

2011

Report
on **operations**



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This is a translation of the Italian original “Relazione sulla gestione 2011” 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 economic crisis that left its deep mark on 2010 has shown no sign of easing and indeed actually worsened in 2011. The global economic system has yet to find a way out of its difficulties and growth slowed down further in 2011 to 3.8%.

Even the emerging countries have begun to show indications of reduced momentum, but the greatest problems lie in the old continent where, according to the latest data, average growth did not exceed 1.5% in the EU countries and remained at 1.4% in those of the eurozone. The situation is even more critical for Italy: the rise in the country's GDP went no further than 0.4% and the third and fourth quarters of the year even saw a negative performance, taking us technically into recession.

As far as the energy scenario is concerned, the sector from which A2A obtains 36% of its gross operating income, there was a slight pick-up in the demand for electricity in Italy in the first nine months of 2011 but this trend suffered a sharp turnaround in the final quarter due to a considerable deterioration in the economic situation and a slowdown in industrial performance (manufacturing production fell by 2.1% over the previous quarter). As regards the natural gas market, consumption fell by 6.3% over 2010, with a real slump (-16.9%) occurring in December.

Despite the difficult times which have affected the whole of the economic system and have not spared the energy sector, A2A ended 2011 with an increase in revenues, which rose from 6,041 to 6,198 million euro (+2.6%), and industrial results essentially holding up. The contraction in gross operating margin (942 million euro against 1,040 million euro in 2010) is principally due to the performance of the Montenegro subsidiary EPCG, which suffered a

sharp drop in hydroelectric production (-56%) caused by an exceptionally dry season and at the same time a reduction in distribution tariffs, established by the local regulator in April 2011.

The Environment sector performed well, especially in the waste to energy division.

The Heat and Services sector, which works mainly in the production, distribution and sale of electricity and heat (through district heating networks) produced by cogeneration plants, also achieved positive results, due amongst other things to the expansion of the distribution network in Lombardy. The gas division also benefited from an efficient provisioning policy while in comparison with the previous year the electricity division was affected by a contraction in unit margins arising from a weakness in demand.

Taken as a whole, the performance for the year confirms the validity of the strategic decisions taken by A2A to move towards a multi-utility model, which even in difficult and complex situations is more capable of balancing out operational results across the various business sectors.

The extraordinary effects arising from the current agreements with Edf for the reorganization of the shareholdings in Edison had their effect on the 2011 results and led to a write-down of assets and investments by a total of 627 million euro. This balance includes a net effect of 433 million euro resulting from the sale of 50% of Transalpina di Energia by Delmi to Edf and an effect of 194 million euro arising from the write-down of assets, in particular the 20% investment in Edipower already held by A2A (written down by 123 million euro) and the investment in EPCG (written down by 41 million euro).

The year benefited from net capital gains of 39 million euro (capital gains totaled 212 million euro in 2010 and in particular regarded the sale of the investment in Alpiq), resulting from the disposal of a shareholding in Metroweb and other minor investments as part of the Group's rationalization process which envisages the sale of assets with low growth prospects.

Consolidated net income before extraordinary items amounted to 168 million euro. As a result there was a loss of 420 million euro for the year. The Group's net financial position of 4,021 million euro at December 31, 2011 rose by 128 million euro over that at the end of 2010. This balance includes the payment of dividends of approximately 300 million euro relating to 2010 and an increase of approximately 120 million euros in tax receivables which will be absorbed in the year in progress. Average debt during the year was 300 million euro lower than in 2010.

From a technological and operational standpoint the Group provided evidence that it has top-level skills and that it is highly competitive both in Italy and abroad. The Acerra waste to energy plant exceeded its annual target of 600 thousand tones of received waste, which corresponds to the plant's nominal capacity, producing 538 million kilowatt hours of electricity, equivalent

to the annual needs of around 200 thousand households, with an excellent performance also from an environmental point of view. The subsidiary Ecodeco was awarded a contract in the United Kingdom to design and build a new waste treatment plant: this contract is worth 26 million euro plus the royalties which will be payable on each tonne of waste treated for the next 25 years of the concession.

In terms of corporate responsibility and customer care, areas in which the Group has always stood out, in 2011 A2A signed a protocol of understanding on the Joint Settlement Procedure with the Confederations of Small and Medium Enterprises: an out of court means of simplifying the settlement of disputes for which settlement has not been possible by other procedures and which relate to the supply of electricity and gas to businesses belonging to the Confederations, on the lines of the initiative for domestic customers carried out in 2010 with the consumers' associations.

As far as future growth strategies are concerned, a crucial point is represented by the progress made in coming to agreement with EdF on the reorganization of the shareholding structure of Edison, for which positive developments were achieved in the last part of 2011 and the first part of 2012. Once the final agreement is signed, A2A will have control of Edipower, a company responsible for six thermoelectric power stations and three hydroelectric plants having over 7,600 MW of power in service, making the A2A Group, which will also see its position strengthened in the renewable sources industry, the second largest national operator in the electricity sector. This operation will enable the scope of the activities managed by the Group in electricity generation to be significantly extended in the second half of 2012, with the resulting increase in gross operating income. The Group's net income, which was affected by the above-mentioned extraordinary operations in 2011, will therefore with all probability once again express the positive figures arising from its normal operations.


It is only right for the imminent realization of this important growth objective for the Group to lead us to remembering the person who tenaciously pursued that goal from the very beginnings of A2A, envisaging a role for the business as a protagonist also in the energy sector. Our thoughts, together with those of all our colleagues on the Supervisory Board and the Management Board and of all of the Group's employees, go to Giuliano Zuccoli, who led A2A uninterruptedly as Chairman of the Management Board until just a few months ago and whose premature death has left everyone not only with a sense of great loss but also with the responsibility and pride to take his project through to completion.

Before concluding, we would like to emphasize the fact that once again this year the Supervisory Board and the Management Board, which will both come up for reappointment at the end of May 2012, have worked in a spirit of mutual collaboration within their respective areas of competence and responsibilities, having as their pre-eminent objective the consolidation and development of the business.

To our shareholders we express our confidence that with their support A2A will continue to grow and play an increasingly important role in the national and European energy and environmental sector. Our thanks go to all the Group's employees and collaborators for the work they perform daily at all levels with considerable involvement and professionalism to contribute to this growth.

The Chairman of the Supervisory Board

Graziano Tarantini



The Chairman of the Management Board

Giuseppe Sala

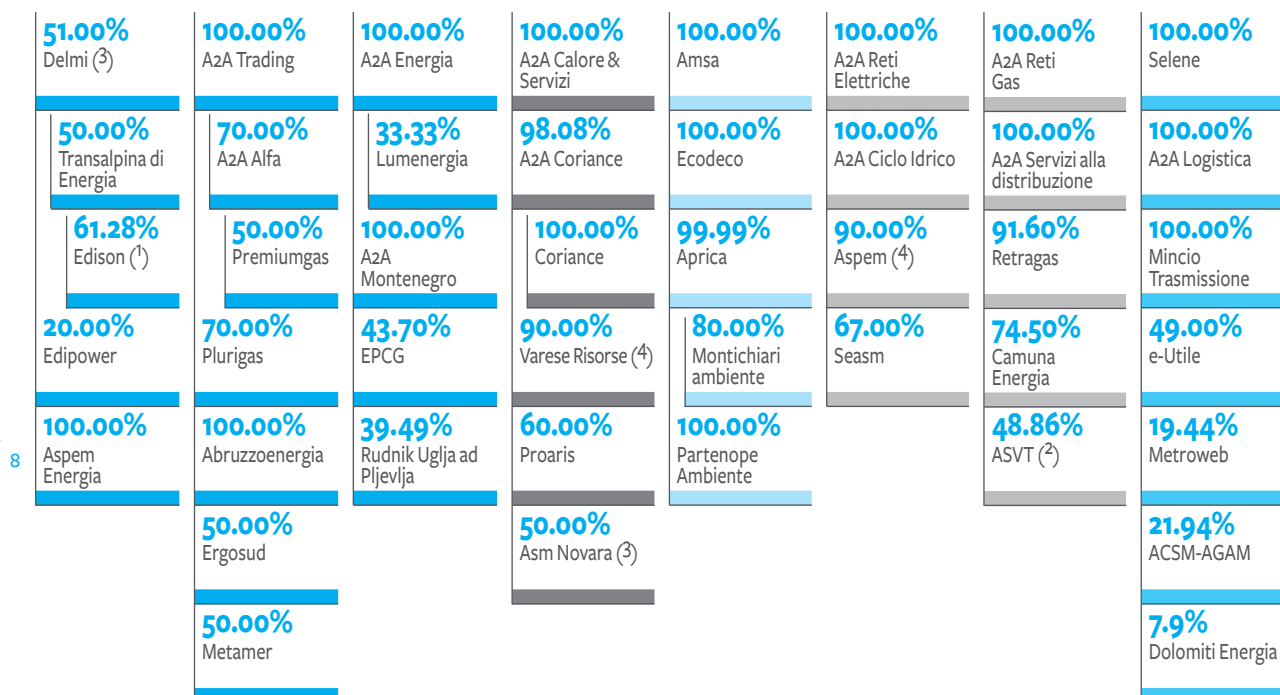




Key figures of the A2A Group

The A2A Group December 31, 2011

A2A Spa



Areas of Activity

- Energy
- Heat and services
- Environment
- Networks
- Other companies

(1) The percentage of 61.28% relates to the ordinary shares owned by Transalpina di Energia (TdE). The percentage held in the company's share capital is 60%. Edison holds 50% of Edipower.

(2) Of which 0.38% held through AzA Reti Gas.

(3) There are put and call options on an additional interest in the company.

(4) There are put options on an additional interest in the company.

This chart shows the main investments of the A2A Group. For full details of investments reference should be made to Attachments 3, 4, 5, 6 and 7.

Financial Highlights ⁽¹⁾

Revenues _____	6,198 million euro
Gross operating income _____	942 million euro
Net income _____	(420) million euro

Income statement figures

Millions of euro

	01 01 2011 12 31 2011	01 01 2010 12 31 2010
Revenues	6,198	6,041
Operating expenses	(4,698)	(4,447)
Labour costs	(558)	(554)
Gross operating income	942	1,040
Depreciation, amortization, provisions and write-downs	(641)	(542)
Net operating income	301	498
Financial balance	(255)	(104)
Other non-operating income	6	–
Other non-operating expenses	(10)	(1)
Income before tax	42	393
Income taxes	(148)	(158)
Net result from non-current assets sold or held for sale	(810)	(39)
Minorities	496	112
Group net profit for the year	(420)	308
Gross operating income/revenues	15.2%	17.2%

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

Balance sheet figures*Millions of euro*

	12 31 2011	12 31 2010
Net capital employed	7,614	8,738
Total equity attributable to the Group and minorities	3,593	4,845
Consolidated net financial position	(4,021)	(3,893)
Consolidated net financial position/Equity attributable to the Group and minorities	1.12	0.80
Consolidated net financial position/Average market capitalisation	1.31	1.03

Financial data*Millions of euro*

	01 01 2011 12 31 2011	01 01 2010 12 31 2010
Net cash from operating activities	410	843
Net cash (used in) investing activities	(225)	60
Free cash flow	185	903

Dividend _____ **0.013** per share

Average market capitalisation in 2011 _____ **3,058** million euro

Key figures of A2A S.p.A.

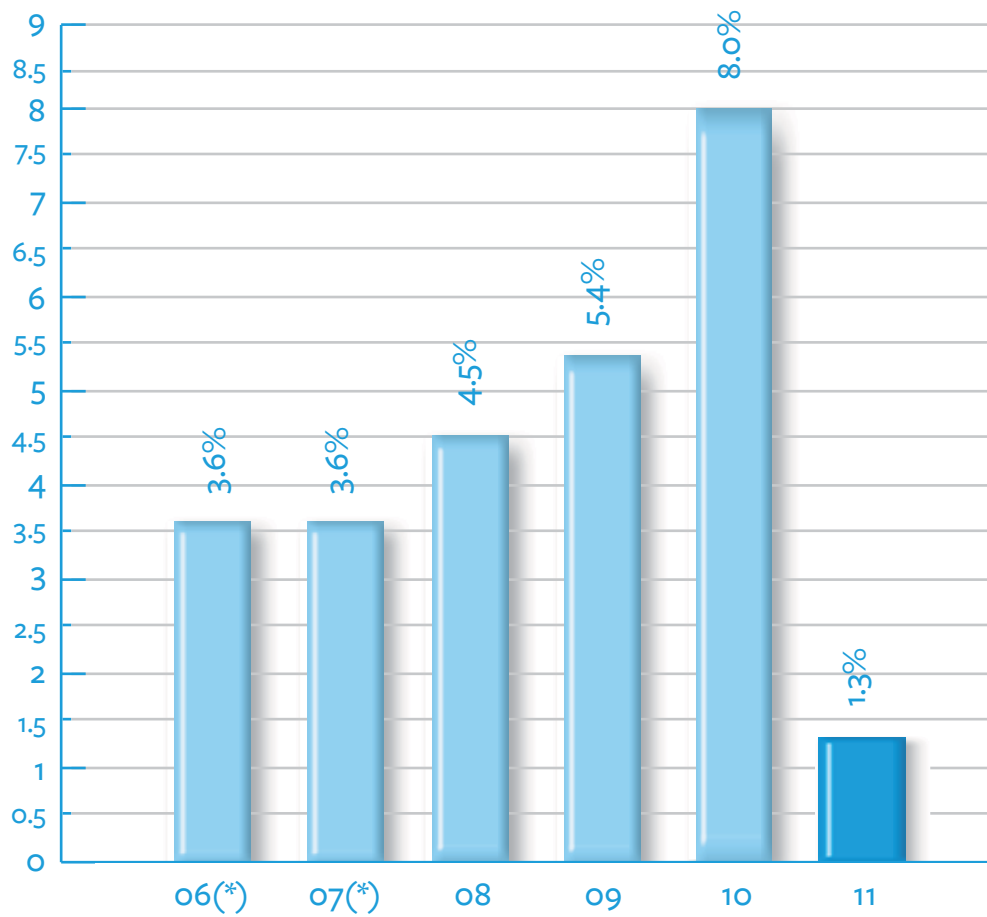
	12 31 2011	12 31 2010
Share capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	26,917,609	26,917,609

Key indicators

	12 31 2011	12 31 2010
Average 6-month Euribor	1.638%	1.084%
Average price of Brent crude (US\$/bbl)	110.83	80.27
Average exchange rate euro/US\$ (*)	1.39	1.33
Average price of Brent crude (euro/bbl)	79.60	60.56
Average price of coal (euro/tonne)	87.34	69.56

(*) Source: Italian Foreign Exchange Office

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



(*) Figures relating to the former AEM Group.

