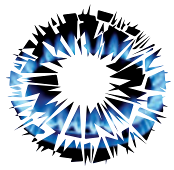
Report
on operations

2012

energy
networks
environment
heat
and services



a2a

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This is a translation of the Italian original "Relazione sulla gestione 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

Letter to Shareholders


Dear Shareholders,

The year 2012 was of special importance to A2A, it was one of significant changes and growth for the Group which has become an entity profoundly different from that created in 2008 through the merger of AEM S.p.A. and ASM S.p.A., and today it ranks top in all the business areas in which it operates in Italy. It is now the second leading national energy producer, with 12 GW installed and a production mix geared towards renewable sources, for which hydroelectricity represents around a quarter of installed capacity. It is the leader in Italy in environmental services and in district heating; it is the second largest operator in electricity distribution networks and is one of the first in gas and water cycle networks.

Several key initiatives of a strategic nature were completed during the year which are also capable of bringing benefits in future years, and extremely positive economic and industrial results were achieved. Consolidated turnover reached 6,480 million euro, an increase of 5.7% over 2011. Gross operating income of 1,068 million euro was reached (+15.6%), while a net profit of 260 million euro was posted compared to a loss of 423 million euro incurred in the previous year due to write-downs of 627 million euro. Net cash flow was positive at 732 million euro, after capital expenditure of 360 million euro and dividend payments of 40 million euro.

The rise in the industrial margin was supported by the Energy Sector, which earned gross operating income of 541 million euro (+61%) mainly due to the acquisition of the control of Edipower S.p.A. which entered the A2A Group's consolidation scope in June 2012. The Montenegro subsidiary EPCG also provided its contribution to the Sector's fine performance, with an industrial result positive once again and profit reaching 17.5 million euro.

The Environment Sector suffered a fall of 20 million euro in its industrial margin, essentially due to the loss of the CIP 6 incentive for electricity production in a number of the Group's waste to energy plants (Corteolona, Bergamo, Filago, Milan). The Networks Sector also fell slightly (-7 million euro) due to non-recurring prior year items, while the Heat and Services Sector posted an increase in gross operating income from 67 to 69 million euro (+3%) as the result of increased volumes sold in the district heating segment due to new connections. Extraordinary items were also positive, contributing 111 million euro to the result for the year, thanks in particular to the net gains resulting from the sales of Coriance and the shareholdings in Metroweb S.p.A. and e-Utile S.p.A..

All of this has taken place in what is certainly not an easy situation at either an international or domestic level. Despite the fact that a number of positive signs emerged during the first few months of the year, the world economy did not achieve the thrust that everyone was expecting to see in 2012 and actually grew at a slower rate than the previous year. According to the latest figures released by the International Monetary Fund, global GDP rose by 3.2% compared to 4.0% in 2011, despite signs of strengthening in the United States and in a number of emerging economies. Causing a slowdown once again was the Old Continent, with GDP falling by 0.3% in the European Union and by 0.6% in the eurozone. Italy for its part is not yet on the road to recovery and gave proof that is still in full recession, with GDP dropping by 2.4% and industrial production by 6.7%.

The perseverance of the economic crisis has had a significant bearing on this country's energy consumption: the net electricity requirement fell by 2.8% over 2011 and that of natural gas by 4.1%. This is of obvious importance to a Group such as A2A, which earns almost 50% of its gross operating income in the energy sector but which has been able to find the strength and the ability to look to the future and pursue a strategy of growth and streamlining, notwithstanding a somewhat critical situation.

The launch of the 2013-2015 Business Plan, which was approved in November 2012, has been a fitting seal on this strategy, which hinges on developing the Group's activities in its four core business areas (energy, environment, heat, networks), strengthening the Group's asset structure (including through the sale of non-strategic and low profit-making assets and shareholdings), increasing operating efficiency and selectively allocating investments to the more profitable areas and those which are more environmentally sustainable.

The priority in the Energy Sector is currently to achieve full integration with the newly-acquired Edipower S.p.A., in order to exploit all possible synergies to the utmost and obtain further margins of growth from an earnings standpoint, also but not only due to the consolidation of the company's results for the whole year compared to seven months of consolidation in 2012. A combination, reorganization and development plan has been initiated in the Environment Sector, which will lead to the birth of the largest company in the waste disposal sector in Italy by the end of 2013: a business which incorporates considerably high levels of growth potential, starting with the gap between this country and the more advanced countries in Europe as far as the means of disposal are concerned. An investment program worth over 700 million euro in eight years has been drawn up in the Heat Sector, which is aimed at developing district heating in a number of Lombardy cities, including Milan, where the objective is to increase the Group's penetration share of the potential market by between 7% and 20%, encouraging significant energy savings and a reduction in the emission of pollutants. In turn, the Networks Sector will benefit from investments designed to make electricity, gas and water cycle distribution services increasingly wide-ranging, capillary and efficient in areas which are already covered and in neighboring areas which are open to potential expansion.

The Group is structurally sound from a financial standpoint and available funds are sufficient to ensure that the due dates of lines of debt can be met beyond the end of 2015. A2A made a bond issue of 750 million euro in November 2012 which was well received by the market; demand exceeded 4.5 billion euro, 6 times the offer. In addition, cash generation over the 12 months to a large extent repaid the debt arising from the purchase of Edipower S.p.A., reducing the debt ratio (Net Financial Position / Gross Operating Income) from 4.4 to 4.1 by the end of the year with a virtuous trend that is expected to continue over the next few years.

The growth of the Group has not led to the loss of the one distinctive feature which has distinguished A2A from the start: its roots in the local area, where through our companies we supply a wide range of essential services to the community and where through the ASM and AEM Foundations we take part in the life of local communities, providing practical support to research initiatives and social, sports and cultural activities.

A2A dedicates the same commitment to environmental sustainability, implementing strict management and monitoring policies covering all of its activities and each year producing a Sustainability Report which provides detailed data and information on all the aspects of the Group's activities which affect the business and the environment. It is no coincidence that A2A S.p.A. is included in the 2012 Carbon Disclosure Leadership Index, which contains the leading 10 companies on the Italian FTSE which have shown the greatest transparency and completeness in communicating information on the reduction in greenhouse gas emissions and the potential impact on climate change.

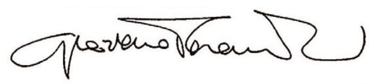
To sum up, A2A presents itself today as a highly competitive Group that is capable of playing a leading role on the domestic and European scenario in the energy industry and in all the main sectors in which it operates. A bet which we might well say has been successful if we look at the objectives which were at the heart of A2A's birth in 2008. One which has been won due to the tenacity and commitment of everyone who has worked, or works, in the Group with devotion and professionalism, and to whom we therefore give our recognition. Our personal thoughts go to the memory of Giuliano Zuccoli, the first chairman of the Management Board, who passed away in February 2012.

The Chairman of the Supervisory Board

Pippo Ranci Ortigosa

The Chairman of the Management Board

Graziano Tarantini



Corporate boards

SUPERVISORY BOARD

CHAIRMAN
Pippo Ranci Ortigosa

DEPUTY CHAIRMAN
Fausto Di Mezza

DIRECTORS
Marco Baga
Alessandro Berdini
Marina Brogi
Michaela Castelli
Mario Cocchi
Marco Manzoli
Enrico Giorgio Mattinzoli
Marco Miccinesi
Andrea Mina
Stefano Pareglio
Massimo Perona
Norberto Rosini
Angelo Teodoro Zanotti

MANAGEMENT BOARD

CHAIRMAN
Graziano Tarantini

DEPUTY CHAIRMAN
Francesco Silva

DIRECTORS
Giambattista Brivio
Stefano Cao
Bruno Caparini
Maria Elena Cappello
Renato Ravanelli
Paolo Rossetti

GENERAL MANAGERS

CORPORATE AND MARKET AREA
Renato Ravanelli

TECHNICAL-OPERATIONS AREA
Paolo Rossetti

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.P.A.

Key figures of the A2A Group

Areas of activity

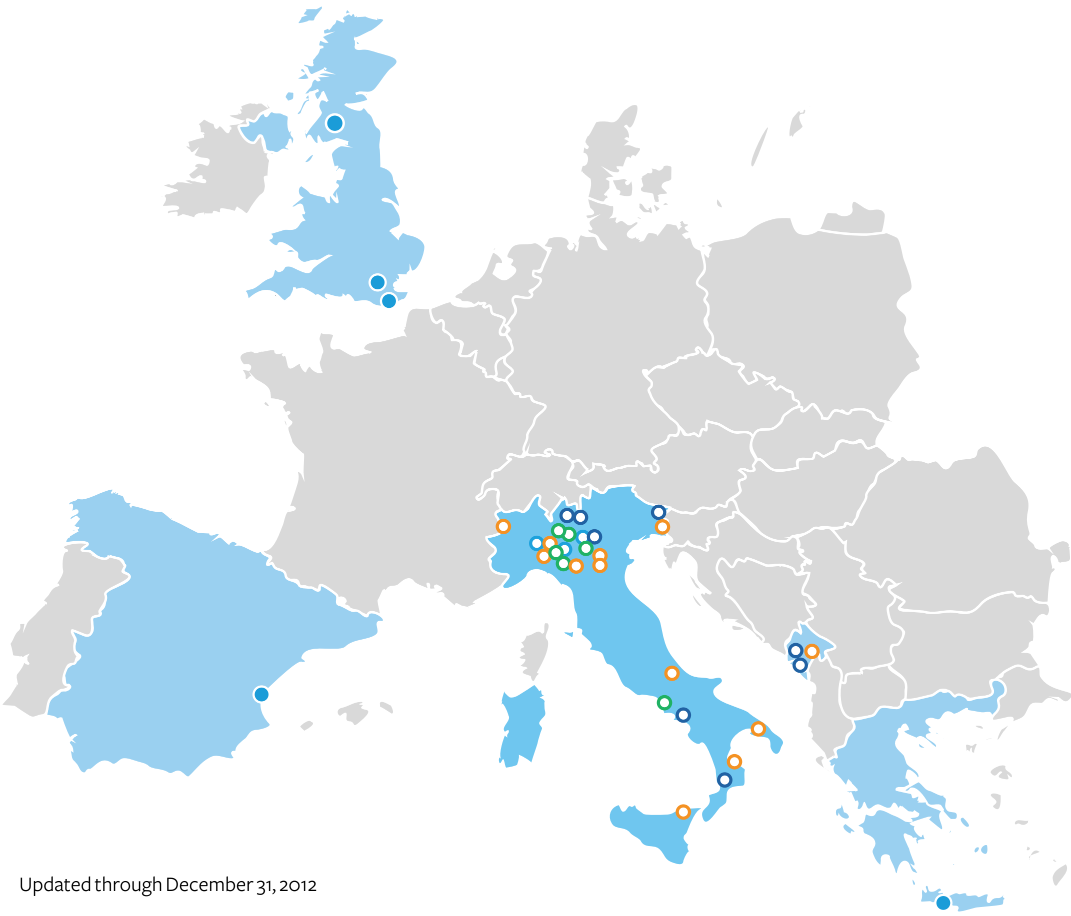
The A2A Group operates in the production, sale and distribution of gas and electricity, district heating, environmental services and the integrated water cycle. These activities in turn form part of the following sectors:

Sectors of the A2A Group

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

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

Geographical areas of activity



Updated through December 31, 2012

- Hydroelectric plants
- Thermoelectric plants
- Cogeneration plants
- Waste treatment plants
- Technological partnerships

Group structure

A2A S.p.A.

- **51.00%** Delmi (3)
  - **70.00%** Edipower
- **20.00%** Edipower (1)

- **100.00%** A2A Trading
  - **70.00%** A2A Alfa
    - **50.00%** Premiumgas
- **70.00%** Plurigas
- **100.00%** Abruzzoenergia
- **50.00%** Ergosud
- **50.00%** Metamer

- **100.00%** A2A Energia
  - **100.00%** Aspem Energia
  - **33.33%** Lumenergia
- **43.70%** EPCG
- **39.49%** Rudnik Uglja ad Pljevlja

- **100.00%** Amsa
- **100.00%** Ecodeco
- **99.99%** Aprica
- **100.00%** Partenope Ambiente

- **100.00%** A2A Calore & Servizi
- **60.00%** Proaris

- **100.00%** A2A Reti Elettriche
- **100.00%** A2A Ciclo Idrico
- **90.00%** Aspem (3)

- **100.00%** A2A Reti Gas
  - **100.00%** A2A Servizi alla distribuzione
- **91.60%** Retragas
- **74.50%** Camuna Energia
- **49.15%** ASVT (2)

- **100.00%** Selene
- **100.00%** A2A Logistica
- **21.94%** ACSM-AGAM
- **7.91%** Dolomiti Energia

Areas of Activity

- Energy
- Environment
- Heat and Services
- Networks
- Other Companies

(1) A2A S.p.A. holds the 20% interest in Edipower directly.
(2) Of which 0.38% held through A2A Reti Gas.
(3) There are put options on an additional interest in the company's share capital.

This chart shows the main shareholdings of the A2A Group. For full details of shareholdings reference should be made to Attachments 3, 4, 5 and 6.

Financial highlights at December 31, 2012 (**)

Revenues	6,480 million euro
Gross operating income	1,068 million euro
Net profit	260 million euro

Income statement figures

Millions of euro

	01 01 2012 31 12 2012	01 01 2011 31 12 2011 (a)
Revenues	**6,480**	**6,130**
Operating expenses	(4,810)	(4,658)
Labour costs	(602)	(548)
Gross operating income	**1,068**	**924**
Depreciation, amortization, provisions and write-downs	(567)	(626)
Net operating income	**501**	**298**
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)
Net result from non-current assets sold or held for sale	81	(808)
Minorities	(11)	496
Group net profit for the year	**260**	**(423)**
Gross operating income/revenues	**16.5%**	**15.1%**

(a) The comparative figures for the period January to December 2011 have been reclassified for the application of IFRS 5 and restated for the application of the revised version of IAS 19 "Employee Benefits".

(**) The figures serve as performance indicators as required by CESRN/05/178/B

Balance sheet figures

millions of euro

	31 12 2012	31 12 2011
Net capital employed	8,069	7,614
Total equity attributable to the Group and minorities	3,697	3,593
Consolidated net financial position	(4,372)	(4,021)
Consolidated net financial position / Equity attributable to the Group and minorities	1.18	1.12
Consolidated net financial position / Average market capitalization	2.78	1.31

Financial data

millions of euro

	01 01 2012 31 12 2012	01 01 2011 31 12 2011
Net cash from operating activities	961	371
Net cash used in investing activities	(250)	(186)
Free cash flow	711	185

Dividend 0.026 euro per share

Average market capitalization in 2012 1,574 million euro

Key figures of A2A S.p.A.

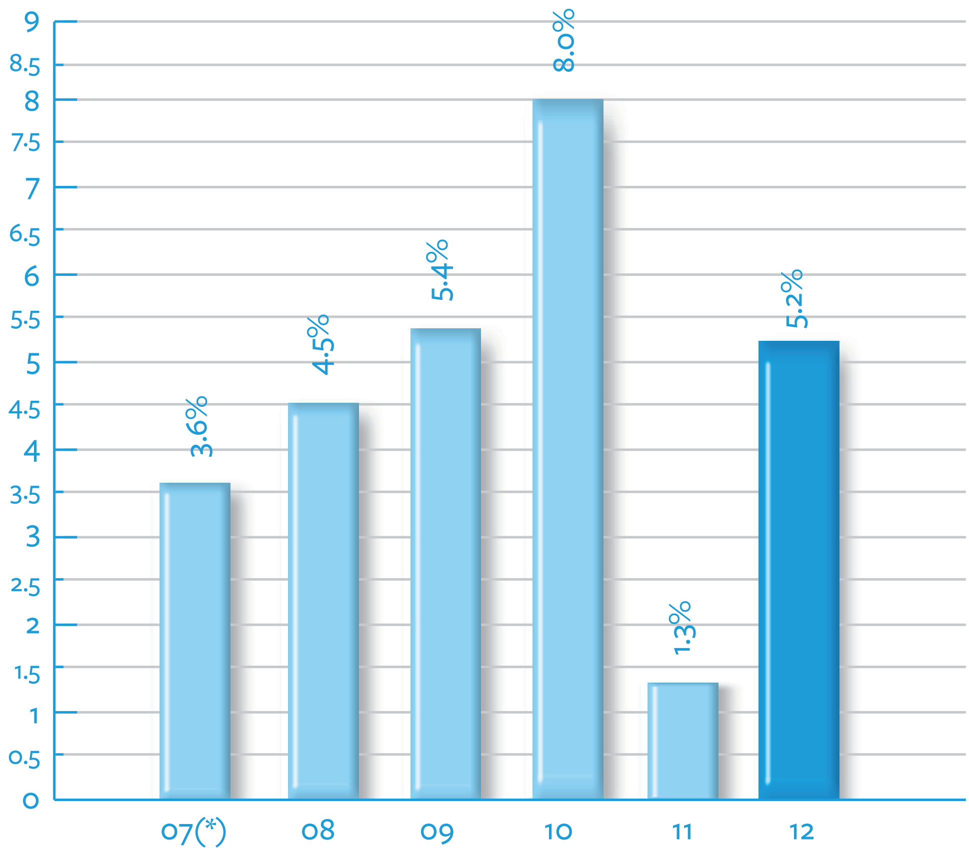
	31 12 2012	31 12 2011
Share capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	26,917,609	26,917,609

Key indicators

	31 12 2012	31 12 2011
Average 6-month Euribor	0.828%	1.638%
Average price of Brent crude (US$/bbl)	111.66	110.83
Average exchange rate euro/US$ (*)	1.29	1.39
Average price of Brent crude (euro/bbl)	86.80	79.60
Average price of coal (euro/tonne)	71.94	87.34

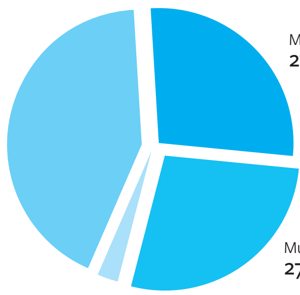
(*) Source: Bank of Italy

Dividend/average share price for the year (Dividend yield)



(*) Figures relating to the former AEM Group

Shareholdings (*)



(*) Holdings exceeding 2% (updated through December 31, 2012)
Source: CONSOB

A2A S.p.A. on the Stock Exchange

A2A in figures (Italian Stock Exchange)

Market capitalization at December 31, 2012 (millions of euro)	1,370
Average capitalization in 2012 (millions of euro)	1,574
Average volumes in 2012	22,859,256
Average price in 2012 (*)	0.503
Maximum price in 2012 (*)	0.793
Minimum price in 2012 (*)	0.289
Number of shares	3,132,905,277

(*) euro per share
Source: Bloomberg

A2A stock is also traded on the following platforms: Chi-X, Turquoise, BATS, BOAT OTC , LSE Europe OTC.

On June 21, 2012 A2A distributed a dividend of 0.013 euro per share.

Stock data	2012	2011
Earnings per share (EPS)	0.083	-0.134
Cash-flow per share (CFPS)	0.307	0.131
Dividend per share (DPS)	0.026	0.013
Price/Earnings per share (P/EPS)	6.06x	-7.28x
Price/Cash-flow (P/CFPS)	1.64x	7.45x
Dividend yield (DPS/P)	5.2%	1.3%
Number of shares (million)	3.133	3.133

Multiples are calculated on the average price for the year

(1) The figures serve as performance indicators as required by CESRN/05/178/B.

Rating

		Current
Standard & Poor's	M/L Term Rating	BBB
	Short Term Rating	A-2
	Outlook	Negative
Moody's	M/L Term Rating	Baa3
	Outlook	Negative

Source: Ratings agencies

A2A forms part of the following indices

FTSE MIB
STOXX Europe
EURO STOXX
DJ Italy Titans 30
WisdomTree
S&P Developed Ex-US

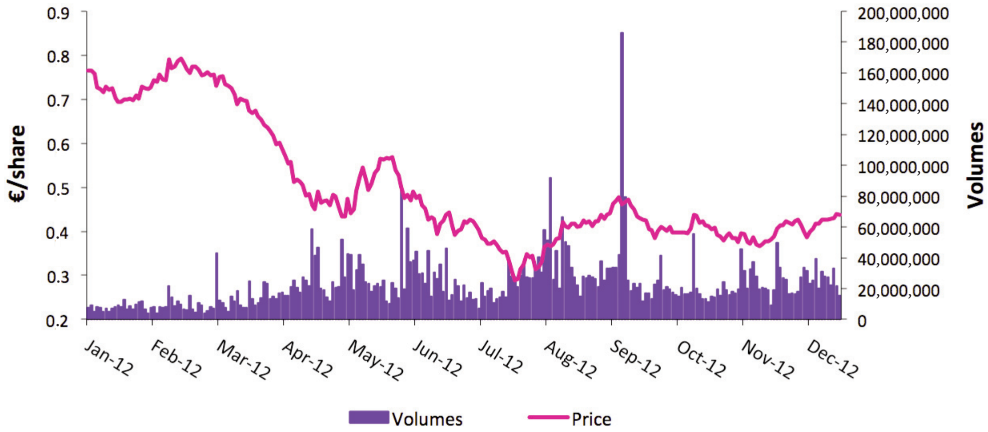
Ethical Indices

ECPI Ethical Index EMU
Axia Substainable Index
Solactive Climate Change Index
FTSE ECPI Italia SRI Benchmark

Source: Bloomberg

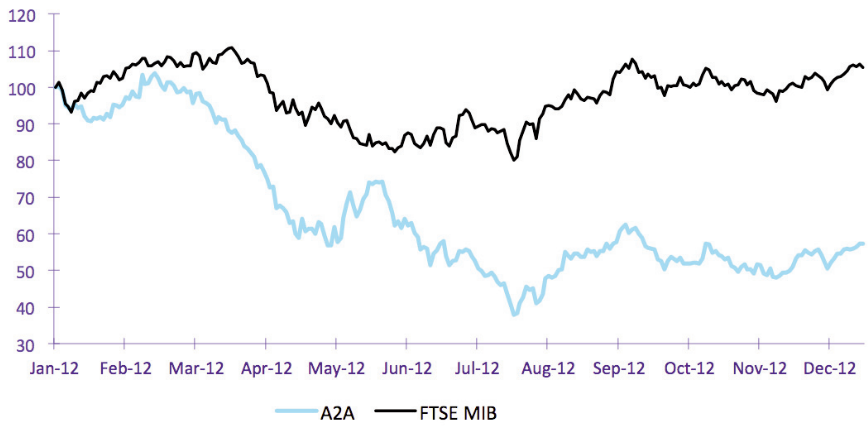
A2A is listed in the 2012 Carbon Disclosure Leadership Index.

A2A in 2012



A2A vs FTSE MIB

(Prices: January 1, 2012 = 100)



Source: Bloomberg

Among the factors that have affect the share’s performance are those connected with the macroeconomic situation:

- Economic crisis
- Country risk (reflected in movements in the BTP-Bund spread)
- Electricity sector under pressure
- High volatility of the financial markets

On the other hand company-specific factors regard:

- Level of debt and downgrading of the rating
- Quarterly industrial results above expectations
- Completion of the reorganization of the shareholdings in Edison and Edipower
- Sale of Coriance and departure from Metroweb with significant capital gains
- Success of the 7-year 750 million euro bond issue
- Significant increase in traded volumes and volatility of the share
- Reduction of the holding in Alpiq

Consolidated results and report on operations

Summary of results, assets and liabilities and financial position

Results

The Group's scope of consolidation has changed as a result of the line-by-line consolidation of the subsidiary Edipower S.p.A. from June 1, 2012. The income statement figures for the year ended December 31, 2012 are accordingly not comparable with those of the previous year.

In addition, following the sale of the Coriance Group in the third quarter of 2012, the relative income statement figures have been reclassified under the item "Net result from non-current assets sold or held for sale" in accordance with IFRS 5. Further details of the above may be found in the section "Changes in scope of consolidation".

Further, the figures for interest income and expense for 2011 have been restated in accordance with the requirements of the revised version of IAS 19 Revised "Employee Benefits".

Millions of euro	**01 01 2012 12 31 2012**	**01 01 2011 12 31 2011**	**Changes**
Revenues:	**6,480**	**6,130**	**350**
of which:			
- Revenues from the sale of goods and services	*6,281*	*6,029*	*252*
- Other operating income	*199*	*101*	*98*
Operating expenses	(4,810)	(4,658)	(152)
Labour costs	(602)	(548)	(54)
Gross operating income	**1,068**	**924**	**144**
Depreciation and amortization	(489)	(403)	(86)
Provisions and write-downs	(78)	(223)	145
Net operating income	**501**	**298**	**203**
Net financial expense	(193)	(126)	(67)
Share of results of companies at equity	13	(132)	145
Other non-operating income	3	6	(3)
Other non-operating expenses	(6)	(10)	4
Income before tax	**318**	**36**	**282**
Income taxes	(128)	(147)	19
Income from current operations net of tax	**190**	**(111)**	**301**
Net result from non-current assets sold or held for sale	81	(808)	889
Minority interests	(11)	496	(507)
Group net profit for the year	**260**	**(423)**	**683**

The Group earned revenues totaling 6,480 million euro in the year, of which 266 million euro attributable to the EPCG Group (6,130 million euro in 2011, of which 265 million euro attributable to the EPCG Group) and 397 million euro relating to Edipower S.p.A..

The main quantitative data contributing to the formation of these revenues with comparative figures are as follows:

	12 31 2012	12 31 2011
Electricity sold to wholesale and retail customers (GWh)	23,664	23,646
Electricity sold on the Power Exchange (GWh)	13,069	13,203
Electricity sold on foreign markets (GWh)	11,983	11,994
Electricity sold (GWh) - EPCG	4,284	4,720
Gas sold (Mcm)	3,805	4,103
Heat sold (GWht)	2,217	2,078
Electricity distributed (GWh)	11,361	11,489
Electricity distributed (GWh) - EPCG	2,596	2,564
Gas distributed (Mcm)	2,010	2,011
Water distributed (Mcm)	69	69
Water purified (Mcm)	41	40
Waste disposed of (Ktonne)	2,457	2,626

Detail productions	12 31 2012	12 31 2011
Thermoelectric production (GWh)	9,362	8,210
Thermoelectric production (GWh) - EPCG	1,245	1,452
Hydroelectric production (GWh)	4,028	3,525
Hydroelectric production (GWh) - EPCG	1,470	1,204
Heat production (GWht)	2,005	1,852
Electricity produced by cogeneration (GWh)	310	299
Electricity sold from waste to energy and biogas plants (GWh)	1,143	1,209

"**Gross operating income**" of 1,068 million euro rose by 144 million euro over the previous year.

The following table sets out the changes in industrial gross operating income by sector, together with the effects again by sector of the adjustments prudently made to revenues as the result of recent changes (or proposed changes) to the legislative and regulatory framework:

Millions of euro	**12 31 2012**	**12 31 2011**
Energy Sector	541	336
Environment Sector	267	287
Heat and Services Sector	69	67
Networks Sector	252	259
Other Services and Corporate Sector	(7)	(25)
Total industrial EBITDA	**1,122**	**924**
Effect of laws and regulations	**(54)**	**-**
of which Environment Sector (*)	*(48)*	-
of which Heat Sector (**)	*4*	-
of which Networks Sector	*(10)*	-
Total EBITDA	**1,068**	**924**

(*) of which -4 million euro intragroup
(**) intragroup

The Energy Sector posted gross operating income of 541 million euro, a rise of 205 million euro (+61%) over the same period of the previous year.

A variety of factors made a positive contribution to the result, the main ones of these being the integration of the production base of Edipower S.p.A. into A2A and the consolidation of that company from June 2012.

The decrease of 20 million euro in the industrial margin of the Environment Sector over the previous year is essentially due to the ending of CIP 6 incentives for certain of the Group's waste to energy plants (Corteolona, Bergamo, Filago, Milan), as well as the stoppage for extraordinary maintenance at the Bergamo waste to energy plant.

While waiting for the outcome of the current administrative disputes, a prudent provision has been included in the 2012 result for a reduction in revenues of 48 million euro arising from recent changes in legislation and orientation by the Electricity and Gas Authority (the Ministerial Decree of November 20, 2012 and AEEG Opinion no. 535/12), which establish new methods for calculating the energy withdrawal price component under CIP 6 (CEC). This figure includes 11.5 million euro relating to 2010 and 2011 and a reduction in revenues of 4 million euro for heat sales to the Heat and Services Sector. The effect of these measures, if confirmed, will come to an end in the three-year period 2013-2015, when it is estimated that it will amount to approximately 10 million euro a year.

