The expert testing were initiated, and have since ended, but the results are confidential. These proceedings were filed against unknown respondents. There are no other known elements (possibility of criminal offence, police reports filed, etc.). At present, a liability as a result of this claim is not considered probable.

Turbigo asbestos

A criminal proceeding is currently pending before the Court of Milan, currently in the preliminary hearing phase, against a number of executives of the former ENEL who were employed at the Turbigo plant between 1973 and 1975 as the plant foreman, department manager, general manager and Chairman of the Board of Directors, charged with negligent homicide (art. 589 Penal Code) for having culpably violated the rules in relation to prevention of workplace accidents and occupational illness, causing detriment to eight former employees (one of whom does not fall under the scope of Edipower S.p.A.). The injury took the form of asbestos related tumors of allegedly work related origin, all of which have ended in the death of the persons concerned.

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As regards the main tax disputes, your attention is drawn to the following:

A2A S.p.A. – Notification of IRES, IRAP and VAT assessment for 2005 tax year

Lombardy Regional Headquarters of the Revenues Agency notified A2A S.p.A. (formerly Asm Brescia S.p.A) on December 23, 2010 of an IRES (Corporate Income Tax), IRAP (Regional Production Tax) and VAT tax assessment for the 2005 tax year, as a result of a general tax audit carried out in 2008 by the Brescia 2 Tax Office for the same tax year.

These assessments are based on the Regional Management’s claim that the company had not fulfilled its direct tax and VAT obligations’ on this basis, greater IRES, IRAP and VAT payments are required as well as penalties and interest amounting to 3.3 million euro.

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

On the same day, the regional management also served notice of IRES assessments (level 2 notice) for the 2005 tax year on A2A S.p.A, being the consolidating company of Aprica S.p.A. and A2A Reti Gas S.p.A..

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

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

A2A Trading S.r.l. - VAT assessment for Green Certificates in 2004-2010

The Milan Tax Office served notice on A2A Trading S.r.l. on December 23, 2009 of a VAT tax assessment concerning the 2004 tax year. This notice cited the company's failure to invoice taxable transactions and required the company to pay a greater amount of VAT as well as penalties and interest amounting to a total of 3.3 million euro.

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

After appropriate examination which also included the other tollers, it was felt that the Tax Authority's conclusions could not be accepted. In fact, under tolling contracts, tollers are the owners of the raw materials, including fuel oil, that they supply to the tollees to produce electricity, and are also the "aborigine" owners of the electricity produced. The delivery of Green Certificates from tollees to tollers cannot in any way be considered as the transfer of title to them.

A2A Trading S.r.l. has therefore not committed any breach of regulations and as a result, did not allocate any funds to the risk provision.

For the same reasons, on December 16, 2010, the Milan Tax Office served notice of a VAT tax assessment concerning the 2005 tax year, and on October 31, 2011 for the 2006 tax year, requiring the company to pay a greater amount of VAT as well as penalties and interest amounting to a total of 5.2 million euro and 11.2 million euro respectively. As in 2004, in both 2005 and 2006, A2A Trading S.r.l. did not breach regulations and as a result, no funds were allocated to the risk provision.

A2A Trading S.r.l. appealed to the relevant bodies for all of the above notices received, requesting that the claim for additional taxes be fully annulled.

For disputes related to all the annual amounts contested, the Milan Tax Office has accepted the appeals filed by the company.

Note that following the request for documentation regarding Green Certifications for the same tolling contract in tax years 2007 to 2010, on October 28, 2011 the Milan Guardia di Finanza served notice of the Report on Findings, highlighting the same failure to bill taxable transactions for the years 2007, 2008 and 2010. Thus far, no notices of assessment have been received.

A2A Reti Elettriche S.p.A. Registration tax assessment to review the value of goodwill regarding the sale of "protected categories (regulated market)" business assets to A2A Energia S.p.A.

On February 16, 2010, the Milan 3 office of the Italian Tax Authority served notice of the correction and liquidation of registration tax due on the sale of "protected categories (regulated market)" assets from Aem Elettricità S.p.A. (now A2A Reti Elettriche S.p.A.) and Aem Energia S.p.A. (now A2A Energia S.p.A.) on February 1, 2008. In this notice, the tax office contested the figure disclosed for "goodwill" and as a result, the associated registration tax payable. The company attempted to reach a tax settlement but since no agreement was reached with the office in question, the assessor challenged the notice served by lodging an appeal.

A2A Reti Elettriche S.p.A. – General IRES, IRAP and VAT assessment for 2009 tax year

On May 2, 2012, the Lombardy regional Office of Major Taxpayers initiated a general tax audit of the company A2A Reti Elettriche S.p.A. regarding IRES, IRAP and VAT for the 2009 tax year.