A2A S.p.A. on the stock exchange

A2A S.p.A. on the Stock Exchange

Average capitalisation in 2011 (millions of euro)	3,058
Capitalization December 31, 2011 (millions of euro)	2,276
Average volumes in 2011	9,568,904
Average price in 2011 (*)	0.976
Maximum price in 2011 (*)	1.178
Minimum price in 2011 (*)	0.694
Number of shares	3,132,905,277

(*) euro per shares

Source: Bloomberg

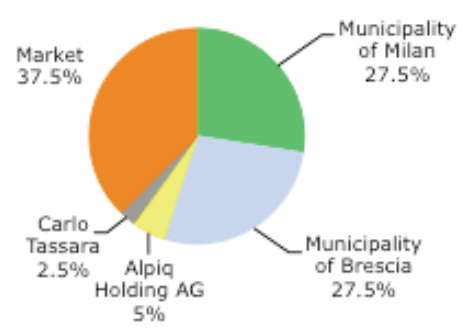
In June 23, 2011 A2A distributed a dividend equal to 0.06 euro per share. In November 24, 2011 an additional non-recurring dividend equal to 0.036 euro per share was distributed.

Share data

	2011	2010
Earnings per share (EPS)	(0.134)	0.098
Cash-flow per share (CFPS)	0.131	0.269
Dividend per share (DPS)	0.013	0.096
Price/Earnings per share (P/EPS)	(7.28)x	12.29x
Price/Cash-flow (P/CFPS)	7.45x	4.48x
Dividend yield (DPS/P)	1.3%	8.0%
Number of shares (million)	3,133	3,133

Multiples calculated on the average price for the year.

Shareholding (*)



(*) Stakes higher than 2% (updated al 31/12/2011)
Source: CONSOB

A2A forms part of the following indices

FTSE MIB
DJ STOXX
DJ EUROSTOXX
DJ Italy
WisdomTree
S&P Developed Ex-US

Ethical Indices

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

Source: Bloomberg

Rating

		Current
	Medium/Long Term Rating	BBB+
Standard & Poor's	Short Term Rating	A-2
	Outlook	Negative
Moody's	Medium/Long Term Rating	Baa1
	Outlook	Negative

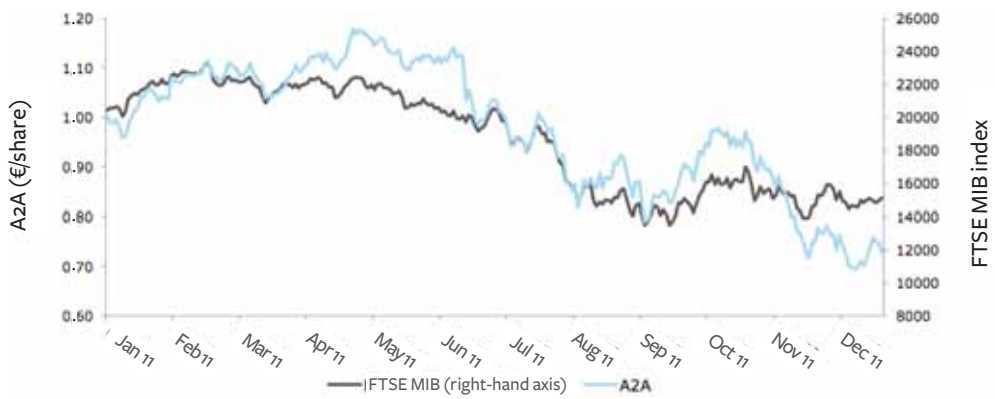
Source : rating agencies

A2A in 2011



A2A vs FTSE MIB

(Price 1° january 2011= 100)



Source: Bloomberg

Corporate bodies

SUPERVISORY BOARD

CHAIRMAN
Graziano Tarantini

DEPUTY CHAIRMAN
Rosario Bifulco

DIRECTORS
Adriano Bandera
Giambattista Brivio
Bruno Caparini
Gianni Castelli
Alberto Cavalli
Stefano Grassani
Enrico Mattinzoli
Marco Miccinesi
Massimo Perona
Norberto Rosini
Franco Tamburini
Antonio Matteo Taormina

MANAGEMENT BOARD

CHAIRMAN
Giuseppe Sala

DEPUTY CHAIRMAN
Vittorio Cinquini

DIRECTORS
Franco Baiguera
Mario Cocchi
Francesco Randazzo
Renato Ravanelli
Paolo Rossetti
Carlo Secchi

GENERAL MANAGERS

CORPORATE AND MARKET AREA
Renato Ravanelli

TECHNICAL-OPERATIONS AREA
Paolo Rossetti

INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS S.P.A.



significant events
during the year

A single sales company for the A2A Group since January

On January 1, 2011, Asm Energia e Ambiente S.r.l., Bas-Omniservizi S.r.l. and A2A Servizi al Cliente S.r.l. were merged into A2A Energia S.p.A..

The single sales company arising from this operation concentrates on the sale of electricity and gas and the related commercial services (call centers, desks and billing).

In particular, a leading operator on the national energy market has been created which has around 2 million customers (large-scale industry, SMEs, apartment blocks and domestic customers), who are mostly concentrated in the Milan metropolitan area and the provinces of Brescia and Bergamo.

This represents a further step in the process of streamlining and corporate rationalization aimed at making the Group even more competitive on the liberalized markets.

Lombardy customers will be able to continue putting their trust in quality services that are close at hand, a factor which up until now has been a “winning card” for the Group as certified by the excellent results obtained in customer satisfaction surveys and in the special league tables regularly prepared by the Electricity and Gas Authority.

Starts on 1° January the Company A2A Ciclo Idrico S.p.A.

The contribution of the “water cycle” business by the parent A2A S.p.A. and the demerger of the “ownership of the end customers of the water business of the province of Brescia” segment by A2A Energia S.p.A. (formerly Asm Energia e Ambiente S.r.l.) into A2A Ciclo Idrico S.p.A. became effective on January 1, 2011.

More specifically, this company carries out the following activities:

- research, production, procurement, capitation, transfer and transportation, conversion, distribution and sale of water for primary, industrial and agricultural use;
- collection and treatment of waste water;
- use and recovery of energy from the integral water cycle;
- management, maintenance and development of the water and sewage networks and of the plants for the capitation, potabilisation and purification of water.

A2A as one of the leaders in Italy for the Carbon Disclosure Project

A2A was classified as one of the Italian “2010 Carbon Performance Leaders” by the Carbon Disclosure Project, the body acting on behalf of over 500 institutional investors which for more than 10 years has been providing an analysis of the means by which the largest companies in the world counter greenhouse gas emissions.

A new managing director for Ecodeco S.r.l., an A2A Group company

On March 11, 2011, the Board of Directors of Ecodeco S.r.l., one of the companies in the A2A Group's Environment Sector, appointed Mr. Enrico Friz as managing director of the company. The aim behind renewing the subsidiary's top management is to consolidate the company's development process as part of the A2A Group's Environment Sector, with the objective of optimizing organizational and process synergies and strengthening the offer of environmental services.

Communication of A2A S.p.A., Delmi S.p.A. and EDF S.A. regarding the shareholders' agreement concerning Edison S.p.A. and Transalpina di Energia S.r.l. (TdE)

On March 15, 2011, as part of the discussions relating to a new industrial project concerning the Edison Group and the structure of TdE's shareholdings, A2A S.p.A., Delmi S.p.A. and EDF S.A. reached agreement over a change in the shareholders' pacts concerning Edison S.p.A. and Transalpina di Energia S.r.l. which extended the deadline for giving notice of termination of such pacts to September 15, 2011. In the absence of any notice, the agreements were to be renewed for the following three years.

This amendment also provided for the appointment of the boards of directors of Edison S.p.A. and Transalpina di Energia S.r.l. for a period of one year by the shareholders' meetings approving the respective annual financial statements.

On September 15, 2011, EDF S.A., A2A S.p.A. and Delmi S.p.A. agreed to extend the termination date of the shareholders' pacts concerning Edison S.p.A. and Transalpina di Energia S.r.l. to October 31, 2011.

The Supervisory Board of A2A S.p.A. approves the 2010 results

On April 27, 2011, with Mr. Graziano Tarantini in the chair, the Supervisory Board met and approved the separate financial statements and consolidated annual financial report of the A2A Group for the year ended December 31, 2010. The Supervisory Board agreed with the proposal of the Management Board to submit for the approval of shareholders the distribution of a dividend of 0.060 euro per ordinary share, to be put into payment on June 23, 2011.

The Supervisory Board additionally agreed with the proposal of the Management Board to submit for the approval of the shareholders the distribution of an additional non-recurring dividend of 0.036 euro per ordinary share, to be put into payment on November 24, 2011.

Ecodeco S.r.l. is awarded a contract in Britain for the design and construction of a new waste treatment plant

3SE, a consortium set up by the British companies Shanks Waste Management and Scottish and Southern Energy, has chosen Ecodeco technology to build a waste treatment plant in Yorkshire.

In more detail, the A2A Group company Ecodeco S.r.l. will be the supplier of the project and the technology and will build a plant which will treat the waste of the cities of Barnsley, Doncaster and Rotherham.

The value of these supplies exceeds 26 million euro and it is envisaged that Ecodeco will also be paid royalties on the concession for the next 25 years, based on each tonne of waste treated.

The plant will be used to treat 250,000 tonnes/year of residual solid urban waste from differentiated collection and will serve around 350,000 families. At the end of the treatment process a secondary fuel will be obtained which will be used in a multifuel plant for producing electricity. Glass, plastic and metals will be recovered by building a section for the production of compost.

The agreement provides that the work for the construction of the plant will begin by the spring of 2013 and that the first waste will be treated in 2015.

A total of 23.5% of the share capital of Metroweb S.p.A has been sold to Fondo Infrastrutturale F2i and IMI Investimenti

On May 30, 2011, A2A S.p.A. together with Stirling Square Capital Partners, the majority shareholder of Metroweb S.p.A., signed an agreement for the sale of their shareholdings in Metroweb S.p.A. (respectively 23.5% and 76.5%) to Fondo Infrastrutturale F2i and IMI Investimenti.

This transaction led to proceeds of 53 million euro for A2A S.p.A. and a capital gain of 38 million euro.

A2A S.p.A. continues to hold a convertible bond which if the option is exercised will enable it to acquire a shareholding of up to 25% in Metroweb S.p.A. and a put option which may be

exercised until November 30, 2013 under the same conditions as the transaction, increased by a financial return.

A2A and the Confederations of Small and Medium Enterprises sign a protocol of understanding on the Joint Settlement Procedure

A2A, Casartigiani, CNA, Confagricoltura, Confapi, Confartigianato Imprese, Confcommercio Imprese per l'Italia and Confesercenti have signed an important joint settlement agreement, putting into practice the desire expressed in this respect by the AEEG - the Electricity and Gas Authority.

The procedure in question will act as an out of court tool for resolving certain types of dispute which have not been settled by previous complaint procedures, and which relate to the supply of electricity and gas on both the protected and free markets and arise between business customers belonging to the Confederations and A2A Energia S.p.A., the single sales company of the A2A Group.

A distinctive feature of the procedure is its swiftness and informality and the ease by which it may be accessed and carried out.

The settlement procedure may be activated for disputes relating to assessments, contestations and the management of problems arising from the supply of electricity or gas, such as: the reconstruction of usage following the ascertained malfunctioning of a meter pursuant to the resolutions of the Electricity and Gas Authority; contestations relating to issues connected with the billing of usage, the management of a reduction in power or the suspension of supply for disputed payment arrears by the customer; the request for the de-activation of a meter by a customer which has not been carried out; and the management of problems connected with the issuing of bills.

The Settlement Office is staffed by qualified operators from A2A and the Confederations who have attended specific training courses, a necessary requirement for this qualification to be recognized.

Staff involved in managing the settlements are required to act in an impartial and neutral manner to encourage a compromise which is acceptable to both parties to be reached.

Any measures being taken by A2A Energia S.p.A. to collect the receivable under dispute are suspended for the entire period of the settlement process.

The introduction of the procedure at a national level will be preceded by a trial period of 12 months, at the end of which A2A and the Confederations will be entitled to check its effectiveness and agree any changes which may be needed.

The aim of the agreement, which has already been tested on similar occasions, is to improve the relationship between small and medium enterprises and energy suppliers under the customer satisfaction principle.

A2A S.p.A.: acquisition of 5.05% of the share capital of Abruzzoenergia S.p.A.