The Heat and Services Sector earned gross operating income of 69 million euro, excluding the effects arising from the legislative changes discussed above, a rise of 2 million euro over the previous year. This performance, mainly due to the increase in the volumes sold in the district heating sector as the result of the new volumes connected, was partially offset by a fall in revenues arising mainly from the sale of electricity produced by cogeneration plants.

The Networks Sector posted an industrial margin of 252 million euro, a decrease of 7 million euro over 2011 arising mainly as the result of non-recurring items relating to prior years.

In the electricity distribution sector AEEG Resolution no. 559/12 revised the means of calculating distribution losses, with retroactive effect. A reduction in revenues of 10 million euro has therefore been recognized as a provision while waiting for the outcome of the current administrative dispute.

"**Depreciation, amortization and write-downs**" amounted in total to 567 million euro, a decrease of 59 million euro over the year ended December 31, 2011 despite the additional depreciation and amortization charge for tangible and intangible assets.

The decrease over the previous year is essentially due to a reduction in the write-downs of fixed assets, which in 2011 mainly consisted of the write-down of the goodwill arising on the purchase of the EPCG Group and a number of write-downs in the Aspem Group, and to lower charges for provisions due principally to the release of bad debt provisions recognized in previous years (including an amount of 15 million euro collected by the subsidiary EPCG relating to a provision previously made against a receivable due from an important energy customer).

As a result of these changes "**Net operating income**" rose by 203 million euro to 501 million euro (298 million euro in the year ended December 31, 2011).

"**Net financial expense**" amounted to 193 million euro, an increase over the figure of 126 million euro for the year ended December 31, 2011, mainly due to the negative effect of expense of 51 million euro (income of 9 million euro in 2011) arising from the measurement of financial derivatives at fair value. It should be noted that this item includes the effect of the measurement at fair value of a bond which led to an accounting loss of 13 million euro (compared to a gain of 26 million euro in the year ended December 31, 2011). This loss will be reabsorbed from an accounting standpoint by the end of October 2013, the date when the loan is repayable at its nominal value.

The above amounts were partially offset by realized gains of 9 million euro on financial derivatives (6 million euro in 2011) and the gain arising from the recognition of negative goodwill of 19 million euro on the first-time consolidation of Edipower S.p.A..

The “**Share of results of companies at equity**” provided income of 13 million euro, (expense of 132 million euro in the year ended December 31, 2011 mainly due to the write-down of the carrying amount of the shareholding in Edipower at that date).

“**Other non-operating income/expense**”, a net loss of 3 million euro (a net loss of 4 million euro in the year ended December 31, 2011), regards costs incurred by the subsidiary EPCG.

“**Income taxes**” for the year totaled 128 million euro (147 million euro in the year ended December 31, 2011).

The decrease over the previous year is mainly due to a benefit of 30 million euro arising from the application for a refund of IRES corporate income tax, due to the fact that the charge for IRAP regional production tax relating to costs for employees and similar personnel was not deducted from IRES taxable income in previous years (article 4, paragraph 12 of Decree Law no. 16/2012).

The “**Net result from non-current assets sold or held for sale**” was a gain of 81 million euro (a loss of 808 million euro in the year ended December 31, 2011) and mainly consists of the income arising from the sale of the shareholdings in Metroweb S.p.A., the Coriance Group and e-Utile S.p.A.. In the previous year this item consisted mainly of the loss arising from remeasuring the shareholding in Transalpina di Energia S.r.l..

After deducting the result attributable to minority interests, “**Group net profit for the year**” amounted to 260 million euro (a loss of 423 million euro in the year ended December 31, 2011).

Balance sheet and financial position

Consolidated "**Capital employed**" amounted to 8,069 million euro at December 31, 2012 and was funded by equity of 3,697 million euro and net debt of 4,372 million euro.

"**Working capital**" amounted to 823 million euro, a decrease of 27 million euro over December 31, 2011.

"**Net fixed capital**", which includes "Assets/liabilities held for sale", amounted to 7,246 million euro, an increase of 482 million euro over December 31, 2011, which mainly arises from the net effect of consolidating Edipower S.p.A..

The "**Net financial position**" of 4,372 million euro at December 31, 2012 (4,021 million euro at December 31, 2011) rose by 351 million euro over the year due to the effect of 1,083 million euro arising from the acquisition of the control of Edipower S.p.A. as partially offset by net cash flows of 732 million euro generated during the year after capital expenditure of 360 million euro and dividends distributed of 40 million euro.

Millions of euro	12 31 2012	12 31 2011	Changes
CAPITAL EMPLOYED			
Net fixed capital	**6,969**	**5,846**	**1,123**
-Tangible assets	6,370	4,685	1,685
- Intangible assets	1,393	1,503	(110)
- Shareholdings and other non-current financial assets(*)	219	535	(316)
- Other non-current assets/liabilities (*)	(346)	(133)	(213)
- Deferred tax assets/liabilities	269	(10)	279
- Provisions for risks, charges and liabilities for landfills	(611)	(462)	(149)
- Employee benefits	(325)	(272)	(53)
of which with counter-entry to equity	*(340)*	*(105)*	
Working capital	**823**	**850**	**(27)**
- Inventories	340	267	73
- Trade receivables and other current assets (*)	2,217	2,368	(151)
- Trade payables and other current liabilities (*)	(1,816)	(1,790)	(26)
- Current tax assets/tax liabilities	82	5	77
of which with counter-entry to equity	*(9)*	*(8)*	
Assets/liabilities held for sale (*)	**277**	**918**	**(641)**
of which with counter-entry to equity	–	–	
TOTAL CAPITAL EMPLOYED	**8,069**	**7,614**	**455**
SOURCES OF FUNDS			
Equity	**3,697**	**3,593**	**104**
Total financial position beyond one year	4,305	3,729	576
Total financial position within one year	67	292	(225)
Total net financial position	**4,372**	**4,021**	**351**
of which with counter-entry to equity	*23*	*(32)*	
TOTAL SOURCES	**8,069**	**7,614**	**455**

(*) Excluding balances included in the net financial position.

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011
Net financial position at the beginning of the year	**(4,021)**	**(3,893)**
Net financial position of Edipower S.p.A. entering the consolidation	**(959)**	
Net income for the year (including minorities) (**)	192	(954)
Depreciation and amortization	489	404
Write-downs/disposals of tangible and intangible assets	10	125
Results from shareholdings at equity	(13)	979
Write-downs of shareholdings	-	4
Net taxes paid	(251)	(240)
Change in assets and liabilities (*)	534	53
Net cash from operating activities	**961**	**371**
Net cash from investing activities	**(250)**	**(186)**
Free cash flow	**711**	**185**
Dividends paid by the parent company	(40)	(298)
Dividends paid by subsidiaries	(8)	(6)
Cash flow from the distribution of dividends	**(48)**	**(304)**
Changes in financial assets/liabilities with counter-entry to equity	(55)	(9)
NET FINANCIAL POSITION AT THE END OF THE YEAR	**(4,372)**	**(4,021)**

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

(**) The result for the year is stated excluding gains on the disposal of shareholdings.

Significant events during the year

A2A S.p.A. confirmed in the ECPI Ethical EMU Equity index

On the basis of an assessment conducted at the end of 2011, ECPI has confirmed the listing of A2A S.p.A. in the ECPI Ethical EMU Equity index for 2012 as well. Using a screening method, this index assesses the top 150 companies listed on the EMU (Economic and Monetary Union) market. These companies are selected from those with a high capitalization and with the best requisites in terms of sustainability on the basis of a series of indicators that take into consideration aspects of an environmental, social and corporate governance nature. A2A S.p.A. has been listed in the index since 2008.

A2A S.p.A.: the EIB provides funding of 95 million euro for the development of district heating

On January 13, 2012, A2A S.p.A. signed an agreement with the European Investment Bank (EIB) for a loan of 95 million euro to fund projects to develop the district heating networks in the Milan metropolitan area (in particular those in the municipalities of Milan, Novate Milanese and Sesto San Giovanni). The aim of these projects is to maximize the contribution of the heat generated by the already existing waste to energy plants and cogeneration plants and increase the production of heat from renewable sources by the A2A Group. Under its funding parameters the European Investment Bank made a positive assessment of the investment programs that the A2A Group plans to put into practice in the five-year period from 2011 to 2015 to expand the district heating network and optimize thermal capacity. In the EIB's view the projects are in line with the funding criteria in the energy sector, as they will optimize the heat production mix and reduce the use of fossil fuels, contributing to achieving the objectives set by the European Union. The loan, which has a term of 15 years, will additionally enable A2A S.p.A. to extend its average debt term and diversify its sources of debt funding.

A2A S.p.A.: sale of the investment in e-Utile S.p.A.

In February A2A S.p.A. sold its 49% investment in e-Utile S.p.A. to Atos, an international company operating in the IT services sector. Atos recently acquired the remaining 51% of e-utile S.p.A. from Siemens IT Solutions and Services.
e-utile S.p.A. provides IT services to the A2A Group and to the open market. A2A S.p.A. received proceeds of approximately 10.3 million euro from the disposal of its interest, realizing a consolidated capital gain of over 8 million euro. In this way the A2A Group continued its process of rationalizing its investment portfolio and concentrating on its core business.

Ecodeco S.r.l.: a new waste treatment plant is opened in Spain

On April 11, 2012, a new plant for the mechanical-biological treatment of urban solid waste which uses the Biocubi process patented by Ecodeco S.r.l. was opened at Cervera del Maestre in the province of Castellón in the Autonomous Community of Valencia (Spain).
The plant which works on the residual fraction of the differentiated collection of the urban solid waste produced by 49 municipalities in the northern part of the province of Castellón has a treatment capacity of 130,000 tonnes a year and was built by a business consortium consisting of Teconma, Azahar and Ecodeco S.r.l.. As well as providing the technology, the A2A Group company also directly built the electronic section of the waste treatment process.
Under the plant's industrial process, after the recovery of the recyclable materials (such as metals, plastic and paper), the biodessicated material is pressed and then sent to the service landfill, built and managed by the same business consortium. The total value of the investment is approximately 40 million euro. In addition to payment for the work performed, Ecodeco S.r.l., which has an interest of 30%, will also receive royalties for 20 years.

The 2011 financial statements are approved by the Supervisory Board of A2A S.p.A.

On April 26, 2012, the Supervisory Board met under the chairmanship of Mr. Graziano Tarantini and approved the A2A Group's separate financial statements and consolidated annual financial report at December 31, 2011. The Supervisory Board also approved the Management Board's proposal to submit for shareholders' approval the distribution of a dividend of 0.013 euro per ordinary share, to be paid from June 21, 2012 (with the share going ex-dividend on June 18, 2012).

The Edison/Edipower operation is finalized

On January 30, 2012, the Shareholders' Committee, the Shareholders' General Meeting and the Board of Directors of Delmi S.p.A. unanimously approved the transaction for the sale of the company's investment in Transalpina di Energia S.r.l. (which holds approximately 61% of Edison S.p.A.) to EDF S.A. and the purchase of 70% of Edipower S.p.A. from Edison S.p.A. and Alpiq S.A., in accordance with the agreements of December 26, 2011.

On February 15, 2012, A2A S.p.A., Delmi S.p.A., EDF S.A., Edison S.p.A. and Alpiq S.A. signed the final agreements envisaged in the preliminary agreement of December 26, 2011 concerning the reorganization of the shareholdings in Edison S.p.A. and Edipower S.p.A.. More specifically, these agreements specified the following: that Delmi S.p.A. would acquire 70% of Edipower S.p.A. from Edison S.p.A. (which held 50%) and Alpiq S.A. (which held 20%) at an overall price of 804 million euro; and that EDF S.A. would acquire 50% of Transalpina di Energia S.r.l. from Delmi S.p.A. at a price of 704 million euro, a company in which it already held the other 50% and which in turn held 61.3% of the capital with voting rights of Edison S.p.A.. At the same time the main elements of an agreement for the supply of gas by Edison S.p.A. to Edipower S.p.A. were settled; this will meet 50% of Edipower S.p.A.'s requirements for a period of 6 years at market conditions.

The following agreements were subsequently signed on May 5, 2012:

(i) between A2A S.p.A. and Delmi S.p.A. on the one hand, and EDF S.A. on the other, partially amending the agreement signed by these parties on February 15, 2012 and establishing that the price of the 50% interest in Transalpina di Energia S.r.l., owned by Delmi S.p.A. and to be sold to EDF S.A., had risen from 704,372,600 euro to 783,748,900 euro, as well as obliging Delmi S.p.A. to pay EDF S.A. 50% of the higher sum that EDF S.A. might have to incur as a result of the mandatory public tender offer for Edison S.p.A. shares at 0.89 euro per share (instead of 0.84 euro per share), up to a maximum of 25,100,000 euro;

(ii) between A2A S.p.A. and Delmi S.p.A. on the one hand, and Edison S.p.A and Alpiq S.A. on the other, partially amending the agreement signed by these parties on February 15, 2012 and establishing that the price of the 50% interest in Edipower S.p.A., owned by Edison S.p.A and to be sold to Delmi S.p.A., had risen from 604,372,600 euro to 683,748,900 euro, thereby taking the overall price for the 70% interest in Edipower S.p.A. from 804,372,600 euro to 883,748,900 euro.

On May 24, 2012, in execution of the agreements signed on February 15, 2012 and subsequently amended on May 5, 2012 between A2A S.p.A., Delmi S.p.A. and EDF S.A. and between A2A S.p.A., Delmi S.p.A., Edison S.p.A. and Alpiq S.A.:

- Delmi S.p.A. sold to WGRM 4 Holding S.p.A., a company wholly owned by EDF S.A., the 50% interest it held in Transalpina di Energia S.r.l. at a price of 783,748,900 euro, and

- Delmi S.p.A. purchased 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpiq S.A. (20%) at a total price of 883,748,900 euro.

The amount of 783,748,900 euro paid for the sale of 50% of Transalpina di Energia S.r.l. was subject to an adjustment mechanism under which there could have been a reduction in this amount, of up to 25,100,000 euro, which depended on the results of the mandatory public tender offer made by EDF S.A. for the ordinary shares of Edison S.p.A..

The mandatory public tender offer for the shares of Edison S.p.A., which began on August 13, 2012, came to an end on September 5, 2012. On the basis of the above-mentioned agreements signed on May 5, 2012, Delmi S.p.A. undertook to pay EDF S.A. an amount of 50% of the increased cost which EDF S.A. might have been required to incur as a result of the mandatory public tender offer for the shares of Edison S.p.A. at a price of 0.89 euro per share. As a consequence of the failure to achieve 100% adhesion to the mandatory public tender offer, an increased cost of 24,400,123 euro arose from the price adjustment mechanism and this was considered as an increase in the cost of purchasing the shareholding in Edipower S.p.A..

On May 24, 2012, Delmi S.p.A. and Edipower S.p.A. signed a loan agreement with a series of lending banks for an amount of 1,246 million euro, having the purpose of enabling Delmi S.p.A. to carry out the above-mentioned operation and Edipower S.p.A. to repay the shareholders' loans from Edison S.p.A., Alpiq S.A., A2A S.p.A. and Iren Energia S.p.A. totaling 1,100 million euro at the same time.

The loan is secured by a lien on the shares of Delmi S.p.A. and Edipower S.p.A., has a term of 5 years and is underwritten by a syndicate of 9 banks as mandated lead arrangers and bookrunners, namely: Banca IMI (documentation and agent bank), Banco Bilbao Vizcaya Argentaria, BNP Paribas (modelling bank), Cassa Depositi e Prestiti, Credit Agricole (corporate & investment bank), ING Direct, Mediobanca, Société Generale and Unicredit.

Agreements have also been reached between A2A S.p.A., Iren S.p.A., Iren Energia S.p.A. (the current shareholder of Edipower S.p.A.) and the other shareholders of Delmi S.p.A. relating to the corporate governance and operational model of Delmi S.p.A. and Edipower S.p.A. and any possible exit by minority shareholders.

Moody's revises its rating of A2A S.p.A.

On May 31, 2012 the agency Moody's announced that it had revised its rating of A2A S.p.A. from Baa1 to Baa2.

The revision of the Company's rating was mainly driven by the increase in exposure in its electricity generation activities in a market affected by the continuation of the economic crisis and the resulting instability of margins in the electricity industry.

A2A S.p.A.: Supervisory Board

On June 4, 2012, the new Supervisory Board of A2A S.p.A. met for the first time under the chairmanship of Prof. Pippo Ranci Ortigosa.

At the meeting the Supervisory Board made an assessment as to whether:

- all the directors hold the independence requirements specified by article 148, paragraph 3 of the Consolidated Finance Law;
- the following directors hold the independence requirement pursuant to article 3 of the Corporate Governance Code for Listed Companies: Pippo Ranci Ortigosa - Chairman, Fausto Di Mezza - Deputy Chairman, Marco Baga, Alessandro Berdini, Marina Brogi, Michaela Castelli, Mario Cocchi, Marco Manzoli, Enrico Giorgio Mattinzoli, Marco Miccinesi, Andrea Mina, Stefano Pareglio, Massimo Perona, Norberto Rosini and Angelo Teodoro Zanotti.

In addition, the Supervisory Board appointed the following to the Appointments Committee, the Internal Control Committee, the Remuneration Committee and the Community Committee:

Appointments Committee: Pippo Ranci Ortigosa – Chairman, Fausto Di Mezza – Deputy Chairman, Michaela Castelli and Andrea Mina;

Internal Control Committee: Pippo Ranci Ortigosa – Chairman, Fausto Di Mezza – Deputy Chairman, Marco Manzoli and Norberto Rosini;

Remuneration Committee: Alessandro Berdini – Chairman, Marina Brogi – Deputy Chairman, Mario Cocchi and Massimo Perona;

Community Committee: Enrico Giorgio Mattinzoli – Chairman, Marco Miccinesi – Deputy Chairman, Marco Baga, Stefano Pareglio and Angelo Teodoro Zanotti.

The Corporate Donations Committee has been renamed the Community Committee, and besides being charged with the duties previously entrusted to the Corporate Donations Committee will assess the impact of A2A Group's business on the communities in which it operates and make proposals concerning corporate social and environmental responsibility.

A2A S.p.A.: lists are filed for the appointment of the Management Board

On June 9, 2012 two lists for the appointment of the new Management Board pursuant to article 25 of the bylaws were filed at the offices of A2A S.p.A. with the following names:

on the first list:

1. Graziano Tarantini (candidate as Chairman of the Management Board)
2. Bruno Caparini
3. Giambattista Brivio
4. Paolo Rossetti

on the second list:

1. Francesco Silva (candidate as Deputy Chairman of the Management Board)
2. Maria Elena Cappello
3, Stefano Cao
4, Renato Ravanelli

No changes are envisaged to the existing authority structure adopted by the Company under which Renato Ravanelli and Paolo Rossetti, General Manager Corporate and Market Area and General Manager Technical-Operations Area respectively, are vested with the powers to manage the Company.

On June 11, 2012, the Supervisory Board of A2A S.p.A met under the chairmanship of Pippo Ranci Ortigosa and in accordance with the Company's current bylaws appointed the Management Board consisting of the following 8 members:
Graziano Tarantini – Chairman
Francesco Silva – Deputy Chairman
Giambattista Brivio
Stefano Cao
Bruno Caparini
Maria Elena Cappello
Renato Ravanelli
Paolo Rossetti

On the proposal of the Remuneration Committee the Supervisory Board additionally took decisions on the board's compensation. Total compensation has been reduced overall by 30% and the compensation payable to the Chairman and Deputy Chairman has been reduced by over 50%.

The A2A Group's 2011 Sustainability Report

On June 15, 2012, with the publication of the 2011 Sustainability Report, the fourth since its inception, A2A brought to completion the first cycle of its sustainability planning (2009 – 2011) which has seen the annual reporting of 54 financial, social and environmental improvement targets to the benefit of employees, customers, investors, suppliers and institutions.

The 2011 Sustainability Report was drawn up in accordance with GRI (Global Reporting Initiative) standards, the most highly accredited in the world and developed by a network of international experts, complemented by the guidelines of the Electric Utilities Sector Supplement. Compliance with these standards was certified by an external auditor. In 2011, 157 out of the 162 applicable indicators were reported, 17 more than in 2010.

Further details on the Sustainability Report may be found on the website www.a2a.eu in the "Sustainability" section.

"Lettera2azionisti", the A2A Group's new newsletter for shareholders and investors

On June 27, 2012 distribution began of "Lettera2azionisti", the A2A Group's quarterly newsletter dedicated to shareholders and investors which is a periodical aimed at enabling them to gain more detailed knowledge of the facts, figures, industrial projects and economic and financial news of Italy's largest multi-utility. Lettera2azionisti is a handy information tool for keeping up to date with the key facts and figures of the A2A Group, which following the recent completion of the reorganization of Edison S.p.A. and the consolidation of Edipower S.p.A. has become the second biggest energy operator in Italy, with over 12 thousand MW of installed capacity.

A2A S.p.A.: an additional 12 million cubic meters of water has been released by the hydroelectric basins in Valtellina since July 2012

Since July 2012 A2A S.p.A. has released an additional volume of more than 12 million cubic meters of water from its high mountain hydroelectric basins compared to natural flow. Since August 16, 2012, the subsidiary Edipower S.p.A. has also released over 2 million cubic meters of water compared to the water received from the Spluga and Truzzo hydroelectric basins.
The decision to make a significant increase in outflow, made necessary by an especially dry season and the resulting need to irrigate the fields, was taken at the planning meetings of the Po Basin Authority at which A2A S.p.A. took part.

It should be emphasized that the high mountain dams of which A2A S.p.A. is the owner are very useful in the spring for holding rainwater and the water coming from the melting of the glaciers. This water is then released to produce electricity and irrigate the fields of the Po plain during the late summer period.

A2A S.p.A.: the sale of 100% of A2A Coriance S.a.s. is finalized

The sale of A2A Coriance S.a.s. by A2A S.p.A. to KKR Global Infrastructure Investors L.P. (KKR) was completed on September 27, 2012 on the basis of the agreements signed by the parties on August 2, 2012. A2A S.p.A. originally acquired A2A Coriance S.a.s., a company operating in France in district heating and the production of electricity from cogeneration plants, in July 2008.

A price of 76.5 million euro was paid for 100% of the capital of A2A Coriance S.a.s. leading to a gain of 33 million euro. The Coriance Group had a turnover of approximately 100 million euro in 2011 and earned gross operating income of approximately 18 million euro.

The sale of A2A Coriance S.a.s. forms part of a strategy aimed at reorganizing the A2A Group's shareholding portfolio and achieving a rapid improvement in its balance sheet and financial structure.

A2A and district heating: over 170 thousand users served in Brescia and over 20 thousand in Bergamo

With the start of the 2012-2013 heating season the number of users served by the A2A Group's district heating network in the city of Brescia rose to 170 thousand. The network, fed by the waste to energy plant and the Lamarmora power station, exceeds 630 kilometers and the buildings connected to the network are equivalent to a served volume of 41 million cubic meters.

The heat for the district heating is mainly provided by the waste to energy plant, in substance an electricity and heat cogeneration plant which is fired by urban solid waste and biomasses (which represent over 40% of the fuel used by the plant). The plant is a reference model for the whole of Europe, above all for its environmental protection features and the fact that it is an active vehicle for renewable energy and sustainable growth.

The waste to energy plant and the high yield cogeneration systems at the Lamarmora power station enable the district heating system to avoid the emission into the atmosphere each year of 400 thousand tonnes of CO2 and the consumption of over 150 thousand toe (tonnes of oil equivalent).

In the city of Bergamo on the other hand, there are now over 20 thousand district heating users, an increase of 17% over the prior year. Six kilometers of network were laid in 2012 and 5.6 million euro invested. The volume of 4.7 million cubic meters connected to the network has led to the avoidance of the emission into the atmosphere of 29 thousand tonnes of CO_2 and the consumption of 3,600 toe (tonnes of oil equivalent). The heat for the Bergamo district heating network is mostly produced by the Carnovali power station and the via Goltara waste to energy plant. Thanks to work carried out this year the latter plant enables 25 MWt to be made available from the recovery of energy from waste.
The district heating development plan in Bergamo was set up and implemented in conjunction with the municipality and envisages additional steps being taken to extend the city's network. In 2013 the A2A Group will invest around 7 million euro in Bergamo, with a plan for over 80 kilometers of piping to be distributed across a large part of the city area so as to serve more than a third of the buildings with a total volume of 10 million cubic meters and achieve energy savings of over 19 thousand tonnes of oil equivalent.

Aprica S.p.A. is awarded the tender for managing environmental services in the Municipality of Como

On October 29, 2012 Aprica S.p.A., a company of the A2A Group working in the environmental services sector, was awarded the tender for managing services in the Municipality of Como for ten years (of which two and a half years are optional). The total value of this contract, calculated for the maximum ten years, amounts to 134 million euro.
Among the various activities envisaged by the contract's specifications are the passage from a multi-material collection to a collection system where the individual factions are separated, aimed at improving the quality and quantity of differentiated collection in the Municipality of Como, the strengthening of soil hygiene services and the construction of a new ecological platform.

The A2A Group's new 2013-2015 Business Plan

On November 8, 2012 A2A's Supervisory and Management Boards, chaired by Prof. Pippo Ranci and Mr. Graziano Tarantini respectively, reviewed and approved the Group's 2013-2015 Business Plan and its medium-long term guidelines. For further detail on the Plan reference should be made to the section below "2013-2015 Business Plan". A presentation of the Plan may also be found on the website www.a2a.eu in the section Investors - Presentations and Conference Calls.

Amsa S.p.A. is awarded the contract for managing environmental services in the Municipality of San Donato Milanese

On November 12, 2012 Amsa S.p.A., an A2A Group company, was awarded the tender called by the Municipality of San Donato Milanese for managing environmental hygiene services until 2020. The economic value of the contract put out to tender, calculated over the whole term, amounts to approximately 18 million euro and envisages the overall management, for the seven-year term, of the Lombardy municipality's environmental hygiene services: ranging from "door to door" differentiated collection to manual and mechanized street cleaning and the final disposal of several types of waste. Amsa S.p.A. will also be involved in performing specific services such as snow clearance and the de-icing of the road surface. Thirty four employees will work in San Donato Milanese, a municipality with approximately 33,000 inhabitants, and methane-fuelled vehicles having low environmental impact will be used together with the best technologies available to the company. Amsa S.p.A. expects to collect around 6,500 tonnes of undifferentiated waste in its first year of activity together with 2,500 tonnes of wet fraction. At present this waste is already processed at A2A Group plants. By winning this tender the A2A Group has further strengthened its presence in the Milan metropolitan area.

A2A S.p.A.: bond issue on the European market for 750 million euro

On November 23, 2012 A2A S.p.A. placed a seven-year bond on the European market, aimed mainly at institutional investors, for a total of 750 million euro. The issue was made as part of the Company's Euro Medium Term Notes Programme amounting overall to 2 billion euro and put into practice the resolutions adopted by the Board of Directors at its meetings of November 15, 2012 and September 19, 2012. The bond, having a minimum denomination of 100 thousand euro and falling due on November 28, 2019, pays annual interest of 4.500% and was issued at a price of 99.718%. Its gross yield to maturity is 4.548%, corresponding to a return of 325 basis points over the reference rate (7-year mid-swap) at the issue date. The issue is governed by English law. The settlement date of the subscription was set as November 28, 2012 and the securities have been traded on the Luxembourg stock exchange since then.
The bond issue is part of the A2A Group's financial strategy, aimed at ensuring an adequate level of liquidity, to extend its average debt term and diversify its sources of funding.

A2A S.p.A. exercises its put option for 25.7% of Metroweb S.p.A. and sells the investment to the F2i infrastructure fund

On November 27, 2012 A2A S.p.A. exercised its put option to sell its shareholding (of 25.7%) in Metroweb S.p.A. to the fund F2i Reti Tlc S.p.A.. The shares forming part of the option derive from the conversion on October 6, 2011 of the convertible bond which A2A S.p.A. had been holding since the sale of its initial shareholding in Metroweb S.p.A. to F2i on June 30, 2011. Exercising this option is consistent with the business plan drawn up by A2A S.p.A. and, in particular, with its objective of rapidly improving and stabilizing its financial situation.
A2A S.p.A. received proceeds of 60 million euro from exercising the option in December 2012 and realized a capital gain of 35 million euro.