This audit was completed on October 1, 2012.

Significant breaches were found regarding direct taxation.

On October 31, 2012, the company requested a report of facts ascertained and paid the amounts liquidated by the Lombardy Regional Tax Office on December 14, 2012, thereby definitively closing the matter.

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

On December 27, 2011, the Municipality of Milan issued a payment notice for COSAP for the years 2003 to 2011.A request for annulment of these payment notices was submitted, but the city denied the request. On July 11, 2012, in response to this denial, the company filed a suit in before the Milan courts and then filed an appeal with the Regional Administrative Court on September 25, 2012.

Aprica S.p.A. – General IRES, IRAP and VAT assessment for 2007 tax year

On January 10, 2011, the Brescia 2 office of the Italian Tax Authority commenced a general audit of Aprica S.p.A. to verify IRES, IRAP and VAT payments for the 2007 tax year. This audit was completed on February 8, 2011.

Significant breaches were found regarding direct taxation.

On September 14, 2011, notification of a tax assessment was received, reporting the same findings found during the audit, and which the company agreed to comply with, paying the extra taxes indicated. As a result of write-backs made to offset errors in the application of the accruals principle, a claim for the higher taxes paid in the year in which the costs should have been deducted, has been presented.

A2A S.p.A. (merging company of AMSA Holding S.p.A.) – Notification of VAT assessment for 2001 and 2005 tax years.

In early 2006, the Italian Guardia di Finanza - the Lombardy Tax Squad, Milan I- audited AMSA Holding S.p.A. (now A2A S.p.A.) to check VAT paid in tax years from 2001 to 2005.

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

The report was followed by formal notices of assessment from the Tax Authority - Milan 3 Office - for each year audited; appeals were then lodged with the provincial tax commission, as allowed by law.

The appeal for 2001 was discussed on January 25, 2010 and those of 2004 and 2005 on February 17, 2010, with a favourable outcome for each for the company. The office filed an appeal against all of the rulings of the first courts. The Regional Tax Commission rejected the office’s appeal for 2001, 2004 and 2005.

For the 2001 payment, the Tax Authority filed an appeal with the Court of Cassation, with AMSA Holding S.p.A. filing a cross-appeal on October 2, 2012.

The outcome of the 2002 and 2003 disputes were also favourable for the company, although the Tax Authority lodged an appeal against both rulings. The 2002 appeal was discussed on

November 30, 2010; the Milan Regional Tax Commission issued its ruling on February 23, 2011, reformulating the initial ruling and accepting the Tax Authority's appeal on almost all accounts with the exception of the hazardous waste category. The Company will now file an appeal with the Court of Cassation for 2002. On November 7, 2011, a hearing was held regarding the appeal related to 2003 filed by the office with the Regional Tax Commission, which rejected it in a ruling filed on November 11, 2011.

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

On May 25, 2011, the Italian Guardia di Finanza - the Milan Tax Squad - commenced a tax audit in Plurigas S.p.A. to verify excise payments for tax years 2009, 2010 and 2011, on the entry date only.

The audit was completed on October 20, 2011 with the preparation of the relative report on findings detailing inaccuracies in the compilation of annual natural gas statements were described for the years 2009 and 2010, as well as the incorrect compilation of Intrastat lists for 2010. Thus far, no notices of assessment have been received.

Edipower S.p.A. – Notification of VAT assessment for tax years 2004-2007.

In 2008, the company underwent a tax audit by the Messina Customs Office in order to verify VAT for the years 2004 to 2007 regarding the purchase of fuels by the tollers, which were used for power generation at the San Filippo del Mela thermal power plantain particular, this audit focused on the applicability of VAT on excise duties paid by tollers following the purchase of the fuels. When preparing the report of facts ascertained, the office recovered taxes totalling 5.57 million euro plus sanctions of the same amount. Edipower S.p.A. filed its defence against these findings with the Customs and Tax Authority offices responsible for IVA.

For 2004, as notified on December 29, 2009, the Milan Tax Office determined that the VAT on excise duties to be paid came to roughly 1.98 million euro plus 2.6 million euro in sanctions. After filing a request for annulment and, subsequently, a request for assessment without a positive outcome by the Tax Authority, in 2010 Edipower S.p.A. filed an appeal against the assessment. This appeal was sustained by the Milan Provincial Tax Commission, which ordered the assessment to be annulled.

On December 14, 2012, the Milan Tax Office notified Edipower S.p.A. of a similar assessment for the recovery of VAT on excise duties and related sanctions for 2005, demanding VAT and interest totalling roughly 1.9 million euro based on the same reasons as for the assessment related to 2004.In the same assessment, the Tax Office also reported the outcome of the partial assessment of the 2005 tax year in which the office claimed IRES and IRAP totalling 0.62 million euro plus cumulative sanction for both cases in the amount of 1.3 million.