On July 27, 2011, A2A S.p.A. purchased the remaining 5.05% of the share capital of Abruzzoenergia S.p.A. which was held by minority shareholders.

As a result of this transaction A2A S.p.A. is now the owner of 100% of the company's share capital.

Approval of the consolidated half-yearly financial report at June 30, 2011

The Management Board approved the consolidated half-yearly financial report at June 30, 2011 on August 3, 2011.

Convertible loan converted into Metroweb S.p.A. shares

On October 6, 2011, A2A S.p.A. fully converted the convertible bond loan it held following the sale of 23.5% of Metroweb S.p.A.. As the result of this conversion, A2A S.p.A. currently holds a 19.44% interest in the share capital of Metroweb S.p.A., which will increase to approximately 25% on the merger between Metroweb S.p.A. and its parent.

Acerra waste to energy plant: production capacity reaches 100%

The Acerra waste to energy plant has exceeded its annual target of 600 thousand tonnes of waste, corresponding to its nominal capacity. At the same time the plant put 538 million GWh of electricity into the grid, equivalent to the annual needs of around 200 thousand households, thereby avoiding the use of 100 thousand tonnes of oil.

The excellent performance was also confirmed from an environmental standpoint: atmospheric emission data indicate figures that are well below the limits set by European legislation and also the stricter limits established by the Integrated Environmental Authorization, which regulates the Acerra site.

The Management Board of A2A S.p.A. unanimously approves the negotiation guidelines for the Edison/Edipower transaction

On October 31, 2011, the Management Board of A2A S.p.A. reviewed the guidelines for the continuation of the negotiations with EDF S.A. concerning Edison S.p.A. and Edipower S.p.A., following prior agreement between the management of A2A S.p.A., Delmi S.p.A. and EDF S.A..

The main industrial aspects of the envisaged transaction are as follows:

1. Demerger of Edipower: A2A S.p.A. and Iren S.p.A. will own the Mese and Udine hydroelectric plants while Edison S.p.A. will retain the thermoelectric plants and the Tusciano run of river plant.

2. Acquisition by EDF S.A. of A2A S.p.A.'s 100% holding in the company owning the Gissi CCGT plant, which will subsequently be integrated into Edison S.p.A..
3. Delmi S.p.A.'s call option on 250 MW of Edison S.p.A.'s wind farm capacity at fair value, exercisable in three years and payable in Edison S.p.A. shares also at fair value.
4. Delmi S.p.A.'s call option, or that of its designees, on Edison's minority interests in the companies owning the Trento and Bolzano hydroelectric plants, exercisable in one year.
5. The A2A Group's availability to negotiate a gas sourcing agreement with the Edison Group aimed at creating synergies between the two industrial entities.
6. EDF S.A.'s call option on A2A S.p.A.'s 50% interest in the company owning the Scandale CCGT plant, exercisable in three years.

The main steps in the shareholding reorganization resulting from the Edison transaction are as follows:

1. Demerger of TdE S.r.l., as a result of which each of EDF S.A. and Delmi S.p.A. will receive half of TdE's assets and liabilities; following the demerger, the two shareholders will hold 50% and 31% respectively of Edison S.p.A.'s ordinary shares.
2. Execution of a new shareholders' agreement between EDF S.A., A2A S.p.A. and Delmi S.p.A. providing for Delmi S.p.A.'s governance rights for the protection of its investment (with specific reference amongst other things to related party transactions). The chairman of Edison S.p.A. will be Italian.
3. Put option held by Delmi S.p.A. with respect to EDF S.A. on 100% of the shares in Edison S.p.A.: (i) 75% of the shares of Edison S.p.A. held by Delmi S.p.A. at fair value, exercisable in 3/5 years, in the event that there is no improvement in the liquidity of the trading market for Edison S.p.A. shares, and (ii) in any case on 25% of the shares of Edison S.p.A. held by Delmi S.p.A. at a price determined through a formula based on Edison S.p.A.'s EBITDA and an EBITDA multiple derived from a sample of comparable Italian companies, exercisable in 3 years.

The implementation of the transactions to be entered into by Edison S.p.A. will require the approval of the corporate bodies of Edison S.p.A. in accordance with applicable law. The completion of the transaction is in any case conditional on confirmation from Consob that the method used to calculate Edison's share price in the event of a mandatory tender offer, being the average price of the previous 12 months, is acceptable.

A2A's Management Board has unanimously approved the above guidelines and granted powers to continue negotiations on the above basis conditional upon the approval of the Supervisory Board. Pending the approval of the negotiation guidelines by A2A S.p.A.'s Supervisory Board and Delmi S.p.A.'s Board of Directors, the shareholders' agreement between A2A S.p.A., Delmi S.p.A. and EDF S.A. as it stood was extended until Friday, November 4.

From an industrial standpoint the transaction would have significantly strengthened the

position of the A2A Group and the other shareholders of Delmi S.p.A. in the renewables sector. The renewables asset base which would have been transferred to A2A S.p.A. and/or the other Delmi shareholders as part of the transaction would have included approximately 640 MW relating to the Mese and Udine hydroelectric plants, currently held by Edison S.p.A. and operating in the provinces of Bolzano and Trento, and 250 MW of wind assets.

In addition, by retaining a shareholding in Edison S.p.A., A2A S.p.A. and the other shareholders of Delmi S.p.A., would have benefited, together with EDF S.A. and the other shareholders of Edison S.p.A., from the improved industrial base and the company's future prospects. In fact if the transaction were successful, Edison S.p.A. would have seen its combined cycle gas-based electricity generation capacity significantly increased and would have enjoyed a more balanced gas position.

A2A S.p.A.'s Supervisory Board approves the negotiation guidelines for the Edison/Edipower transaction and the extension of the shareholders' agreement to November 30, 2011 for the finalization of the binding agreements

A2A S.p.A.'s Supervisory Board, chaired by Graziano Tarantini, met on November 2, 2011 and reviewed the guidelines for continuing negotiations with EDF S.A. approved by the Management Board on October 31, 2011. Confirming that they are consistent with the Company's strategic guidelines, the Supervisory Board approved the key elements for the continuation of the negotiations with EDF S.A. by the management of A2A S.p.A. and Delmi S.p.A. and the extension of the shareholders' agreement until November 30, 2011 in order to negotiate the binding agreement with EDF S.A.. The Supervisory Board also renewed the mandate given to its chairman and deputy chairman (also separately) to monitor how negotiations are proceeding and the further developments of the industrial, economic, financial, and legal aspects relating to the finalization of the binding agreement.

A2A S.p.A. and Codici, together with ACU, Lega Consumatori and La Casa del Consumatore sign an agreement to prevent and report cases of consumer fraud

On November 17, 2011, A2A S.p.A., together with Codici, ACU, Lega Consumatori and La Casa del Consumatore signed an agreement aiming to fight illicit commercial practices with the aim of protecting customers against fraud.

Amongst the activities specified in the protocol is the setting up of an Observatory on illicit commercial practice: a working discussion table to identify and initiate joint initiatives with which other selling companies and associations that agree with its aims can also be involved in the future. According to the figures of the consumers' desk of the Electricity and Gas

Authority, 3,500 cases have been reported throughout the country in the last year and a half. The regions hit most were Campania, Lazio, Puglia and Tuscany, followed by Lombardy and the Marches. The sector most affected by fraud is that of the domestic user (84%). The protocol opposing illicit commercial practice, signed with certain consumers' associations, is an important step for protecting both customers and businesses which, like A2A, do business on the market under principles of transparency and respect for the rules.

A2A S.p.A.: the sale of BAS SII S.p.A. is finalized

On December 23, 2011, A2A S.p.A. finalized the sale of its holding of 99.98% in the share capital of BAS SII S.p.A. to Uniacque S.p.A. at a price of 23.5 million euro, after the distribution of reserves of approximately 2.7 million euro.

BAS SII S.p.A. manages the integrated water cycle in the Municipality of Bergamo and in 30 other municipalities in the province. The sale is part of the process of the transfer by the Bergamo "Optimal Territorial Ambit" of the integrated water service and the management of the infrastructures and networks dedicated to this to Uniacque S.p.A., being a company wholly owned by the public, in accordance with the "in house" management module, as a result of the resolutions adopted by the Conference of the Bergamo "Optimal Territorial Ambit".

A2A S.p.A. – DELMI S.p.A. – IREN S.p.A. – EDF S.A.: preliminary agreement reached for the purchase of Edison S.p.A. by EDF S.A. and for the purchase of Edipower S.p.A. by DELMI S.p.A.

On December 26, 2011, A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. reached a preliminary agreement on the corporate reorganization of Edison S.p.A. and Edipower S.p.A.. EDF S.A. will buy from Delmi S.p.A., a subsidiary of A2A S.p.A., 50% of the share capital of Transalpina di Energia S.r.l. (TdE). TdE S.r.l. (50% Delmi S.p.A. - 50% EDF S.A.) holds 61.3% of the capital with voting rights of Edison S.p.A.. As the result of the acquisition EDF S.A. will end up holding 80.7% of the capital of Edison S.p.A.. The consideration for the purchase of 50% of TdE S.r.l. is 0.84 euro per Edison S.p.A. share. At the same time Delmi S.p.A. will acquire 70% of the capital of Edipower S.p.A. currently held by Edison S.p.A. (50%) and Alpiq S.A. (20%) at a price of approximately 604 million euro and 200 million euro respectively. As a consequence of the acquisition, Edipower S.p.A. will be fully held by Delmi S.p.A. (70%), A2A S.p.A. (20%) and Iren S.p.A. (10%). In addition, contracts will be arranged for the supply of gas by Edison S.p.A. to Edipower S.p.A. at market conditions in order to meet 50 % of the needs of Edipower S.p.A. for the next 6 years. The agreement is conditional on the approval of the corporate bodies of A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. by January 31, 2012 and will become effective on this approval. The final agreements must be signed by February 15, 2012. The closing must take place by and not later than June 30, 2012. The whole operation is

conditional on receiving confirmation from Consob that the price of the mandatory public tender offer resulting from the acquisition of the control of Edison S.p.A. by EDF S.A. may not exceed 0.84 euro per share, together with the approval of the competent antitrust authorities.

This operation is the point of arrival of a journey which began in 2005 with the joint purchase of the Edison S.p.A. group by AzA S.p.A. (and the other shareholders of Delmi S.p.A.) and EDF S.A.. These agreements will give rise to two important energy hubs in Italy, which thanks to organizational stability and the relaunching of activities will contribute to a pick-up in the country's economic growth by generating value throughout the whole of the territory and providing a new boost to Italy's manufacturing fabric.

Resolutions of the Supervisory Board and the Management Board

Meeting on December 29, 2011 in joint session under the chairmanship of Messrs. Graziano Tarantini and Giuliano Zuccoli, the Supervisory Board and Management Board approved the terms and conditions of the reorganization of the investment held in Edison S.p.A. through Delmi S.p.A. in accordance with the announcements made to the market.

In addition, the Chairman of the Management Board, Giuliano Zuccoli, and the Director and General Manager Renato Ravanelli were delegated to negotiate and sign with EDF S.A. a renewal of the shareholders' agreement until February 15, 2012; the original expiry date was December 30, 2011. The two men were also delegated to negotiate and sign the final agreements which will implement and execute the operations already announced to the markets.

December 29, 2011: summary of the joint press release AzA S.p.A. – DELMI S.p.A. – EDISON S.p.A. – EDF S.A. – IREN S.p.A.

The agreement announced by EDF S.A., AzA S.p.A., Delmi S.p.A. and Iren S.p.A. on December 26, 2011 only reflects the general principles of the reorganization of Edison and is still conditional on the approval by the competent corporate bodies (in the case of EDF S.A. consultations will need to be held with the workers' unions). The understanding that has been reached is of a preliminary nature and reflects the general principles of a transaction which differs from that negotiated during the previous months that was described in the query submitted to Consob by EDF S.A. and Delmi S.p.A. on November 21, 2011. Such query will be thus formally withdrawn. EDF S.A. intends to submit a new query to Consob in January.

Concerning the valuation of Edison shares at 0.84 euro in connection with the acquisition of 50% of TdE S.r.l. by EDF S.A., Delmi S.p.A. and EDF S.A. note that such valuation was the result of negotiations between the parties and that it is in line with the average stock market price over the past twelve months. Given the structure of TdE S.r.l.'s assets and liabilities, the purchase

price of 50% of TdE S.r.l.'s quota capital will be based upon the above-mentioned valuation of the Edison S.p.A. shares (equal to approximately 1.33 billion euro for 50% of TdE S.r.l.'s holding in Edison S.p.A.), less the pro rata portion of TdE S.r.l.'s net debt at the time of the closing of the transaction.

The price for the transfer of 70% of Edipower S.p.A.'s share capital has been calculated on the basis of negotiations which took into account the highest value in the valuation range for 20% of Edipower S.p.A.'s share capital set out in the preliminary purchase agreement between EDF S.A. and Alpiq S.A. and already disclosed to the market (i.e. 150–200 million euro for the purchase of 20% of Edipower S.p.A.'s share capital). In the negotiations the purchaser accepted to pay an additional consideration of 100 million euro for the 50% of Edipower S.p.A. and therefore the price to be paid to Edison S.p.A. by Delmi S.p.A. will be approximately 600 million euro.

The understanding reached on the gas supply agreements between Edipower S.p.A. and Edison S.p.A. is of a preliminary nature, is in the interests of both companies and does not provide for specific terms other than those disclosed to the market, namely a term of 6 years, volumes equal to 50% of Edipower S.p.A.'s needs and prices at market terms and conditions for the thermoelectric market; provisions for delivery flexibility will be negotiated by the parties at market conditions. Once agreement has been reached on further terms, it is planned to sign the contracts before the transaction is finalized.