A2A S.p.A. listed in the 2012 Carbon Disclosure Leadership Index

On November 28, 2012 A2A S.p.A. was listed in the Carbon Disclosure Leadership Index 2012, the index containing the leading 10 companies of the FTSE Italy which have shown the greatest transparency and completeness in communicating information on climate change.
The Carbon Disclosure Project (CDP), an organization representing 655 institutional investors with 78,000 billion dollars under management, has made this important award to A2A S.p.A. on the basis of the replies provided by the company on greenhouse gas emissions, on its targets to reduce these emissions and on its assessment of the risks and opportunities connected with climate change.
A2A S.p.A. scored a total of 88 points out of 100, representing an improvement of 13 points over 2011. For the first time this year A2A S.p.A. supplemented the replies to the questionnaire with the certification by an external auditor of its direct and indirect emissions of CO_2.
The Carbon Disclosure Project gave a positive rating to the commitment of A2A S.p.A. in setting up the steps to achieve a reduction in CO_2 emissions, awarding it a grade of B on a scale going from A (maximum) to E (minimum). The index is a valuation tool for institutional investors and all others interested in getting to know the performance of businesses better, not only from an economic standpoint but also from that of environmental sustainability.

Merger of Delmi S.p.A. into Edipower S.p.A.

On December 19, 2012 the deed was signed for the merger of Delmi S.p.A. into Edipower S.p.A., effective from January 1, 2013.
The Boards of Directors of Delmi S.p.A. and Edipower S.p.A. had approved the plan to merge the two companies on October 1, 2012, starting off the integration process.

Aprica S.p.A. is awarded the G.Eco tender to manage environmental services in 76 municipalities of the province of Bergamo

On December 29, 2012 Aprica S.p.A., an A2A Group company working in the environmental services sector, won the tender for the selection of an industrial shareholder for G.Eco, the leading operator for residents' services in the province of Bergamo.
The total estimated amount of the partnership, having a term of 12 years, is 300 million euro, which represents the revenue expected to arise from the activities generated under the agreements with the 76 municipalities served.
As industrial shareholder, Aprica S.p.A. will designate the managing director of G.Eco who will manage the business's operations to make the company's development project highly successful. In addition, Aprica S.p.A. will also carry out the waste processing and recovery activity directly at a price of 87 million euro.

The Acerra waste to energy plant: 100% of production capacity confirmed in 2012

For the second consecutive year the Acerra waste to energy plant reached 100% of its production capacity in advance, confirming the high efficiency standards that have been reached. During 2012 the plant processed 615 thousand tonnes of waste, which enabled it to generate and put into the grid 552 million kWh of electricity, equal to the needs of around 200 thousand households.
The excellent performance of the plant was also confirmed from an environmental standpoint: figures for atmospheric emissions remain at levels that are well below the limits imposed by European regulations and also the more stringent regulations set by the Integrated Environmental Authorization which regulates the Acerra site. Thanks to the way the plant is run by the A2A Group, through the subsidiary Partenope Ambiente S.p.A., it was possible to avoid the emission into the atmosphere of 250 thousand tonnes of CO_2 and the use of 103 thousand tonnes of oil equivalent.
In 2012 all the three firing lines making up the facility were involved as usual in ordinary maintenance activities, which enable the waste to energy plant to work to full efficiency, complying with the high safety standards set for operations without impairing the capacity of the planned quantity of waste to be processed.

Significant events for the Group after December 31, 2012

Exercising of the put option by the Iren Group

On February 6, 2013 the Iren Group announced its intention to exercise the put option by which it would cease to be a shareholder of Edipower S.p.A. and be allocated certain generation assets in compensation for the sale of its shareholding.

Meeting between A2A representatives and the national trade union secretaries

As part of the meeting which took place in February 2013 between A2A representatives and the national trade union secretaries the guidelines for industrial and financial development set out in the 2013–15 Business Plan approved by A2A's Management Board and Supervisory Board on November 8, 2012 were illustrated.
Steps are envisaged to contain labour costs, including through the use of appropriate lay-off arrangements for personnel at certain of the thermoelectric sites where plant usage levels have reached levels of below 25%, as well as for personnel belonging to the Network Sector and the Other Services and Corporate Sector.
The Group's aim is to arrive, by common agreement with the representatives of the trade unions, at identifying ways of managing the situation so as to reduce to a minimum the social impact of these initiatives.

2013-2015 Business Plan

In November 2012 the Supervisory and Management Boards of A2A S.p.A. reviewed and approved the A2A Group's 2013-2015 Business Plan and medium-long term guidelines.

The Group's objectives and operational and strategic priorities may be summarized as follows:

- in the short term (2013-2015), a swift improvement and stabilization of the financial situation by means of:
  - targeted disposals of minority holdings;
  - an increase in operational efficiency and the selected allocation of investments;
  - organic profitability growth and consolidation of the present leadership position in the four core business areas: Energy, Environment, Heat, Networks;
- in the medium-long term, acceleration of industrial growth, leveraging on the areas of greatest profitability and environmental sustainability:
  - waste treatment plants and waste energy enhancement;
  - cogeneration and urban district heating systems;
  - re-powering of generation plants.

The main strategic steps that have been decided in line with these objectives and priorities are as follows:

- Combination, reorganization and development of the Group's activities in the Environment Sector

  The A2A Group is able to count on a range of activities, skills and distinctive technologies that cover the entire Environmental Sector, from collection to the treatment and energy recovery of waste of various types. These activities are currently spread across several different Group companies: AMSA S.p.A., Aprica S.p.A., EcodecoS.r.l., Partenope Ambiente S.p.A. and Aspem Energia S.r.l., as the result of the recent development of A2A S.p.A. arising from subsequent combinations.

  A2A S.p.A. has decided to launch a project to combine these activities immediately into a single entity called "A2A Ambiente", which will position itself immediately as the leading Italian player in the sector, both for its turnover (over 800 million euro) and the volumes

treated and profitability. This combination will already enable significant increases in efficiency and operating effectiveness on the market to be achieved in the short term.
On these bases, A2A Ambiente will further develop its waste treatment capacity in the medium-long term with new plants, to arrive at representing around one third of the A2A Group's total profitability.
As regards activities for directly serving local communities (collection and street sweeping), corporate autonomies will be maintained in order to guarantee high levels of effectiveness in the decisional process and in the quality of the services provided.

- <u>Acceleration of the development of district heating networks in Lombardy</u>
  A2A S.p.A.is currently the leading operator in urban district heating, working in the cities of Milan, Brescia, Bergamo and Varese. The areas where A2A S.p.A. is present provide opportunities for the significant development of the district heating networks, which offer very considerable benefits in terms of energy efficiency and the reduction of atmospheric pollution in urban areas.
  In particular, work is currently taking place from a medium-long term standpoint on an important infrastructure project for the city of Milan and part of its metropolitan area, which envisages the construction of a heat transportation backbone leading from the Cassano d'Adda plant to the city.
  This project, which will not require any production upgrading at the Cassano facility, will end up accounting for over 25% of the total heating requests of the city of Milan, taking on considerable importance in reaching energy efficiency targets (at a Lombardy Region level and a national level) and in reducing pollution in the Milan urban area.
- <u>Integration of the Energy Sector's activities following the acquisition of Edipower S.p.A.</u>
  The acquisition of Edipower S.p.A. was a turning point for A2A S.p.A. from a production standpoint: as of today, A2A S.p.A. is the second leading electricity generation operator in Italy, with 12 GW installed, an average annual production of approximately 20 TWh and a production mix geared towards renewable sources (hydroelectric and waste to energy represent around 30% of total production).
  The benefits of the acquisition of Edipower S.p.A. in terms of effectiveness in managing the plant portfolio and optimization of dispatch are already clear to see, with A2A S.p.A. progressing towards the complete fulfillment of these factors, thereby superseding a number of inefficiencies arising from the previous multi-tolling structure.
  One area of further concrete benefits is represented by the efficiencies resulting from a faster process for integrating Edipower S.p.A., with significant cost savings already being achieved in the short term.

- Capital strengthening
  An essential premise for A2A S.p.A. to be able to boost investments and growth is the strengthening of its capital structure. The Company will proceed with a series of measures designed to reduce its debt which will include:
  - the sale of minority holdings in operating companies, maintaining control and industrial management;
  - the optimization of working capital management, the selective allocation of funds for making investments and the disposal of a number of residual non-core activities.
- Efficiency increases and cost reductions
  At the same time A2A S.p.A. will carry out a series of measures aimed at increasing operating efficiency and reducing costs. More specifically:
  - the above-mentioned projects for combining and reorganizing the activities of the Environment and Energy Sectors will lead to significant reductions in operating costs;
  - a series of steps going across all the various business areas in which the Group operates will additionally be taken, designed to increase productivity, enhance processes and reduce costs as far as both operating activities and the corporate level are concerned.

  These steps will provide a contribution of approximately 70 million euro to achieving the target for operating income (EBITDA) set for 2015.

The set of steps described above will lead to the following expected results for the A2A Group:

- EBITDA: 1.3 billion euro, corresponding to an increase of approximately 280 million euro over 2012.
- Net debt: 3.2 billion euro, a decrease of approximately 1.4 billion euro over the net debt forecast for the end of 2012.
- Capital expenditure planned for 2013-2015: 1.2 billion euro.

Outlook for operations

No improvements are expected in the macroeconomic situation in 2013 or in that of the sector with respect to those which characterized 2012. Nonetheless, from an income standpoint, a positive contribution to growth will be arise from the consolidation of Edipower for the whole year (seven months in 2012), to which may be added the benefits resulting from the AXE80 three-year operational efficiency plan. It is expected that these factors, together with an improvement in the profits of the Environment and Heat Sectors, will more than offset the effects of the recent changes in the legislative and operational framework and those which may still arrive.

In continuation of the results achieved in 2012, management will as a priority remained committed to pursuing the objective of a further improvement in the debt ratio.

Proposal for the allocation of net profit for the year ended December 31, 2012 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2012 show a net profit of 183,154,840.00 euro.

If you are in agreement with the criteria used to prepare the financial statements, with the accounting principles and methods used in those statements and with the measurement criteria adopted, we invite you to approve the allocation of the net profit for the year of 183,154,840.00 euro as follows:

- 9,157,742.00 euro to the legal reserve;
- 80,755,679.37 as an ordinary dividend payable to shareholders to ensure a remuneration of 0.026 euro for each outstanding ordinary share;
- 93,241,418.63 to the extraordinary reserve.

By way of information we note that referring to the number of shares currently outstanding (3,105,987,668 shares taking account of treasury stock of 26,917,609 shares), the distribution of the dividend of 0.026 euro will total 80,755,679.37 euro.

The ordinary dividend will be paid from June 27, 2013, with coupon detachment on June 24, 2013 and record date June 26, 2013.

The Management Board

Changes in legislation

Changes in legislation

Energy Sector

Recent changes in legislation in the electricity sector

Large hydroelectric derivation concessions

Changes in legislation in 2012 mainly led to the continuation by A2A of its concessions, and regarded the introduction of certain provisions facilitating tenders and regulating the means by which concessions are transferred from the outgoing to the incoming manager.

At a European level, the infringement procedure initiated against Italy by the European Union in a note of March 15, 2011 is expected to be dismissed following sentence no. 205/2011 with which the Constitutional Court upheld the appeal made by the Region of Liguria, stating that the provisions extending large water derivation concessions for hydroelectric use (for periods of 5 and 7 years) were illegitimate.

At a national level, by way of Decree Law no. 83 of June 22, 2012 (the "Growth Decree Law"), the government issued certain regulations designed to facilitate the way in which tenders are carried out, thus putting an end to a period in which legislation on the matter was absent. More specifically, article 37, paragraph 4 confirms the term of 5 years before the expiry of the concession as the time limit within which a tender must be called and sets the term of future concessions in 20 years, extendible to 30 years depending on the size of the investments granted and the criteria that will be established by the ministerial decree being issued under article 12, paragraph 2 of Legislative Decree no. 79/99 as subsequently amended.

In addition, a special transitional regime is provided for calling tenders regarding concessions that had expired at the date when the law converting the decree became effective, and those expiring on or before December 31, 2017 (those which are unable to comply with the period of 5 years for calling the tender). These tenders must be called within 2 years of the effective date of the implementing ministerial decree (as per article 12, paragraph 2 of Legislative Decree no. 79 of March 16, 1999), and the new concession will start at the end of the fifth year following the original expiry date and in any case not later than December 31, 2017. In terms of the way in which the concession will pass from the outgoing to the incoming operator, the legislator has opted for the sale of a business against the payment of a price that has been previously established and agreed between the outgoing operator and the granting administration before the offering stage and is published in the tender offer. The ministerial decree has the responsibility for determining the technical and economic parameters used for calculating the consideration and the amount due to the outgoing concessionaire, and should establish the detailed implementation regulations for tenders, subject to the opinion of the Electricity and Gas Authority (the AEEG or the Authority in the following). If no agreement can be reached between the outgoing concessionaire and the granting administration on the size of the consideration and the amount, an arbitration procedure is brought into play.

The parties responsible for calling future tenders are the regions and the autonomous provinces, who may establish at least 20% the proportion of the agreed concessionary fee to be used to reduce electricity costs to the benefit of end customers in their area, by means to be established by a further implementing ministerial decree. By way of a decree dated November 30, 2011, the Ministry of the Environment established the additional BIM (Bacini Imbriferi Montani) fees for water derivation concessions for motive-power generation for the period from January 1, 2012 to December 31, 2013. The amount of the additional fee to be paid by entities awarded hydroelectric derivation concessions for motive-power generation with an average nominal output of between 220 kW and 3,000 kW has been set at 22.13 euro per kW of average nominal output, while for outputs of greater than 3,000 kW the fee has been set at 29.40 euro. At the same time, by way of a decree dated November 30, 2011, the State property department set the amount of the additional fees for hydroelectric plants for the same period and for the same output ranges as being 5.53 euro and 7.35 euro respectively. As mentioned earlier, though, following the issue of the above-mentioned Growth Decree Law, as converted by Law no. 134 of August 7, 2012, the way in which the fees for concessions for hydroelectric use are governed is expected to be revised by means of a specific implementing ministerial decree.

At a local level, in view of the expiry of certain concessions in the territory it covers, by way of article 14 of Law no. 19 of December 23, 2010 the Region of Lombardy amended Regional Law no. 26 of December 12, 2003, adding article 53-bis which contains provisions regarding the temporary continuation of use, the profiles of the owners following the expiry of the outstanding mandates and the use of the infrastructure and the plant. Implementing these provisions, the Regional Council provided for the "temporary continuation" by A2A S.p.A. of the use of the shunting and hydroelectric plants of Stazzona, Lovero and Grosotto, which expired on December 31, 2010. The resolution additionally confirmed the requirement to pay the envisaged fees and additional fees and to carry out the ordinary and extraordinary maintenance work specified in article 53-bis; in addition, it deferred the calculation of an additional fee to be paid from January 1, 2011 to a subsequent resolution, not yet adopted as of today.

A2A S.p.A. and other operators have filed an appeal against this resolution with the High Court of Public Waters (TSAP).

In addition, following the government's challenge to certain provisions of the above-mentioned Regional Law no. 19 of December 23, 2010, with Sentence no. 339/2011 the Constitutional Court ruled that the disputed clauses are unconstitutional. As a consequence, paragraphs 4 and 5 of article 53-bis introduced through the above-mentioned law which provide for the contemporary continuation of the concessions that expired at the end of 2010 and the possibility for the Regional Council to lay down more severe conditions of use during that period remain effective, also from an economic standpoint.

Fees for concessions for large water shunts

Regional Law no. 22/2011 has established the unit fee due to the Region for water shunts with a flow exceeding thirty modules (3,000 l/s) destined for industrial use, including the cooling of thermoelectric plants, as 34,000 euro for each water module, starting from 2012.

In addition, by way of an addition to Regional Law no. 10 of June 29, 2009, the same law has amended the fee due to the Lombardy Region for large water shunts for hydroelectric use, starting from 2012, taking this to 30 euro for each kW of average annual nominal power.

Large dams legislation

By way of Decree Law no. 201 of December 6, 2011, as converted into law by Law no. 214 of December 22, 2011, the government has introduced legislation concerning the identification by the competent ministries by June 30, 2013 of large dams for which "having ascertained the risk of obstruction of the discharging equipment, the adoption of measures and the removal of the sediment accumulated in the reservoirs are necessary and urgent"; such work is to be carried out by the concessionaires.

Requirements for communication to the competent ministries have also been introduced, again at the expense of the concessionaires, such as that regarding the maintenance plan for dams having a useful life exceeding 50 years, details as to the substance of the deviation and conveyance works (including the forced flow duct), the related testing documentation and the maintenance plans together with extraordinary statements as to the safety conditions and the state of maintenance of the works, as well as, by electronic means and in real time, hydrological and hydraulic data acquired at the dams, including information regarding discharged and derived flows; finally, static testing must be communicated or carried out for each type of work.

Remuneration of production capacity

The provisional mechanism for remunerating production capacity established by Resolution no. 48/04 of the Authority provides for:

- the recognition of a set fee to entities which make production capacity available for the needs of balancing the system on high and medium critical days;
- an additional fee to be paid when the actual revenues earned by the individual producer on the electricity markets are, on an annual basis, lower than a reference level equal to the revenues which the same producer would have earned under the previous administered framework.

By way of Resolution ARG/elt no. 166/10 the Authority subsequently revised the formula for calculating the additional fee to cover the remuneration of production capacity as per the above, in order that such may take into account the effects resulting from the price differences between the various areas of the energy markets.

Certain operators, including A2A Trading S.r.l., filed an appeal with the Lombardy regional administrative court against the provisions included in Resolution ARG/elt no. 166/10, which they consider to be of a discriminatory nature with respect to the remuneration mechanism. The outcome of this dispute is currently awaited.

Finally, by way of Resolution ARG/elt no. 98/11 the Authority defined the criteria and conditions for governing the system for remunerating the availability of electricity production capacity when fully operational. Pursuant to articles 1 and 2 of Legislative Decree no. 179/03, Terna must draw up a proposal to regulate the system on the basis of those criteria, which will then be submitted for the approval by decree of the Minister for Economic Development. The new system will replace the regulation currently in force for the transitional period from the year of delivery of the standard capacity supply contracts envisaged by the new regulation.

Resources essential for the safety of the electricity system

By way of Resolution no. 111/06, the Electricity and Gas Authority regulates the way in which the plants considered essential for the safety of the electricity system should be run and remunerated. A plant is considered essential in this respect if, on the occurrence of specific conditions, it is necessary for dispatch purposes. Terna draws up a list of essential plants each year which is effective for the following year.

For each production unit belonging to a plant included in the list published by Terna, the owner of the plant (or the related user of the dispatch, if this is not the owner) is required to present offers of production in the electricity markets, meeting the restrictions and criteria specified by Terna, for the periods of each day of the year for which this is considered to be essential for the safety of procurement.

The Authority specifies that the use of the plant in essential conditions may be remunerated by the "ordinary" method, with or without the reintegration of the costs (on the basis of the requests of the owner of the production unit), or by the "alternative" method.

The 150 and 220 kV plants of Edipower S.p.A. at San Filippo del Mela are currently included in the list of the essential units. For the remuneration in this respect, Edipower S.p.A. has asked for admission to the ordinary framework with a reintegration of the costs.

By way of Resolution no. 507/2012/R/eel, the authority has adopted calculations in regard to the applications made by the operators concerned for the recognition of the reintegration fee relating to the essential plants admitted to the ordinary remuneration framework (with a restoration of the costs) for 2011, including the San Filippo del Mela production plants.

In order to limit the charge arising from the financial exposure to which the applicants are subject, while waiting for an accurate calculation of the reintegration costs the Authority arranged for the payment by Terna to those operators, by December 31, 2012, of an extra on account sum, as quantified in the attachments to the provision, which is in addition to the amount already recognized for the first half of 2011 in Resolution no. 298/2012/R/eel.

Incentives for production from renewable sources

Legislative Decree no. 28/2011 became effective on March 29, 2012, implementing European Directive 2009/28/EC on the promotion of the use of energy from renewable sources.

By way of implementing article 24 of the Decree:

- with the Ministerial Decree of July 5, 2012, the Ministry for Economic Development established the means of providing incentives for the production of electricity from solar-powered photovoltaic systems (the "Fifth Energy Account");
- with the Decree of July 6, 2012, the Ministry for Economic Development established the means for implementing incentive systems for the production of electricity from renewable sources in connection with plants entering service on or after January 1, 2013. The provisions of the Decree shall be applied to electricity production plants fired by

renewable sources other than photovoltaic plants having a power of not less than 1 kW. The decree additionally provides for the recognition of a net production incentive for plants which produce electricity from renewable sources which were in service by December 31, 2012 and which have vested the right to benefit from Green Certificates for the residual period of the right after 2015.

Bid price of Green Certificates held by the Energy Services Manager

By way of Resolution no. 11/2012/R/efr, for the purposes of establishing the placement price on the Green Certificates market for 2012 (article 2, paragraph 148 of Law no. 244/07), the Electricity and Gas Authority has established the average annual sales price for electricity recorded in 2011, which by applying the criteria established by Resolution ARG/elt no. 24/08 the Authority determined to be 74.72 euro/MWh (the price for 2011 had been set as 66.90 euro/MWh in accordance with Resolution ARG/elt no. 5/11).

Pursuant to article 25, paragraph 4 of Legislative Decree no. 28/2011, on an annual basis the GSE withdraws any Green Certificates (GCs) issued for the energy produced from renewable sources from 2011 to 2015 which exceed those required to respect the mandatory portion at a withdrawal price of 78% of the amount resulting from the difference between 180 €/MWh and the average annual sales price of electricity recorded in the previous year and established by the Electricity and Gas Authority. With reference to 2012, the GSE has set the bid price for the GCs it holds at 105.28 €/MWh, excluding VAT, while the withdrawal price for GCs issued for electricity produced from renewable sources in 2011 was set at 82.12 €/MWh, excluding VAT (78% of the bid price for the GSE's GCs). Finall, the withdrawal price for the GCs issued for electricity produced by cogeneration plants coupled with district heating networks was set at 84.34 €/MWh, excluding VAT.

Emissions Trading

In accordance with EU Directive 2003/87/EC, from January 1, 2005 the operators of plants which emit CO2 into the atmosphere must hold an authorization issued by the competent national authority and cover their emissions with equivalent rights, part of which are issued free of charge on the basis of the Emissions Allocation Plan adopted by each country.

By way of Decree Law no. 72 of May 20, 2010, urgent measures were adopted for allocating CO2 emission quotas intended for plants which entered use after the adoption of the National Allocation Plan (PNA) referring to the second period of application of the European Emissions Trading System (2008-2012) ("new entrants").

By way of Resolution no. 117/10, the Authority established that the credits due to each entitled party would be calculated annually on the basis of the allowances sent to it by the National Committee responsible for managing Directive 2003/87/EC by recognizing a valuation for each emission allowance that takes into account the arithmetic average of the daily price of the EUAs and the volumes traded on the main organized European markets. The allocation of CO2 quotas to plant managers as approved by the competent national Authority is established with reference to each reference period specified by Legislative Decree no. 216/2006.

By way of Resolution no. 139/2012/R/efr, applying the above criteria the Authority established the amounts due for the years 2008, 2009, 2010 and 2011 to the managers of plants or parts of plants recognized as new entrants in the emissions trading system for the period of application in progress.

With reference to the Scandale combined cycle turbogas plant, the Authority has recognized the following for Ergosud S.p.A.:

- for 2010, credits of 2,045,518.40 euro to cover the failure to grant 140,104 CO2 emission quotas free of charge valued at 14.60 euro/tonne; this should be added in relation to 2010 to the amount previously recognized to the same plant by way of Resolution ARG/elt no. 111/11 (a credit for a total of 8,050,030.38 euro to cover the failure to grant 361,024 CO2 emission quotas free of charge valued at 14.76 euro/tonne, and 189,771 CO2 emission quotas valued at 14.34 euro/tonne);
- for 2011, credits of 8,472,530.76 euro to cover the failure to grant 647,747 CO2 emission quotas free of charge valued at 13.08 euro/tonne; this should be added in relation to 2011 to the amount previously recognized to the same plant by way of Resolution no. 139/2012/R/efr (a credit for a total of 8,528,225.40 euro to cover the failure to grant 652,005 CO2 emission quotas valued at 13.08 euro/tonne).

The Authority has additionally recognized to A2A Caore e Servizi S.r.l., for the (boiler) plant at Sesto San Giovanni for 2011, credits of 127,884.20 euro to cover the failure to grant 9,860 CO2 emission quotas free of charge valued at 12.97 euro/tonne.

With its previous Resolution no. 139/2012/R/efr the Authority had recognized for 2011:

- to A2A Calore e Servizi S.r.l. for the Canavese plant credits of 736,207.80 euro to cover the failure to grant 56,285 CO2 emission quotas free of charge valued at 13.08 euro/tonne;
- to Varese Risorse S.r.l. for the integrated cogeneration heating-cooling plant credits of 137,575.44 euro to cover the failure to grant 10,518 CO2 emission quotas free of charge valued at 13.08 euro/tonne.

Green Pricing

By way of Resolution ARG/elt no. 104/11, the Authority established the requirements which contracts for renewable energy sales signed on or after October 1, 2011 and relating to electricity supplied to the end customer on or after January 1, 2012 must contain in order to ensure that the same quantity of electricity produced from renewable sources is not accounted for in multiple green energy contracts.

The Authority has established that for this purpose only the Guarantees of Origin (GOs) as per Directive 2009/28/EC should be used and that while waiting for the provisions of Legislative Decree no. 28/11 to become effective the CO-FER certificates as per the Ministerial Decree of July 31, 2009 should be used. Sales companies may however use other instruments and certification trademarks of a voluntary nature, provided that each renewable energy sales contract is attested by GOs. In addition, certain changes to the commercial code of conduct have been made concerning the preparation of promotional and informational materials regarding the supply of energy, as well as certain provisions relating to the summaries that the seller is required to publish in bills on a four-monthly basis.

By way of Resolution ARG/elt no. 179/11, the Authority ratified the initiation of the discipline by approving the technical procedure and the competition procedures drawn up by the GSE aimed at the application of the provisions contained in the above-mentioned Resolution ARG/elt no. 104/11 and the assignment of the Guarantees of Origin available to the GSE respectively. On June 20, 2012, within the ambit of the GSE platform, these competition procedures took place with a very low level of participation by operators (551 MWh was allocated compared to the 6 GWh on offer at the auction, only slightly above 9%).

Finally, by way of the Decree of July 6, 2012 “Implementation of article 24 of Legislative Decree no. 28 of March 3, 2011 on incentives for the production of electricity from renewable source plants other than photovoltaic plants” the Ministry for Economic Development instructed the GSE to establish the means of issuing, recognizing and using the Guarantees of Origin for electricity from renewable sources in accordance with the provisions of article 16 of Directive 2009/28/EC and article 34 of Legislative Decree no. 28/11. These provisions were incorporated in the update to the technical procedure issued by the GSE in December 2012, relative to which the Authority has expressed a favorable opinion with Resolution no. 534/2012/I/efr.

Economic conditions for the protected categories service

In December 2012, by way of Resolution no. 583/2012/R/eel, the Authority revised the levels of the RCV (Remunerazione Commercializzazione Vendita or Remuneration of Selling Costs) and RCVi (Remunerazione Commercializzazione Vendita imprese integrate or Remuneration of Selling Costs for integrated businesses) components remunerating protected category vendors, without prejudice to the uniqueness of the price paid by each type of protected category customer, specifying that these components must be:

- determined in a differentiated manner for the various types of protected category end customer, in a similar way to that currently required;
- further differentiated on the basis of the two areas centre/north and centre/south;
- established by taking into account the level of the unpaid ratio identified at the protected category vendors which the Authority considers to be the most efficient and the benefit resulting from the possibility for protected category vendors to resort to the indemnification system as per Resolution no. ARG/elt 191/09.

By way of the same resolution, the Authority updated the component remunerating the selling costs incurred by protected category vendors (RCV). This update, applicable from January 1, 2013, also holds retroactively for 2012 through a compensation mechanism.

Regulation of the electricity sector in Montenegro

The Energy Regulatory Agency (RAE), the autonomous and independent body having the function of regulating the energy sector, put out for consultation and then approved, at the end of 2011, the new method to be used for calculating electricity transmission and distribution tariffs, together with the method for establishing energy prices for sale to end customers. In February 2012 the Agency made certain changes to the legislation, postponing the start of the regulatory period until August 1, 2012 and additionally amending the way of calculating the cost of the energy sold to the end customer, limited to the portion generated from domestic sources.

The new method introduces regulatory elements into Montenegro law that are similar to those in force in the principal European countries, such as the establishment of multi-year regulatory periods, the introduction of capital valuation methods and the remuneration rate and the means of making the sector more efficient through the use of price-caps. The first regulatory period started on August 1, 2012 and has a three-year term. For the first year the WACC (weighted average cost of capital), equal to 6.8%, will be applied to net invested capital (meaning the value of the assets in use at the end of year t-1, stated less of any contributions received and revalued for inflation). Capital will be updated annually on the basis of investment plans approved by the Agency, while depreciation will be charged over the useful lives included in the documents to be sent to the Agency on making the request for approval of the tariffs. Operating costs will be calculated by applying a profit-sharing logic, starting from the figures sent by the company to the Agency.