The company then filed a request for assessment which was not accepted by the Tax Office. As a result, the company then filed an appeal with the competent Tax Commission requesting full annulment of the assessment. In October 2011, the Tax Authority issued a measure for partial annulment of the assessment, sustaining certain aspects of the Edipower S.p.A. defence concerning 2005 costs, thereby significantly reducing the IRES and IRAP to be collected. The Milan Provincial Tax Commission sustained the entirety of the company's defence regarding the VAT on excise duties and part of the appeal regarding IRES and IRAP and ordered the partial annulment of the assessment.

The Tax Authority filed an appeal, but only concerning IRES and IRAP; therefore, the dispute regarding VAT on excise duties for 2005 is now closed.

Edipower S.p.A. - VAT assessment for Green Certificates from 2004 to 2010

On December 29, 2009, the Milan Tax Office issued a notice of assessment for VAT for the 2004 tax year regarding the alleged sale of Green Certificates by tollers for 2004 "green" obligations. This assessment did not come following a tax audit of the company. In fact, the office's allegations and related information were based on assessments of the tollers for the 2008 and 2009 tax years. Specifically, the notice of assessment claimed sanctions against Edipower S.p.A. for failing to issue "self-invoices" after failing to obtain invoices for the alleged sale of Green Certificates that the tollers had, in the view of the Tax Office, conducted in 2005 in order to meet obligations for the previous year. The amount of the sanction assessed was roughly 6.5 million euro.

After careful examination, working with the other tollers, it was felt that the Tax Authority's conclusions could not be accepted. As per the tolling contract, the owners of the electricity produced by Edipower S.p.A. are, aborigine, the tollers, who are also the owners of the fuel used. The tolling contract states that each Toller is responsible for the financial and operating expenses in obtaining their own Green Certificates based on the power generated according to their own indications and own production plans and for providing them to the System Operator through Edipower S.p.A.. Based on the tolling contract and on the related legal obligations, no transfer of ownership of the Green Certificates takes place between the tollers and Edipower S.p.A., and no consideration is paid between the parties. As a result, no transaction of relevance for VAT took place. For these reasons, no allocations were made to provisions for risks.

On December 14, 2010, the Tax Authority issued another notice of assessment for 2005 regarding VAT on the alleged sale of Green Certificates by the tollers for 2005 "green" obligations. The observations were the same as those of the assessment related to 2004, and the sanction assessed totalled 4.6 million euro.

In August 2011, Edipower S.p.A. underwent a tax audit by the Milan Guardia di Finanza concerning the alleged sale of Green Certificates from 2006 to 2010.This investigation was conducted in response to a previous tax audit conducted at the tollers and was the continuation of assessments already begun by the Tax Authority for 2004 and 2005 as described above.

In the report on facts ascertained prepared on October 21, 2011, at the end of the investigation, the Guardia di Finanza expressed their belief that the Green Certificates delivered by the tollers to fulfil their obligations represented remuneration to Edipower S.p.A. as a supplement to the tolling fee. For this reason, the auditors determined that Edipower S.p.A. should have self-invoiced the Green Certificates received from the tollers and billed back the costs incurred on their behalf. For this twofold violation, the Guardia di Finanza claimed unpaid VAT totalling 54.5 million for the years 2006 to 2010 plus sanctions for the same amount. At the end of December 2011, following this report on facts ascertained, the Milan Tax Office issued a notice of assessment for 2006 containing a demand for VAT and related sanctions totalling 61.7 million euro and an additional infliction of sanctions in the amount of 12.3 million euro.

Based on the reasoning detailed above, it was found that the observations concerning VAT on excise duties and VAT on Green Certificates were without merit or subjective basis, and for this reason, no allocations to provisions for risks have been made.

Edipower S.p.A. has filed timely appears against all of these assessments with the appropriate courts, requesting all tax demands be annulled. The notice of assessment for 2005 was the subject of a hearing on May 25, 2012, during which the court ruled in favour of the company. The dates for the hearings regarding the appeals for 2004 and 2006 were also set for November 26, 2012, and January 22, 2013, respectively.

In August 2012, Equitalia issued a collection notice for one-third of the VAT related to 2006.The company filed a request for the suspension of payment, which was accepted during the hearing of October 23, 2012.

Ecodeco S.r.l. - Notice of VAT tax assessment for the 2003 tax year

On November 15, 2012, the Milan Tax Office filed an appeal with the Court of Cassation against the ruling of the Lombardy Regional Tax Commission agreeing with the company's defence concerning the dispute with the Guardia di Finanza regarding VAT totalling 48,000 euro plus interest and sanctions.

On December 23, 2012, the company filed a cross-appeal with the same court.