In terms of the application of the procedure for related party transactions and the applicable Consob Regulation, given that the preliminary agreement announced on December 27, 2011 is conditional on the approval of the competent corporate bodies, Edison S.p.A. has announced that this procedure has been initiated as far as it concerns the selection of Goldman Sachs and Rothschild as advisors by the independent directors, who will provide their assistance on matters concerning the valuations as part of said approval by the board of directors.



Directors' report on operation

Summary of results, assets and liabilities and financial position

Results

The results of the A2A Group for the year ended December 31, 2011 are set out below together with comparative figures for the previous year:

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	6,198	6,041	157
<i>of which:</i>			
- Revenues from the sales of goods and services	6,096	5,923	173
- Other operating income	102	118	(16)
Operating expenses	(4,698)	(4,447)	(251)
Labor costs	(558)	(554)	(4)
Gross operating income	942	1,040	(98)
Depreciation and amortisation	(415)	(427)	12
Provisions and write-downs	(226)	(115)	(111)
Net operating income	301	498	(197)
Net financial expense	(123)	(132)	9
Share of results of companies at equity	(132)	28	(160)
Other non-operating income	6	-	6
Other non-operating expenses	(10)	(1)	(9)
Income before tax	42	393	(351)
Income taxes	(148)	(158)	10
Income from current operations, net of tax	(106)	235	(341)
Net result from non-current assets sold or held for sale	(810)	(39)	(771)
Minorities	496	112	384
Group net profit for the year	(420)	308	(728)

The Group earned revenues totaling 6,198 million euro in 2011, of which 265 million euro relates to the EPCG Group (6,041 million euro in the previous year, of which 298 million euro relates to the EPCG Group).

Revenues from sales and services amounted to 6,096 million euro while other operating income totaled 102 million euro.

The key quantitative data contributing to the formation of these revenues were as follows:

	12 31 2011	12 31 2010
Electricity sold to wholesale and retail customers (GWh)	23,646	20,177
Electricity sold on the Power Exchange (GWh)	13,203	17,177
Electricity sold on foreign markets (GWh)	11,994	8,932
Electricity sold (GWh) - EPCG	4,720	4,682
Gas sold to wholesale and retail customers (Mmc)	4,005	4,194
Heat sold (GWht)	2,874	3,038
Electricity distributed (GWh)	11,489	11,375
Electricity distributed (GWh) - EPCG	2,564	2,516
Gas distributed (Mcm)	2,011	2,255
Water distributed (Mcm)	69	69
Water purified (Mcm)	40	41
Waste disposed of (Kton)	2,626	2,763

Sales mainly arose from the following quantities produced by the plants managed by the Group:

	12 31 2011	12 31 2010
Thermoelectric production (GWh)	8,210	9,039
Thermoelectric production (GWh) - EPCG	1,452	1,272
Hydroelectric production (GWh)	3,525	3,830
Hydroelectric production (GWh) - EPCG	1,204	2,749
Heat production (GWht)	2,478	2,569
Electricity produced by cogeneration (GWh)	602	574
Electricity sold from waste to energy and biogas plants (GWh)	1,209	1,179

Gross operating income for the year amounted to 942 million euro, a decrease of 98 million euro over the previous year.

The following table sets out changes in gross operating income by business area.

Millions of euro	12 31 2011	12 31 2010
Energy Sector	336	441
- electricity	242	359
- gas	94	82
Heat and Services Sector	85	70
Environment Sector	287	262
Networks Sector	259	298
Other Services and Corporate Sector	(25)	(31)
Total	942	1,040

The *Energy Sector* saw a decrease in margins compared to the previous year: the reduction in the results in the electricity division was partially offset by the rise in margins in the gas division.

Excluding the contribution made by the Montenegro subsidiary EPCG, the gross operating income of the *electricity division* decreased by 69 million euro compared to the previous year. This fall was mainly due to a contraction of the margins in the sale of electricity and the reduced contribution of the valuation of the excess environmental certificates.

The contribution of EPCG's electricity sector in the year fell by 48 million euro over 2010.

This decrease is mainly due to lower hydroelectric production in 2011 and the resulting increase in the quantity of imported electricity, in a market scenario characterized by increasing prices, as well as to the delay in the adjustment to end customer sales tariffs for the rise in provisioning costs.

In the gas *division*, the provisioning strategy, aimed at taking the opportunity arising from a market situation characterized by an excess supply of gas on the wholesale markets, more than offset the unfavorable effects of the energy scenario on the changes relating to the purchase and sales contract indexing formulae and the fall in volumes sold, due also to an especially mild season. The result of the division was 12 million euro higher than that of the previous year.

The gross operating income of the *Heat and Services Sector* amounted to 85 million euro compared to 70 million euro in the previous year. The rise of 15 million euro was mainly due to commercial development in the District Heating Section and the good performance of the Plant Management Section. These positive effects were only partially offset by those arising from the mild weather.

The gross operating income of the *Environment Sector* amounted to 287 million euro (262 million euro in the year ended December 31, 2010). This result is mainly due to the good economic performance of the waste to energy plants managed by the Group and the increased revenues from the sale of electricity produced by these plants.

The fall in margins in the *Networks Sector* for the activities carried out in Italy is due to the Electricity Distribution Section, which in 2010 benefited from settlements arising from the “company specific equalization mechanism”.

The decrease in margins in the Networks Section of the EPCG Group was on the other hand mainly due to the reduction in distribution tariffs approved by the local regulator in April 2011.

Depreciation, amortization and write-downs amounted in total to 641 million euro (542 million euro in the year ended December 31, 2010). The increase is mainly due to the write-down of the goodwill allocated to the EPCG Group for 94 million euro, whose effect on the Group’s consolidated income was 41 million euro after deducting minority interests, and to certain write-downs of the Aspem Group and the Ecodeco Group, partially offset by a decrease in depreciation and amortization for the year.

As a result of these changes **net operating income** amounted to 301 million euro, compared to 498 million euro for the year ended December 31, 2010.

Financial expense, net amounted to 123 million euro (132 million euro in the year ended December 31, 2010). This improvement is due to the positive change in the fair value of financial derivative contracts hedging interest rate risk and the significant fall in average debt (-300 million euro approximately), effects which were partially offset by the rise in the average cost of borrowing.

The **share of results of companies accounted for at equity** amounted to a loss of 132 million euro compared to a profit of 28 million euro for the year ended December 31, 2010. This item includes the negative effect of 123 million euro arising from the valuation of the investment held by A2A S.p.A. directly in Edipower S.p.A. (20%), made on the basis of an appraisal carried out as part of the operation for the acquisition of 70% of Edipower S.p.A. by the subsidiary Delmi S.p.A..

This item also includes the effects of the valuation of the investments in Acsm-Agam S.p.A., PremiumGas S.p.A, Dolomiti Energia S.p.A. and Ergosud S.p.A..

Other non-operating income and expenses totaled 4 million euro in the year ended December 31, 2011 (1 million euro in the year ended December 31, 2010) and relates to costs incurred by the EPCG Group.

Income taxes amounted to 148 million euro (158 million euro for the year ended December 31, 2010), a charge affected by a general increase in the rate of the “Robin Hood” tax from 6.5% to 10.5% for the period from 2011 to 2013 and the extension to the scope of the companies liable to pay the additional tax, with the previously excluded electricity and gas distribution activities included from 2011. In addition, the IRAP regional production tax rate increased from 3.90% to 4.20% for companies acting as concessionaires, other than those involved in the construction and management of motorways and tunnels.

Net income from non-current assets sold or held for sale, which totaled negative 810 million euro (negative 39 million euro for the year ended December 31, 2010), mainly includes the write-down by 847 million euro of the investment in Transalpina di Energia S.r.l., held by Delmi S.p.A..

Excluding the minorities’ share, this write-down had an effect of 433 million euro on the income statement of the A2A Group.

The valuation of this investment was made by considering as a whole the agreements signed on 15 February last by A2A S.p.A., Delmi S.p.A., EDF S.A. and Alpiq S.A.; these provide for the sale by Delmi S.p.A. of 50% of Transalpina di Energia S.r.l. at a price of 704 million euro and the purchase by Delmi S.p.A. from Edison S.p.A. and from Alpiq S.A. of 70% of Edipower S.p.A. at a price of 804 million euro.

The item also includes the positive contribution arising from the sale of the investments in Metroweb S.p.A. and CESI, recognized net of the costs incurred for the transaction.

This item amounted to negative 39 million euro in the year ended December 31, 2010 and consisted of the write-down of the investment Transalpina di Energia S.r.l., adjusted by the gain arising on the sale of the investment of 5.16% in Alpiq Holding AG. Excluding minority interest, this item was positive for 88 million euro.

After deducting the net income attributable to minority interests, **the net income attributable to the Group for the year** amounted to a loss of 420 million euro (profit of 308 million euro for the year ended December 31, 2010).

Excluding capital gains on the sale of assets and the write-down of investments and intangible and tangible assets, net income for the year amounted to a profit of 168 million euro.

Balance sheet and financial position

Consolidated “**Capital employed**” amounted to 7,614 million euro at December 31, 2011 and is covered by equity of 3,593 million euro (of which 826 million euro attributable to minority interests) and net debt of 4,021 million euro.

“**Working capital**” of 850 million euro increased by 87 million euro compared to December 31, 2010 and was mainly affected by the increase of approximately 120 million euro in tax receivables which are expected to be absorbed in the current year.

“**Net fixed capital**”, which includes “Assets/liabilities held for sale”, amounted to 6,764 million euro (-1,211 million euro). The decrease is mainly due to the valuation of the investment in Transalpina di Energia S.r.l. and the write-down of certain assets relating to the EPCG Group, the Aspem Group and the Ecodeco Group.

The “**Net financial position**” was 4,021 million euro at December 31, 2011. The increase of 128 million euro is mainly due to the net effects of positive cash flow of 401 million euro, proceeds from sales of 79 million euro and capital expenditure and dividends of 310 and 298 million euro respectively.

<i>Millions of euro</i>	12 31 2011	12 31 2010	Changes
CAPITAL EMPLOYED			
Net fixed capital	5,846	7,911	(2,065)
- Tangible assets	4,685	4,872	(187)
- Intangible assets	1,503	1,552	(49)
- Investments and other non-current financial assets (*)	535	2,423	(1,888)
- Other non-current assets/liabilities (*)	(133)	(137)	4
- Deferred tax assets/liabilities	(10)	(63)	53
- Provisions for risks, charges and liabilities for landfills	(462)	(460)	(2)
- Employee benefits	(272)	(276)	4
<i>of which with counter-entry to equity</i>	(112)	(118)	
Working capital	850	763	87
- Inventories	267	239	28
- Trade receivables and other current assets (*)	2,368	2,416	(48)
- Trade payables and other current liabilities (*)	(1,790)	(1,854)	64
- Current tax assets/tax liabilities	5	(38)	43
<i>of which with counter-entry to equity</i>	(8)	3	-
Assets/liabilities held for sale (*)	918	64	854
<i>of which with counter-entry to equity</i>	-	-	
TOTAL CAPITAL EMPLOYED	7,614	8,738	(1,124)
SOURCES OF FUNDS			
Equity	3,593	4,845	(1,252)
Total financial position beyond one year	3,729	3,635	94
Total financial position within one year	292	258	34
Total net financial position	4,021	3,893	128
<i>of which with counter-entry to equity</i>	(32)	(41)	
TOTAL SOURCES	7,614	8,738	(1,124)

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

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010
Net financial position at the beginning of the year	(3,893)	(4,644)
Net financial position brought in by EPCG	–	56
Net income for the year (including minorities) (**)	(951)	(26)
Depreciation and amortisation	415	427
Write downs/disposals of tangible and intangible assets	125	23
Results from companies at equity	979	231
Write-downs of investments	4	5
Net taxes paid	(240)	(69)
Changes in assets and liabilities (*)	78	252
Net cash flows from operating activities	410	843
Net cash flows from investing activities	(225)	60
Free cash flow	185	903
Dividends paid by the parent company	(298)	(217)
Dividends paid by subsidiaries	(6)	(28)
Cash flow from the distribution of dividends	(304)	(245)
Changes in financial assets/liabilities with counter-entry to equity	(9)	37
NET FINANCIAL POSITION AT THE END OF THE YEAR	(4,021)	(3,893)

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

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

Significant events for the Group after December 31, 2011

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

ECPI has confirmed the inclusion of A2A S.p.A. in the ECPI Ethical EMU Equity index on the basis of an assessment conducted at the end of last year. Using a screening method, this index selects and 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 under a method based on a series of indicators that take into consideration matters of an environmental, social and corporate governance nature. A2A S.p.A. has been included in the index since 2008.

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A2A S.p.A.: the BEI 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 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 plans that the A2A Group plans to put into practice in the five-year period from 2011 to 2015 to optimize and expand the district heating network and 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 will reduce the use of fossil fuels, thus 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.

Delmi S.p.A.: the sale of the investment in Transalpina di Energia S.r.l. (TDE) to EDF S.A. is unanimously approved

On January 31, 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 regarding the reorganization of the shareholdings in Edison S.p.A. and Edipower S.p.A..