At the same time, in December 2011 the Agency published the tariffs, established on the basis of the previously effective method, and these will be valid from January 1, 2012 until the end of the transition period.

Finally, in July 2012 the RAE approved the tariffs, calculated on the basis of the new method described above, which are valid from August 1, 2012 to July 31, 2015.

Recent legislative changes in the natural gas sector

Upstream gas market

Regulations governing the "economic merit" balancing of natural gas

The "economic merit" balancing established by Resolution ARG/gas no. 45/11 became effective on December 1, 2011.

Users who hold stocks (users of qualified balancing) are required to be members of the balancing market. This requirement takes form through the presentation of offers to buy or sell gas on the PB-Gas balancing platform in order to offset the lack of balance in the system, calculated by the company in charge of balancing (Snam Rete Gas S.p.A.) as the difference between scheduled incoming or outgoing volumes from stock and those actually occurring. The bids made in the balancing session are accepted on the basis of the economic order of merit, until the lack of balance is completely eliminated and by combining the purchase and sales bids presented by the users. The remuneration price is calculated daily on the basis of the marginal price auction mechanism (meaning the price is that associated with the final bid accepted).

This discipline was subsequently amended and adjusted. By way of Resolution no. 32/12/R/gas, in order to remedy the events which occurred in February 2012 as the result of the state of gas emergency declared by the Ministry of Economic Development, the Authority introduced a misalignment in prices in the event of a gas shortage crisis, establishing a price administration framework to be implemented in these situations. Subsequently, by way of Resolution no. 289/2012/R/gas, the Authority once again intervened on the subject, introducing certain provisions for the management of emergencies for an excess of gas in the network. In these situations, the Authority requires that the imbalance price be set at zero, that the unused injection capacity placed at the disposal of the system be evaluated and finally that the entity in charge of the balancing should make specific additional information available to the operators concerning how close the emergency conditions for excess of gas actually are.

By way of Resolution no. 538/2012/R/gas, the Authority introduced a new session of the previous day with renaming processes at the interconnection points of the national transportation system, in order to intervene in the cases when, on the basis of the transportation programs presented by the users, stocks may turn out to be an insufficient resource for balancing the system.

Finally, there still remains the situation of legislative uncertainty regarding the discipline of the guarantees requested of operators to be able to operate on the balancing market. Following the suspension of the system of guarantees covering the system's exposure to customers, ordered by the Lombardy regional administrative court, the balancing market found itself having to operate without a system of guarantees between December 1, 2011 and May 31, 2012. This had led to the updating of the variable unit charge CVBL set up to enable any uncollected costs to be recovered, which until then had been set at zero. In November, by way of resolution no. 470/2012/R/gas, the Authority approved the proposal to amend the Network Code drawn up by Snam Rete Gas and aimed at increasing the levels of the guarantees.

By way of Sentence no. 3030/2012, upholding the appeal filed by En Gas&Oil Trading and by Energy Trading International, the Lombardy regional administrative court cancelled in part Resolution no. 181/2012/R/gas - already partially suspended for precautionary reasons in June - in which the Authority had defined the system of guarantees currently in force, rejecting the possibility of including a credit rating as one of the forms of guarantee presented. In addition, the court considered arbitrary the valuation of the stock pledged in guarantee as being 90% of the component for wholesale commercialization (CCI).

Transport default service

By way of Resolution no. 249/2012/R/gas the Authority extended the application of the default service (introduced by Resolution ARG/gas no. 99/11) referring to the redelivery points connected to the distribution networks to redelivery points connected to the transport network remaining without a seller as the result of the termination of the transport contract or the failure to confer the relative transport capacity, for which it has not been possible to activate the Supplier of Last Instance (FUI). This service has been put under the responsibility of the entity in charge of balancing, which, unlike what is envisaged for the redelivery points connected to the distribution network, instead of supplying those points directly can organize and carry out public competition procedures autonomously for the purpose of selecting one or more suppliers which undertake to be qualified users of the transport and balancing service in the case of direct withdrawal ("transitional suppliers").

As the result of the refusal of the FUI to perform this service without adequate cover of the risk involved, by way of Resolutions nos. 306/2012/R/gas and 363/2012/R/gas, the Authority established suitable mechanisms for covering the risk of default. In addition, the procedures for the selection of the transitional supplier for the transport system have been approved.

ENI Gas & Power and Italtrading have been designated Transitional Suppliers for thermal year 2012-2013.

Finally, following the termination of the transportation agreement by Snam Rete Gas with respect to En Gas&Oil Trading, by way of Resolution no. 428/2012/R/gas the authority extended the scope of application of the discipline to the regional networks.

In December 2012 Retragas S.r.l. filed an appeal with the regional administrative court against this discipline as it believes that it is in conflict with community legislation on functional unbundling.

Gas exchange

Following the start in 2010 of the P-Gas platform for trading lots of natural gas imported from non-EU countries and the development royalties due to the state, and following the start of the M-Gas spot market in December of the same year, the gas market reorganization process has continued, based on principles of neutrality and transparency with a view to developing competition.

In compliance with the requirements of article 32 of Legislative Decree no. 93/11, on the basis of the regulatory changes introduced by the authority by way of Resolution no. 525/2012/R/gas, the Energy Market Manager (GME) has set up the discipline for regulating the natural gas forward market (MT-Gas) which is now being reviewed by the competent parliamentary committees.

Downstream gas market

Economic conditions for the protected service

The dispute over Resolution ARG/gas no. 89/10, approved in June 2010, by which the AEEG revised the method of updating the price of the supply of gas for the protected service by applying a reducing coefficient “k” to the indexed component of the energy quota QE (a variable fee covering the costs of provisioning), is currently in progress. This revision was moreover confirmed by Resolution ARG/gas no. 77/11.

By way of Resolution no. 116/2012/R/gas, the AEEG intervened once again in the revision process as pertains to the methodology used to determine the protected economic conditions for the supply of natural gas (CCI_t component), in order to implement article 13 of Decree Law no. 1/12 ″Urgent provisions for competition, infrastructure development and competitiveness" (the "Liberalizations Decree Law") which introduces a reference to European market values among the updating parameters, starting from the second quarter of 2012. Although it maintains its current CCI_t structure, detailed as the sum of the two elements QCI (fixed sum covering the costs of commercialization of wholesale gas) and QE_t (variable sum covering the gas provisioning costs in quarter t), the provision redefines the criteria for the determination of the latter, introducing a reference to short-term market prices (virtual hub TTF - Title Transfer Facility). The portion indexed to the market reference is fixed at 3% for the second quarter of 2012 and 4% for the third quarter of 2012.

Subsequently by way of Resolution no. 263/2012/R/gas, affirming the orientation taken in previous provisions, the Authority established the wholesale commercialization component (CCI_t), applicable from October 1, 2012, as being the sum of the fixed fee QCI (confirming its previous value and separating it into a QCItint component, to cover costs of an infrastructure nature, and a QCIgross component, to cover the remaining costs connected with wholesale commercialization) and the variable fee QE_t, calculated on the basis of a take or pay index (P_{top}, determined on the basis of a reference sample consisting of operators with a wholesale market share exceeding 10% and contracts characterized by a volume of 20,000 GWh) and a market index (P_{mkt}, linked to trends in the Dutch hub TTF) having a weight of 5%.

Provisions common to both sectors (electricity and gas)

Protection of end customers

By way of Resolution no. 71/11 the Authority redefined the perimeter of end customers entitled to the protected service, extending it to non-domestic customers having an annual consumption lower than 50,000 scm (standard cubic metres) and, regardless of consumption, public service activities.

As a result of the rapid spreading on the open market of the phenomenon of unsolicited contracts and activations for the supply of electricity and/or natural gas, mainly to the detriment of customers considered vulnerable, by way of Resolution no. 153/2012/R/com the Authority established specific measures of a preventive and reinstatement nature to prevent this phenomenon happening. In addition, by way of Resolution no. 260/2012/E/com the Authority then set up an Energy Customers' Settlement Service at the Consumer's Desk whose duty is to deal with the out-of-court settlement of disputes between the end customer and the trader as an alternative procedure to the settlement of disputes between the provider of the sale and distribution service and the end customer.

Integrity and transparency on the wholesale market: the European REMIT regulation

The new Regulation (EU) no. 1227/2011 on wholesale energy market integrity and transparency (REMIT) is designed to establish a uniform legislative framework at a European level to prevent the abuse and manipulation of the market in the gas and electricity sector.

Among the main provisions, the REMIT introduces the prohibition from organizing market abuse in the form of "insider trading" and "market manipulation" for wholesale energy products; in addition, it requires operators to make "inside information" known. The body that has been delegated to monitor market operations is the Agency for the Cooperation of Energy Regulators (ACER).

On December 28, 2011 a large part of the provisions contained in the REMIT became effective, including in particular the requirement to publicly disclose inside information that relates to all the entities that carry out transactions in one or more wholesale energy markets.

The Italian antitrust authority has expressed a negative opinion on this matter, believing that in a situation such as that in Italy, characterized by an oligopoly in the electricity production market, the excessive transparency of information could facilitate conduct of a collusive and opportunist nature aimed at obtaining an advantage from the timely disclosure of information by companies other than those which have published inside information.

In the meantime the ACER has initiated a consultation on the format of the information that should be transmitted by operators on the basis of the REMIT, while the Energy Market Manager (GME) has initiated a consultation aimed at setting up a centralized platform, which it organizes and manages, for fulfilling the new requirements for which operators are responsible.

Environment Sector

Recent changes in legislation in the environment sector

Regulation of local public services and expiry of concessions

Legislation regulating local public services of economic importance was affected by the results of question 1 of the abrogative referendum of June 12 and 13, 2011.

To fill the legislative gap created by the outcome of the referendum, the legislator intervened with a series of regulations contained in Decree Law no. 138/11 (the summer Budget Law which became effective on August 13, 2011), as converted by Law no. 148/2011 (effective from September 17, 2011). As a consequence of the appeal filed by a number of regional administrations against these provisions, the measures were also affected by Sentence no. 199 of July 17, 2012 which declared them in part constitutionally unlawful.

As the result of this sentence, while the legislation regarding the management of local network public services on the basis of optimal and homogeneous territorial ambits and rewarding mechanisms for the assignation of the management of the services by public tender remains in force (as per article 3-bis of Law no. 148/2011), the provision relating to the early termination of the concessions with non-compliant assignment (as per article 4 of Law no. 148/2011) is no longer applicable.

In this respect, the legislator intervened once again in the matter by way of Decree Law no. 179 of October 18, 2012 on "Further urgent measures for the growth of the country" ("Growth Decree 2.0"), converted by Law no. 121 of December 17, 2012 and published in Official Journal no. 294 of December 18, 2012.

In particular, this legislation requires that direct assignments agreed at October 1, 2003 for publicly held companies already listed at that date and for subsidiaries of these pursuant to article 2359 of the Italian civil code should cease at the expiry date specified in the service agreement or other documents governing the relationship.

On the other hand assignments not having an expiry date terminate on December 31, 2020, without the possibility for any extension and without the need for the body to adopt a specific resolution.

Consolidated Environment Law

Decree no. 152 of April 3, 2006 ″Regulations on environmental matters″ (as subsequently amended, most recently by Legislative Decree no. 205/10 which dictates measures implementing Directive 2008/98/EC on waste) acts as the reference legislation for the environment sector and was revised in 2008 by the ″Unified Amendment″. This measure (the Consolidated Law) ratifies the repealing of Legislative Decree no. 22 of February 5, 1997, the “Ronchi Decree”, which until then had been the national framework legislation on this subject.

Certain regulatory technical rules specified for carrying out collection and transfer services currently remain in force from the preceding legislative framework on a transitional basis until the rules implementing the Consolidated Law are issued.

Of particular interest in the changes made to the framework law by Decree no. 205/10 is the regulation regarding the new ways of classifying waste, which call for ecotox tests to be carried out to determine whether the waste is hazardous or non-hazardous.

Decree Law no. 216/2011 (the ″thousand extensions decree″) further postponed the deadline for the prohibition to transport waste with an NCV exceeding 13,000 kJ/kg to December 31, 2012.

Law no. 28 of March 24, 2012 (on extraordinary and urgent measures regarding environmental matters) introduced certain provisions concerning the disposal of waste arriving from the Waste Shredding, Sifting and Packaging Plants (STIR) of the Campania region and to be transported out of the region, making this possible through agreements reached by the Campania regional administration and the administrations of each individual region concerned without the need for an inter-regional agreement by means of the State-Regions Conference.

The same law amended the article of the Consolidated Law on the identification of hazardous waste in connection with the H14 (Ecotoxicity) criterion, specifying that such should be assigned to waste by the means established in the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) for class 9 - M6 and M7. In this respect, Law no. 28/2012 on extraordinary and urgent measures on important environmental matters is quoted regarding the assessment of the ecotoxity of the slag produced by the waste to energy plants,. Article 5 of the measure remits to the introduction by the Ministry for the Environment of a specific decree that establishes the technical procedure for assessing the toxicity of the slag, thus enabling the majority of the slag currently produced by the waste to energy plants to be considered non-hazardous.

Finally, Ministerial Decree no. 161 of August 10, 2012, “Regulation disciplining the use of excavated land and rocks”, establishes the qualitative criteria that have to be satisfied at a national level for the excavated material to be considered as sub-products and not waste “within the meaning of article 184-bis of Legislative Decree no. 152 of 2006”.

Waste tracking control system

By way of the Ministerial Decree of December 17, 2009, subsequently amended by the Ministerial Decrees of February 15, July 9, September 28 and December 22, 2010, a waste tracking control system (SISTRI) has been set up, run by the Carabinieri Unit for the Protection of the Environment, to enable the special waste chain to be computerized at a national level (and that of urban waste for the Campania region).

The system simplifies the procedures and formalities which are the responsibility of sector operators, reducing the costs incurred by businesses, and manages a complex and variegated process in an innovative and efficient way, with guarantees for increased transparency, knowledge and the prevention of illegal acts.

By way of Law no. 148/2011, effective from September 17, 2011, parliament reinstated the SISTRI repealed by the Anti-crisis Decree Law. Nevertheless the “Growth Decree Law” once again deferred the effective date of the system until all the steps required to ensure that it is working properly have been completed. The revised date on which the SISTRI will now become effective must be set by a decree of the Ministry for the Environment. Pending this provision the payment of the fees due by users for 2012 has been suspended.

Provincial Waste Management Plan for the Province of Brescia

The Province of Brescia Provincial Waste Management Plan was approved by way of Decree no. 9/661 of October 20, 2010 of the Council of the Lombardy Region; this has the objective of reducing the per capita production of waste and improving differentiated collection, which is expected to reach 65% of the waste produced by 2016, consistent with European provisions in this respect.

Lombardy Region

The Lombardy Region has approved Regional Regulation no. 5 of November 21, 2011 implementing the assignment of VIA (environmental impact assessment) responsibilities to Provinces and Municipalities. This regulation establishes that from May 19, 2012 provinces are responsible for the VIAs for waste disposal-treatment recovery plants.

By way of Regional Council Decree no. 3792/2012, the Lombardy Region updated the list of “exempted activities” pursuant to article 272, paragraph 2 of Legislative Decree no. 152/06 as subsequently amended and approved general authorization for the zootechnical sector, while by way of Management Decree no. 6576 of July 23 2012 it regulated activities relating to “Civil heat plants with a nominal thermal power of not less than 3 MW and less than 10 kW” and to “Electrogen groups and emergency motors”.

European legislation

Decision no. 2011/753/EU of the European Commission of November 18, 2011 establishing rules and calculation methods for member states for verifying compliance with the targets set for the reuse and recycling of urban waste and construction and demolition waste for 2010 has been published (in the OJEU of November 25, 2011 no. 30). This Decision implements framework decision no. 2008/98/EC which requires member states to increase the proportion for reuse, recycling and recovery of domestic and "similar" waste consisting of paper, metal, plastic and glass, as well as non-hazardous construction and demolition waste to respectively 50% and 70% by weight.

Finally, at a European level Regulation 1179/2012/EU has been issued, effective from December 31, 2012, on "Criteria determining when glass cullet ceases to be waste". This is applicable from June 11, 2013. On the basis of the requirements of this regulation, only glass used in packaging, flat glass or lead-free crockery are considered recoverable through a subsequent remelting process. As far as the A2A Group's activities are concerned, this regulation is accordingly applicable to storage platforms and differentiated collection areas.

CIP 6 incentives

Recognition to holders of CIP 6 conventions of fees arising from production by plants fired by "quasi-renewable" energy sources

By way of Resolution no. 113/06 and pursuant to Title II, point 7-bis, of CIP measure no. 6/92, the AEEG regulates the charges arising from article 11 of Legislative Decree no. 79/99, limited to electricity which is generated by plants fired by "quasi-renewable" energy sources that do not meet the definition of cogeneration established by Resolution no. 42/02 and sold to the GSE under Title II of said measure as part of the sales conventions.

By way of Resolution no. 81/2012/R/eel, for the purpose of the application of Resolution no. 113/06 the AEEG has set the amount of the Vm fee to be paid for each Green Certificate relating to 2012 at € 52.14/MWh.

By way of Resolution no. 466/2012/R/eel, pursuant to Title II, point 7-bis of CIP measure no. 6/92 and in application of the means established by Resolution ARG/elt no. 77/08, the Authority on the other hand recognized to entitled operators the costs arising for 2011 from the application of Directive 2003/87/EC (Emissions Trading Directive), limited to the electricity transferred to the GSE as part of specific sales conventions.

In particular, the Authority has quantified in 635,237.26 euro the amount due to Brescia waste to energy plant owned by Aprica S.p.A..

Withdrawal price of production by CIP 6 plants

By way of the Decree of November 20, 2012, the Ministry for Economic Development adopted new means of calculating the price component for the withdrawal of electricity produced by CIP 6 convention plants relating to the Avoided Fuel Cost (Costo Evitato di Combustibile - CEC), applicable from January 1, 2010, and established the settlement amount for the CEC for 2011.

The calculation method takes into account the matters reported to the ministry by the AEEG in Resolution PAS 9/10, as well as opinion no. 130/2011 of the Council of State, according to which "article 30, paragraph 15 of Law no. 99 of July 23, 2009" should "also apply to the chosen initiatives pursuant to article 3, paragraph 7 of Law no. 481/95".

Implementing that pronouncement, the ministry express its belief that the amounts for the specific consumption for the purpose of the CEC adopted by way of the decree for plants entering service from 1997 onwards are also applicable to the chosen initiatives.

The Energy Services Manager consequently sent a note to operators who are party to outstanding sales conventions in which, applying the criteria of the above Ministerial Decree, it called for accounting documentation to be issued to be able to make a settlement of the incentives already received, but also to calculate those to be received in the future. The companies concerned have however challenged the Ministerial Decree and the GSE's related request.

By way of Resolution no. 535/2012/I/eel, published in December, given the matters emerging from the investigation into the structure of the market cost for the retail sale of natural gas, the Authority is envisaging a further revision to the way the CEC is calculated. In summary, for future calculations for which it is responsible the Authority is proposing to the ministry that the component relating to the wholesale sales margin (CEC com) specified by PAS 9/10 should be "cancelled" from the CEC (both as regards the settlement and the quarterly on account payments), because the Authority considers that this is already included in the convention component for the value of the gas raw material component (CEC gas), whose means of calculation should be revised (according to the Authority), so as to tie the CEC gas component to the gas price as part of the balancing market.

If this proposal is implemented, it would still be left to set the date from which the ministry decides to implement the new method of calculating the CEC, which could be prior to the start of 2013. In particular, given the explanation provided in the part of the provision describing the underlying reasons, the Authority is hoping that the ministry's provision will lead to the applicability of the proposed method from the date on which the gas balancing market became fully operational.

Valuation of the usage of auxiliary services

By way of Resolution no. 47/2013/R/efr, the AEEG ended the consultation as per Resolution no. 467/2012/R/eel and has taken ensuing action following the publication of the report of the fact-finding enquiry set up by Resolution no. 240/12/E/efr, in order to establish the criteria for calculating:

- usage of plant auxiliary services in producing electricity;
- losses in the central and line transformers up to the point of delivery of electricity to the grid.

The established criteria are only applicable for implementing the provisions contained in the ministerial decrees of July 5 and 6, 2012 for the new plants fired by renewable sources. As requested by the operators, the Authority therefore did not confirm in its resolution what it specified in the consultation document on the extension of the provisions adopted to the cases of checks on existing plants.

In regard to electricity production plants having a power exceeding 1 MW which are entitled to benefit from the incentives referred to in the decrees of July 5 and 6, 2012, included among the consumption for auxiliary services is electricity usage:

- for any equipment, sub-system or system included in the control volume, strictly connected with the maintenance of an energy production plant in service or in a condition to restart production, regardless of the owner and location of the equipment;
- that is needed to meet the obligations deriving from environmental legislation as well as from the decrees authorizing construction or use, such as by way of mere example and not limited to: meeting limits for emissions into the atmospheric, into water and into the soil; restrictions on the use of natural resources; monitoring air quality; environmental protection in a more general sense.

As part of these definitions, criteria have also been established for drawing up the GSE's procedures for quantifying the conventional percentage factor connected with the usage of auxiliary services, transformation losses and line losses up to the connection point.

In particular, the producer is required to request the GSE to determine the percentage factor taking into account the actual measures of usage for auxiliary services.

Heat and Services Sector

Recent legislative changes in the cogeneration sector

Incentives for high yield cogeneration

By way of a decree of September 5, 2011, measures have been introduced concerning incentives for High Yield Cogeneration (Cogenerazione ad Alto Rendimento - CAR), pursuant to the provisions of Law no. 99/09 (the "Development Law").

The set incentive provides for the recognition of White Certificates for the following plants:

- for plants producing solely under cogeneration frameworks, for a period of 10 years;
- for plants connected to district heating networks, for a period of 15 years.

The certificates allocated in this way:

- may be used to satisfy the compulsory quotas of operators subject to energy efficiency restrictions;
- may be sold (bilaterally) to obligated operators;
- may be withdrawn by the GSE at the request of the owner of the plant at an administered price (in this case they will no longer be transferrable to obligated operators but will be taken into consideration for the purposes of national energy saving quantity objectives).

The number of White Certificates recognized as a function of the primary energy saving achieved by the initiative is additionally increased on the basis of a coefficient (K), divided into five power bands, to take account of the various average yields of the plants and the development potential of small and medium cogeneration.

The measure may only be accumulated with guarantee funds, tax relief and other capital grants.

Specific legislation is also planned for calculating the incentives for the refurbishment of existing plants and those entering service after April 1, 1999 and before Legislative Decree no. 20/07, which are due a payment of 30% of the incentives provided for the new plants for a period of five years pursuant to the provisions of Legislative Decree no. 28/2011 which introduces the Third Energy Package Directive on the production of renewables into Italian legislation.

In a note dated September 6, 2011 and effective from January 1, 2012, observing the progressive increase in the average yield over the course of the years of the National

Electricity Grid, the Customs Office Verification and Controls Department introduced a new algorithm for calculating the excise tax charged on fuel used by cogeneration plants, under which the excise tax levied on methane gas increases in proportion to the thermal energy recovered. Law no. 44 of April 26, 2012 amending Decree Law no. 16/12 established that to identify the quantities of fuel subject to the tax rates for the production of electricity, the coefficients identified by the Electricity and Gas Authority by way of Resolution no. 16/98 of March 11, 1998 continue to apply to the combined production of electricity and heat from January 1 to December 31, 2012, reduced by 12%.

As a result, therefore, a reduction in the flat rate coefficient from 0.25 cm/kwh to 0.22 cm/kwh is applicable for 2012.

Networks Sector

Recent regulatory changes in the distribution sector

Natural gas distribution

Allocation and performance of the distribution service

For the natural gas distribution service, Law no. 99/2009, the "Development Law", defines the new "Minimum Territorial Ambits" for which tenders will be called for the allocation of the service by the Ministry for Economic Development. The Decree of January 19, 2011 of the same ministry then identifies 177 Minimum Territorial Ambits. The individual municipalities belonging to each Minimum Territorial Ambit were subsequently precisely identified in a Decree of the Ministry for Economic Development published in the Official Journal of October 28, 2011.

The Ministerial Decree of April 21, 2011 on provisions for regulating the social effects connected with the new means of allocating gas distribution concessions (the "Social Clause") contains rules to safeguard the jobs of the personnel of the outgoing distribution company following the awarding of the service to another company, together with a series of obligations for this latter company.

By way of Legislative Decree no. 93 of June 1, 2011 (the Third Energy Package) the legislator then specifies that from June 29, 2011 tenders should be called solely for the Territorial Ambits (as per article 46-bis of Law no. 222 of 2007) and on the basis of the criteria referred to therein. In addition, the legislator allows the incoming operator to recognize in the tariff the depreciation, over 12 years, of the difference between the redemption price of the plants granted to the outgoing operator and their value for tariff purposes.

With Decree no. 266 dated November 12, 2011 the competent ministries issued the regulation containing the criteria for conducting tenders to assign distribution services.

As part of the main duties assigned to it by that decree, during 2012 the Electricity and Gas Authority issued Resolution no. 407/2012/R/gas, by way of which it establishes the criteria for calculating the one-off fee for covering the charges for the tender for allocating the service, and Resolution no. 532/2012/R/gas which contains provisions on the formats to be used for transmitting the data relating to the material status of the gas distribution network.

Finally, by way of article 37 of the Growth Decree, the legislator set out details of the conditions for operators to participate in the procedures for the allocation of the service, in order to encourage the broadest participation possible in the tenders.

Default service

By way of Resolution ARG/gas no. 99/11, the AEEG introduced the "default service", putting operational and economic responsibility on the distributor for the critical points of the system, such as for example:

- dealing with customers who, although not being responsible, have ended up without a seller and who are not entitled to the FUI (last resort supplier), or who despite being entitled to use that scheme are unable to take advantage of it;
- dealing with customers in default who may be cut off and for whom for technical reasons it is has not been possible to cut off the gas flow despite the request for closure for default;
- dealing with customers in default who cannot be cut off (identified as the activities of recognized assistance such as hospitals, schools, nursing homes, prisons).

By way of a sentence lodged on December 28, 2012, the Lombardy regional administrative court upheld the reasoning of the appeal filed against Resolution ARG/gas no. 99/11 as subsequently amended. Opposing this sentence, the AEEG then requested leave to appeal before the Council of State, which will issue its ruling by the end of April.

Distribution and metering tariffs – III regulatory period (2009-2012)

By way of attachment A to Resolution ARG/gas no. 159/08 (Consolidated Text on the regulation of the quality and tariffs of services for gas distribution and metering for the regulatory period 2009-2012 (TUDG): approval of part II "Tariff Regulation for Gas Distribution and Metering services for the third regulatory period 2009-2012" (RTDG)), the Authority established a tariff system characterized by a tariff decoupling mechanism which provides for a mandatory tariff separated into six tariff areas to be applied for the calendar year to end users of the service, and a reference tariff for covering the costs of the distribution, metering and marketing service.

This latter is calculated in order to guarantee the following: remuneration of net invested capital (WACC set at 7.6% for distribution activities and 8% for measurement activities); coverage of depreciation calculated on the basis of useful lives valid for regulatory purposes; and coverage of operating costs, calculated on a parametric basis and updated through a price-cap method using an X-factor differentiated on the basis of the size of the company. In turn, the invested capital is calculated by using the revalued historic cost method and only partly the parametric method.

Since the level of net invested capital at a national level, determined on the basis of the definitive data acquired for the first year of the regulatory period in course, exceeded the value recognized to the same companies with reference to thermal year 2007-2008 by more than 5%, a graduality mechanism has been introduced. As a result, the restrictions of companies have been reduced by the percentages provided in article 17 of the RTDG.

On the outcome of the appeals against the above resolution, appeals which led to the failure to approve the operators' reference tariffs, by way of Resolution no. 315/2012/R/gas the AEEG redetermined the reference tariffs for the distribution service and the tariff options for gases other than natural gas for 2009 and 2010, while by way of Resolution no. 450/2012/R/gas the tariffs for 2011 and 2012 were approved. These provisions simply reformulated the tariffs between the various years on the basis of the application of an X-factor that is no longer linear but which decreases over the years.

Distribution and metering tariffs – 2013

As the result of the judicial process which involved Resolution ARG/gas no. 159/08 (RTDG), and considering the delicate phase during which the discipline is being reorganized (see the above section "Allocation and performance of the distribution service"), by way of Resolution no. 436/2012/R/gas the Authority extended the current tariff regulation to the end of 2013, causing the IV regulatory period to start on January 1, 2014 in order to leave time for suitable consultation.