Ecodeco S.r.l. – Notification of VAT assessment for 2006 and 2007 tax years.

On July 5 and 6, 2010, the Milan 3 Tax Office served VAT tax assessment notices for the years 2006 and 2007, contesting the reduced VAT rates applied to the disposal of fuel produced in waste to energy processes. This claim was accompanied by a demand for 472 thousand euro extra in VAT payments for the year 2006, and 496 thousand euro, plus penalties and interest.

Ecodeco S.r.l. filed an appeal with the appropriate courts against both assessment notices issued. The appeal was heard on March 22, 2012.

On May 15, 2012, the Milan Provincial Tax Commission accepted the appeal.

On December 10, 2012, the Milan Tax Office filed an appeal with the Milan Regional Tax Commission against the ruling in favour of the company.

The company intends to continue with the dispute.

Ecodeco S.r.l. - Notification of IRES, IRAP and VAT assessment for 2007 tax year

On August 17, 2011, notice of IRES and IRAP tax assessments were served, contesting amongst other things, the undue deduction of a risks and charges provision, demanding an extra 233 thousand euro for IRES and IRAP, plus penalties, interest and minor charges.

On May 21, 2012, the Milan Provincial Tax Commission partially accepted the appeal, acknowledging the deductibility of the use of the taxable provision for risks and confirming other minor observations.

On August 17, 2011, a tax assessment regarding VAT was also issued, disputing the undue deduction of VAT due to failure to apply the pro rata deductibility from exempt revenues for interest income on cash pooling and demanding taxes in the amount of 284 thousand euro plus interest and sanctions.

The company filed, by recorded delivery, a motion to suspend and handle through public hearing to the Provincial Management II of the Revenues Agency on November 15, 2011, and an appeal to the Milan Provincial Tax Commission on December 6, 2011.

This Commission dismissed the appeal in a ruling filed on May 21, 2012.The company intends to appeal again to the full extent of the law.

On November 14, 2012, the company received a collection notice for 365 thousand euro, which was paid on January 11, 2013.

ASRAB S.p.A. - Notice of level I and II IRES and IRAP tax assessments for the 2004 tax year

Notices of IRES (levels I and II) and IRAP tax assessments for the 2004 tax year were received between 2007 and 2009. The notices contested several items of amortisation and depreciation deducted from taxable income along with costs related to "assignment rights" that the company pays every year to Co.s.r.a.b. The claim was accompanied by a demand for 355 thousand euro extra for IRES and IRAP, plus penalties and interest.

The company filed an appeal with the Milan Provincial Tax Commission against the level 2 notice on May 20, 2010. The Commission accepted our request to suspend proceedings and in May 2011, it accepted our appeal and cancelled the notification regarding costs for "assignment rights". On October 1, 2012, the company signed the settlement agreement with the Biella Tax Office in order to definitively close the dispute.

For the level 1 notice, no hearing has yet been set.

ASRAB S.p.A. - Notice of IRES and IRAP tax assessments for the 2005 tax year

On March 10 and 25, 2011, notice of IRES and IRAP tax assessments were served, contesting several items of amortisation and depreciation deducted from taxable income along with costs related to "assignment rights" that the company pays every year to Co.s.r.a.b. The claim was accompanied by a demand for 515 thousand euro extra for IRES and IRAP, plus penalties and interest.

The company lodged an appeal with the Biella Provincial Tax Commission on May 20, 2011. On September 5, 2011, the Biella Commission suspended the execution of the proceedings until a guarantee had been presented, i.e. a policy covering 50% of the contested credit; this policy was presented to the Biella Tax Office on September 28, 2011.

On October 1, 2012, the company signed the settlement agreement with the Biella Tax Office in order to definitively close the dispute.

ASRAB S.p.A. - Notice of IRES and IRAP tax assessments for the 2006 tax year

Several notices of IRES and IRAP tax assessments were served between June 10 and June 17, 2011, contesting several items of amortisation and depreciation deducted from taxable income along with costs related to "assignment rights" that the company pays every year to Co.s.r.a.b. The claim was accompanied by a demand for 729 thousand euro extra for IRES and IRAP, plus penalties and interest.

The company lodged an appeal with the Biella Provincial Tax Commission on October 18, 2011.

On November 16, 2011 we received notification that the entire assessment had been annulled insomuch as the wrong amount had been indicated for assignable rights; on December 9, 2011, a new assessment notification was received replacing the previous one. The company submitted an appeal to this to the Provincial Tax Commission, as permitted by law.

On October 1, 2012, the company signed the settlement agreement with the Biella Tax Office in order to definitively close the dispute.