More specifically, Delmi S.p.A. acquires 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpiq S.A. (20%) at a total price of 804 million euro. EDF S.A. acquires from Delmi S.p.A. 50% of Transalpina di Energia S.r.l., a company in which it already holds the other 50% and which in turn holds 61.3% of the capital with voting rights of Edison S.p.A., at a price of 704 million euro. In addition, the main elements of an agreement for the supply of gas by Edison S.p.A. to Edipower S.p.A. were settled, which will cover 50% of Edipower S.p.A.'s requirements for a period of 6 years at market conditions.. The closing must take place by June 30, 2012. The whole operation remains subject to the confirmation by Consob that the mandatory public purchase offer, consequent upon the acquisition of the control of Edison S.p.A. by EDF S.A. may not exceed 0.84 euro per share. This operation is also subject to the approval of the competent antitrust authorities.

A2A S.p.A: appointment of the Chairman and one member of the Management Board

On February 17, 2012, the Supervisory Board of A2A S.p.A. met under the Chairmanship of Graziano Tarantini and pursuant to the bylaws appointed Prof. Carlo Secchi as a member of the Management Board of A2A S.p.A..

The Supervisory Board additionally appointed the Management Board member Giuseppe Sala as Chairman of the Management Board of A2A S.p.A.. The Management Board as thus made up will remain in office until the first meeting of the Supervisory Board following the reappointment envisaged by the Shareholders' Meeting of May 29, 2012.

A2A S.p.A.: sale of the investment in E-utile S.p.A.

A2A S.p.A. has sold 49% of 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 free market. A2A S.p.A. received proceeds of approximately 10.3 million euro from the transaction, 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.

Outlook for operations

The finalization of the shareholding reorganization agreements relating to Edison will enable the A2A Group to extend the scope of its operations in the electricity generation sector significantly in the second half of the year, with a consequent increase in gross operating income. The Group's net result, which during the year under review was affected by the extraordinary operations described in greater detail in the section "Summary of results, assets and liabilities and financial position", will once again express the positive values connected with its normal operations.

Proposal for the absorption of losses for the year ended December 31, 2011 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2011 show a loss of 464,870,414.00 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 absorption of the loss of the year of 464,870,414.00 euro by using part of the available reserves, without affecting the legal reserve.

The Management Board makes the additional proposal to shareholders to pay a dividend of 40,377,839.68 euro to ensure a remuneration of 0.013 euro for each outstanding ordinary share (being 3,105,987,668 shares, taking account of the 26,917,609 treasury shares held in portfolio), with the amount required to be taken from other reserves.

The ordinary dividend will be paid from June 21, 2012 with coupon detachment on June 18, 2012.

The Management Board



Analysis of the main
sectors of activity

A2A Group – Areas of activity

The A2A Group operates mainly 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:

- Energy;
- Heat and Services;
- Environment;
- Networks;
- Other Services and Corporate.

This separation into sectors reflects the structure of the reporting that is periodically reviewed by the Management Board to plan and run the Group’s business.

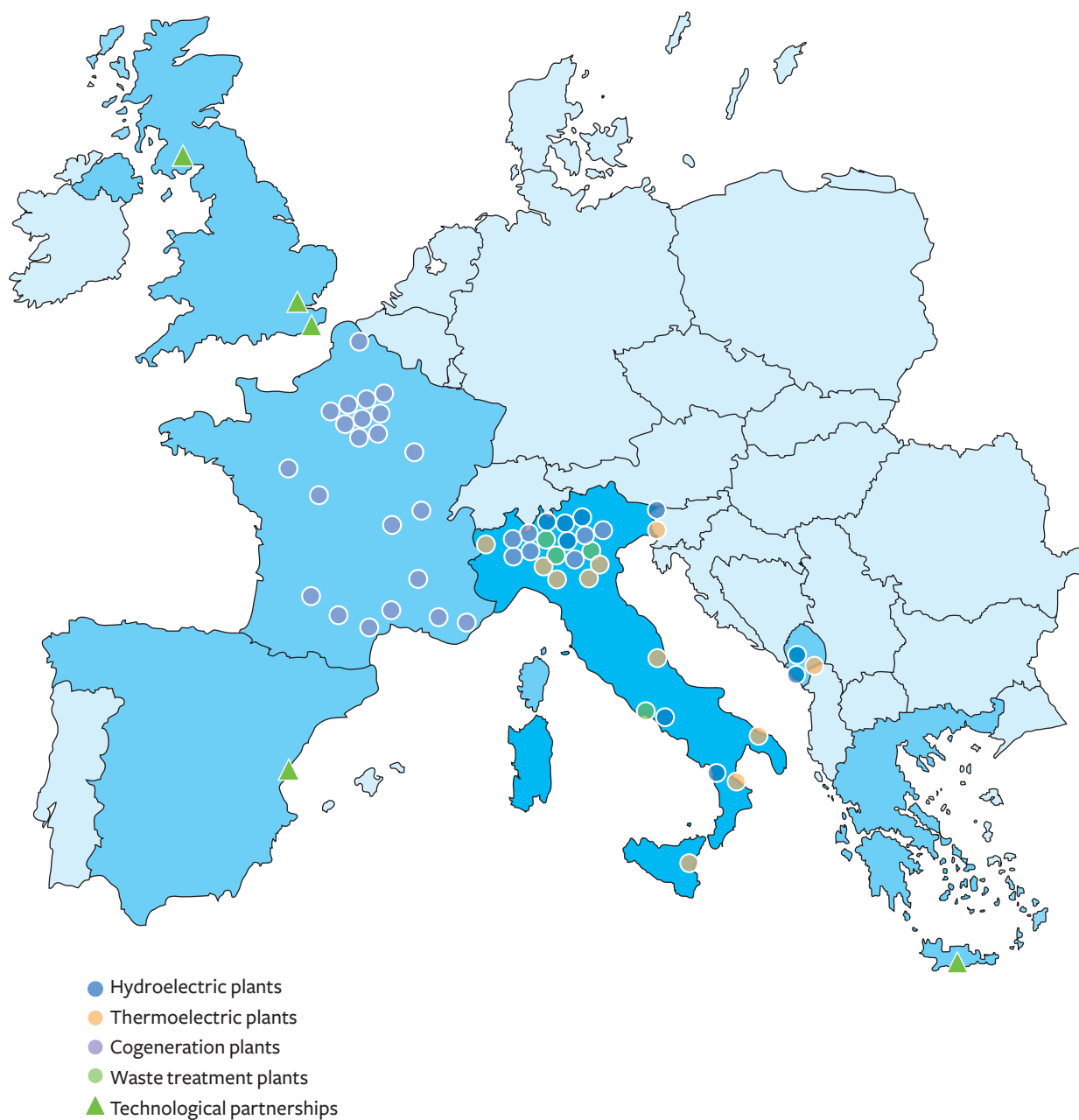
Sectors of the A2A Group

Thermoelectric and hydroelectric plants	Cogeneration plants	Waste collection and street-sweeping	Electricity Networks	Other services
Energy Management	District heating networks	Treatment	Gas Networks	Corporate services
Sale of electricity and gas	Sale of heat and other services	Disposal of waste with energy recovery	Integrated Water Cycle	

Sectors of the A2A Group

- Energy
- Heat & Services
- Environment
- Networks
- Other Services and Corporate

Geographical areas of activity



Results by sector

Millions of euro	Energy		Heat and Services		
	01 01 11 12 31 11	01 01 10 12 31 10	01 01 11 12 31 11	01 01 10 12 31 10	
Revenues	4,905	4,702	397	367	
– of which inter-sector	185	160	34	32	
Gross operating income	336	441	85	70	
% of revenues	6.9%	9.4%	21.4%	19.1%	
Depreciation, amortization, provisions and write-downs (*)	(248)	(211)	(48)	(54)	
Net operating income	88	230	37	16	
% of revenues	1.8%	4.9%	9.3%	4.4%	
Net financial income/expense					
Non-operating income/expense					
Income before tax					
Income taxes					
Net income					
Net income from non-current assets held for sale					
Income attributable to minorities					
Group net income for the year					
Gross investments ⁽¹⁾	32	464 (a)	96	69	

(*) The "Eliminations/consolidation adjustments" for the item "Depreciation, amortisation, provisions and write downs" for the period from January to December 2010 were allocated directly to the individual sectors.

(a) Includes an effect of 417 million euro arising from the initial consolidation of the EPCG Group.

(b) Includes an effect of 509 million euro arising from the initial consolidation of the EPCG Group.

(c) Includes an effect of 13 million euro arising from the initial consolidation of the EPCG Group.

(1) See the "Investments" tables in notes 1 and 2 on tangible and intangible assets.

Millions of euro	Energy		Heat and Services		
	12 31 11	12 31 10	12 31 11	12 31 10	
Tangible assets	2,171	2,290	471	465	
Intangible assets	57	60	163	118	
Trade receivables and current financial assets	1,903	2,478	182	190	
Trade payables and current financial liabilities	1,606	2,075	174	163	

	Networks		Environment		Other Services and Corporate		Eliminations		Total Group	
	01 01 11 12 31 11	01 01 10 12 31 10	01 01 11 12 31 11	01 01 10 12 31 10	01 01 11 12 31 11	01 01 10 12 31 10	01 01 11 12 31 11	01 01 10 12 31 10	01 01 11 12 31 11	01 01 10 12 31 10
	684	705	823	790	237	241	(848)	(764)	6,198	6,041
	374	322	34	30	221	220	(848)	(764)	–	–
	259	298	287	262	(25)	(28)		(3)	942	1,040
	37.9%	42.3%	34.9%	33.2%	(10.5%)	(11.6%)			15.2%	17.2%
	(113)	(129)	(108)	(110)	(30)	(39)	(94)	1	(641)	(542)
	146	169	179	152	(55)	(67)	(94)	(2)	301	498
	21.3%	24.0%	21.7%	19.2%	(23.2%)	(27.8%)			4.9%	8.2%
									(255)	(104)
									(4)	(1)
									42	393
									(148)	(158)
									(106)	235
									(810)	(39)
									496	112
									(420)	308
	119	643 (b)	35	58	28	37 (c)	–	–	310	1,271

	Networks		Environment		Other Services and Corporate		Eliminations		Total Group	
	12 31 11	12 31 10	12 31 11	12 31 10	12 31 11	12 31 10	12 31 11	12 31 10	12 31 11	12 31 10
	1,456	1,481	477	525	220	222	(110)	(111)	4,685	4,872
	1,364	1,357	37	39	79	72	(197)	(94)	1,503	1,552
	341	339	256	255	309	128	(800)	(1,193)	2,191	2,197
	305	298	176	184	560	363	(798)	(1,185)	2,023	1,898

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.

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 services, such as managing district heating plants owned by third parties (heat management services).

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. This sector's activity includes the recovery of the energy content in waste by means of waste to energy or biogas plants.

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, water purification). Also included are activities relating to public lighting, traffic regulation systems, the management of votive lights in cemeteries 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 also include video-surveillance, data transmission, telephony and internet access services.

Macroeconomic scenario

In 2011, the tension on sovereign debt in the eurozone and the continuing uncertainty over the public finance consolidation process in the United States had significant repercussions on the growth prospects of the advanced economies; even in Japan a gradual weakening in the last part of the year followed the pick-up in the third quarter. On the basis of the data provided by the Bureau of Economic Analysis (BEA) and the International Monetary Fund (IMF), annualized growth in GDP in real terms in the United States amounted to 2.8% in the fourth quarter, representing a performance of 1.8% for 2011 taken as a whole. These figures should be compared with a rise of 3.8% in world GDP, driven by the leading emerging economies, although these too saw a slight slowdown.

As far as the eurozone is concerned, difficulties in consolidating the limited recovery in the overall economic situation which commenced in 2010 emerged in an increasingly critical manner, ending up with worsening economic conditions. More specifically, the majority of indices pointed to a reversal in the trend in the direction of a deceleration of the economic cycle, behind which are the following factors:

- the restrictive approach to budgetary policy followed by many eurozone countries in difficulty, which reduces household spending capacity and hence the growth prospects of the various countries;
- the fears regarding the sustainability of the public debt of certain countries in the eurozone, in particular Greece, Spain, Italy, Portugal and Ireland. The accumulation of key imbalances in the public finances began a long while back and is still leading to considerable tension on the sovereign debt security markets, with an increase in the perception by the markets of the risk of insolvency of an increasing number of countries. To tackle the crisis, the governments of these countries have been introducing public deficit reduction programs over the past few months, which are mainly leading to a restriction in budgetary policy;
- the rise in raw materials prices which started at the beginning of 2010; these prices stabilized at high levels during 2011, paying the price for imbalances between the demand and supply of the basic materials and partly for a deteriorating economic outlook.

The overall economic picture that materialized during 2011 was therefore characterized by low growth rates and retail prices under pressure, with a further slowdown in the second half of the year. According to data provided by the European Central Bank (ECB) and the Bank of Italy, GDP growth in the eurozone slowed down considerably in the last quarter of 2011 over the previous months (1% expected compared to 1.8% for the first nine months of the year), ending up at around 1.6%, only slightly lower than the growth achieved in 2010.

Economic conditions in Italy are even more critical than those in the eurozone taken as a whole. According to the most recent figures released by ISTAT, the Italian national statistics agency, the last quarter of 2011 in fact saw Italy enter recession, with a fall of 0.4% in GDP over the fourth quarter of 2010, following a gradual decline over the first nine months of 2011: as a result, therefore, Italy closed with a positive performance of 0.4% for 2011 against the rise of 1.4% seen in 2010.

The considerable slowing down of growth in the eurozone and the recession in Italy raise serious doubts as to the speed with which European deficits will fall, and this helps to explain the tension on the public debt markets in 2011, which has heightened over the past few months.