More specifically, the Authority updated the main parameters in the regulation, setting a capital remuneration rate of 7.7% for distribution activities (7.6% for 2012) and 8% for metering activities (unchanged over 2012). As regards the components covering operating costs, the productivity recovery rate envisaged for large-scale operators was set at 2.4%, for the distribution service at 2.8% and for metering and selling services at 2.8%.

The extended resolution was subsequently challenged before the regional administration court by a number of operators for the way in which certain key parameters used to calculate the employed capital remuneration rate have been updated.

Revision and adjustment of tariff regulations for gas metering services and commissioning directives for metering units in accordance with Resolution ARG/gas no. 155/08

By way of Resolution no. 28/2012/R/Gas as subsequently amended the Electricity and Gas Authority revised the mandatory requirements for the commissioning of metering units originally set forth in Resolution ARG/gas no. 155/08. This Resolution has been challenged by a number of operators.

The requirements thus amended defer by two years the date by which 60% of the metering systems of a class equal to or less than G6 must be replaced. Furthermore, all meters of the latter classes with a metric stamp expiry date of December 31, 2018 or earlier must be replaced. For meters of a class lower than G40 but higher than G6, Resolution no. 575/2012/gas reintroduced the intermediate objectives for 2013 and 2014, without however specifying any penalties for 2013 if these requirements are not met.

In addition, the Authority recognized the right of distribution companies to install for 2012 system solutions which do not satisfy the minimum requirements. This option was extended to 2013 by Resolution no. 575/2012/gas. If operators select this option, the assets are valued for tariff purposes using the revalued cost method, without providing for the use of standard costs and the rules introduced by Resolution no. 28/2012/R/gas.

Gas distribution service safety incentives and penalties

The Authority has recognized total incentives of 127,313.36 euro to A2A Reti Gas S.p.A. by way of Resolution no. 368/2012/R/gas on natural gas distribution service safety recoveries for 2010.

Distribution of other gases

By way of Resolution ARG/Gas no. 195/11, the Authority has approved the tariff options for 2012 for the provision of services for the distribution and metering of gases other than natural gas. However following sentence no. 2521/23 of the Council of State of February 28, 2012 and the completion of the proceeding set up by Resolution no. 247/2012/R/gas and finalized with the adopting of changes to the current regulation on the determination of tariffs for the provision of services for the distribution and metering of natural gas and other gases, the Authority issued Resolution no. 315/2012/R/gas in which it redefines the tariff options for 2009 and 2010, while those for 2011 and 2012 have been recalculated by way of Resolution no. 450/2012/R/gas.

Electricity distribution

Allocation of the distribution service

As far as the distribution of electricity is concerned, article 1, paragraph 2 c) of Law no. 239/04 states that concessions are granted for electricity distribution on the basis of the requirements of law, while at article 9 the Bersani Legislative Decree (no. 79/99) identifies the Ministry for Economic Development as the body granting the local concession, comprising one or more municipalities. These concessions have a thirty year term.

Distribution and metering service tariff framework

By way of Resolution ARG/elt no. 199/11, the Electricity and Gas Authority adopted the Consolidated Text (TIT) of provisions to regulate the transmission and distribution of electricity and the Consolidated Text of provisions regulating the supply of the Electricity Metering Service (TIME) for the fourth regulatory period (2012-2015).

In relation solely to the tariff adjustment for metering services, variations with respect to the previous regulatory period were included in the return on invested capital (set at 7.6% per annum), in the value of the X-factor (set at 7.1% per annum) and also in revenue equalization for low voltage metering services. With reference to the distribution service, many of the tariff regulation schemes already in force during the previous regulatory period were maintained, in particular:

- the adoption of tariff decoupling, which requires a mandatory tariff to be applied to end users and a reference tariff for the definition of revenue restrictions;
- the application of the profit-sharing method for the definition of initial operating cost levels to be recognized in the tariff;
- the updating of the tariff quota covering operating costs through the price-cap method, setting the annual objective for increased productivity (X-factor) at 2.8% for distribution activities;
- the evaluation of invested capital using the revalued historical cost method;
- the definition of the rate of return on invested capital through WACC (the rate set for 2012-2013 is 7.6% for investments made up to December 31, 2011 and 8.6% for investments made subsequent to that date);
- the calculation of depreciation on the basis of the useful lives valid for regulatory purposes.

The main differences from the previous regulatory framework regard the methods used to define the economic amounts to which the above-mentioned methods are applied. In this respect, of particular importance is the calculation of invested capital which is carried out in part by using parameters based on the WACC (weighted average cost of capital) value for the third regulatory period, the tariff revenues and the equalization balances, including those specific to the company, recorded in 2012 by the individual operator. Similarly, the definition of the portion of amortization to be recognized in the tariff is also based on a parameter-based mechanism using preset wear and tear percentages based on the average useful life, calculated by year of formation, of the aggregate national invested capital.

Other significant new features are the adoption of a specific reference tariff per operator based on the number of users (PoD), and therefore less susceptible to variations caused by a drop in distributed energy; the recognition of the effect that the time-lag has on the actually recognized rate of return starting with investments made in 2012; and the simplification of equalization mechanisms, both general and specific.

With regard to this last point, the Authority believed it appropriate to incorporate the effects of the Specific Company Equalization (PSA) directly in the value recognized to each individual operator of its own invested capital, in addition to depreciation and operating costs, thereby eliminating the regulatory scheme from 2012.

By way of Resolution no. 157/2012/R/eel the Authority approved the reference tariffs for each individual operator on a provisional basis and provided for the possibility of requesting the use of an adjusting mechanism for calculating the depreciation recognized in the reference tariff, designed to ensure the essential constancy of the revenues obtainable with the new method of recognizing part of the capital invested. A2A Reti Elettriche S.p.A. made such a request in September.

Finally, the Authority has established the starting points and trend levels for the continuity of the electricity service for 2012-2015 for the distribution companies that have communicated to the Authority the continuity figures for the electricity service for 2010-2011, and for which the regulation incentivizing the duration and number of interruptions without notice envisaged by the legislation is applicable.

For 2012-2015 the three territorial ambits relating to the Province of Brescia, served by A2A Reti Elettriche S.p.A., will suffer a reduction in the incentive relating to the duration of interruptions, due to systematically reaching or exceeding the target level agreed with the Authority with reference to that indicator for each year in the period 2008-2011.

By way of Resolution no. 559/2012/R/eel the Authority began revising the method of calculating the difference between actual and standard losses. A specific project will be set up in 2013 to study the low voltage grid losses, as a preliminary to establishing a new calculation method for equalizing the losses in distribution networks which will already be applicable in 2013. For 2012 the Authority has revised the criteria for disbursing the amounts relating to each individual distributor, providing for the recognition to the extent of only 50% of the amount due for distributors with losses lower than the standard level and a reduction of the amount to be paid to the Settlement Fund for the Electricity Sector for the others.

Equalization measure and integration of metering revenues covering the residual non depreciated cost of electromechanical meters replaced with electronic meters in accordance with Resolution no. 292/06

By way of Resolution ARG/elt no. 199/11, the Electricity and Gas Authority adopted the Integrated Text of provisions for the supply of the Electricity Metering Service (TIME), which includes, among other things, an equalization mechanism for metering revenues for low voltage withdrawal points starting from items relating to 2012 for which the differences over the previous year are limited to technical aspects since the fundamental underlying logic remains the same.

By way of this resolution the Authority also introduced the mechanism to top-up metering revenues to cover the residual non-depreciated cost of the electromechanical meters replaced by electronic meters in accordance with Resolution no. 292/06. The new mechanism renders this recognition explicit and makes it independent of the definition of the tariffs; the mechanism will be apply for 2012-2027 but operators may request that the top-up be paid in a lump sum.

Electric cars

By way of Resolution ARG/elt no. 96/11, the Authority has included the e-moving pilot project of A2A S.p.A. for installing public charging points for electric vehicles in the list of the five pilot projects at a national level. The admitted projects are being monitored by the Authority with the aim of arriving at a specific regulation of this market sector over the next few years.

By way of Determination no. 9/12 of October 31, 2012, the Authority has recognized the first subsidy to the pilot projects pursuant to article 14 of Resolution ARG/elt 242/10 to guarantee the coverage of the costs incurred for the construction and use of the recharging infrastructure. An amount of 61,880 euro has been recognized to A2A S.p.A..

Quality and continuity of the electricity sector

By way of Resolution ARG/elt no. 198/11, the Authority published the new consolidated law on the regulation of the quality of the electricity distribution and metering service (TIQE), taking effect from January 1, 2012, which governs service continuity and defines the specific and general commercial quality levels for 2012-2015.

This text confirms the principle proposed by the Authority at the consultation stage, which is to offer special incentives in territorial areas where the starting term of the suspended services is one and a half times longer than the target level, as well as the principle of decelerating incentives in territorial areas which have recorded a D indicator equal to or higher than the target level every year in the period between 2008 and 2011. The target levels set by the Authority will have to be reached by each territorial area by the deadline of 2015 for the duration indicator, and by 2019 for the number indicator.

Finally, by way of Resolution no. 500/2012/R/eel the Authority has established the bonuses and penalties for continuity recoveries of the electricity distribution service, referring to all territorial ambits (low, medium and high concentration) for which the continuity trend levels for 2011 pursuant to the Integrated Text for Quality (Resolution no. 333/07) have been set.

In this respect A2A Reti Elettriche S.p.A. recorded a penalty of 1,812,483.54 euro.

Provisions common to the two sectors (gas and electricity distribution)

Energy efficiency

Reference legislation

The decree of the Ministry for Economic Development of December 21, 2007 revised and updated the decrees of the Minister of Productive Activities and the Minister of the Environment of July 20, 2004, which required distributors of electricity and natural gas who at December 31, 2001 served at least 50,000 end-customers to comply with specific energy saving objectives based on the energy distributed and established new reference objectives for the period 2010-2012.

Implementing the measures of Legislative Decree no. 28/2011 (recognizing European Directive 2009/28/EC on the promotion of the use of energy from renewable sources) by way of the Decree of the Ministry for Economic Development of December 28, 2012, new national quantitative objectives were set for the period 2013-2016.

The decree adopts measures which also regard the strengthening of the White Certificates mechanism, requiring the management of the certification mechanism to pass from the Energy Authority as is the present case to the GSE, approving the new technical schedules prepared by ENEA, establishing the criteria for the calculation of the tariff contribution for the costs incurred by obliged entities and identifying new ways of obtaining the certificates, with the aim of reducing the time needed for this.

A further decree is expected to be issued by the Ministry for Economic Development on these subjects, designed to revise the Guidelines adopted by the AEEG in Resolution no. EEN 9/11 (for the preparation, execution and assessment of the projects as per article 5.1 of the Ministerial Decree of July 20, 2004 as subsequently amended by replacing attachment A of Resolution no.103/03 as subsequently amended), which will remain applicable until such decree becomes effective in the parts not incompatible with the legislation. The Ministerial Decree of September 5, 2011 then provided for the issue of White Certificates by the GSE to entities that are the owners or keepers of High-Yield Cogeneration (CAR) plants, introducing the prohibition from accumulating the TEEs issued by the GSE under the decree and the TEEs issued to producers under the cogeneration framework pursuant to the Decrees of July 20, 2004 as subsequently amended (and therefore in accordance with the provisions of Resolution no. 42/02).

By way of Resolution no. 203/2012/R/efr the Authority incorporated the contents of the above-mentioned Ministerial Decree of September 5, 2011, providing for a new type of TEE (type II-CAR allowances) certifying the energy savings recognized by the GSE pursuant to the decree (for savings resulting from production in a cogeneration framework, on the other hand, recognition is given to allowances of types I, II and III pursuant to Technical Schedule no. 22 or in accordance with the valuation methods proposed by the owners of the plants and applied on an actual basis for important projects).

The TEE II-CARs not withdrawn by the GSE may be used by obligated entities to discharge their annual energy saving obligation and are subject to the tariff contribution envisaged by current regulations.

Tariff contribution

The unit tariff contribution recognized for each year (t+1) obligatory after 2008 is established by the Authority by November 30 of the previous year (t).

The tariff contribution recognized for achieving the energy savings objectives for 2011, laid down in Resolution EEN no. 16/10 (as amended by Resolution EEN no. 17/10), is 93.68 euro/tonne of oil equivalent (toe) saved.

Pending the complete determination of the envisaged legislative provisions for reforming the energy efficiency mechanism, by way of Resolution EEN no. 9/11 the Authority updated the unit tariff grant for achieving the energy savings objectives for 2012, setting it at 86.98 euro/toe.

Energy saving objectives for 2012

By way of Resolution EEN no. 13/11, the Authority established the specific objectives for primary energy savings for 2012 for distributors of gas and electricity. The objectives set for the obligated distributors of the A2A Group are shown in the following table.

Distributor	Objectives 2012 (toe)
A2A Reti Elettriche S.p.A.	140,961
A2A Reti Gas S.p.A.	164,738

In accordance with Resolution no. 98/06, for the purpose of checking the specific objective for 2011, A2A Reti Elettriche S.p.A. and A2A Reti Gas S.p.A. have cancelled part of the respective specific objectives.

Pursuant to the Ministerial Decree of December 21, 2007 as subsequently amended, the missing portion for satisfying the 2011 requirement must be made up by the end of 2013.

The distributors have additionally cancelled the allowances corresponding to the part of the energy saving requirement for 2011 which was not made up on cancelling the objective for that year.

Various matters

Following the publication of Resolution no. 9/11, with which the AEEG adopted "New Guidelines for the preparation, execution and assessment of the projects as per article 5, paragraph 1 of the Ministerial Decree of July 20, 2004 as subsequently amended and the establishment of the criteria and means for issuing energy efficiency allowances", revising its previous decisions on the subject (Resolution no. 103/03), with Resolution no. 3/2012 the Authority recognized additional TEEs compared to the previous allocations to obliged distributors, which include A2A Reti Elettriche S.p.A. and A2A Reti Gas S.p.A., for the standardized projects presented during the transition, generated by way of the different methods of valuing the intervention applied under the new resolution.

Provisions concerning accounting and functional separation (unbundling)

By way of Resolution no. 11/07, partially amended by Resolutions no. 253/07 and ARG/com no. 57/10, the Authority issued an Integrated Text on administrative and accounting unbundling for companies operating in the electricity and gas sectors (TIU), modifying the rules in force (established by Resolutions no. 310/01 and no. 311/01).

This measure requires separate annual accounts to be sent to the Authority, aiming at ensuring among other things the absence of cross subsidies between regulated and unregulated activities and a certain, uniform and detailed information flow concerning the economic and financial position of the companies involved, also to be able to obtain figures on which to calculate the tariffs for the regulated services. It additionally requires vertically integrated groups to unbundle from a functional standpoint their electricity and gas distribution and electricity transmission and gas transportation activities from the activities carried out in a open market framework. The objective of the unbundling is to ensure the neutrality of the management of those infrastructures and prevent discrimination in the access to commercially sensitive information and the cross transfer of resources between the segments of the sectors (this latter objective being more directly pursued by the accounting unbundling requirements).

The Authority intervened on the matter of accounting and functional unbundling by way of Resolution no. 36/2012/R/com, introducing a system of penalties to be inflicted on operators who fail to comply within the required term with the requirement to send separate annual accounts or the specified communications regarding functional unbundling.

In implementing the provisions adopted by the AEEG by way of Determination no. 6/10 of the Head of the Tariff (now Infrastructure) Department, A2A Reti Elettriche S.p.A., A2A Reti Gas S.p.A., Mincio Trasmissione S.r.l., Retragas S.p.A., SEASM S.r.l. and Azienda Servizi Valtrompia S.p.A. have carried out the requirements of the TIU for 2012.

Changes to legislation on the "Robin Hood" tax

Law no.148/11, converting with amendments Decree Law no. 138 of August 13, 2011 on further urgent measures for financial stabilization and growth (the "Mid-August Budget"), amended current provisions on the "Robin Hood" tax. For the three tax periods following that in course at December 31, 2010 (2011-2012-2013), in addition to the increase in the IRES corporate income tax surcharge (which now arrives at 10.5%) the law also extends the field of the entities liable to pay the tax to those whose business is the distribution, transportation and transmission of electricity and gas, and reduces the exemption thresholds. Operators who in the previous tax year had revenues exceeding 10 million euro and taxable income exceeding 1 million euro are liable to pay the "Robin Hood" tax. As concerns the A2A Group, as a result of these amendments the two distributors A2A Reti Elettriche S.p.A. and A2A Reti Gas S.p.A. will now have to pay the tax (in addition to the previous taxpaying companies).

In addition, following an application for a refund of the Robin Hood tax by an operator, the Pavia Tax Commission concluded that the question of constitutional legitimacy was "relevant and not manifestly unfounded" and accordingly suspended its ruling, sending the papers to the Constitutional Court which arranged a hearing on the question of constitutional legitimacy for January 2013 which was then postponed to March.

By way of Deliberation no. 394/2012/E/rht, the Authority has rearranged provisions on the supervision of punctual compliance with the prohibition to pass on the increase in tax. Compared to previous legislation on this subject, the main changes regard the possibility of inflicting penalties and initiating inspections in the case of non-compliance with the data communication requirements; the revision of the condition for the request for motivations; and the possible subsequent individual proceeding, which passes from a tout court positive variation to a positive variation arising from price changes.

Integrated water service

Duration of existing allocations

As a result of the referendum that took place on June 12 and 13, 2011, the Decrees of the President of the Republic stating that the legislative provisions referred to in the referendum had been repealed were published in the Official Journal no. 167 of July 20, 2011, including article 23-bis of Decree Law no. 112/02008 on the assignment of local public services of economic importance.

As concerns the existing management, as specified by article 34 of Decree Law no. 179/12, services allocated to in-house providing public companies which meet the requirements set by community jurisprudence (control of the manager the same as that over internal bodies, performance of activities mostly for the administration or administrations of shareholders, wholly public company capital) remain active until their natural expiry date.

Regulatory powers of the Electricity and Gas Authority

Article 21 of Decree Law no. 201/11 (the “Save Italy Decree Law”) ordered the suppression of the national agency for regulating and supervising water matters (which had only recently been set up), providing that the related functions and intrinsic financial and instrumental resources should be transferred to the Electricity and Gas Authority and the Ministry for the Environment.

The functions to be transferred to the Authority were identified in the Prime Minister’s Decree of July 20, 2012. More specifically, the Authority is required to carry out the following:
- determine the minimum levels and quality objectives of the integrated water service;
- prepare one or more standard conventions for governing relations between authorities responsible for assigning the service and the operators;
- determine the cost components for calculating the tariff;
- prepare the tariff method and review this on a regular basis;
- ensure the ambit plan has been properly drawn up;
- approve the tariffs;
- adopt directives for accounting transparency and for accounting and administrative unbundling by operators.

The Ministry for the Environment will continue to exercise the functions that remain and have not been transferred to the AEEG.

In this respect the Authority has published Consultation Document 204/2012/R/idr in which it describes its orientation on the regulation of the integrated water service, which was followed by specific consultation documents going into detail on the various subjects. Included among these the following are noted in particular: Consultation Document 290/2012/R/idr, which describes the tariff method for the transitional period (2012 – 2013) and the specifications regarding the collection of data to be used for calculating the tariffs, and Consultation Document 348/2012/R/idr, which describes the Authority's orientation on the minimum contents and transparency of the billing documents for the integrated water service.

Finally, Law no. 27 of March 24, 2012 (the conversion into law, with amendments, of Decree Law no. 1 of January 24, 2012 on urgent provisions for competition, infrastructure development and competitiveness - the "Liberalizations Decree Law") sets up the requirement for the payment of a contribution by water service operators to the Electricity and Gas Authority.

Tariff framework

By way of Resolution no. 585/2012/R/idr the Electricity and Gas Authority approved the transitional tariff method (MTT) for 2012 and 2013 for management subject to the normalized method. For 2012 an equalization method will be used. During the first half of 2013, the procedure applying the transitional tariff method is expected to come to an end.

A fundamental innovation compared to the Ambit Plans is that the MTT is based on criteria of ex post regulation in place of the MNT's ex ante regulation (which in any case required the ex post check of the periodic tariff revisions). The accounting data for year n-2 will be the reference for the tariff calculation (regulatory time lag) and the cost of fixed assets will be recognized when the assets enter service. Interest expense and tax charges will then be recognized, again with a regulatory time lag of two years, including those on assets under construction,. Tariff settlements (volumes, feed through costs, scope changes, etc.) will be recognized in year n+2. In addition, investments made from 2012 will be entitled to an increase of 1% in the interest expense recognized.

The new method supersedes the "remuneration of capital" and recognizes the "cost of the financial resource", in accordance with the full cost recovery principle. With respect to the financial resource, the authority has established that such costs must not be recognized against documentation, which encourages inefficient or opportunist conduct, but rather against standard references (interest expense and tax charges).

Resolution no. 38/2013/R/idr initiated a proceeding to establish the criteria by which the Ambit Bodies should identify the amounts paid by each user as the remuneration of the capital employed for the period from July 21, 2011 to December 31, 2011 that are to be refunded to that user.

Province of Brescia Optimal Territorial Ambit (A.T.O.)

On December 28, 2011 the Board of the Brescia Ambit Department passed Resolution no.18 approving the tariffs to be applied in 2012 to the various categories of use in the municipalities belonging to the Ambit and the definition of the obligatory purification component of the tariff to be applied to private users of the purification service.

The structure and modulation of the tariff framework for 2012 identify the unit tariff values on the basis of the consumption bands and different categories of use applied to the municipalities falling within the three tariff catchment groups (A, B and C), plus a specific tariff catchment group, called Entry Catchment, with tariffs for uses and consumption levels lower than catchment group A, to which the lowest tariffs are applied with a view to aligning them over three years to the Average Reference Tariff (TRM) for the area. This catchment group comprises the municipalities in the Brescia province Optimum Territorial Ambit not included in the other three tariff catchment groups to whom the relative tariff scheme will be applied from the date integrated water system management commences.

Scenario and market

Macroeconomic scenario

The world economy grew at a slow rate in 2012. The global recovery which had appeared during the first few months of the year gradually lost its impulse as the climate of confidence deteriorated. International trade weakened further in a situation where the slowdown spread from the advanced countries to the emerging ones, especially those in Asia. the leading trade indicators on an international scale were close to the lowest levels they had reached over the past three years: an example of this is the worldwide PMI ([1]) index, which despite a pick-up in November, in July and August fell to levels lower than those of mid 2009.

Despite signs of strengthening in a number of emerging countries, global growth prospects are still subject to a high level of uncertainty, due mainly to the evolution of the crisis in the eurozone and the management of the imbalances in the public accounts of the United States.

World growth in 2012 therefore remained at lower than expected rates: according to the recent forecasts of the International Monetary Fund (IMF) and the OECD, GDP rose by approximately 3.3% (compared to 3.8%) in 2011, held back by activities in the eurozone and the slowdown in anumber of Asian countries, in particular Japan.

In the fourth quarter of 2012 the GDP in real terms of the United States continued to rise (by 1.5% over the fourth quarter of 2011) although a lower rates than during the summer months. Labor market conditions show a slow, gradual improvement, with a fall in the unemployment rate to 7.8% in December. According to the OECD and the IMF, growth amounted to 2.2% in the United States in 2012, an improvement over 2011 (+1.8%) thanks to the positive contribution coming from private consumption and net exports.

(1) The Purchasing Managers Index (PMI) is a composite index of the manufacturing activities of a country and reflects the capacity for purchasing goods and services. It additionally takes into account new orders, production, employment, deliveries and stocks in the manufacturing sector.

Economic activity in the leading emerging markets in 2012 suffered a contraction due to the weakening of foreign demand and the effects of the earlier tightening of economic policies. Following a rise of 7.4% in the third quarter, the performance of GDP in China showed a slight acceleration during the final part of the year. Chinese GDP therefore rose by around 7.8% for the whole of 2012, a fall compared to the figure of +9.2% in 2011 (source: IMF).

According to Eurostat's latest indications GDP in real terms in the eurozone fell by approximately 0.5% while industrial production there contacted by around 2% in the fourth quarter of 2012, after a sharp drop in the third quarter. Nevertheless conditions on the financial markets improved in the second half of 2012; a deterioration in this respect had up until now hampered any cyclical recovery in Europe. Treasury bond yields fell for the most exposed countries while capital flows towards certain of the economies hit the hardest by the sovereign debt crisis picked up again, leading to positive effects on monetary and financial conditions.

Consistent with 2012, the prospects for 2013 are based on moderate growth rates and on a restrictive orientation of fiscal policies and an expansive orientation of monetary policies. In a scenario where raw material prices are stationary, inflation should fall further in the OECD countries, although it cannot be ruled out that with a pick-up in the propensity to risk, the existence of liquidity may fuel speculative bubbles on the financial markets, with indirect effects on inflationary pressure.

On the basis of the available economic consensus (OECD, ECB ([2]), Bank of Italy), changes in GDP in the eurozone in 2013 will range between -0.9% and +0.3%, a slight improvement over the previous year: with all likelihood, it is going to take some time before progress in managing the debt crisis in Europe is translated into an economic recovery. The year 2013 is still going to be very difficult for the eurozone and there are going to be significant differences between the various countries despite the turnaround in the strategy for managing the crisis which occurred following the announcement of the set-up of the European Stability Mechanism. As far as retail prices are concerned, according to the latest forecasts of the ECB and Eurostat inflation in the eurozone in 2012 was 2.5%: the figure fell to 2.2% in November compared to 2.6% in the three previous months, mainly due to the gradual appreciation of the euro and the sharp fall in the price of energy goods.

The exchange rate of the single currency against the US dollar was 1.29 €/$ in 2012, 8% lower than that of 1.39 €/$ in 2011. Movements in the currency over the year were to a large extent connected with changes in operators' perceptions of the economic and budgetary prospects of certain European countries, as well as the evolution of the expected differences in returns between the eurozone and the other advanced economies.

(2) Sources: the European Commission's Economic Forecasts, the IMF's World Economic Outlook, the OECD's Economic Outlook , the ECB's research department and other specialist research institutes.

Domestic demand in Italy did not improve as expected. According to the national statistics institute Istat the country's GDP also fell in the fourth quarter of 2012 (-2.8% compared to the same period of the previous year), with foreign demand continuing to provide a positive contribution to economic activity. The increase in exports in the final months of the year was supported by sales to non-EU countries: the current account deficit of the balance of payments between January and October 2012 fell by more than two percentage points as a ratio of GDP compared to the same period in 2011. The effects of the recession were reflected in an increased use of the state subsidized cassa integrazione lay-off scheme and a rise in the unemployment rate in particular as far as young people are concerned. Despite the weakness of the economic situation, the budgets introduced in the second half of 2012 ought to enable a further improvement to be achieved in the public finance balances in the two-year period 2013-2014, and the ratio between public debt and GDP should begin to fall in 2014.

Italy's GDP therefore contracted by 2.4% in 2012. The forecast for 2013 is still negative, a drop of 1% is expected (source: Istat) due to the deterioration in the international situation. Growth is only expected to return in the second half of the year, and then only at a modest rate and with large margins of uncertainty.

As far as retail prices are concerned, Istat noted a gradual fall in inflation for Italy in the final months of 2012 (under 3% in the last three months of the year), which to a large extent reflects the slowing down of the thrusts arriving from oil prices. As a result, the harmonized index of retail prices (IPCA) rose on average by 3.3% in 2012 compared to 2.9% in 2011. In a situation where raw materials prices are stable and demand is weak, the forecasts for retail price inflation made by the specialists surveyed by the Bank of Italy arrive at around 2% for 2013.

Energy market trends

The listed prices of energy commodities during 2012 were significantly influenced by the basics of supply and demand on the reference markets and the markets' expectation as to how the macroeconomic crisis would evolve. The average price of Brent was 111.7 $/bbl, only slightly above that posted in 2011 (110.8 $/bbl). In the second half of the year oil prices fluctuated between 106 and 116 $/bbl, after an increase in the third quarter over the lows of June.

These fluctuations were a reflection of the combined effect of a variety of factors which affected supply and demand, offsetting each other. In respect of demand, the International Energy Agency (IEA) repeatedly lowered its growth forecasts for 2012 as a consequence of the weakening of the worldwide economy. At the same time this downwards effect was more than offset by the continuing and renewed geopolitical tension in the Middle East. OPEC reduced its production as the result of a fall traceable to Iran which was not counterbalanced by increases in other member countries. More recently, though, the world supply of oil has increased due to the combined effect of a variety of factors such as a pick-up in production in certain non-OPEC countries, the completion of maintenance work on the North Sea rigs and the increase in supply in the United States.