ASRAB S.p.A. - Notice of IRES and IRAP tax assessments for the 2007 tax year

Several notices of IRES and IRAP tax assessments were served on Ecodeco S.r.l. and ASRAB S.p.a between October 21 and October 24, 2011, contesting several items of amortisation and depreciation deducted from taxable income along with costs related to "assignment rights" that the company pays every year to Co.s.r.a.b. The claim was accompanied by a demand for 920 thousand euro extra for IRES and IRAP, as well as penalties and interest.

The company lodged an appeal with the Biella Provincial Tax Commission on January 12, 2012.

The company filed a request for settlement with the office in order to closes the dispute.

On October 1, 2012, the company signed the settlement agreement with the Biella Tax Office in order to definitively close the dispute.

8) Environmental certificates as contingent assets

At December 31, 2012 the Group had an excess of environmental certificates (Emission Allowances and White Certificates).

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Attachments to the notes to the consolidated annual report

1 - Statement of changes in tangible assets

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

Tangible assets *Millions of euro*	**Residual value at 12 31 2010**	**Changes during the year**	
		Investments	**Category changes**
Land	247		
Buildings	825	5	7
Plant and machinery	3,223	96	60
Industrial and commercial equipment	39	5	
Other assets	64	12	2
Landfills	14	2	1
Assets held under concession	355		
Construction in progress and advances	83	58	(70)
Leasehold improvements	10	3	
Leased assets	12	2	
Total tangible assets	**4,872**	**183**	**–**

Write-downs	Coriance sale		Disposals/Sales		Amortization	Total changes 2012	Residual value at 12 31 2012
	Asset value	Acc. depreciation	Asset value	Acc. depreciation			
						5	249
(1)	(1)				(40)	(59)	1,064
			(40)	18	(351)	386	4,816
			(1)	1	(5)	(1)	40
			(5)	4	(15)	(3)	58
					(3)	3	14
						(715)	–
(1)			(1)			(37)	109
					(2)	1	13
					(1)	(2)	7
(2)	**(1)**	**–**	**(47)**	**23**	**(417)**	**(422)**	**6,370**

Other changes		Write-downs	Disposals/Sales		Amortization	Total changes 2012	Residual value at 12 31 2011
Gross value	Acc. depreciation		Asset value	Acc. depreciation			
(1)		(2)				(3)	244
1					(20)	(7)	818
		(3)	(15)	8	(239)	(93)	3,130
					(5)	0	39
(6)	2		(3)	3	(15)	(5)	59
		(2)			(4)	(3)	11
(29)	18				(47)	(58)	297
(5)						(17)	66
					(1)	2	12
					(5)	(3)	9
(40)	**20**	**(7)**	**(18)**	**11**	**(336)**	**(187)**	**4,685**

2 - Statement of changes in intangible assets

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

Intangible assets *Millions of euro*	Residual value at 12 31 2010	Changes during the year	
		Investments	Category changes
Industrial patent and intellectual property rights	22	10	6
Concessions, licences, trademarks and similar rights	802	100	12
Goodwill	675		
Assets in progress	21	17	(18)
Other intangible assets	32		
Total intangible assets	**1,552**	**127**	**–**

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

Changes during the year							Residual value at 12 31 2011
Reclassifications/other changes		Disposals		Write-downs	Amortization	Total changes 2012	
Gross value	Acc. amortization	Asset value	Acc. amortization				
(2)	2				(17)	(1)	21
32	(21)	(7)	5		(59)	62	864
				(95)		(95)	580
5						4	25
				(16)	(3)	(19)	13
35	**(19)**	**(7)**	**5**	**(111)**	**(79)**	**(49)**	**1,503**