The spread between the yields of Italian ten-year treasury bonds and their German counterparts, which reached 550 basis points in November, its highest level since the country joined the euro, had fallen significantly by the beginning of December, with the entry of the new government and the announcement of new, incisive corrective measures to the public accounts, dropping to around 370 basis points. The spread, though, has however risen back up to the 530 mark again, presumably reflecting the uncertainties of investors about the adequacy and actual implementation of the decisions taken at the European summit of 9 December, as well as the increasing fears over the systemic nature of the crisis. The average spread between ten-year Italian BTPs and German Bunds for the whole year therefore amounted to 2.7%.

In this uncertain situation, 2011 also saw eurozone inflation rates reach considerably high levels: +2.7%, with an acceleration during the final part of the year. There was a notable increase in fiscal pressure over 2010, when inflation was 1.6%. The reasons behind this trend are mainly the pressure arriving from the energy component of the basket, in particular with reference to the prices of electricity and gas which respond with a certain time lag to the changes in the price of oil, and past rises in foodstuffs.

As far as Italy is concerned, changes in retail prices were more or less in line with those of the eurozone, with an inflation rate of 2.8% for 2011. The increase in VAT in Italy by one point in September, as part of the package of fiscal measures introduced by the Berlusconi government, only made a marginal contribution to the rise in prices in the country.

The currency markets were also affected by the deterioration in the macroeconomic situation in the eurozone. During 2011, the euro/dollar exchange rate, on average 1.39 dollars for the year as a

whole, depreciated considerably from September with a fall of 8% by the end of the year compared to the peak of 1.44 dollars reached in April. The speed of the fall can be explained by the combination of two unfavorable factors: on the one hand, the worsening of the sovereign debt crisis for certain European countries and on the other the turnaround in the direction being taken by the European Central Bank, with its decision not to increase interest rates again following the measures taken in April and July 2011.

Energy market trends

The economic scenario of reference deteriorated rapidly during 2011, in particular in the OECD countries, and the tension on the sovereign debt of the southern European countries led to a downwards revision of the growth prospects of all the leading OECD countries, together with a sharp decrease in household financial wealth due to the fall in share prices on all of the main European stock exchanges.

In this context, the price of oil, a factor that usually anticipates the economic cycle, followed a contrasting trend with what has been seen over the past few years and with the basics of economics.

More specifically, the average price of Brent for 2011 was 111 \$/bbl, a rise of around 40% over the previous year (80 \$/bbl). This was due above all to supply side tension arising from the uncertainty of the political situation in the whole of the Arab world which affects expectations concerning the availability of crude in the medium term, especially as far as the non-OPEC producers are concerned, and despite expectations of a downwards trend in demand.

Testifying in addition to the unusual trend in Brent in 2011 compared to the economic situation was a discontinuity in the usual combined change with respect to the €/€ exchange rate, with this latter rising by 5% compared to its average for 2010. With all likelihood, this is connected to the increased effect of supply side issues with respect to the macroeconomic scenario; in actual fact, against a sharp weakening of the dollar compared to the euro in the second half of 2011 (-8% on an annual basis), Brent rates remained at average sustained levels throughout the final six months of the year (around 110 \$/bbl), despite falling considerably from the peak reached in April (123.5 \$/bbl).

As far as the domestic electricity market scenario is concerned, 2011 was characterized by a gradual pick-up in the demand for electricity during the first nine months of the year, a trend that however underwent a sharp turnaround in the final four months due to a further deterioration in the economic situation and a new slowdown in Italian industry. According to figures provided by Terna, there was a demand for 332,274 GWh of electricity in 2011, a rise of

1.3% over 2010 (327,982 GWh). In particular, net production remained stable compared to the previous year at 289,166 GWh.

Coverage of the requirement in power on the day of peak demand in 2011 was guaranteed by national production as to 84.7% and by net imports for the remaining 12.2% (Terna data); compared with 2010 imports made a greater contribution to covering the load (+2 percentage points approximately).

Net national electricity production amounted to 289,166 GWh, substantially in line with the 2010 figure (288,292 GWh), while overseas production increased by 3.5% (45,626 GWh against 44,090 GWh in 2010).

In particular, net production was guaranteed as to 75% by thermoelectric sources and 16.5% by hydroelectric sources, while renewable sources made a total contribution of 8.3% (of which 3.2% relating to photovoltaic energy and 3.3% to wind power). Compared to 2010, thermoelectric production brought in one point less as a percentage of total net production, amounting to 217,369 GWh (-1.2% compared to the previous year); of greater importance was the fall in production from hydroelectric sources, amounting to 47,672 GWh, which dropped by almost 10% over 2010. The negative trend in traditional generation was offset by the performance of production from renewable sources, which reached a total of 24,125 GWh representing a rise of 55% over 2010: in detail, wind energy increased by 9.7% (9,560 GWh) and photovoltaic energy by over 400% (9,258 GWh); the contribution of production from geothermal sources was more modest (+1.8%).

The trend in volumes traded on the Italian electricity exchange (purchases/sales) followed that in the demand for electricity, showing a gradual pick-up following the reversal in trend which occurred the previous year.

The average quotation of the PUN (Base Load Single Nationwide Price) for 2011 reached a level of 72.2 €/MWh, representing an increase of 13% over the equivalent figure for the previous year (64.1 €/MWh).

The increase in the PUN, which rose from 65 €/MWh in January 2011 to approximately 79 €/MWh at the end of the year, was above all a feature of the second half of the year. This trend can be explained by the following factors: firstly, although still being a long way from pre-crisis levels, there was a slight pick-up in the demand on the network in 2011 when compared with 2010; secondly, there was a rise in the cost of fuel for electricity generation which to a large extent was passed on as an increase in wholesale prices by operators; finally there was a significant rise in the wholesale price of electricity during off-peak periods (the off-peak price for 2011 was 66.6 €/MWh, +16% over 2010), by means of which producers managed to recover their variable generation costs to a greater extent than 2010 against a market situation characterized by over-capacity compared to the demand for electricity. In this context, there

was actually a decrease in the spread between peak and off-peak prices, which fell from almost 19 €/MWh in 2010 to 15.6 €/MWh in 2011.

Against increasing combined cycle plant generation costs over 2010 (around +12%), the slightly higher rise in baseload prices on the spot market supported the operator's spark spread.

Methane gas

On the basis of the figures published by the Ministry for Economic Development for the natural gas market for Italy, the volume of gas consumed in 2011 amounted to 77,831 million cm, representing a fall of 6.3% over 2010. The figure for the month of December alone points to a real slump in consumption of 16.9% (8,876 million cm against 10,680 million in 2010).

A similar trend characterized all three areas: the domestic sector fell by 8% over 2010 due to the relatively high temperatures; although industrial use decreased by 4% in December 2011, there was a rise of 2% on an annual basis. The biggest drop in percentage terms occurred in thermoelectric demand, which fell by 7% over 2010. This was due to a shift of the national electricity mix to other sources.

There was also a decrease during the year concerning the other factors forming part of the national balance, and hence in national production (-0.5% or 8,363 million cm), in imports (-6.6% or 70,369 million cm) and in exports (-11.9% or 124 million cm).

Of note among the entry points to the national network are the reduced contribution of the Greenstream pipeline (-75.1%) caused by the extended halt to this source relating to the political affairs in Libya, and the pick-up in the Transigas pipeline (+38.7%) following the blockage at the end of 2010.

Finally, the positive figure for changes in stocks (+48.8%) is worthy of mention; this is due to the injections made into storage reserves which saw emissions of 777 million cm against 522 million cm in 2010.

In 2011 the gas supply market in Italy was affected in particular by the political events in Libya, which caused the ENI group to suspend the production of gas for safety reasons and to close the Greenstream pipeline which transports methane of Libyan origin to Italy (approximately 10% of the total of Italy's supplies). The effect of the lack of this infrastructure was mitigated by the imminent ending of the winter season, with a storage level still sufficient to ensure coverage for civil use, and by a structurally long market that was a feature of the whole of the 2010/2011 thermal year. With the ending of the Libyan conflict the ENI group opened up the Greenstream pipeline again on October 13, 2011 after carrying out suitable technical checks.

Another transportation infrastructure suffering from interruptions during the year was the

Transitgas methane pipeline, which brings methane into Italy from Northern Europe. This pipeline, closed in July 2010 as the result of a landslide in July 2010 and subsequently reopened on a provisional basis on December 24, 2010, became available again in April 2011 and for the rest of the year, except for a short period in October when atmospheric conditions required its interruption for reasons of prudence.

Negotiations on long-term supply contracts continued throughout the whole of 2011, and in some cases are still in progress; on a few occasions this also led to the need to make recourse to the arbitration procedures included in the agreements. The aim of these renegotiations, initiated by wholesalers, is to realign the prices included in take or pay agreements to current prices on the gas spot market, which over the past few years have paid for the structural excess supply at a European level, thus leading to price levels considerably lower than those to be found in the long-term contracts.

On the other hand the political events in Libya, Iran and other Middle Eastern countries had a significant indirect effect on the price of gas, connected with the repercussions on the oil-based product market: the price of Brent DTD fluctuated between a maximum of 125 \$/bbl and a minimum of 102 \$/bbl with a high level of volatility. In the final part of the year long-term contract gas prices underwent a considerable increase arising from changes in the prices of oil-based products and the depreciation of the euro against the dollar, for which the exchange rate reached 1.3 at the end of the year due to the economic crisis in many European countries.

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 6.6 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; the planning, programming and dispatching of 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 on 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	<ul style="list-style-type: none">• Abruzzoenergia• A2A Energia• A2A Trading• Plurigas• Aspem Energia• EPCG
Energy Management	
Sale of electricity and gas	

(1) Includes 20% of the Edipower plants and the EPCG plants.

Recent changes in legislation in the electricity sector

Large hydroelectric concessions

With a note of March 15, 2011, the European Union issued a notification of default letter against the Republic of Italy based on the extension methods specified in Law no. 122/2010, maintaining that these are contrary to European legislation on the freedom of establishment. In particular, the law provided for a general extension of 5 years for all concessions and a further extension of 7 years to be granted on the occurrence of specific conditions.

The infringement procedure is, however, expected to be dismissed following sentence no. 205/2011 (published on July 13, 2011), in which the Constitutional Court upheld an appeal made by the Region of Liguria on these matters, stating that the following were illegitimate:

- the provisions of Law no. 122/10 extending large hydroelectric concessions (for periods of 5 and 7 years) as they are inconsistent with the constitutional provisions on the subdivision of state-region responsibilities (the matter is subject to regional legislation);
- the clause that specifies that the provisions in question are effective “...fino all’adozione di diverse disposizioni legislative da parte delle regioni. per quanto di loro competenza...” (cosiddetta clausola di “cedevolezza”). in quanto “... until the Regions adopt other legislative provisions to the extent of their jurisdiction ...” (the “transferability” clause”), as “...the need to fill a legislative gap in the application of basic state principles, for the time needed for regional laws to be issued, does not exist in practice...”.

At a local level, also in view of the expiry of certain concessions in its territorial catchment area, with 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, among other things, 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. Following this, as the first step in implementing the above provisions, with Resolution no. 1205 of December 29, 2010 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, considered expired, despite the cited provisions of state legislation, 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, among other things it deferred the determination of the additional fee to be paid from January 1, 2011 to a subsequent resolution.

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

Further, on February 24, 2011, the cabinet resolved to challenge before the constitutional Court certain of the provisions adopted by means of the above Law no. 19 of December 23, 2010 of the Lombardy Region, and in particular article 3, paragraph 2 and article 14, paragraphs 3, 7, 8, 9 and 10, as being harmful to matters of state jurisdiction.

With Sentence no. 339/2011 the Constitutional Court ruled that the challenged 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 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. In fact these paragraphs were not challenged by the government in February in its appeal against which the Court has recently issued a ruling, but by A2A S.p.A. with an incidental appeal as part of the case raised against the resolution of the Regional Council at the end of 2010 before the TSAP, which as of today has not yet ruled on the matter.

In conclusion, Regional Law no. 22 of December 28, 2011, supplementing Regional Law no. 10 of June 29, 2009, has amended, starting from 2012, the fees due to the Region of Lombardy for large hydroelectric concessions, taking them to 30 euro for each kW of annual average nominal power.

Further details may be found in the discussion on this matter to be found in the section relating to Legislative and Regulatory Risk.

Fees for concessions for large water shunts

With Regional Law no. 22/2011, from 2012 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, has been established as 34,000 euro for each module of water.

This regional legislation has an effect on the thermoelectric cooling shunts of the thermoelectric stations at Cassano d'Adda and Ponti sul Mincio.

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, against the fulfillment of the commitment to make production capacity available on high and medium critical days, together with 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 regime.

With Resolution ARG/elt no. 166/10, the formula for calculating the additional fee to cover the remuneration of production capacity, as per article 48 of Attachment A of Resolution no. 111/06, was revised.

Since the envisaged method of calculation is of a discriminatory and distorting nature with respect to the mechanism by which the reference markets work, A2A Trading S.r.l. has lodged an appeal against the Authority with the Regional Administrative Court (TAR) in order to have the provision repealed.

In the meantime, with Resolution ARG/elt no. 98/11, in order to end the numerous consultations that followed on the matter, 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 (with decree) of the Minister for Economic Development, after consulting with the Authority.

The system thus adopted will replace the current regulation effective for the transitory period, starting from the first year of the delivery of the standard capacity supply contracts envisaged by the new regulation.

Resources essential for the safety of the electricity system

With Resolution ARG/elt no. 8/11 and Resolution ARG/elt no. 8/11 the Authority amended Resolution no. 111/06 on the calculation of the fees to be paid for the plants considered essential for the safety of the electricity system (whose owners have requested that the ordinary remuneration method should apply), with specific reference to the offering conditions for the energy produced by units admitted to the reintegration of costs and to certain methods for quantifying the variables used by the remuneration mechanism.