Unlike the price of oil, which remained at high levels throughout the whole of 2012, the average price of coal with delivery at the ports of Amsterdam-Rotterdam-Antwerp (CIF ARA Coal) underwent a significant reduction compared to 2011, reaching 92.5 $/tonne, a fall of 24%. Uncertainties about the world macroeconomic situation continue to weigh heavily on the sector, which is unable to benefit from the boost arriving from oil prices.

Electricity

As far as the national electricity market scenario is concerned, there was a net requirement of 325,259 GWh (source: Terna) for electricity in 2012, a fall of 2.8% over the volumes of the previous year, in line with the negative trend in GDP.

Reduced domestic demand, which led to a decrease of 2.3% in net production over 2011, totaled 284,798 GWh. National production, excluding pumping consumption, accounted for 87% of the demand for electricity, while net imports satisfied the remaining portion. Production from hydroelectric sources fell by 8.2% over 2011 due to the lower rainfall in the period (the producibility index was 1.06 in 2012 compared to 1.23 in 2011). Thermoelectric production, which totaled 204,796 GWh, dropped by 6.3%, with estimated average working hours of 2,685 for 2012 being lower than those of the previous year (2,864 hours). Gas production continued to suffer from the large increase in costs and the resulting difficulty in passing these on to wholesale electricity prices.

The whole of 2012 was additionally characterized by the effect on the thermoelectric sector of displacement by renewable sources, with production from wind farms rising by 34.2% (13,119 GWh), and by photovoltaic production, which increased by 71.8% (18,323 GWh). It is estimated that by the end of 2012 total wind farm capacity totaled around 8-9 GW compared to 6.9 GW at the end of 2011, and that photovoltaic source capacity had reached around 15-16 GW by that date compared to 10 GW at the end of 2011.,

The significant reduction in the demand for electricity in 2012 did not however coincide with a reduction in the prices quoted on the Power Exchange. The quotation of the PUN (Single Nationwide Price) - Base Load for the year reached an average level of 75.5 €/MWh, an increase of 4.6% over the figure for 2011 (72.2 €/MWh). The firmness of wholesale prices compared to trends in the national demand for electricity was mainly due to the rise in price of generation fuels, in particular natural gas (medium-long term contracts indexed to the price of oil and derivatives), and seasonal movements (the temperature effect). The Peak PUN and the Off Peak PUN in 2012 rose in line with trends in the Base Load PUN, reaching 85.5 €/MWh (+3.9%) and 70 €/MWh (+5.1%) respectively. The wholesale price in the F2 band of 86.7 €/MWh (+10.4%) rose significantly, ending up higher than the PUN F1 listing (84.7 €/MWh). This can be attributed to the different working profile of gas plants, which having to compete with the increased capacity from renewable source plants with dispatch priority (photovoltaic plants) and with those having cheaper sources such as coal have shifted their production to the lower load hours.

Natural gas

The demand for natural gas in 2012 suffered the effects of the economic crisis. The national requirement fell by 4.1% over 2011, amounting in total to 74,253 Mcm (source: Snam Rete Gas). Imports accounted for around 89% of requirements while national production accounted for the remaining 11%. The thermoelectric and industrial sectors posted falls in 2012. More specifically, thermoelectric uses decreased in the year by almost 3 Gcm, a fall of 10.7% over

2011. Usage in the industrial sector fell by 1.9% (13,273 Mcm), with a performance in line with that expected for Italy's GDP in 2012. On the other hand the services and civil uses segment was essentially stable, ending the year at 33,875 Mcm.

As far as trends in gas prices are concerned, the Gas Release 2007 indexed formula, a reference for indexed contracts on the Italian wholesale natural gas market, rose by almost 25% over 2011, affected, with a time delay arising from the mobile averages of the previous nine months included in the formula, by the increase in the Brent €/bbl price. Decisively more contained was the spot gas quotation at the PSV (Virtual Trading Point), which rose by 2% to close at 28.8 €/MWh, affected by the recessionary conditions for the demand for gas and continuing excess supply. The spread between the quotations on the PSV platform and those on the TTF market (the reference market for North Western Europe) fell to 3.8 €/MWh during the last quarter of the year, from 5.6 €/MWh in 2011. The fall in the price differential compared with foreign spot markets arises from the increased weakness in Italian requirements compared to those of other countries, and the release of 5 Gcm of annual capacity into the TENP/Transitgas (from Norway) and TAG (from Russia) foreign methane pipelines by ENI in September, following the A/440 enquiry carried out by the Italian antitrust authority (AGCM) into the alleged abuse of a dominant position.

Analysis of main sectors of activity

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
Effect of laws 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%*
Net financial income/expense				
Non-operating income/expense				
Income before taxes				
Income taxes				
Income after taxes from operating activities				
Net result from non-current assets sold or held for sale				
Minorities				
Group net profit for the year				
Gross capital expenditure (1)	**2,216 (a)**	**32**	**48**	**35**

The above table shows changes in gross industrial operating income by sector and the effect by sector of the adjustments prudently made to revenues as a consequence of recent changes (or proposed changes) to the legislative and regulatory framework.

(1) See "Tangible assets" and "Intangible assets" in the notes to the balance sheet.

(*) The comparative figures for the period January to December 2011 have been reclassified for the application of IFRS5 and restated for the application of the revised version of IAS 19 "Employee Benefits".

(a) Including the effect of 2,113 million euro arising from the first-time consolidation of Edipower.

(b) Including 7 million euro arising from the acquisition of the Tecnovalore business.

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 and 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 and 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**

The A2A Group operates in the following sectors:

Energy Sector

This sector's activity is the sale of electricity and natural gas on wholesale and retail electricity and methane gas markets. The support of the marketing areas is assured by fuel procurement, electricity generation plant planning and dispatching, portfolio optimization and trading on domestic and foreign markets.

Environment Sector

This sector's activity relates to the whole waste management cycle, which ranges from collection and street sweeping to the treatment, disposal and recovery of materials and energy. It includes the recovery of the energy content in waste by means of waste to energy or biogas plants.

Heat and Services Sector

This sector's activity is mainly the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group). Cogenerated heat is sold through district heating networks. The sector also provides management services for district heating plants owned by third parties (heat management services).

Networks Sector

This sector's activity consists of the technical and operational management of networks for the transmission and distribution of electricity, the transport and distribution of natural gas and the management of the entire Integrated Water Cycle (water captation, aqueduct management, water distribution, sewerage network management, purification). Also included are activities relating to public lighting, traffic regulation systems, the management of votive lights and systems design services.

Other Services and Corporate

Corporate services include various activities such as guidance, strategic direction, coordination and control of industrial operations, as well as services to support business and operating activities (e.g. administrative and accounting services, legal services, procurement, personnel management, information technology, telecommunications etc.). Other services include video-surveillance, data transmission, telephony and internet access services.

Energy Sector

The Energy Sector comprises the following activities:

- **Electricity generation:** power plant management through a generation pool of hydroelectric and thermoelectric plants with installed power of 12.0 GW ([1]);
- **Energy Management:** the purchase and sale of electricity and gaseous and non-gaseous fuels on national and international wholesale markets; the procurement of the fuels needed to cover the requirements of the thermoelectric plants and customers; planning, programming and dispatching for electricity generation plants;
- **Sale of electricity and gas:** marketing of electricity and gas to the eligible customer market. Also included is the sale of electricity to customers eligible for "higher protection".

In addition to the activities carried out directly by A2A S.p.A., the Energy Sector also includes the following companies:

Energy	Consolidated companies of the A2A Group
Thermoelectric and hydroelectric plants	• Abruzzoenergia • A2A Energia • A2A Trading • Edipower • Plurigas • Aspem Energia • EPCG
Energy Management	
Sale of electricity and gas	

(1) Includes 100% of the Edipower plants and the EPCG plants.

As a result of the line-by-line consolidation of the shareholding in Edipower S.p.A. from June 1, 2012, the quantitative and economic figures for 2012 are not comparable with those for the year ended December 31, 2011.

Quantitative data-electricity sector

Key quantitative data relating to the Energy Sector are summarized below.

GWh	**12 31 2012**	**12 31 2011**	**Changes**	**% 2012/2011**
SOURCES				
Net production	**13,392**	**11,735**	**1,657**	**14.1%**
-thermoelectric production	9,362	8,210	1,152	14.0%
-hydroelectric production	4,028	3,525	503	14.3%
-photovoltaic production	2	–	2	na
Purchases	**35,324**	**37,108**	**(1,784)**	**(4.8%)**
-single buyer	2,954	2,983	(29)	(1.0%)
-exchange	10,599	11,958	(1,359)	(11.4%)
-foreign markets	12,650	14,898	(2,248)	(15.1%)
-other purchases	9,121	7,269	1,852	25.5%
TOTAL SOURCES	**48,716**	**48,843**	**(127)**	**(0.3%)**
USES				
Protected market sales	2,954	2,983	(29)	(1.0%)
Sales to eligible customers and wholesalers	20,710	20,663	47	0.2%
Sales on the exchange	13,069	13,203	(134)	(1.0%)
Sales on foreign markets	11,983	11,994	(11)	(0.1%)
TOTAL USES	**48,716**	**48,843**	**(127)**	**(0.3%)**

Note: the sales figures are stated gross of any losses. The quantitative data relating to the EPCG Group are not included.

The Group's electricity output in the year amounted to 13,392 GWh, to which should be added purchases of 35,324 GWh for a total availability of 48,716 GWh.

Production, which for the month of June includes 77% ([2]) of the production of the thermoelectric and hydroelectric plants owned by Edipower S.p.A., rose by 14.1% over 2011.

In particular, both thermoelectric production (9,362 GWh) and hydroelectric production (4,028 GWh) rose, by 14.0% and 14.3% respectively, over the previous year.

Purchases of electricity decreased by 4.8% over 2011, from 37,108 GWh to 35,324 GWh.

Sales of electricity on end markets were essentially in line with the previous year, falling from 48,843 GWh to 48,716 GWh in 2012.

(2) An amount of 23% of the production capacity of the Edipower S.p.A. plants is under contract to the Iren Group. The figure for production is therefore stated excluding the electricity falling under this contract.

The following is a summary of the key quantitative data relating to the electricity sector of the EPCG Group:

GWh	**12 31 2012**	**12 31 2011**	**Changes**	**% 2012/2011**
SOURCES				
Production	**2,715**	**2,656**	**59**	**2.2%**
-thermoelectric production	1,245	1,452	(207)	(14.3%)
-hydroelectric production	1,470	1,204	266	22.1%
Imports and other sources	**1,569**	**2,064**	**(495)**	**(24.0%)**
-imports	957	1,371	(414)	(30.2%)
-other sources	38	42	(4)	(9.5%)
EPS (Serbian Electricity Company)	574	651	(77)	(11.8%)
TOTAL SOURCES	**4,284**	**4,720**	**(436)**	**(9.2%)**
USES				
Domestic market consumption	3,769	4,052	(283)	(7.0%)
Network losses	154	159	(5)	(3.1%)
Other uses	55	27	28	103.7%
Exports	208	411	(203)	(49.4%)
EPS (Serbian Electricity Company)	98	71	27	38.0%
TOTAL USES	**4,284**	**4,720**	**(436)**	**(9.2%)**

The EPCG Group produced 2,715 GWh of electricity in 2012, to which should be added purchases of 1,569 GWh for a total availability of 4,284 GWh (4,720 GWh in 2011).

More specifically, the decrease in production of 207 GWh due to the stoppage for extraordinary maintenance at the Pljevlja thermoelectric plant in the second quarter of 2012 was more than offset by the increased production of the Group's hydroelectric plants (+266 GWh).

These changes, together with the fall in sales on end markets (-283 GWh), led to a decrease in imports (-414 GWh) and cross-border electricity trading (-203 GWh) over the previous year.

Quantitative data-gas sector

Millions of cm	12 31 2012	12 31 2011	Changes	% 2012/2011
SOURCES				
Procurement	5,064	5,680	(616)	(10.8%)
Withdrawals from stock	163	(81)	244	na
Internal consumption /GNC	(18)	(32)	14	(43.8%)
TOTAL SOURCES	**5,209**	**5,567**	**(358)**	**(6.4%)**
USES				
End uses	1,607	1,684	(77)	(4.6%)
Thermoelectric uses	1,222	1,287	(65)	(5.1%)
Heat uses	139	123	16	13.0%
Wholesalers	2,241	2,473	(232)	(9.4%)
TOTAL USES	**5,209**	**5,567**	**(358)**	**(6.4%)**

Quantities are stated at standard cm at an HCV of 38100 MJ on delivery

The volume of gas sold in 2012 fell by 6.4% from 5,567 million cubic meters to 5,209 million cubic meters over the previous year.

This decrease was mainly due to the reduced volumes sold on the wholesale market (-232 million cubic meters) and to end customers (-77 million cubic meters).

Despite the extension of the consolidation scope, the volumes sold to the Group's thermoelectric plants also fell in comparison with 2011, mainly due to the lower load factor of the combined cycle plants.

Economic data

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011	Changes
Revenues	5,306	4,905	401
Gross operating income	541	336	205
% of revenues	10.2%	6.9%	
Depreciation, amortization and provisions	(320)	(248)	(72)
Net operating income	221	88	133
% of revenues	4.2%	1.8%	
Investments	103	32	71

The revenues of the Energy Sector amounted to 5,306 million euro in 2012, of which 397 million euro attributable to Edipower S.p.A. and 281 million euro attributable to the electricity sector of the EPCG Group (4,905 million euro in 2011, of which 273 million euro attributable to the EPCG Group).

Gross operating income of 541 million euro rose by 205 million euro over the previous year.

A variety of factors made a positive contribution:

- the management of the Edipower S.p.A. production pool which has been integrated into A2A and its consolidation from June 2012
- the positive contribution made by the Monfalcone thermoelectric coal plant
- careful management of the fuel procurement portfolio
- the margins earned by sales activities
- the positive contribution made by the investee company EPCG.

Depreciation, amortization and provisions totaled 320 million euro, of which 127 million euro relating to Edipower S.p.A. (248 million euro in 2011). With an unchanged consolidation scope, this item decreased by 55 million euro, which is essentially due to the lower write-downs recognized in 2012 and the release of receivables allowances relating to EPCG accrued in previous years.

As a result of the above changes, net operating income amounted to 221 million euro (of which 67 million euro relating to Edipower S.p.A..), a rise of 133 million euro over 2011.

Capital expenditure for the year totaled 103 million euro, of which 40 million euro attributable to Edipower S.p.A..

Investments mainly regarded extraordinary maintenance at the thermoelectric plants at Cassano d'Adda (30 million euro, of which 25 million euro relating to the replacement of the Group 6 Turbogas rotor), Gissi (4 million euro) and Monfalcone (6 million euro).

Extraordinary maintenance was also carried out at the hydroelectric plants at Timpagrande (3 million euro), Orichella (2 million euro) and Satriano (4 million euro) and in the Valtellina (6 million euro).

For Edipower S.p.A. investments relate mainly to extraordinary maintenance on the hydroelectric plants at Udine (14 million euro) and Tusciano (5 million euro) and on the thermoelectric plants at Turbigo (4 million euro) and Sermide (3 million euro).

The EPCG Group made investments of 7 million euro in the electricity generation sector during the year relating mainly to the thermoelectric plant at Pljevlja (5.6 million euro) and the hydroelectric plants at Perucica (0.8 million euro) and Piva (0.4 million euro).

The acquisition of Edipower S.p.A. led to an increase in fixed assets of 2,113 million euro.

Environment Sector

The Environment Sector comprises the activities relating to the entire waste management cycle. These activities are briefly described below:

- **Collection and street sweeping:** street cleaning and the collection of waste for transportation to its destination;
- **Treatment:** an activity that is carried out in dedicated centers to recover or convert the waste in order to make it suitable for the recovery of materials, waste to energy recovery or disposal in landfills;
- **Disposal:** this involves the final disposal of urban and special waste in combustion plants or landfills, where possible recovering energy through waste to energy or the use of biogas.

The following companies form part of the Environment Sector:

Environment	Consolidated companies of the A2A Group
Collection and street sweeping	Gruppo Ecodeco; Amsa; Aprica; Montichiariambiente; Ecofert; Partenope Ambiente; Aspem S.p.A.
Treatment	
Disposal and energy recovery	

The following is a summary of the key quantitative and economic data of the sector.

Quantitative data

	12 31 2012	12 31 2011	Changes	% 2012/2011
Waste collected (Kton)*	910	949	(39)	(4.1%)
Waste disposed of (Kton)	2,457	2,626	(169)	(6.4%)
Electricity sold (GWh)	1,143	1,209	(66)	(5.5%)
Heat sold (GWht)**	1,024	899	125	13.9%

(*) Waste collected in the Municipalities of Milan, Brescia, Bergamo and Varese.
(**) Quantities at the plant entrance.

There was a decrease of 4.1% in the quantity of waste collected compared to the previous year, mainly due to the continuation of the difficult economic situation.
For the same reasons the quantities of waste disposed of also fell (-6.4%), in particular due to the reduced amounts of urban waste taken to the Group's landfills.
On the other hand the production of heat by the waste to energy plants exceeded that of 2011 (+125 thermal GWh), due to the increased quantities requested by the district heating sector. The quantities of electricity sold accordingly fell by 5.5% from 1,209 GWh to 1,143 GWh.

Economic data

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011	Changes
Revenues	810	823	(13)
Gross industrial operating income	267	287	(20)
Effects of laws and regulations (*)	(48)	–	(48)
Gross operating income	219	287	(68)
% of revenues	27.0%	34.9%	
Depreciation, amortization and provisions	(75)	(108)	33
Net operating income	144	179	(35)
% of revenues	17.8%	21.7%	
Investments	48	35	13

(*) of which -4 million euro intragroup

The Environment Sector posted revenues of 810 million euro (823 million euro in the year ended December 31, 2011).

The decrease of 20 million euro in the industrial margin over the previous year is essentially due to the ending of CIP 6 incentives for certain of the Group's waste to energy plants (Corteolona, Bergamo, Filago, Milan), as well as the stoppage for extraordinary maintenance at the Bergamo waste to energy plant. While waiting for the outcome of the current administrative disputes, a prudent provision has been included in the 2012 result for a reduction in revenues of 48 million euro arising from recent changes in legislation and orientation by the Electricity and Gas Authority (the Ministerial Decree of November 20, 2012 and AEEG Opinion no. 535/12), which establish new methods for calculating the energy withdrawal price component under CIP 6 (CEC). This figure includes 11.5 million euro relating to 2010 and 2011 and a reduction in revenues of 4 million euro in revenues for heat sales to the Heat and Services Sector.

The effect of these measures, if confirmed, will come to an end in the three-year period 2013-2015, when it is estimated that it will amount to approximately 10 million euro a year.

Depreciation, amortization and provisions amounted to 75 million euro, representing a decrease of 33 million euro over the previous year. This fall is mainly due to reduced depreciation and amortization and a decrease in the provisions made for risks in 2012.

As a result of these changes net operating income totaled 144 million euro (179 million euro in the year ended December 31, 2011).

Capital expenditure during the year amounted to 48 million euro and related mainly to collection vehicles and containers (15 million euro) and maintenance and development work on treatment plants and landfills (17 million euro) and on waste to energy plants (14 million euro).

Heat and Services Sector

The Heat and Services Sector comprises the activities of cogeneration, district heating and the sale of heat, as well as other activities relating to heat management and facility management services. The following is a short description of these activities:

- **Cogeneration and district heating:** production, distribution and sale of heat, production and sale of electricity, as well as operational and maintenance activities on the cogeneration plants and district heating networks.
- **Heat and other services:** management of heating plants owned by third parties.

The following companies form part of the Heat and Services Sector:

Heat and Services	Consolidated companies of the A2A Group
Cogeneration plants	• A2A Calore & Servizi • Proaris • Varese Risorse
District heating networks	
Sale of heat and other services	

As a result of the sale of the Coriance Group in the third quarter of 2012, the economic data have been reclassified to the item "Net result from non-current assets sold or held for sale" as required by IFRS 5.

The key quantitative and economic data of the sector reported below do not, therefore, include the figures for the Coriance Group.

Quantitative data

GWht	**12 31 2012**	**12 31 2011**	**Changes**	**% 2012/2011**
SOURCES				
Plants at:	**1,128**	**1,064**	**64**	**6.0%**
- Lamarmora	480	474	6	1.3%
- Famagosta	140	141	(1)	(0.7%)
- Tecnocity	61	71	(10)	(14.1%)
- Other plants	447	378	69	18.3%
Purchases from:	**1,089**	**1,014**	**75**	**7.4%**
– Third parties	254	236	18	7.6%
– Other sectors	835	778	57	7.3%
TOTAL SOURCES	**2,217**	**2,078**	**139**	**6.7%**
USES				
Sales to end customers	2,217	2,078	139	6.7%
TOTAL USES	**2,217**	**2,078**	**139**	**6.7%**

(*) Net of losses.
Notes:
- The figures refer to district heating alone. Sales relating to heat management are not included.
- Purchases include the quantities of heat purchased from the Environment Sector.
- Figures for the Coriance Group are not included.

There was a rise of 6.7% in the sale of heat to end customers in the year compared to 2011, mainly as the result of the new volumes connected in the areas of Milan and Bergamo.

As a result, the production and purchase of heat also rose by 64 thermal GWh and 75 thermal GWh respectively.

Economic data

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011	Changes
Revenues	326	298	28
Gross industrial operating income	69	67	2
Effect of laws and regulations (*)	4	–	4
Gross operating income	73	67	6
% of income	22.4%	22.5%	
Depreciation, amortization and provisions	(34)	(33)	(1)
Net operating income	39	34	5
% of revenues	12.0%	11.4%	
Investments	49	57	(8)

(*) intragroup
- Figures for the Coriance Group are not included.

Revenues amounted to 326 million euro (298 million euro for the year ended December 31, 2011).

The industrial margin, excluding the effect of changes in laws and regulations already discussed in the Environment Sector, amounted to 69 million euro, a rise of 2 million euro over the previous year. This performance, mainly due to the increase in volumes sold in the district heating sector as the result of the new volumes connected, was partially offset by the fall in the revenues of electricity produced by cogeneration plants.

Depreciation, amortization and provisions amounted to 34 million euro, in line with the previous year.

As a result of these changes net operating income amounted to 39 million euro (an increase of 5 million euro over the year ended December 31, 2011).

Capital expenditure for the year amounted to 49 million euro and related to extraordinary maintenance and development work on district heating networks (34 million euro) and cogeneration plants (15 million euro), mainly in the areas of Milan and Brescia.

The purchase of the Tecnovalore business by the subsidiary A2A Calore & Servizi S.r.l. led to an increase in fixed assets of 7 million euro.

Networks Sector

The Networks Sector comprises the activities regulated by sector authorities, namely the management of the electricity and gas networks and the integrated water cycle. These activities are briefly described below:

- **Electricity networks:** the transmission and distribution of electricity.
- **Gas networks:** the transport and distribution of natural gas.
- **Integrated water cycle:** water captation, aqueduct management, water distribution, sewerage and purification.
- **Other services:** activities relating to public lighting, traffic regulation systems, the management of votive lights and systems design services.

The following companies form part of the Networks Sector:

Networks	Consolidated companies of the A2A Group	
Electricity networks	• A2A Reti Elettriche	• Camuna Energia
Gas networks	• A2A Reti Gas	• Retragas
Integrated water cycle	• A2A Ciclo Idrico	• Seasm
	• EPCG	• Aspem S.p.A.
	• Mincio Trasmissione	• A2A Servizi alla distribuzione

The following is a summary of the key quantitative and economic data of the sector.

Quantitative data

	12 31 2012	12 31 2011	Changes	% 2012/2011
Electricity distributed (GWh)	11,361	11,489	(128)	(1.1%)
Gas distributed (Mmc)	2,010	2,011	(1)	(0.0%)
Gas transported (Mmc)	400	393	7	1.8%
Water distributed (Mmc)	69	69	–	0.0%

Electricity distributed in the year amounted to 11,361 GWh, essentially in line with the previous year.
The quantities of gas distributed and transported totaled 2,010 Mcm and 400 Mcm and were also in line with the previous year.
Water distributed amounted to 69 Mcm (69 Mcm in the year ended December 31, 2011).
The EPCG Group distributed electricity totaling 2,596 GWh, essentially in line with the year ended December 31, 2011, as shown by the following table:

EPCG	12 31 2012	12 31 2011	Changes	% 2012/2011
Electricity distributed (GWh)	2,596	2,564	32	1.2%

Economic data

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011	Changes
Revenues	685	684	1
Gross industrial operating income	252	259	(7)
Effect of laws and regulations	(10)	–	(10)
Gross operating income	242	259	(17)
% of revenues	35.3%	37.9%	
Depreciation, amortization and provisions	(107)	(113)	6
Net operating income	135	146	(11)
% of revenues	19.7%	21.3%	
Investments	123	119	4

The Networks Sector had revenues of 685 million euro in the year ended December 31, 2012, of which 74 million euro attributable to the EPCG Group (684 million euro in the year ended December 31, 2011, of which 68 million euro attributable to the EPCG Group).

The industrial margin closed at 252 million euro, a decrease of 7 million euro over the previous year. This is mainly as the result of non-recurring items relating to prior years.

In the electricity distribution sector, Resolution no. 559/12 of the AEEG revised the means of calculating distribution losses with retroactive effect. A reduction in revenues of 10 million euro has therefore been recognized as a provision while waiting for the outcome of the current administrative dispute.

Depreciation, amortization and provisions amounted to 107 million euro, in line with the previous year.

As a result of the above changes, net operating income amounted to 135 million euro (146 million euro in the year ended December 31, 2011).

Capital expenditure in the Milan and Brescia areas for the year amounted to 99 million euro and regarded:

- in the electricity distribution segment, development and maintenance work on plants, and in particular the connection of new users, maintenance on secondary cabins, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (45 million euro);
- in the gas distribution segment, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and gas meters (41 million euro);
- in the integrated water cycle, work carried out on the water transportation and distribution network and the sewerage networks (13 million euro).

The EPCG Group made investments of 24 million euro which regarded development and maintenance work carried out on the distribution network and the replacement of meters.

Other Services and Corporate

The following is a brief description of the activities carried out by this sector:

- **Corporate (3):** direction, coordination and control activities, such as business development, strategic direction, planning and control, financial management and coordination of the Group's activities; central services to support the business and operating activities (e.g. administrative and accounting services, legal services, procurement, personnel management, information technology, communication services, etc.) provided by the parent company under specific intercompany service agreements;
- **Other services:** activities relating to video-surveillance, data transmission, telephony and internet access services.

In addition to the activities carried out directly by A2A S.p.A., this area also includes the following companies:

Other services and corporate	Consolidated companies of the A2A Group	
Other services	• Selene	• A2A Logistica
Corporate	• Aspem S.p.A.	• EPCG

(3) This includes the General Manager's Office (Corporate and Market Area), the General Manager's staff (Technical and Operations Area) and the staff of the Office of the Chairman of the Management Board and of the Chairman of the Supervisory Board.

Economic data

Millions of euro	01 01 2012 12 31 2012	01 01 2011 12 31 2011	Changes
Revenues	250	237	13
Gross operating income	(7)	(25)	18
% of revenues	(2.8%)	(10.5%)	
Depreciation, amortization and provisions	(31)	(30)	(1)
Net operating income	(38)	(55)	17
% of revenues	(15.2%)	(23.2%)	
Investments	30	28	2

The Other Services and Corporate Sector earned revenues of 250 million euro (237 million euro in the year ended December 31, 2011).

The improvement in gross operating income over 2011 (+18 million euro) was mainly due to the effect of non-recurring income recognized in 2012 and the lower costs of the Corporate Sector over the previous year.

In addition the Corporate Sector of the investee EPCG contributed to the improvement in margins (+2 million euro over the year ended December 31, 2011).

Depreciation, amortization and provisions amounted to 31 million euro, in line with the previous year.

After depreciation, amortization and provisions there was a net operating loss of 38 million euro (a net operating loss of 55 million euro in the year ended December 31, 2011).

Capital expenditure for the year amounted to 30 million euro and mainly related to investments in information systems (24 million euro), telecommunication networks (2 million euro) and buildings (1 million euro).

Risks and uncertainties

Risks and uncertainties

The A2A Group has a risk assessment and reporting process based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (COSO report), whose purpose is to make business risk management an integral and systematic part of management processes.

In 2011, Consob updated the Corporate Governance Code for Listed Companies, introducing the subject of risk and the respective responsibilities of the various corporate bodies in this respect. In particular "… Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks…" (article 7.P.1). A2A had already defined a risk model in 2010 that takes account of the Group's characteristics, its multi-business vocation and the sector to which it belongs. The Company has set up an action plan aimed on the one hand at further developing the present risk model and on the other at consolidating risk management and mitigation in the process with the objective of further developing risk management activities and integrating these into business processes.