3 - List of companies included in the consolidated financial statements

Company name	Registered office	Currency	Share capital (€/000)
Consolidation area			
A2A Reti Gas S.p.A.	Brescia	Euro	445,000
A2A Reti Elettriche S.p.A.	Brescia	Euro	520,000
AMSA S.p.A.	Milan	Euro	52,179
A2A Calore & Servizi S.r.l.	Brescia	Euro	150,000
Selene S.p.A.	Brescia	Euro	3,000
A2A Servizi alla Distribuzione S.p.A.	Brescia	Euro	300
A2A Energia S.p.A.	Milan	Euro	1,000
A2A Trading S.r.l.	Milan	Euro	1,000
Partenope Ambiente S.p.A.	Brescia	Euro	120
A2A Logistica S.p.A.	Brescia	Euro	250
A2A Ciclo Idrico S.p.A.	Brescia	Euro	70,000
Ecodeco S.r.l.	Milan	Euro	7,469
Aspem Energia S.r.l.	Varese	Euro	2,000
A2A Montenegro d.o.o.	Podgorica (Montenegro)	Euro	300
Mincio Trasmissione S.r.l.	Brescia	Euro	10
Aprica S.p.A.	Brescia	Euro	204,698
Assoenergia S.p.A. in liquidation	Brescia	Euro	126
Abruzzoenergia S.p.A.	Gissi (Ch)	Euro	130,000
Retragas S.r.l.	Brescia	Euro	34,495
Aspem S.p.A.	Varese	Euro	174
Varese Risorse S.p.A.	Varese	Euro	3,624
Montichiariambiente S.p.A.	Brescia	Euro	1,500
Ostros Energia S.r.l. in liquidation	Brescia	Euro	350
Camuna Energia S.r.l.	Cedegolo (Bs)	Euro	900
A2A Alfa S.r.l.	Milan	Euro	100
Plurigas S.p.A.	Milan	Euro	800
SEASM S.r.l.	Brescia	Euro	700
Proaris S.r.l.	Milan	Euro	1,875
Delmi S.p.A. (*)	Milan	Euro	1,466,868
Edipower S.p.A. (*)	Milan	Euro	1,441,300
Ecofert S.r.l.	S. Gervasio Bresciano (Bs)	Euro	100
Elektroprivreda Cnre Gore AD Niksic (EPCG)	Niksic (Montenegro)	Euro	958,666
EPCG d.o.o. Beograd	Beograd (Serbia)	Dinar RSD	35
Zeta Energy d.o.o.	Danilovgrad (Montenegro)	Euro	12,240

See attachment 5 for Ecodeco Group shareholdings in subsidiaries.

(*) The merger by incorporation of Delmi S.p.A. by Edipower S.p.A., with effect from January 1, 2013, was signed on December 18, 2012.

% consolidated group shareholding at 12 31 2012	Stake held %	Shareholder	Valuation method
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Reti Gas S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A Energia S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
99.99%	99.99%	A2A S.p.A.	Line-by-line consolidation
97.76%	97.76%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	A2A S.p.A.	Line-by-line consolidation
91.60%	91.60%	A2A S.p.A. (87.27%) A2A Reti Gas S.p.A. (4.33%)	Line-by-line consolidation
90.00%	90.00%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	Aspem S.p.A.	Line-by-line consolidation
80.00%	80.00%	Aprica S.p.A.	Line-by-line consolidation
80.00%	80.00%	A2A S.p.A.	Line-by-line consolidation
74.50%	74.50%	A2A S.p.A.	Line-by-line consolidation
70.00%	70.00%	A2A Trading S.r.l.	Line-by-line consolidation
70.00%	70.00%	A2A S.p.A.	Line-by-line consolidation
67.00%	67.00%	A2A S.p.A.	Line-by-line consolidation
60.00%	60.00%	A2A S.p.A.	Line-by-line consolidation
51.00%	51.00%	A2A S.p.A.	Line-by-line consolidation
90.00%	90.00%	A2A S.p.A. (20%) Delmi S.p.A. (70%)	Line-by-line consolidation
47.00%	47.00%	A2A S.p.A.	Line-by-line consolidation
43.70%	43.70%	A2A S.p.A.	Line-by-line consolidation
100.00%	100.00%	EPCG	Line-by-line consolidation
57.86%	51.00%	EPCG	Line-by-line consolidation

4 - List of shareholdings in companies carried at equity

Company name	Registered office	Currency	Share capital (€/000)
Shareholdings in companies carried at equity			
PremiumGas S.p.A.	Bergamo	Euro	120
Ergosud S.p.A.	Roma	Euro	81,448
Ergon Energia S.r.l. in liquidation	Milan	Euro	600
Metamer S.r.l.	San Salvo (Ch)	Euro	650
Asm Novara S.p.A.	Brescia	Euro	1,000
Bergamo Servizi S.r.l.	Sarnico (Bg)	Euro	10
SET S.p.A.	Toscolano Maderno (Bs)	Euro	104
Azienda Servizi Valtrompia S.p.A.	Gardone Valtrompia (Bs)	Euro	6,000
Ge.S.I. S.r.l.	Brescia	Euro	1,000
Centrale Termoelettrica del Mincio S.r.l.	Ponti s/Mincio (Mn)	Euro	11
Serio Energia S.r.l.	Concordia s/Secchia (Mo)	Euro	1,000
Visano Soc. Trattamento Reflui Scarl	Brescia	Euro	25
LumEnergia S.p.A.	Lumezzane (Bs)	Euro	300
Sviluppo Turistico Lago d'Iseo S.p.A.	Iseo (Bs)	Euro	1,616
ACSM-AGAM S.p.A.	Monza	Euro	76,619
Futura S.r.l.	Brescia	Euro	2,500
Prealpi Servizi S.r.l.	Varese	Euro	5,451
COSMO Società Consortile a Responsabilità Limitata	Brescia	Euro	100
Dolomiti Energia S.p.A.	Rovereto (Tn)	Euro	411,496
Rudnik Uglja Ad Pljevlja	Pljevlja (Montenegro)	Euro	21,493
Consolidamento Gruppo Ecodeco (1)			
Total shareholdings			

(1) See attachment 5 for Ecodeco Group shareholdings.