Incentives for production from renewable sources

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

The main measures envisaged, though, may only be implemented following the issue of

further ministerial decrees (the majority of which by the Ministry for Economic Development and the Ministry for the Environment).

Reference should be made to the section discussing Legislative Risk for a summary of the contents of the regulations adopted.

Bid price of Green Certificates held by the Energy Services Manager (GSE) - 2011

With Resolution ARG/elt no. 5/11, applying the criteria established by Resolution ARG/elt no. 24/08, the Authority determined the bid price of the Green Certificates held by the Energy Services Manager (GSE) for 2011 to be 66.90 euro/MWh (the price for 2010 was 67.18 euro/MWh in accordance with Resolution ARG/elt no. 3/10).

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.

With Decree Law no. 72 of May 20, 2010 urgent measures were adopted for assigning CO₂ emission quotas for plants (“new entrants”) which entered use after the adoption of the National Allocation Plan (PNA) with reference to the second period of application of the European Emissions Trading System (2008-2012).

With 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 the Electricity and Gas Authority (AEEG) 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.

As far as 2010 and the following two years are concerned, Resolution no. 16/2010 of the National Committee responsible for managing Directive 2003/87/EC established that the allowances to be considered as the basis for the credit due for the Canavese (A2A Calore & Servizi S.r.l.) plant and the integrated cogeneration heating-cooling plant (Varese Risorse S.p.A.) were to be 56,285 tonnes and 10,518 tonnes respectively for each year.

With the Determination of April 5, 2011, applying the methodology established in Resolution

ARG/elt no. 77/08, the Authority additionally determined the criteria for the recognition for 2010, pursuant to CIP Provision no. 6/92, of the charges deriving from the application of Directive 2003/87/EC limited to the electricity sold to the Electricity Services Manager (GSE) as part of destined sale conventions stipulated pursuant to the mentioned provision.

In particular, for the purposes of applying article 5 of resolution ARG/elt no. 77/08 for 2010, the Authority determined the value of the PFLEX term in 12.30 €/t and the value of the PEUA term in 14.13 €/t.

With Resolution ARG/elt no. 111/11, the Authority quantified the credits due for 2008, 2009 and 2010 to operators of plants or parts of plants recognized as new entrants in the Emissions Trading System pursuant to article 3, paragraph 1m) of Legislative Decree no. 216 of April 4, 2006.

More specifically the following were recognized:

- credits of 807,126.90 euro for the Canavese plant (A2A Calore & Servizi S.r.l.), to cover the failure to recognize emission allowances for 56,285 tonnes of CO₂ emissions valued at 14.34 euro per tonne;
- credits of 150,828.12 euro for the integrated cogeneration heating-cooling plant (Varese Risorse S.p.A.), to cover the failure to recognize allowances for 10,518 tonnes of CO₂ valued at 14.34 euro per tonne.

In addition to the amounts due to other operators, with this provision the authority recognized to Ergosud S.p.A., for 2010, with reference to the Scandale combined cycle turbogas station, credits amounting to a total of 8,050,030.38 euro, to cover the failure to recognize allowances for a total of 550,795 tonnes of CO₂, of which in particular:

- 189,771 are valued at 14.34 euro/t;
- 361,024 are valued at 14.76 euro/t.

Presidential Decree no. 157 of September 26, 2011 was published in Official Journal no. 224 of September 26, 2011; this adopts the regulation for implementing Regulation (EC) no. 166/2006 concerning the establishment of a European Pollutant Release and Transfer Register and amending Council Directives 91/689/EEC and 96/61/EC.

Electricity sales price for owners of plants under the CIP 6/92 convention

Law no. 99/09 provided that from 2009 the value of the component relating to the Avoided Fuel Cost (CEC) of the sales price of CIP 6 electricity due to owners of plants forming part of the convention, to be recognized on account until the annual settlement price is fixed, should

be determined by a decree of the Ministry for Economic Development, on the proposal of the AEEG. In addition, the law clarified that these updates must be carried out on the basis of the quarterly periods for the recording of the quotations of the products of the basket of reference for the conventional component relating to the value of natural gas as per Resolution no. 154/08 of the AEEG.

In February 2011 the Electricity Services Manager (GSE) published the tables for the sales prices of electricity produced under the CIP 6/92 regime which must be used by producers who are owners of plants with that convention for valuing electricity sold to the GSE in the first quarter of 2011.

With the Ministerial Decree of June 8, on the proposal of the Energy Authority, for the purpose of determining the 2010 settlement value for the Avoided Fuel cost for plants under the CIP 6/92 regime, the Ministry for Economic Development quantified the average price of the fuel for 2010 as per the convention to be 29.05 €/cm (with the Ministerial Decree of July 12, 2010 the price was quantified as 29.59 €/cm for the 2009 settlement).

Green Pricing

With Resolution ARG/elt no. 104/11, the Authority established the information that each renewable energy contract signed on or after October 1, 2011 and relating to electricity supplied to the end customer on or after January 1, 2012 must contain so that the same quantity of electricity produced from renewable sources is not accounted for in several green energy contracts.

The Authority requires 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. As a result, therefore, 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.

With 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 and 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.

Regulation of the electricity sector in Montenegro

The electricity sector in Montenegro is regulated by the Energy Law (a first Energy Law was issued in 2003 while the law which is currently in force was issued in 2010). On the basis of this law, in establishing the country's economic policy the government must also indicate a strategy for the energy sector. The Energy Regulatory Agency (RAE), an autonomous and independent body established by the 2003 Energy Law, has the task of regulating the sector along all the stages of the chain (generation, transmission, distribution and sale to the end customer) in accordance with the government's recommendations and on the basis of the provisions contained in the Energy Law.

The new law dictates provisions in terms of the functional unbundling (separation of accounting, separation of management and separation of sensitive commercial information) of all the activities of the electricity sector; in addition, distribution must be separated from a corporate standpoint from the other activities managed by the vertically integrated company by the end of 2011.

Until 2010 tariffs were determined on the basis of the "Electricity tariff rules" adopted by the RAE pursuant to the 2003 law. The methodology applied by the RAE is based on a cost-plus type remuneration principle, under which tariffs are established in such a way as to ensure that the operator's actual costs are covered, thus guaranteeing remuneration of the capital invested without however encouraging efficiency in any specific way.

Starting from 2011 these are determined on the basis of the rules established in the Energy Law issued in 2010. In particular, under article 52 of this law, a provisional method for calculating tariffs should have been approved no later than six months after the law became effective, while waiting for the final method to be approved by the end of 2011.

As a consequence, in July 2011 the Montenegro Regulation Agency submitted for consultation the drafts of resolutions on the provisional method, confirming the cost-plus method as the criterion for determining tariffs. Following this, during the first part of 2011, the RAE adopted the provision for determining tariffs for the period from April 1, 2011 to March 31, 2012, known as the "transition period", setting tariffs considerably lower than those previously recognized.

EPCG lodged an appeal with the Montenegro Administrative Court against this provision and, following this, with the country's Supreme Court. The proceeding is still in progress.

The critical matters to be found in the regulation of the energy sectors have also been stressed by the European Commission in its report aimed at assessing the country for the purpose of becoming a full member of the European Community, in which it is stated that regulation, and in particular that of electricity, is still inadequate compared to European standards.

As a result of this during the last part of 2011 the Agency put out for consultation a new method for determining electricity transmission and distribution tariffs, as well as that for setting the price of selling electricity to the end customer. This method introduces regulatory elements that are in line with those in force in the main European countries, such as multi-year regulatory periods (three years), widely agreed methods of valuing capital and the remuneration rate and the price-cap method. The Regulation Agency will have to take account of the differences encountered in the transitory period between the actual amounts and those established on the approval of the tariffs in force during the first regulatory period which runs from July 2012 to July 2015.

On December 30, 2011 the RAE approved the new method for calculating tariffs which will become effective on August 1, 2012. In addition the tariffs in force from January 1, 2012 to July 31, 2012 were approved; these are higher than those in force in 2011.

Recent legislative changes in the natural gas sector

Upstream gas market

Reorganization of the market and regulations governing the equalization of the economic merit of natural gas

On December 1, 2011, the equalization of economic merit established in Resolution ARG/gas no. 45/11 commenced.

This took place in a context of legislative uncertainty as concerns the discipline of the guarantees requested by operators in order to be able to work in the equalization market. The discipline designated by Snam Rete Gas was in fact challenged by certain operators as it was considered excessively burdensome. On December 14, 2011, with the market started up, the Electricity and Gas Authority ordered the suspension of the means of applying this system following the decision of the Lombardy Regional Administrative Court (TAR) to uphold the appeal made by certain operators. Following the rejection, again by the Lombardy TAR, of the application made by the Authority to revoke and/or amend the suspension, the Authority finally took action on the merits with Resolution ARG/gas no. 192/11, adopting appropriate urgent initiatives to safeguard the gas equalization market.

The discipline introduced by the Storage Decree

In April 2011 the procedure to allocate new storage capacity as per article 6.5 of Legislative Decree no. 130/2010 (the “Storage Decree”) went live with the start of the first stage of the tender procedures for the new storage capacity made available by Stogit amounting in total to 3 billion cm: 2.033 billion cm were assigned to industrial customers (compared to a demand of over 9 billion cm) and 967 cm were assigned to SMEs (compared to a demand of over 1 billion cm), at a price of 1.250155 euro/GJ. There is accordingly no capacity available for thermoelectric customers for thermal year 2011/2012.

The GSE subsequently published the final version of the rules for regulating competition procedures for the selection of virtual storers, together with the relative draft contract, thus making the operational start-up of the discipline possible.

Gas supply

Protected economic conditions

The dispute regarding Resolution ARG/gas no. 89/10, approved in June 2010, by which the AEEG amended 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 moreover been confirmed by Resolution ARG/gas no. 77/11, which extends the mechanism envisaged by Resolution ARG/gas no. 89/10 to September 30, although the value of the coefficient k has been slightly increased (from 0.925 to 0.935).

With Resolution ARG/gas no. 200/11 the Authority has finally intervened on the subject of the retail sale of natural gas, reviewing the present methodologies for calculating the relative component QVD applied to end customers as part of the protected gas service and determining the means by which providers of the protected service are remunerated.

Sale of other gases

With Resolution ARG/gas no. 124/11 the Authority introduced certain changes to attachment A of Resolution ARG/gas no. 64/09 with respect to other gases. In particular, a monthly updating of the component QEPROMC covering the cost of raw materials has been introduced, eliminating the invariance threshold of 5%; in addition the value of the components QVDgpl and QVDgasmanufatti are established for the period from January 1, 2012 to December 31, 2013, setting these at 0.176000 euro/scm and 44.00 euro/redelivery point per year. Subsequently, with Resolution ARG/gas no. 193/11, the Authority amended the means of updating the element QTCAi covering transport and other costs, which will change its value at

the beginning of the calendar year on the basis of the weighted average, with weights of 50%, of the inflation rate and the change in the price of diesel fuel as measured by the Italian national statistics agency ISTAT.

Provisions common to both sectors (electricity and gas)

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

At the end of a detailed legislative process, on October 25 last year the European Parliament and Council adopted the new Regulation (EU) no. 1227/2011 on wholesale energy market integrity and transparency (REMIT), whose aim is 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 on arranging market abuse in the form of “insider trading” and “market manipulation” regarding wholesale energy products, as well as causing operators to make “inside information” known. The body delegated to monitor market operations is the Agency for the Cooperation of Energy Regulators (ACER).

With the exclusion of certain specific articles, on December 28 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 and to publicly disclose “inside information” which an operator holds in relation to its plant or activity.

Protection of end customers

The Commercial code of conduct introduced with Resolution ARG/com no. 104/10 became effective on January 2011. This applies when any sales entity proposes a supply contract on the free market to end customers fed by low voltage and/or having natural gas usage not exceeding 200,000 scm/year.

On the basis of the requirements of Legislative Decree no. 93/11, with Resolution no. 71/11 the Authority amended Resolution ARG/gas no. 64/09 and 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 and, regardless of consumption, public service activities.

Quantitative data-electricity sector

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

GWh	12 31 2011	12 31 2010	Changes	% 2011/2010
SOURCES				
Net production	11,735	12,869	(1,134)	(8.8%)
-thermoelectric production	8,210	9,039	(829)	(9.2%)
-hydroelectric production	3,525	3,830	(305)	(8.0%)
Purchases	37,108	33,417	3,691	11.0%
-single buyer	2,983	3,241	(258)	(8.0%)
-exchange	11,958	13,207	(1,249)	(9.5%)
-foreign markets	14,898	10,543	4,355	41.3%
-other purchases	7,269	6,426	843	13.1%
TOTAL SOURCES	48,843	46,286	2,557	5.5%
USES				
Protected market sales	2,983	3,241	(258)	(8.0%)
Sales to eligible customers and wholesalers	20,663	16,936	3,727	22.0%
Sales on the exchange	13,203	17,177	(3,974)	(23.1%)
Sales on foreign markets	11,994	8,932	3,062	34.3%
TOTAL USES	48,843	46,286	2,557	5.5%

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 2011 amounted to 11,735 GWh, to which should be added purchases of 37,108 GWh for a total availability of 48,843 GWh.

Production fell by 8.8% compared with the previous year.

The drop in thermoelectric production was caused by a lower load factor in the Group's power stations and the departure from the scope of the tolling agreement with Edipower of the San Filippo del Mela oil-fired power station managed directly by Edipower S.p.A. under the essentiality regime.

Hydroelectric production was also lower than 2010; this had benefited from the exceptional rainfall in Calabria in the first part of the year, with production well above historical averages.