The risk assessment process is carried out on a periodic basis and by involving all the business structures this enables the most important risks to be identified and the relative controls and mitigation plans to be set up. In 2012 risk assessment was characterized by the extension of the Group's scope with specific reference to Edipower S.p.A..

Set out below is a description of the main risks and uncertainties to which the Group is exposed, considering the sectors in which it operates and the distinctive features of its business model.

Financial risks

Commodity price risk

In respect of the features of the sectors in which it operates, the Group is exposed to commodity price risk, namely the market risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil) and the exchange rates connected with these.

On an annual basis, at the same time that it approves the budget, the Management Board of A2A S.p.A. defines the commodity risk limits for the Group, meaning the maximum level of variability in the result arising from changes in energy commodity prices.

Consistent with the Group's Energy Risk Policy, the Risk Committee ensures compliance with these limits and where necessary defines the hedging strategies designed to bring risk within the set limits.

Market risk is managed centrally by means of a netting process applied to the entire exposure of the Group's portfolio, which is constantly monitored.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is sought through the use of derivative financial instruments, thus contributing to ensuring that there is economic and financial equilibrium in the Group.

Details of commodity price risk and the means of governance may be found in the section "Other information" in the consolidated annual report.

Interest rate risk

The A2A Group's interest rate risk mainly derives from the volatility of interest expense arising from floating rate debt..

The policy for managing interest rate risk pursues the objective of limiting that volatility first and foremost by selecting a balanced mix of fixed and floating rate loans and then additionally by using hedging derivative instruments which limit fluctuations in interest rates.

In order to analyze and manage the risks relating to interest rate risk the Group has developed an internal model enabling the exposure to this risk to be calculated using the Montecarlo method, assessing the effect that fluctuations in interest rates have on future cash flows.

Liquidity risk

Liquidity risk regards the Group's ability to meet its payment commitments through the use of self-financing, funding on the banking and financial markets and available cash.

Taking also into consideration the context in which it does business, which is characterized by greater volatility and potential situations of uncertainty on the financial markets, the Group places specific emphasis on a constant control of liquidity risk, ensuring that adequate funds are always available to meet expected commitments for a specific time period as well as a liquidity buffer that is sufficient to meet unexpected commitments.

In this context the Group also pursues a policy of diversifying the due dates of its debt and other funding sources and to this end a Euro Medium Term Note Programme has been adopted with a ceiling of 2 billion euro which was approved by the Management Board on September 19, 2012. As part of this a bond was issued on November 28, 2012 for 750 million euro which has a term of seven years; this was aimed at institutional investors for the purpose of pre-financing and extending the average debt term.

As a consequence, therefore, at December 31, 2012 the Group had available 1,785 million euro of unutilized revolving committed lines of credit, medium-long term facilities, forming part of agreements but not yet used, totaling 71 million euro and cash of 552 million euro, of which 301 million euro held by the parent, mainly arising from the bond issue of November 28, 2012.

Default risk and covenants

The parent has issued two public bond loans having a total nominal value 2,750 million euro, of which: amounts totaling 500 million euro issued in October 2003 and May 2004 and falling due in October 2013 and May 2014 respectively; 1 billion euro issued in November 2009 and falling due in November 2016; and 750 million euro issued in November 2012 and falling due in November 2019.,

The bonds that have been issued have terms and conditions that are in line with the market for that specific type of lending instrument.

Credit rating clauses exist in the loan agreements with the European Investment Bank (in particular for loans originally of 100 million euro falling due in 2014-2016, 200 million euro falling due in 2023, 200 million euro falling due in 2025/2026, 95 million euro falling due in 2026 and 70 million euro of which 30 million euro drawn, falling due in 2027) for ratings lower than BBB or the equivalent. As a result of the downgrading to Baa3 by the ratings agency Moody's in November 2012, talks have begun with the EIB as specified in the loan agreements.

In addition, the EIB loan agreements for 200 million euro falling due in 2025, 95 million euro falling due in 2026 and 70 million euro (of which 30 million euro drawn) falling due in 2027, entitle the bank to call for the early repayment of the loan in the case of a change of control of the parent, subject to prior notification to the company with an indication of the reasons.

The agreement entered into with UniCredit, brokered by the EIB, for a floating rate loan of 85 million euro falling due in June 2018 contains a credit rating clause that provides for a commitment by the company to maintain an investment grade rating for the whole loan term. If that commitment is not satisfied, certain covenants relating to the debt/equity ratio, the debt/gross operating margin ratio and the gross operating margin/ interest expense ratio must be satisfied on an annual basis.

A credit rating clause contained in the agreement with Cassa Depositi e Prestiti (the state investment bank) for a loan originally of 200 million euro falling due in 2025 also comes into effect in the event of a rating below investment grade (BBB-).

In addition, the agreement for the private bond loan in yen falling due in 2036 - and the related cross currency swap derivative - contains a put right clause in favor of the investor (and the financial counterparty in the case of the derivative) which comes into effect if the rating is lower than BBB- (sub-investment grade).

Covenants are included in the agreements for the loan of 1,196 million euro made in May 2012 to Edipower S.p.A. and Delmi S.p.A. bearing floating rate interest and falling due in May 2017; these relate to the NFP/EBITDA ratio, the debt service cover ratio and the investment ceiling. This loan is secured by a lien on the shares of Edipower S.p.A. and Delmi S.p.A..

As stated above, the A2A Group has obtained a number of revolving committed lines of credit from various financial institutions for a total of 1,785 million euro (of which 1,735 million euro obtained by A2A S.p.A.) which are not subject to any covenants, with the exception of the revolving line of credit of 50 million euro granted to Edipower S.p.A. (currently not drawn) having the same covenants as the principal loan.

The following are included in the agreements for the bond loans, the above-mentioned loans and the revolving committed lines of credit: (i) negative pledge clauses under which the parent undertakes not to pledge real guarantees on its assets or those of its directly held subsidiaries over and above a specific threshold; (ii) cross default/acceleration clauses which entail immediate reimbursement of the loans in the event of serious non-performance; and (iii) clauses that provide for immediate repayment in the event of declared insolvency on the part of certain directly held subsidiaries.

The loan taken out by the subsidiary Abruzzoenergia S.p.A. is secured by a mortgage of up to 264 million euro.

Certain financial covenants which are included as part of a loan of 35 million euro taken out by the subsidiary EPCG with the EBRD (European Bank for Reconstruction and Development), of which 19.5 million euro had been drawn at December 31, 2012, have not been fully complied with. An agreement is currently being drawn up which will shortly be formalized with the lending bank which provides for the suspension of the effects of these covenants for a period of time yet to be determined and having retroactive effect.

As matters currently stand there is no default on the part of companies of the A2A Group.

Context risk

Legislative and regulatory risk

The A2A Group operates in a highly regulated sector. As a consequence, one of the risk factors of the business is the constant and not always predictable evolution of the legislative and regulatory situation for the electricity and natural gas sectors, as well as for the sectors relating to the management of the water cycle and environmental services.

In order to deal with these risk factors the Group has adopted a policy of monitoring and managing legislative risk by having various levels of control, in order to mitigate the impact of this to the extent possible. This involves collaborative dialogue with the institutions and with the bodies which govern and regulate the sector, active participation in trade associations and the work groups set up at these entities and a detailed review of changes in legislation and the provisions issued by the sector Authority.

It also involves constant dialogue with the business units affected by legislative changes in order to assess the potential effects in full.

The main topics involved in current changes in legislation are as follows:

- the rules governing the terms and conditions of large hydroelectric derivation concessions;
- the regulations concerning the granting of concessions for the gas and electricity distribution service;
- the reform of the integrated water service currently in progress;
- the regulation of local public services of economic importance;
- the evolution of the rules of CIP 6/92 conventions;
- the evolution of the rules for the Green Certificates market;
- the matters contained in the European Union’s Third Energy Package.

For the rules governing the terms and conditions of large hydroelectric derivation concessions, the regulations concerning the granting of concessions for the gas and electricity distribution service, the reform of the integrated water service currently in progress, the regulation of local public services of economic importance and the evolution of the rules for the Green Certificates market, reference should be made to the paragraphs in this respect contained in the section "Changes in legislation" of this report for the various sectors.

On the other hand as far as the discipline of the CIP 6/92 conventions and the subjects dealt with by the European Union's Third Energy Package are concerned, the section below reproduces in part the information reported there, adding to the discussion in order to provide a more complete framework of reference.

Evolution of the rules of the CIP 6/92 conventions

Law no. 99/2009 (the "Development Law") establishes that on the basis of proposals put forward by the Electricity and Gas Authority, by the means established by that law from 2009 the Ministry for Economic Development should define the criteria for updating the Avoided Fuel Cost (Costo Evitato di Combustibile - CEC) on an annual basis for the settlement and on a quarterly basis for the payments on account.

Implementing the provisions contained in the Development Law, by way of Resolution no. PAS 8/10 the Authority drew up its proposals for the definition by the Ministry for Economic Development of the settlement amount for the Avoided Fuel Cost for 2009 (then established by the Ministry for Economic Development in a decree of July 12, 2010), while by way of Resolution no. PAS 9/10 the Authority made a proposal to the Ministry for Economic Development for the means by which references should be made with respect to the above calculations, for settlements for the years following the year of the implementation of the provisions contained in the Development Law (hence starting from 2010) and the quarterly payments on account.

While waiting for the implementation of the provisions included in the above law by the ministry, by way of the Decree of June 8, 2011 the settlement amount for the CEC component for 2010 was established, while by way of the decree of February 3, 2011 the amount payable on account for such was established for the first quarter of 2011.

On the basis of the matters reported by the AEEG, by way of a Decree of November 20, 2012, the Ministry for Economic Development finally adopted the new method for calculating the component of the price for withdrawing the electricity produced by plants falling under CIP 6 conventions and relating to the CEC, applicable from January 1, 2010, and set the CEC settlement amount for 2011.

In addition to the proposals contained in the Authority's resolutions, the calculation method also take into account opinion no. 130/2011 of the Council of State, according to which "article 30, paragraph 15 of Law no. 99 of July 23, 2009", should "also apply with respect to the chosen initiatives pursuant to article 3, paragraph 7 of Law no. 481/95".

Implementing that pronouncement, the Ministry actually arranges for the application, including for the chosen initiatives, for the purpose of quantifying the price for withdrawing the electricity produced, of the amounts of specific consumption for the purposes of the CEC adopted by means of the decree for plants entering service from 1997 onwards.

The Energy Services Manager (GSE) consequently sent a note to operators who are party to outstanding sales conventions in which, applying the criteria of the above Ministerial Decree, it called for accounting documentation to be issued to be able to make a settlement of the incentives already received, but also to calculate those to be received in the future. The companies concerned have however challenged the Ministerial Decree and the GSE's related request.

By way of Resolution no. 535/2012/I/eel, published in December, given what has emerged following the investigation into the structure of the market cost for the retail sale of natural gas, the Authority is envisaging a further revision to the way of calculating the CEC, with which, in particular, it proposes to the ministry for the future calculations for which it is responsible, to "cancel out" from the CEC (both as regards the settlement and the quarterly on account payments) the component relating to the wholesale sales margin (CEC com) specified by PAS 9/10, which the AEEG considers to be already covered by the convention component relating to the value of the gas raw material component (CEC gas), for which moreover the means of calculation (according to the AEEG) should be revised, so as to tie the CEC gas component to the gas price on the balancing market.

If this proposal is implemented, it would still be left to determine the date from which the ministry decides to implement the new method of calculating the CEC, which could be prior to the start of 2013. In particular, given the explanation provided in the part of the provision describing the underlying reasons, the Authority is hoping that the ministry's provision will determine the applicability of the proposed method from the date on which the gas balancing market became fully operational (April 2012).

If, however, there is any delay by the ministry in the possible adoption of a decree implementing the above opinion of the Authority, the possibility remains that the valuation of the CEC in accordance with the means previously approved by way of the Decree of

November 20, 2012 may be affected by the effects of the implementation of the proposals contained in DCO471/2012/R/gas of December 2012 concerning the revision of the means of calculating the CCI component, to cover the costs of wholesaling natural gas, and the economic conditions of supplying gas to the protected market (in this respect reference should be made to the matter pointed out in the paragraph on the economic conditions for the protected service for gas end customers, in the light of the regulations introduced by Legislative Decree no. 93/2011, incorporating the Third Energy Package, discussed later, into Italian law).

The Development Law had also established the proposal to producers of mechanisms for an early termination of CIP 6/92 conventions, for the purpose of reducing the costs of maintaining these conventions.

The legislation has for the moment been implemented by way of the Decree of December 2, 2009, which applies solely to plants fired by process or residual fuels or by energy recoveries and similar plants fired by fossil fuels, and the Decree of August 2, 2010 on the early termination of CIP 6 conventions for around 2,000 MW of similar plants fired by fossil sources.

Both decrees describe the method of calculating the amounts due in the case of the continuation of the conventions through to their expiry date and the amounts to be paid in the case of early termination, entrusting the Energy Services Manager (GSE) with the task of checking - as an essential condition for termination - that the difference between the two is positive and thus leads to a saving for consumers in absolute terms.

The categories of plant for which as of today provisions have been issued implementing the rules contained in the Development Law therefore do not include plants fired by renewable sources and by waste, for which the implementation of the provision will be carried out by means yet to be established following further assessments by the Energy Services Manager, the Ministry for Economic Development and the Electricity and Gas Authority.

Third Energy Package

On June 29, 2011, Legislative Decree no. 93/2011 came into force "On the Implementing of the Third Energy Package" Directives 2009/72/EC, 2009/73/EC and 2008/92/EC regarding community legislation on the internal electricity and natural gas markets, a community procedure on the transparency of the price of gas and electricity for the end industrial user and the repeal of Directives 2003/54/EC and 2003/55/EC.

Described below are certain matters discussed by the legislation for which risk profiles for the Group's activities may be identified at the present moment.

Provisions relating to the natural gas sector

Default service

Article 7, paragraph 4c) of the above-mentioned Legislative Decree no. 93/11 specifies that if end customers connected to the distribution network find themselves without a natural gas supplier and if the conditions are not met for activating the Supplier of First Instance, the locally responsible distribution company must guarantee the balancing of its network in relation to withdrawal at that point for the period when physical disconnection is not possible, in accordance with the terms and conditions established by the AEEG.

The Electricity and Gas Authority has incorporated the above provisions into its regulations by way of Resolutions ARG/gas no. 71/11 and no. 99/11 respectively, establishing the Default Service (SdD) in the distribution companies. By way of Resolution no. 166/2012/R/gas the Authority then deferred the effective date of that service, and by way of the same provision it established, with effect from May 1, 2012, the methods for covering the costs incurred by the distribution company in the event of an intervention regarding the interruption in supply at the delivery point. Completing the regulation of the discipline, by way of Resolution no. 352/2012/R/gas the Authority determined the way in which the Default Service will be remunerated and established that the discipline will become effective on January 1, 2013, requiring that the scope of application of the Supplier of Last Instance be extended to customers whose supply cannot be cut off and who have also remained without a supplier for reasons of their own will, as provided by the recent Ministerial Decree of August 3, 2012.

Nevertheless, by way of a sentence of December 29, 2012, the Lombardy Regional Administrative Court upheld the appeals filed by various natural gas distributors (including A2A Reti Elettriche S.p.A.) against the above resolutions of the Authority. In the court's opinion, as it is currently structured by the Authority the SdD breaches European and national legislation on the separation between distribution and sale. In particular, the reasoning put forward by the Authority under which this service is traceable to that of network balancing, given that the latter "does not include the sale of gas to end users or the assumption by the distributor responsible for the balancing of costs traceable as a whole to the business as supplier on an organizational, commercial and accounting level", was rejected.

As a result of the appeal to the Council of State filed by the authority against the above sentence pronounced by the Lombardy Regional Administrative Court, and while waiting for an organic revision of the matter to be carried out following the verdict on the appeal against the first instance sentences, the Regulator has in the meantime established certain procedures to be followed in the absence of valid relations for a specific delivery point of the distribution network.

Economic conditions for the protected service

The dispute over Resolution ARG/gas no. 89/10, approved in June 2010, by which the AEEG revised the method of updating the price of the supply of gas for the protected service by applying a reducing coefficient k to the indexed component (a variable fee covering the costs of provisioning), is currently in progress. This revision has however been confirmed by Resolution ARG/gas no. 77/11, which extends the mechanism envisaged by Resolution ARG/gas no. 89/10 to September 30, 2012, although the value of the coefficient k has been slightly increased (from 0.925 to 0.935). The hearing on the merits in respect of this dispute was set for January 29, 2013. In this regard, with Sentence no. 5144/2012, the Council of State intervened on the subject of gas supply tariffs, considering the actions taken by the AEEG on the issue of Resolution no. 79/07 to be fully lawful, therefore rejecting the sentence of the Lombardy regional court which instead had considered that the regulatory measures introduced by the AEEG did not comply with the principle of proportionality.

Following a variety of steps taken by the AEEG regarding the determination of the economic conditions for the gas protected service, finally, in December 2012, a consultation document (DCO 471/2012/R/gas) was issued which, on the basis of the results of the information gathering enquiry carried out in July into the procurement conditions in the wholesale market of the sales companies, envisaged further steps on the matter which are already in progress in the thermal year. By means of the changes envisaged in the DCO, the Authority intends to replace the present means by which the CCI component is calculated, which is determined on the basis of the efficient average cost incurred by importers which procure by way of take or pay contracts that are indexed to oil-linked products, with innovative calculations starting with the efficient average procurement cost referring to prices actually practiced on the wholesale market, which expresses prices aligned to the spot markets which today are more convenient. This component will then be accompanied by a mechanism insuring against volume and price risks.

The envisaged measures are expected to lead to a reduction of between 6% and 7% in the prices charged to customers served as part of the protected framework from April 2013.

Further provisions relating to the electricity sector

Brand discipline

The provisions as per article 41 of Legislative Decree no. 93/11 require that the communication and branding policies relating to sales to customers on the open market or to customers on the markets for greater protection should not create confusion between the businesses or between the companies performing such activities.

In particular, commercially sensitive information concerning each activity must be disclosed in a non-discriminatory way.

Finally, the provisions state that in the case where a single company performs both activities, the AEEG should adopt measures required to prevent that company from obtaining a competitive advantage from the availability of the data relating to the same user, as far as end customers are concerned and also "from the standpoint of the assessments which the Authority makes as to the quality of the service", with respect to a corporate structure in which the two activities are entrusted to different companies within the same group.

Powers of the Electricity and Gas Authority

Decree no. 93/11 introduces the possibility for a company receiving sanction measures from the AEEG to propose commitments which are useful for pursuing the interests protected by the regulations for which the violation is raised in the most effective manner.

In this respect, by way of Resolution ARG/com no. 136/11 the AEEG has started a proceeding to adopt the new regulations for regulating sanctioning proceedings for which it responsible and the procedural means for assessing the commitments. This proceeding, which has also seen the publication of DCO no. 75/2012/R/gas, ended with the issue of Resolution no. 243/2012/E/com with which the Authority establishes procedures for ascertaining violations and inflicting the related penalties and determining the means by which the related provisions shall be adopted.

Operating risks

Business interruption risk

All of the Group's sectors of activity involve managing production sites which are technologically and operationally complex (electric power stations, waste disposal plants, cogeneration plants, distribution networks, etc.), where a breakdown or accidental damage could lead to a lack of availability and in turn to financial losses and possibly harm to the Group's reputation due to the interruption of the services provided.

These risks are linked to a variety of factors which, in the case of certain plants, could what is more be accentuated by changes in the competitive context and in the reference markets. To the extent that the risk of unavailability of the plants may be considered an inherent part of the business and a risk that is impossible to eliminate entirely, the Group sets up preventive risk mitigation strategies in all of its sectors to reduce the probability of such risks occurring and action strategies aimed at limiting any impact.

Safeguarding the Group's assets involves adopting and continuously updating procedures for scheduled maintenance, of both an ordinary and preventative nature, aimed at preventing potential critical situations, identified amongst other things on the basis of specific engineering analyses carried out by dedicated technical staff, all in line with best practice. It also involves periodically reviewing the plants and networks as well as providing specific training courses for technical personnel. In addition, the A2A Group makes widespread use of instruments for the control and remote control of technical parameters for the monitoring and timely detection of any anomalies as well as having a back-up of the components needed to guarantee operational continuity, where possible. The integration process between the specialist engineering teams in the A2A Group and the technicians coming from Edipower S.p.A. will lead to a strengthening of the skills relating to plant performance analyses.

In addition, the progressive adoption is planned at all of the Group's plants of advanced software and sensors for calculating the actual yield of the plants, aimed at enabling an approach to be taken that is even more predictive compared to the past as far as the planning and performance of maintenance is concerned. The gradual adoption of the above controls is also envisaged in the case of the acquisition of new production sites, to facilitate their alignment to the Group's standards.

Improvements designed to further mitigate the risk of business interruption continued during 2012. This process was characterized by investments regarding the Group's assets, through targeted intervention on plants and networks of a critical nature, and the development of interconnections between transmission networks to avoid congestion risks. With a view to preventing any breakdowns, the plant modifications carried out at one of the Group's plants following an episode of temporary down time caused by a planning fault have been extended to all of the turbogas groups, including those of Edipower S.p.A..

Thanks to the start-up of the pooling of critical spare parts, the monitoring for any replenishment spare parts required in the plant stores and the continuous updating of the procedural documentation supporting operations, the process for managing thermoelectric plants safely is well controlled as a whole. In this respect, with a view to constant improvement, a project for the creation of a "virtual" spare parts inventory has been started up, which through a suitable information system will enable the number and location of the spare parts available for all the Group's power stations to be mapped.

To control the risks arising from the necessary and frequent stopping and starting of the thermoelectric plants due to the present conditions of the energy market, maintenance contracts have been re-negotiated to adjust the maximum annual number of stops and starts covered by those contracts.

In respect of the Environment Sector, specific activities and monitoring tools exist to prevent the possible occurrence of the risk of interruption to the waste transportation and disposal service. In particular, specific controls have been set up to identify the presence of unsuitable substances in the waste to be taken to waste to energy plants.

To mitigate any repercussions on the Group's reputation due to the temporary impossibility to transport waste, the possibility also exists of mutual assistance between the Group's plants and the centralized coordination of the planned stoppages for maintenance.

As far as the distribution networks are concerned, technical safety tools and contingency plans are in place if any especially critical natural events should occur, such as for example earthquakes or especially bad weather.

The Group takes an active part in projects regarding the development of the electricity network from a "smart grid" standpoint, meaning by this a network with which it is possible to exchange information on energy flows and manage demand peaks more efficiently, thus reducing the risk of interruption. In particular, a project is currently in progress which will enable remote control to be improved by increasing the effectiveness of the communication systems. A wider project regards the development of telecommunications systems capable of handling exchanges of information between the producer and consumer of electricity, among other things to give the network a greater capacity to manage the increasing presence of plants fired by non-programmable renewable sources. Operative means of regulating the customer's consumption during specific time bands have been successfully tested in the district heating sector; these are designed to avoid excessive peaks in the use of installed power, with the resulting possibility of critical matters arising regarding the optimal working of the networks.

Finally, the Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk.

Environmental risk

The risks associated with events that impact the environment or the health of the population living in the areas affected by the Group's activities (for example the disposal of production waste, emissions from production processes, waste collection and disposal management) are the object of increasingly close attention by public regulators and ever more stringent legislation.

The Group is considerably involved in preventing such risks and has adopted a policy document entitled "Policy for the Quality, Environment and Safety of the A2A Group" which is the tool which now sets out the Group's approach to such questions. This document, which is widely distributed both internally and externally, explains the values which underlie the Group's operations and which the Environment, Health and Safety Department is committed to disseminating and sharing as guidance for the day-to-day work of all concerned. The Environment, Health and Safety Department also supports top management in establishing company policy in these areas, checking that this is implemented properly in compliance with the rules applicable in all areas and internal processes.

The process of updating the 231 Organizational and Management Model for the introduction of environmental offences continued in 2012. In addition, the Environment, Health and Safety Department has been re-organized from both an organizational and procedural standpoint with the aim of optimizing its processes to make them increasingly compliant with the features of the Group's business, as a support for a control which is ever more geared towards operations.

The operational implementation of the policy takes place through the use of an Environmental Management System (EMAS) by those of the Group's operating entities which are more exposed to both direct and indirect potential environmental impact. This system provides for a program of progressive extension and upgrading to the standards of ISO14001 certification for those of the Group's main activities having a greater impact on the environment, as well as the management of EMAS certification for the Group's main plants. The Edipower plants are UNI EN ISO 14001 certified and as of today all hold the EMAS certification. For the purpose of arriving at a single model, measures are being taken, now at the completion stage, which will allow all the operating companies of the Group to refer to a single, integrated Quality, Environment and Safety system.

In addition, organizational control units have been set up which among other things carry out periodic environmental analyses alongside periodic audits to detect and prevent any conduct that does not comply with the environmental procedures established for all of the Group's operating companies. From the perspective of having a constant evolution of the systems controlling environmental risk, the Group has joined the ARPA (Regional Agency for the Protection of the Environment) Lombardy Project, whose purpose is to improve the efficiency of the system for controlling the more significant emissions, also in the light of technical developments in the sector, by connecting all the Emission Monitoring Systems (SMEs) to a single control centre.

The A2A Group has taken out insurance cover against damage from both accidental and gradual pollution in order to cover any residual environmental risk, meaning against events caused by a sudden and unpredictable fact and in the case of environmental damage inherent in the continuous exercising of activities.

Each year the Group publishes a Sustainability Report which reports key data and information on the environmental and social aspects connected with the Group's activities. The Sustainability Report conforms to standard GRI-G3.1 issued by the Global Reporting Initiative and since 2010 has been certified by the auditors. In line with Group practice, Edipower S.p.A. also publishes an annual Sustainability Report.

Information technology risks

The activities of the A2A Group are managed through complex ICT systems which support the main business processes: operational, administrative and commercial. Potential risk factors include the inadequacy of such systems compared to business needs or the failure to keep these updated, possible "downtime" making the systems unavailable and the inadequate handling of the aspects linked to the integrity and confidentiality of information. These risk factors are mitigated by controls governed by the Information & Communication Technology Department.

In 2012 the Group continued the process of integrating and consolidating its ICT systems, determined on the basis of the changes in corporate structures which have taken place in previous years. A program for the evolution of the key information systems supporting administration and commercial activities, which in 2012 saw the integration of a single platform for the distribution support systems, was planned to strengthen the process, in order to continue with the updating of the reference platform to further increase its level of reliability and integration. The entry of Edipower S.p.A. into the Group will call for a further systems integration process, which will make it possible to exploit all synergies to the utmost and to obtain an increasingly efficient and integrated information infrastructure.

To mitigate the potential risks of the interruption of business activities on strategic processes, A2A makes use of technological back-up infrastructure which is able to ensure the continuity of the service in the case of breakdowns or unexpected events. The Group has a disaster recovery system that ensures service and data continuity at an alternative ICT centre, whose efficiency is tested periodically. The Group has now completed the system for mutual recovery between the ICT centers in Milan and Brescia to improve protection.

Considering the importance of the activities that are carried out every day on the Italian Power Exchange, particular attention is given to controlling the systems interfacing with the market. These systems have in fact been duplicated and are subject to specific management and maintenance procedures designed to protect their stability. A specific control was developed in 2012, active round the clock, to support trading activities.

Data confidentiality and security are subject to specific controls by the Group through the use of internal policies and by means of tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access the information handled. In order to improve the existing control further, work has begun to check the alignment between the organizational role model and the segregation of duties technical role model implemented in the systems. Consistent with this work, it is planned to gradually adopt identity management and access control tools designed to ensure an increasingly effective control over the processing of data critical for the business. A team has been set up to prevent and monitor any possible hacking into the Group's information systems and specific applications solutions have been acquired to manage and control information security.

As a further control of this specific risk issue the Group carries out annual vulnerability assessments, both internally and externally. For 2013 it is planned to update the operating polices for access to information and data and to transfer all the business software that allows this to active directory.

As regards Edipower S.p.A. and information security, a "Safety platform" exists as an organizational control. In addition, a data warehouse environment and a structured data access application are operative for data availability, while disaster recovery solutions and back-up models of the certified data exist with respect to information integrity.

Health and safety risk

The Group operates in a heterogeneous business context characterized by a strong technology element and the presence of personnel at its plants and throughout its territory.

Certain Group activities are, by their nature, more exposed to the risk of "typically work-related" accidents linked to the operational services in the territory and the performance of technical services and activities at the plants.