	Stake held %	Shareholder	Book value at 12 31 2012 (€/000)	Valuation method
	50.00%	A2A Alfa S.r.l.	3,524	Equity
	50.00%	A2A S.p.A.	82,187	Equity
	50.00%	A2A S.p.A.	2	Equity
	50.00%	A2A S.p.A.	1,220	Equity
	50.00%	A2A S.p.A.	-	Equity
	50.00%	Aprica S.p.A.	279	Equity
	49.00%	A2A S.p.A.	498	Equity
	49.15%	A2A S.p.A. (48.77%) A2A Reti Gas S.p.A. (0.38%)	4,051	Equity
	44.50%	A2A S.p.A.	1,451	Equity
	45.00%	A2A S.p.A.	5	Equity
	40.00%	A2A S.p.A.	655	Equity
	40.00%	A2A S.p.A.	10	Equity
	33.33%	A2A Energia S.p.A.	157	Equity
	24.29%	A2A S.p.A.	837	Equity
	21.94%	A2A S.p.A.	31,096	Equity
	20.00%	A2A Calore & Servizi S.r.l.	500	Equity
	12.47%	Aspem S.p.A.	843	Equity
	52.00%	A2A Calore & Servizi S.r.l.	52	Equity
	7.91%	A2A S.p.A.	61,566	Equity
	39.49%	A2A S.p.A.	19,067	Equity
			1,553	See attachment 5.
			209,553	

5 - List of companies included in the consolidated financial statements of the Ecodeco Group

Company name	Registered office	Currency	Share capital (*thousands*)
Consolidation area			
Ecodeco S.r.l.	Milan	Euro	7,469
Ecodeco Hellas S.A.	Atene	Euro	60
Ecolombardia 18 S.r.l.	Milan	Euro	658
Ecolombardia 4 S.p.A.	Milan	Euro	17,727
Sicura S.r.l.	Milan	Euro	1,040
Sistema Ecodeco UK Ltd	Canvey Island Essex (UK)	GBP	250
Vespia S.r.l. in liquidation	Milan	Euro	10
A.S.R.A.B. S.p.A.	Cavaglià (BI)	Euro	2,582
Nicosiambiente S.r.l.	Milan	Euro	50
Ecoair S.r.l.	Milan	Euro	10
Bioase S.r.l.	Sondrio	Euro	677
Shareholdings in companies carried at equity			
SED S.r.l.	Robassomero (TO)	Euro	1,250
Bergamo Pulita S.r.l.	Bergamo	Euro	10
Tecnoacque Cusio S.p.A.	Omegna (VB)	Euro	206
Bellisolina S.r.l.	Montanaso (LO)	Euro	52
Total shareholdings			

% consolidated group shareholding at 12 31 2012	Stake held %	Shareholder	Book value at 12 31 2012 (*thousands*)	Valuation method
				Line-by-line consolidation
100.00%	100.00%	Ecodeco		Line-by-line consolidation
98.86%	98.86%	Ecodeco		Line-by-line consolidation
68.56%	68.56%	Ecodeco		Line-by-line consolidation
96.80%	96.80%	Ecodeco		Line-by-line consolidation
100.00%	100.00%	Ecodeco		Line-by-line consolidation
99.90%	98.90%	Ecodeco		Line-by-line consolidation
70.00%	70.00%	Ecodeco		Line-by-line consolidation
99.90%	99.90%	Ecodeco		Line-by-line consolidation
100.00%	100.00%	Ecodeco		Line-by-line consolidation
70.00%	70.00%	Ecodeco (51.00%) AMSA (19.00%)		Line-by-line consolidation
	50.00%	Ecodeco	1,312	Equity
	50.00%	Ecodeco	–	Equity
	25.00%	Ecodeco	241	Equity
	50.00%	Ecodeco	-	Equity
			1,553	

6 - List of financial assets available for sale

Company name	Stake held %	Shareholder	Book value 12 31 2012 (€/000)
Financial assets available for sale (AFS)			
Infracom S.p.A.	1.57%	A2A S.p.A.	155
Immobiliare-Fiera di Brescia S.p.A.	5.52%	A2A S.p.A.	705
E.M.I.T. S.p.A.	10.00%	A2A S.p.A.	459
Azienda Energetica Valtellina e Valchiavenna S.p.A. (AEVV)	9.39%	A2A S.p.A.	1,846
Other:			
A.C.B. Servizi S.r.l.	5.00%	A2A S.p.A.	
Alesa S.r.l.	5.26%	A2A Reti Gas S.p.A.	
AQM S.r.l.	8.19%	A2A S.p.A.	
AvioValtellina S.p.A.	0.18%	A2A S.p.A.	
Banca di Credito Cooperativo di Calcio e Covo Società Cooperativa	n.s.	A2A S.p.A.	
Brescia Mobilità S.p.A.	n.s.	A2A S.p.A.	
Brixia Expo-Fiera di Brescia S.p.A.	9.44%	A2A S.p.A.	
Cavaglià Sud S.r.l. in liquidation	1.00%	Ecodeco S.r.l.	
Consorzio DIX.IT in liquidation	14.28%	A2A S.p.A.	
Consorzio Ecocarbon Coneco	n.s.	Ecodeco S.r.l.	
Consorzio Intellimech	n.s.	A2A S.p.A.	
Consorzio Italiano Compostatori	n.s.	Ecodeco S.r.l.	
Consorzio L.E.A.P.	10.53%	A2A S.p.A.	
Consorzio Milan Sistema in liquidation	10.00%	A2A S.p.A.	
Consorzio Polieco	n.s.	Ecodeco S.r.l.	
CSEAB (già Cramer S.c.a.r.l.)	6.67%	A2A S.p.A.	
Emittenti Titoli S.p.A.	1.85%	A2A S.p.A.	
Guglionesi Ambiente S.c.a.r.l.	1.01%	Ecodeco S.r.l.	
INN.TEC. S.r.l.	10.89%	A2A S.p.A.	
Isfor 2000 S.c.p.a.	4.94%	A2A S.p.A.	

Company name	Stake held %	Shareholder	Book value 12 31 2012 (€/000)
S.I.T. S.p.A.	0.26%	Aprica S.p.A.	
Stradivaria S.p.A.	n.s.	A2A S.p.A.	
Tirreno Ambiente S.p.A.	3.00%	Ecodeco S.r.l.	
Prva banka Crne Gore A.D. Podgorica (*)	19.76%	EPCG	
DI.T.N.E.	1.30%	Edipower S.p.A.	
Total other financial assets			**6,476**
Total financial assets available for sale			**9,641**

(*) Note that the shareholding in Prva banka Crne Gore A.D. Podgorica, also taking into account the preferred shares with no voting rights, equals 24.10% of the share capital of the company.

Note: A2A S.p.A. was involved in setting up Societa' Cooperativa Polo dell'innovazione della Valtellina, subscribing 5 shares of a par value of 50 euro each.

Certification of the consolidated financial statements pursuant to Art. 154-bis, para. 5 of Leg. Decree No. 58/98.

1. The undersigned Graziano Tarantini, in the name of and on behalf of the entire Board of Management of A2A S.p.A, and Stefano Micheli, the manager responsible for preparing the accounting documents of A2A S.p.A., certify the following, taking into account the provisions of Art. 154-bis, paras. 3 and 4, of Legislative Decree no. 58 of February 24, 1998:

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

of the administration and accounting procedures for the preparation of the consolidated financial statements during 2012.

2. We also hereby confirm that:

2.1 the consolidated financial statements:

a) have been prepared in accordance with applicable International Financial Reporting Standards approved by the European Union, pursuant to EC Regulation 1606/2002 of the European Parliament and Council of July 19, 2002;

b) accurately reflect entries in the books of account and accounting ledgers;

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

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

Milan, March 14, 2013

Graziano Tarantini	Stefano Micheli
(for The Management Board)	(Manager in charge of preparing accounting documents)

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Independent Auditors' Report

Independent Auditors' Report

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

To the shareholders of
A2A SpA

1 We have audited the consolidated financial statements of A2A SpA and its subsidiaries ("A2A Group") as of 31 December 2012, which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes. The management board of A2A SpA is responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union , as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

The consolidated financial statements show the previous year's consolidated figures as comparatives. As stated in the notes to the consolidated financial statements, the management board restated certain comparative amounts with respect to the figures previously reported and audited by us, on which we reported on 4 April 2012. We examined the method applied to restate the comparative amounts and the disclosures presented in the notes to the consolidated financial statements for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2012.

3 In our opinion, the consolidated financial statements of A2A Group as of 31 December 2012 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the consolidated financial position, results of operations and cashflows of A2A Group for the year then ended.

PricewaterhouseCoopers SpA

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4 The management board of A2A is responsible for the preparation of a report on operations and a report on corporate governance and ownership structure, published in the *Governance – Corporate Documents* section of the company's website, in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98, presented in the report on corporate governance and ownership structure, with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by the Italian accounting profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) and recommended by CONSOB. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No.58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of A2A SpA as of 31 December 2012.

Milan, 5 April 2013

PricewaterhouseCoopers SpA

signed by
Marco Sala
(Partner)

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