The prevention measures adopted aim for a "zero risk" objective through the Quality, Environment and Safety Policy (which provides for a program to upgrade the personnel safety management system to comply with ISO 14001 and OHSAS 18001 standards), encouraging a constant rise in the level of safety in the workplace.

In addition to the normal safety audit activity, the process for adopting the Safety Management System in accordance with the specific standard BS OHSAS 18001/2007 was completed in Edipower S.p.A. in 2011, with the company obtaining the relative OHSAS 18001 certification for all its production units.

A central Prevention and Protection Service has been set up as part of the Quality, Environment and Safety Department in order to harmonize the objectives of safety and protection in Group companies and to monitor that these standards are also being followed by contractors at both the prequalification stage and the execution stage at worksites.

A gradual strengthening of the organizational control structure is planned, which among other things carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this respect specific training plans have been established for each business position and responsibility and a start has been made to these training courses.

The guidelines defining the means of identifying roles on safety matters and the relative personnel charts were revised in 2012. Finally, there is also a program of employee health surveillance, conducted with the aid of a team of doctors located in the various areas who carry out periodic assessments on the state of health of personnel.

A plan to refine the system of disseminating information on accidents and injuries has begun to support the process of constant improvement in safety matters. This project provides for periodic reporting, which by means of increasingly detailed specific indices and information will provide support for identifying the causes of accidents and injuries and taking corrective and mitigating action.

Further information on the management of health and safety in the workplace may be found in the A2A Group's annual Sustainability Report, together with performance indicators and additional details.

Responsible management for sustainability

Human resources and industrial relations

At December 31, 2012 the Group had 12,563 employees, of whom 2,655 work for the EPCG Group, an increase of 840 over December 31, 2011. Excluding the increase of 1,007 arising from the consolidation of Edipower S.p.A., with an unchanged consolidation scope there was a decrease of 167 employees, or 1.4%, over December 31, 2011.

As Edipower S.p.A. has been consolidated since June 2012, the related labour costs only increased for the seven months from June to December 2012. Average unit labour cost per employee in the national boundary rose by 1.2 % over 2011, mainly as the result of automatic contractual rises (the renewal of national collective labour contracts and seniority increases).

The following matters are noted as far as industrial relations in 2012 are concerned:

- a national agreement was signed for the 2012 performance bonus, which holds for the whole of the A2A Group excluding the Environment Sector. This agreement sets out profitability objectives linked to the Group's EBITDA and productivity targets set at an individual company or business level;
- an agreement was signed for the 2012 participation bonus for the companies of the Ecodeco Group, which sets profitability objectives linked to the EBITDA of the Ecodeco Group and the EBITDA of the A2A Group and productivity and quality targets;
- work continued on enhancing the video-surveillance systems protecting the Group's assets and technological equipment through the signing of an agreed report;
- the procedure was concluded for the transfer from A2A S.p.A. to A2A Energia S.p.A., as per article 47 of Law no. 428/1990, of the business entitled "Credit management relating to the sale to end customers of electricity and natural gas". This operation was carried out in order to consolidate and fully integrate in A2A Energia S.p.A. all the activities for managing the life cycle of a customer and to achieve an improvement in the managed activities in terms of effectiveness and efficiency, thanks to the increased integration of operating processes and information flows between organizational structures which were previously located in different companies.

In addition meetings continued with the trade unions on the matters contained in supplementary local company agreements, including by way of setting up specific work groups and bilateral committees, as well as on all the issues concerned with harmonizing the different terms and conditions of employment to be found in the various companies of the A2A Group.

After the year end, in February 2013, A2A representatives held a meeting with the trade union national secretaries at which the guidelines for industrial and financial development set out in the 2013–15 Business Plan approved by A2A's Management Board and Supervisory Board on November 8, 2012 were illustrated. The Plan envisages steps to be taken to contain labour costs, including through the use of appropriate lay-off arrangements for personnel at certain of the thermoelectric sites where plant usage levels have reached levels of below 25%, as well as for personnel belonging to the Network Sector and the Other Services and Corporate Sector. The Group's aim is to arrive, by common agreement with the representatives of the trade unions, at identifying ways of managing the situation so as to reduce to a minimum the social impact of these initiatives.

In 2012 the Group signed the Charter for Equal Opportunities and Equality at Work, a document which numerous companies supporting the fight against discrimination in the workplace adhere to each year. The document is the fruit of an initiative carried out by European business groups which was introduced into Italy through a promoting committee supported by the Ministry of Employment, Health and Social Policies and the Ministry of Equal Opportunities.

A total of over 123,000 hours of training ([1]) were given in the year ended December 31, 2012, with 20,742 participations. More specifically, around 57,000 hours were dedicated to worker safety, over 35,000 hours to technical subjects and approximately 17,000 hours to training on managerial issues. Training for the role also began in the first half of 2012, with contents partly managerial and partly technical, for a total of approximately 1,900 hours.

A2A is equipped with a performance management system which is gradually involving increasingly large sections of the Group's employees. In 2009 a process was introduced which in 2012 led to the assessment of all the managers, middle managers and white collar workers of Group companies, (with the exception of Camuna Energia).

(1) Training data do not include Edipower S.p.A. and EPCG Group.

A2A's performance management system is applied on an annual basis, and as far as the process and areas of assessment are concerned differs on the basis of the reference population. The tool appraises and addresses three basic components of a person's organizational work:

- the results achieved individually compared to the allocated objectives (only for managers, supervisors and middle managers);
- people's conduct in comparison with a map of relevant skills for the position; skills which reflect the Group's values, including sustainability;
- the personal improvement plan, which identifies the personal improvement goals for the skills held and the learning action required.

The persons involved as appraisers in the performance management system have received appropriate training on the model adopted by the Group and on skill assessment and the feedback meeting. Newly-appointed supervisors were involved in training for a total of 847.5 hours in 2012 (57 participations).

In terms of communications with staff, A2A principally uses two main channels: the house organ "inadueà" and the intranet.

Four issues of "inadueà" were published in 2012. The periodical, which discusses the Group's projects, products and technical innovations, assessing the professional experience and work of the people who work in the various companies and local areas, is sent in hard-copy by post to all collaborators (an electronic version is also available on the Group's intranet under the section "Communication") and has a circulation exceeding 10 thousand copies.

The intranet portal cww.a2a.eu has consolidated its function as a means of disseminating new systems of information available for employees thanks to a constant updating of the dedicated section. The number of visitors in 2012 increased by 21% over 2011, while the number of visits rose by 43%.

Social responsibility and stakeholder relations

"Sustainability" is as one of the founding values of the A2A Group and this takes form in its ability to generate and distribute value in a durable and harmonic way by reconciling the needs of the various parties with whom it interacts (its stakeholders): investors, workers, local communities, suppliers, customers, institutions, etc.. The Group's commitment towards sustainability also takes form through the adoption of certified management systems in the sphere of quality, environment and control.

In 2012 the A2A Group published its fourth Sustainability Report (relating to 2011), the means it has used since 2008 to account for its performance to its main interlocutors in terms of sustainable development from an environmental, economic and social standpoint. This document was drawn up in accordance with the internationally recognized GRI (Global Reporting Initiative) standards, supplemented by the guidelines of the Electric Utilities Sector Supplement, and obtained a B+ level of compliance (certified by an external auditor).

Thanks to its sustainability commitment A2A received a number of significant awards during the year. In October it received the "**Top Utility Award**" for sustainability for the excellent results it achieved in the CSR (Corporate Social Responsibility) sector, in particular for the efficiency of its production processes, the commitment it has shown towards its employees and its attention to environmental and social matters (no penalties for environmental violations, accuracy in its Sustainability Report). It was also listed as one of the "**Lombardy Best Practices**", an award given by the Lombardy Chamber of Commerce to highlight companies which choose to communicate their social responsibility conduct and the transparent way in which they put their best business practices into effect. A2A was noted in particular for its projects linked to environmental stability, the quality of work and staff relations and initiatives carried out in favor of the community and the local area.

To set its sustainability objectives for the next few years, in November 2012 the Group launched a campaign to involve its stakeholders using a simple and direct message: "Sustainability. Listen to Improve". As part of this campaign, A2A sent an invitation to all of its interlocutors (customers, suppliers, employees, investors, representatives of the institutions and people interested in its activities in general) to take part in identifying the social, economic and environmental subjects in which the Group ought to be involved. At the centre of this initiative was an online questionnaire in which stakeholders could give a grading to A2A's commitment to sustainability and express their preferences on a series of practical objectives ranging from the development of renewable sources to safety at work, the distribution of wealth throughout the territory and environmental education.

A summary of the most significant events that characterized the A2A Group's attention to sustainability in 2012 is provided in the following, presented under the headings of the main stakeholder "families".

Shareholders

- A2A S.p.A has been listed in the Carbon Disclosure Leadership Index 2012, the listing containing the leading 10 FTSE Italy companies which have shown the greatest transparency and completeness in communicating information on climate change. The index is a valuation tool for institutional investors and all others interested in getting to know the performance of businesses better, not only from an economic standpoint but also from that of environmental sustainability.
- A2A S.p.A. was included in the ECPI Ethical EMU Equity index again in 2012. This index assesses the top 150 companies listed on the EMU (Economic and Monetary Union) market on the basis of a series of indicators that take into consideration aspects of an environmental, social and corporate governance nature. A2A S.p.A. has been listed in the index since 2008.
- In June distribution began of "Lettera2azionisti", the A2A Group's quarterly newsletter dedicated to shareholders and investors enabling them to gain more detailed knowledge of A2A's facts, figures, industrial projects and economic and financial news.

Customers

- "Chiara2a", the new benefit program for the domestic customers of A2A Energy and the brands ASMEA, BAS Omniservi and Tidonenergie, was launched in May 2012. This program, which is completely free of charge, allows registered customers to collect points that can be converted into spending coupons on the basis of certain virtuous steps they carry out (opting for online billing, direct debit, subscription to new open market electricity and gas contracts, etc.) and to use discounts for their shopping and free time.
- Benefiting from the experience and collaboration of 17 consumers' associations (ACU-Associazione Consumatori Utenti, Adiconsum, Adoc, Adusbef, Altroconsumo, Assoutenti, La Casa del Consumatore, Cittadinanzattiva, Codacons, Codici, Confconsumatori, Coniacut, Federconsumatori, Lega Consumatori, Movimento Consumatori, Movimento Difesa del Cittadino and Unione Nazionale Consumatori), A2A Energia S.p.A. has drawn up a "Guide to reading your bill", a simple but detailed booklet based on clarity and the

maximum transparency towards customers. The guide has also been published in six other languages: English, French, Spanish, Arabic, Chinese and Romanian.

- In February 2012, also Aspem Energia S.r.l. joined the agreement on “unfair trading practices” signed by A2A with five consumers’ associations: ACU-Associazione Consumatori Utenti, Casa del Consumatore, Codici, Lega Consumatori and Coniacut. The aim of the agreement is to protect and inform customers by means of information campaigns and dedicated initiatives about the spreading of unfair trading practices and the potential risks and costs for the user (dealing with activation and supply switching), establishing guidelines for the proper drafting of contracts and introducing the constant monitoring of cases reported or identified.
- A new type of “bill in Braille” was drawn up which was made available to customers with sight difficulties from the end of May 2012; this enables these people to read print and Braille at the same time (in the earlier bills the text in Braille for those with sight difficulties was separated from the printed version).
- The new app “PULIamo” created by A2A and available for download free of charge on smartphones and tablets helps the residents of Milan, Bergamo, Brescia and Varese to keep their cities clean through direct communication with the Group companies which look after environmental hygiene services (AMSA for Milan, APRICA for Bergamo and Brescia and ASPEM for Varese). The app is full of services created to simplify differentiated collection and waste recycling to a maximum, as well as encourage collaboration between residents and the company for improving urban cleaning and décor.

Employees

- The appraisal process which was introduced in 2011 for all managers, middle managers and white-collar workers of the A2A Group was extended in the first few months of 2012 to those companies not yet included (ASPEM, ASPEM Energia, Gruppo Ecodeco, Partenope Ambiente and Varese Risorse).
- In order to simplify and unify communication flows, AMSA completed the process of migrating its intranet contents onto the Group’s intranet during the year. All organizational and service information, updates of topical matters and online services useful for employees are now available on cww.a2a.eu.
- The ICT pilot project introduced in the new headquarters of Ecodeco in Cascina Darsena (Giussago, PV) was awarded the “Unified Collaboration and Communication Prize” in the “Public Sector” category promoted by the UCC (Unified Collaboration and Communication) Forum. More specifically, the aim of the award was to give recognition to the following features of A2A: the innovative character of the services available to all its personnel from any terminal (including mobiles and tablets), the widespread level of use throughout the organization, the ecological repercussions (the reduction in travel, costs and the consumption of paper and toner) and the testing of teleworking.

- Thanks to the donations made by the A2A Group's employees, who allocated a portion of their July wages, approximately 105 thousand euro was collected for the areas hit by the earthquakes in Emilia Romagna and the province of Modena. An equal amount was also set aside by the Group for this purpose, taking the final total to 210 thousand euro.

Community

- The television program "Get to know energy" was broadcast in the period between February and May 2012, the fourth edition of the television competition between children attending primary and secondary schools in Brescia on matters of energy efficiency which is promoted by A2A S.p.A. in conjunction with the television channel Teletutto. The initiative was noted as one of the best projects for the environment during the annual event organized by the Sodalitas Foundation, the presentation of the Sodalitas Social Award. The Sodalitas Foundation is involved in the fields of sustainability and corporate social responsibility.
- In August 2012, A2A S.p.A. entered an agreement with the Municipality of Monfalcone to set up an environmental technical discussion table which has among its objectives the coordination and promotion of the activities required to assess the environmental status of the local area and the effects of the operations of the Monfalcone plant on residents' quality of life. On the basis of this agreement A2A also undertook to supply all information regarding the environmental effects of the plant's operations. The discussion table is made up of representatives of local institutions such as: the municipal administration, the Friuli Venezia Giulia regional administration, the Gorizia provincial administration, the ARPA (the regional environmental protection agency) and the ASL (the local health authority).
- With the arrival of the beginning of the school year the "A2A Schools Project" started up again in September 2012. This project is addressed to the schools of the areas where the Group is present and envisages a whole series of initiatives, including the distribution of a poster-calendar dedicated to the environment and energy sources and the organization of visits to the A2A Group's industrial facilities (waste to energy plants, waste treatment/disposal plants, cogeneration plants, thermoelectric and hydroelectric plants, water cycle plants, etc.). A2A offers free membership of the FAI (Italian Environmental Fund) to all the students and teachers who visit the Group's sites, an offer it started up last year.
- "Guidelines for the preparation of sustainability reports in the utilities sector" prepared by the Milan Institute of Accountants with the collaboration of A2A S.p.A. were presented at a workshop held in Milan in March 2012; these have the aim of encouraging the spreading of a sustainability culture in small and medium entities, bringing members closer to this subject and preparing accountants for assuming a key professional role in the preparation of the environmental and social reporting of their client companies.

Environmental responsibility

The Group's environmental policy and the environment policies of its sectors set out principles on which the whole of the environmental management system is based.

In the Group the aim of the environmental management system is to promote a constant and progressive improvement in business performance in terms of effectiveness and efficiency in managing the environmental aspects connected with its activities. This system is adopted and implemented in a way that is integrated with the broader business management system, which also governs the other strategic matters regarding sustainability including those concerning quality and safety.

A proper implementation of the environmental management system is ensured by setting up various types of measures: the clear identification of principles, roles and responsibilities; the identification of activities whose management requires particular care; the identification of areas where steps may be taken to seek improvements from an organizational or structural standpoint; the establishment of action strategies and the means of working and operational control.

The planning and performance of periodical internal audits enable the efficiency and effectiveness of the management system to be tested and their ability to ensure that improvement objectives are reached and the adopted principles are being respected. The adequacy of the systems is confirmed by the successful outcome of audits performed by independent third parties and is attested by the ISO 14001 certifications and the EMAS registration obtained by the Group's leading companies.

The A2A Group's environmental management system meets all the UNI EN ISO 14001 requirements and is officially recognized and adopted within the Group to the extent of the following percentages:

Plants:

- 100% of installed hydroelectric power;
- 100% of installed thermoelectric power;

- 83% of the thermal power and 87% of the electric power of the cogeneration pool from fossil/renewable sources;
- 100% of the waste treatment capacity in the waste to energy plants;
- 87% of the treatment capacity of the other plants of the integrated waste cycle.

Networks:
- 100% of the Milan area gas distribution network;
- 100% of the electricity distribution networks;
- 100% of the Brescia Municipality integrated water cycle (including the Verziano purifier);
- 100% of the Milan and Brescia area district heating network;
- 100% of public lighting and traffic lights.

Services:
- 100% of the environmental services;
- 71% of the waste water treatment capacity.

The procedure for obtaining Environmental Management System certification was completed in 2012 by Varese Risorse S.p.A. (a subsidiary through ASPEM S.p.A.), while that for Bellisolina S.r.l., a member of the Ecodeco Group, was initiated, with phase 1 of accreditation being concluded.

Twelve plants obtained EMAS registration and it is planned to extend EMAS registration to the whole of AMSA's Silla 1 site in 2013.

Following the extension of the scope of Legislative Decree no. 231/01 to environmental offences, the parent company has undertaken a review and revision of the Environmental Management System to align it to the new requirements. The improvement proposals adopted by the parent automatically extend to all Group companies. At the same time a revision of the way in which the activities connected with the risk that this type of offence may be committed are managed internally has begun in the operating companies. The Environmental Management System aligned with Form 231 is therefore at an advanced stage of consolidation in several of the Group's companies.

Innovation, development and research

Research and constant innovation are essential factors for pursuing the objectives which the A2A Group has set itself and which are laid out in its Charter of Values. These are activities which thanks also to the collaboration of external organizations such as research institutions and other bodies provide considerable value added to the Group's development and growth. A2A is involved in a whole variety of projects and innovative activities which it has carried forward in 2012. A summarized overview of these is provided in the following.

Inertization of fly ash at the Brescia waste to energy plant: a complete success for the cosmos project

The COSMOS (COlloidal Silica Medium to Obtain Safe inert) project for the inertization of fly ash, set up by the University of Brescia and funded by the European Commission, came to an end in 2012. The project was based on the use of pilot equipment to check the effectiveness of the process, which had already been tested in the laboratory, on a pre-industrial scale.

The plant, which is located in an area inside the Brescia waste to energy facility, showed that the process works perfectly and enables the new inert called COSMOS to be extracted by rendering ash inert; this is carried out by mixing the dusts with colloidal silica and following this with a washing process.

This type of treatment provides various economic and environmental benefits:

- energy saving, as the developed process is based on a low-temperature reaction with a resulting energy saving compared to other methods;
- segregation of carbon dioxide, due to the fact that during the formation reaction the COSMOS absorbs the carbon dioxide;
- elimination of fume treatment waste given that a useful material is obtained instead of waste to be taken to the landfill.

In December 2012 the closing convention of the COSMOS Project was held, where the results which had been obtained were presented. The project is being employed as the virtuous example of the ability to achieve objectives that are equal to or exceed expectations and identify possible industrial applications for new processes and/or products.

The tests performed on zebrafish embryos by the Molecular Medicine research group of the Faculty of Medicine of the University of Brescia to assess the toxicity of COSMOS gave results close to zero for mortality, morphological defects and teratogenicity. As things currently stand, on the assumption that COSMOS will form part of industrial production the inert has been introduced into a number of manufacturing processes for innovative materials. Certain examples consist of the introduction of COSMOS into the mixture of nanostructured plasters and polymeric matrices used in the plastic material printing industry.

Reduction of nitrogen oxides at the Brescia waste to energy plant

Following the start of the industrial use of the new high-dust catalyzers on all three combustion lines at the end of 2010 (an initiative included in a European research project entitled NextGenBioWaste – Innovative Demonstration for the Next Generation of Biomass and Waste combustion plants for energy recovery and renewable electricity production), testing began in June 2011 and continued in 2012 on optimizing the selective non-catalytic reduction (SNCR) system with which the plant has been equipped since it entered service. An air nozzle has been installed on line 3 to inject ammonia solution into the combustion chamber for checking the possibility of replacing the present water injection system to obtain better nebulization and hence a more effective reaction of the ammonia to reduce nitrogen oxides (NOx). An air nozzle model was tested in 2012 with results that were not fully positive and more detailed tests are therefore currently taking place to investigate other solutions.

Soundproofing compressors used in glass and paper collection

The experimental project to soundproof the rear part of the double chamber compressors used in the city of Milan to collect glass and paper in order to reduce noise was brought to a conclusion in 2012. All 36 bins on which work was scheduled are now operational and have been assigned to the paper and glass collection teams.

The system consists in the installation of sound absorption panels inside and outside the equipment and a hydraulic system aimed at slowing down the speed at which glass falls into the collecting bin. The sound absorption material has a composite and stratified nature, while intervention on the equipment provides for the presence of a flap positioned on the mouth from which the glass falls; this is activated by a hydraulic cylinder which remains in a closed position when the bin is emptied and afterwards assumes an open position.

The innovations introduced have enabled a four-fold reduction in noise (lowering it by up to 12 decibels) to be achieved at the rear part of the bins and at a height of 6 meters when the glass is being collected in residential areas.

Innovative trigeneration plant built by Varese risorse

The innovative heating-cooling plant with cogeneration, built by Varese Risorse S.p.A. (a subsidiary of A2A S.p.A. through ASPEM S.p.A.) at the new Varese Hospital, has entered service; Varese Risorse S.p.A. also owns the plant. After checking the performance of the cooling section in the summer season and completing a series of construction details, final testing of the whole system was carried out in 2012. This also regarded the heating section, which was activated prior to the other sections.

The implementation of this project enables “trigeneration” (the combined generation of electric, heat and cooling energy), seen by many people as the new frontier of cogeneration, to be achieved. In this initial period of full use, significant savings of energy and reductions in greenhouse gas (GHG) emissions have been made, arising among other things from the increased number of hours worked in cogeneration mode in the summer months by the 5 MWe nominal power turbogas equipment located in the Via Rossi district heating plant.

The total savings achieved in this way will count towards the issue of white certificates (Energy Efficiency Allowances).

A2A S.p.A. goes for electric mobility

A2A S.p.A. has for a long time been involved in an electric mobility project, known as e-moving, which it promotes in conjunction with Renault and the municipal administrations of Brescia and Milan together with a number of private companies which have joined in the testing.

A2A S.p.A. is the promoter and coordinator of the initiative and has built the infrastructure for electric car recharging in the municipalities of Milan and Brescia, while Renault has provided 47 vehicles from its zero emission range (saloon cars and small vans) which are equipped with the latest generation lithium-ion batteries.

The two Lombardy municipalities have put themselves forward to become the reference cities for electric mobility in Italy, being the first, in conjunction with A2A, to begin developing an entire cutting-edge structured electric recharging network: a total of 270 recharging points, of which 100 public points in Milan and Brescia (roads, parking lots etc.). Private individuals owning their own electric vehicle (car/scooter) can apply for a card allowing them to top up with electricity at the public columns by visiting the dedicated portal www.e-moving.it .

The objective of e-moving is to test every component of the electric mobility operating model: the technology and the locating of the recharging infrastructure, the processes and commercial solutions, the interaction between the recharging network and the vehicles, the supply of energy, the billing systems, battery management and car maintenance.

The e-moving project has today turned out to be the most complete and advanced platform within the sphere of the testing being promoted by the AEEG (the Electricity and Gas Authority) to identify the model to be used for developing public recharging systems. Testing with the AEEG will continue until 2015, with the data and experiences of this first phase, which has been in progress for more than two years now, being shared on a half-yearly basis. In the last half year two separate discussion tables were set up with ENEL and Repower to make the inter-operability of the public recharging infrastructure and the recharging cards usable by end customers effective, as the AEEG requires of electric vehicle public recharging systems.

District heating development in Milan

The development of the district heating service continued with the extension of the network and the connection of new customers, together with the introduction of measures to rationalize heat production systems.

In particular, in the Milan area a 50 MWt heat exchange station for fuelling the Rho and Pero district heating network was put into service close to the Silla 2 waste to energy plant (owned by the subsidiary AMSA), while at the Famagosta plant the installation of three new natural gas integration boilers having a total power of 36 MW was completed.

The network rationalization program continued in parallel through the interconnection of the distribution networks between the various production hubs. In 2012 the Sesto/Cinisello Balsamo, Ponte Nuovo and Tecnocity hubs were all connected to each other, thereby completing the interconnection of the northern Milan area networks. Work is currently in progress to connect the Canavese and S.Giulia networks to the east and the Famagosta and Figino networks to the west in the future.

Other information

Other information

Audit of the financial statements and disclosures pursuant to article 149-duodecies of the Consob Issuers' Regulations

The annual financial statements of A2A S.p.A. have been subject to a full audit by PricewaterhouseCoopers S.p.A. on the basis of the engagement granted for the years 2007 to 2015 by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed in the Group during 2012, analyzed between the leading auditor PwC and other auditors.

Description - *Thousands of euro*	**Leading auditor PwC**	**Other auditors**
A2A S.p.A.		
Audit of annual financial statements	176.6	
Audit of consolidated financial statements	40.8	
Periodic tests of accounting	21.0	
Review of half-yearly report	59.7	
Audit of the separate annual accounts for the AEEG	18.9	
Other testing and attestation engagements		
Total	**317.0**	**–**
Subsidiaries		
Audit of annual financial statements	886.1	
Audit of consolidated financial statements		
Periodic tests of accounting	252.4	
Audit of the information sent to shareholders for the consolidation :		
- at year end (full audit)	124.2	
- at June 30 (review)	247.9	
Audit of the separate annual accounts for the AEEG	124.1	
Other testing and attestation engagements		
Total	**1,634.7**	**–**
Associates and joint ventures(1)		
Audit of the information sent to shareholders for the consolidation	46.6	
Total	**46.6**	**–**
TOTAL A2A GROUP	**1,998.3**	**–**

(1) Fee costs incurred directly by A2A S.p.A.

In addition to the above audit work, companies belonging to the PwC network performed other engagements in 2012 for fees amounting in total to 973 thousand euro, of which 713 thousand euro relating to work strictly pertaining to audit activities.

Treasury shares

At December 31, 2012 A2A S.p.A. held 26,917,609 treasury shares, being 0.859% of its share capital consisting of 3,132,905,277 shares. At December 31, 2012 the Company did not hold any treasury shares through subsidiaries, financial companies or intermediaries.

Each share has a par value of 0.52 euro.

Personal data code

Decree Law no. 5 of February 9, 2012 became effective on February 10, 2012 (Official Journal no. 33 of February 9, 2012 - Ordinary Supplement no. 27), which at article 45 “Simplifications regarding personal data” eliminated the requirement to keep a Policy Document on Privacy.

Secondary locations

The Company has no secondary locations.

Related parties and tax consolidation

Details of related party transactions are provided in note 40 to the consolidated financial statements and note 36 to the separate financial statements as required by article 2428 of the Italian civil code.

Consob Market Regulation (no. 16191/2007)

Article 2.6.2 of the Borsa Italiana Regulations regarding the conditions as per articles 36 and 39 of the Consob Market Regulations (no. 16191/2007).

As far as the subsidiary EPCG is concerned, in order to comply with article 39 of the Market Regulations issued by Consob regarding the “Conditions for the listing of shares of parents controlling companies established and regulated under the law of non-EU countries”, as per article 36 of those Regulations, A2A S.p.A. has adapted to the requirements concerning the adequacy of the administration and accounting systems, with respect to the size of operations, and the information flow to corporate and the central auditor needed for the control of the consolidated accounts of the parent company.

There have been no acquisitions during the year of companies registered in non-EU countries, which considered on their own are material for the purpose of the legislation in question.

* * *

The information on corporate governance and ownership structures required by article 123-bis of Legislative Decree no. 58/1998, as amended, is contained in a separate document "Report on Corporate Governance and Ownership Structures for the year ended December 31, 2012" which forms an integral part of the financial statements documentation.

In compliance with the requirements of the "Regulation on provisions relating to transactions with related parties" adopted by Consob with Resolution no. 17221 of March 12, 2010 and subsequently amended by Resolution no. 17389 of June 23, 2010, by way of a resolution of November 11, 2010 the Management Board approved, following the favorable opinion of the Internal Control Committee, the prescribed procedure for identifying the rules and controls designed to ensure the transparency and substantial and procedural correctness of the related party transactions carried out by A2A S.p.A. directly or through its subsidiaries. This procedure, which may be found on the website www.a2a.eu, has been applicable since January 1, 2011.

The Company has decided to avail itself of the faculty provided by article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers' Regulations and therefore to derogate from the requirement to make an information document available to the public in the event of significant mergers, spin-offs, capital increases by the contribution of assets in kind, purchases and disposals.

www.a2a.eu