Purchases of electricity rose by 11% over 2010 from 33,417 GWh to 37,108 GWh.

In addition there was an increase in sales on the retail and wholesale markets and a rise in the quantity of electricity brokered on foreign markets, which more than offset the decrease in electricity brokered on the Ipx platform.

The following is a summary of the quantitative data relating to the electricity sector of the EPCG Group, which has been consolidated on a line-by-line basis since December 31, 2010.

GWh	12 31 2011	12 31 2010	Changes	% 2011/2010
SOURCES				
Production	2,656	4,021	(1,365)	(33.9%)
-thermoelectric production	1,452	1,272	180	14.2%
-hydroelectric production	1,204	2,749	(1,545)	(56.2%)
Imports and other sources	2,064	661	1,403	212.3%
-imports	1,371	722	649	89.9%
-other sources	42	21	21	100.0%
-EPS (Serbian Electricity Company)	651	(82)	733	na
TOTAL SOURCES	4,720	4,682	38	0.8%
USES				
Domestic market consumption	4,052	3,857	195	5.1%
Network losses	159	164	(5)	(3.0%)
Other uses	27	51	(24)	(47.1%)
Export	411	445	(34)	(7.6%)
EPS (Serbian Electricity Company)	71	165	(94)	(57.0%)
TOTAL USES	4,720	4,682	38	0.8%

In 2011 the EPCG Group produced 2,656 GWh of electricity, to which should be added purchases of 2,064 GWh for a total availability of 4,720 GWh.

The fall in hydroelectric production (-1,545 GWh) is mainly due to the reduced production at the EPCG Group's plants, which in the year in question was lower than the previous year which benefited from much higher production than the historical average due to the exceptional rainfall.

The significant drop in hydroelectric production compared to an increase of 5.1% in domestic demand led to an increase in the quantities imported (+649 GWh) and coal plant production (+180 GWh).

Quantitative data-gas sector

Millions of cm	12 31 2011	12 31 2010	Changes	% 2011/2010
SOURCES				
Procurement	5,680	5,901	(221)	(3.7%)
Withdrawals from stock	(81)	(39)	(42)	na
Internal consumption/GNC	(32)	(32)	–	0.0%
TOTAL SOURCES	5,567	5,830	(263)	(4.5%)
USES				
End uses	1,684	1,929	(245)	(12.7%)
Thermoelectric uses	1,287	1,320	(33)	(2.5%)
Heat uses	221	228	(7)	(3.1%)
Wholesalers	2,375	2,353	22	0.9%
TOTAL USES	5,567	5,830	(263)	(4.5%)

Quantities are stated in standard cm reported at a GCV of 38100 MJ on delivery

During 2011 volumes sold fell by 4.5% over 2010 due to the reduced requirements of the Group's thermoelectric stations and a drop in demand from end customers caused by the mild temperatures experienced during the winter period.

Economic data

Millions of euro	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	4,905	4,702	203
Gross operating income	336	441	(105)
% of revenues	6.9%	9.4%	
Depreciation, amortization and provisions	(248)	(211)	(37)
Net operating income	88	230	(142)
% of revenues	1.8%	4.9%	
Investments	32	44	(12)

The revenues of the Energy Sector amounted to 4,905 million euro in the year, of which 273 million euro attributable to the EPCG Group (4,702 million euro in the previous year of which 226 million euro relating to the EPCG Group).

Gross operating income of 336 million euro fell by 105 million euro compared to 2010: the decrease of 117 million euro in the income in the electricity division was only partially offset by the increase of 12 million euro in the income of the gas division.

Excluding the contribution of the Montenegro subsidiary EPCG, the result of the electricity division fell by 69 million euro over the previous year, due mainly to the contraction of margins

from the sale of electricity and the lower contribution from the valuation of excess environmental certificates.

The contribution of the electricity sector of EPCG decreased by 48 million euro over 2010.

This is mainly due to the reduction in hydroelectric production in 2011 for the above-mentioned reasons and the resulting increase in the quantity of imported electricity, in a market situation characterized by rising prices together with the delay in adjusting sales tariffs to end customers with supply prices increasing.

In the gas division the positive contribution arising from the renegotiation of long-term supply contracts and careful management of provisioning sources which enabled the Group to take advantage of the opportunities resulting from a market situation characterized by an excess of gas supply (a long market) was partially offset by the lower volumes sold to end customers and the unfavorable effects of the energy scenario on the indexing formulae in sales and purchase contracts.

Depreciation, amortization and provisions totaled 248 million euro (211 million euro in the year ended December 31, 2010). This item includes the depreciation, amortization and provisions of the electricity sector of the EPCG Group amounting to 52 million euro (28 million euro in the previous year).

As a result of the above changes, net operating income amounted to 88 million euro (of which -62 million euro relating to the electricity sector of the EPCG Group), a decrease of 142 million euro over the previous year.

Capital expenditure totaled 32 million euro and mainly regarded extraordinary maintenance at the Timpagrande hydroelectric plant (modernization and replacement of turbine components for 4.3 million euro) and the Satriano hydroelectric plant (0.6 million euro for extraordinary maintenance and 4.1 million euro relating to the refurbishment of the reservoir and the capitation plant), and at the other plants in Calabria (2.5 million euro) and in the Valtellina (2.4 million euro).

In addition extraordinary maintenance was carried out on the thermoelectric plants at Gissi (3.2 million euro), Cassano D'Adda (4.2 million euro), Monfalcone (4.9 million euro mainly relating to work to adjust groups 1 and 2) and Ponti sul Mincio (2.0 million euro).

The EPCG Group made investments of 4 million euro in the year under review relating mainly to the hydroelectric plant at Perucica (1.5 million euro) and Piva (0.9 million euro) and the thermoelectric plant at Pljeverlja (0.7 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 companies listed below form part of the Heat and Services Sector:

Heat and services	Consolidated companies of the a2a group
Cogeneration plants	<ul style="list-style-type: none">• AzA Calore & Servizi• Proaris• Coriance Group• Varese Risorse
District heating networks	
Sale of heat and other services	

Recent legislative changes in the cogeneration sector

Incentives for high yield cogeneration

With a decree of September 5 the measures concerning incentive for High Yield Cogeneration (Cogenerazione ad Alto Rendimento - CAR) were introduced, pursuant to the provisions of Law no. 99/09 (the “Development Law”).

In particular, it is recalled that with Legislative Decree no. 20/07, implementing the European provisions relating to this combined method of producing electricity and heat, it was established that for the whole of 2010 all cogeneration plants within the meaning of Resolution no. 42/02 (with IRE indices and low voltage above the thresholds envisaged therein) would be considered as qualifying as high yield cogeneration plants, with access to the White Certificate system envisaged for this production.

In addition, a ten-year term was envisaged for the support regime in the Development Law, on the basis of the primary energy saving achieved, including with regard to the self-consumed energy in situ, applicable to the new power entering use (following the new construction or refurbishment of existing plants) after the date of issue of the law (and hence after August 15, 2009).

Further, with a decree of August 4, 2011 the provisions of Legislative Decree no 20/07 for determining the criteria for qualifying as a CAR from January 1, 2011 were supplemented.

The final incentive therefore provides for the recognition of White Certificates to these plants:

- for a period of ten years for plants producing solely under the above cogeneration regimes;
- for a period of 15 years for the above plants connected to district heating networks.

The certificates allocated in this way:

- may be used to satisfy the compulsory quotas borne by operators subject to energy efficiency restrictions;
- may be sold (bilaterally) to obliged 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 obliged operators but will be accounted for for the purposes of the 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.

In conclusion, specific legislation is also planned to determine the incentives for the refurbishment of existing plants and those entering use 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, introducing the Third Energy Package Directive on the production of renewables into Italian legislation.

For the purpose of issuing Green Certificates, with Resolution ARG/elt no. 181/11 the Authority confirmed the current values of the reference parameters for the recognition of the cogeneration technical condition as per article 2 of Resolution no. 42/02 also in the case of plants entering use after December 31, 2010.

The new definition of high yield cogeneration as per the Ministerial Decree of August 4, 2011 provides for the possibility that a plant or a cogeneration section may also be partially high yield. In order to recognize the recent completion of the legislative framework on high yield cogeneration, with Resolution ARG/elt no. 181/11 the Authority states that for the purposes of the application of the dispatching priorities as per resolution no. 111/06, the plant must qualify as High Yield Cogeneration (CAR) under the criteria of the Ministerial Decree of August 4, 2011 and that the relative ECHP must be equal to or greater than half of the total gross production of electricity of the same plant or plant section.

Key quantitative and economic data of the sector are reported below.

Quantitative data

GWh _t	12 31 2011	12 31 2010	Changes	% 2011/2010
SOURCES				
Plants at:	1,626	1,738	(112)	(6.4%)
- Lamarmora	474	534	(60)	(11.2%)
- Famagosta	141	144	(3)	(2.1%)
- Tecnocity	71	70	1	1.4%
- Corianze plants	562	619	(57)	(9.2%)
- Other plants	378	371	7	1.9%
Purchases from:	1,248	1,300	(52)	(4.0%)
- Third parties	470	505	(35)	(6.9%)
- Other sectors	778	795	(17)	(2.1%)
TOTAL SOURCES	2,874	3,038	(164)	(5.4%)
USES				
Sales to end customers	2,874	3,038	(164)	(5.4%)
TOTAL USES	2,874	3,038	(164)	(5.4%)

(*) net of losses.

Note:

- The figures refer to district heating alone. Sales relating to heat management are not included.
- The quantities of heat purchased from the Environment Sector are included among purchases.

There was a fall of 5.4% in the sale of heat to end customers in the year under review compared to 2010, being the result of the mild temperatures experienced during the winter months.

As a result, the production and purchase of heat also fell by 112 thermal GWh and 52 thermal GWh respectively.

Economic data

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	397	367	30
Gross operating income	85	70	15
% of revenues	21.4%	19.1%	
Depreciation, amortization and provisions	(48)	(54)	6
Net operating income	37	16	21
% of revenues	9.3%	4.4%	
Investments	96	69	27

Revenues amounted to 397 million euro in 2011 (367 million euro for the year ended December 31, 2010).

Gross operating income of 85 million euro represented a rise of 15 million euro over the previous year, in line with the figures for the first nine months of the year. The increase arising from the new volumes connected was partially offset by the decrease in volumes sold. Also contributing to the increase in gross operating income were the management of heating plants owned by the end customer and the recognition of energy efficiency certificates regarding initiatives set up in previous years.

The good performance of the French subsidiary Coriance also contributed to the result.

Depreciation, amortization and provisions amounted to 48 million euro, representing a decrease of 6 million euro over 2010.

As a result of these changes net operating income amounted to 37 million euro (an increase of 21 million euro over the previous year).

Capital expenditure in 2011 amounted to 96 million euro and related mainly to extraordinary maintenance and development work on district heating networks (35 million euro) and cogeneration plants (22 million euro) in the areas of Milan, Brescia, Bergamo and Varese.

In particular, the new trigeneration plant was completed in the Varese area (6 million euro).

The Coriance Group made investments of 39 million euro in 2011, mainly relating to the construction of the biomass cogeneration plant at Drome.

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:** cleaning streets and collecting refuse for transportation to its destination.
- **Treatment:** an activity that is carried out in dedicated centers to recover or transform the waste in order to make it suitable for the recovery of materials, incineration with 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 plants or the use of biogas.

The Environment Sector includes the following companies:

Environment	Consolidated companies of the A2A Group	
Collection and street sweeping	<ul style="list-style-type: none">• Ecodeco Group• Amsa• Aprica• Montichiariambiente• Ecofert	<ul style="list-style-type: none">• Partenope Ambiente• Aspem S.p.A.
Treatment		
Disposal and energy recovery		

Recent changes in legislation in the environment sector

At the end of July 2010 the government issued the implementing regulation for the provisions contained in article 23-bis (concerning local public services of economic importance) of Law no. 133/08, as amended by Decree Law no. 135/09 (“community obligations”) converted by Law no. 166/09.

In addition, the community obligations Decree Law introduced an amendment to the regulations concerning the transitional period during which mandates for water and waste management services which are outstanding and do not derive from public procedures remain in force.

Moreover as the result of the referendum held on June 12 and 13, 2011, article 23-bis of Law no. 133/08 is waiting to be formally repealed.

Further details in this respect may be found in the section Risks and uncertainties.

Consolidated Environment Law

Decree no. 152 of April 3, 2006 “Regulations on environmental matters” (as subsequently amended and supplemented, most recently by Legislative Decree no. 205/10 which dictated measures implementing Directive 2008/98/EC on waste) acts as the reference legislation for the waste sector and was revised during 2008 by the “Unified Amendment”. This provision (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 required to carry 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.

(2) Converting into law, with amendments, Decree Law no. 112 of June 25, 2008 on urgent provisions for economic development, simplification, competitiveness, the stabilization of the public finances and tax equalization.

Waste tracking control system

With the Ministerial Decree of December 17, 2009, subsequently amended and supplemented 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.

With Law no. 148/2011, effective from September 17, 2011, parliament reinstated the SISTRI repealed by the Anticrisis Decree Law. In addition, the date on which the SISTRI is to commence was postponed to April 2, 2012 by article 13, paragraph 3 of Decree Law no. 216 of December 29, 2011 (the “thousand extensions decree”).

Finally, operational simplifications have been introduced in the Decree of the Environment Ministry no. 219 of November 10, 2011.

Province of Brescia Provincial Waste Management Plan

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

Lombardy Region

In accordance with the provisions of article 19, paragraph 3 of Regional Law no. 26 of December 12, 2003, which establishes that “regional planning” be set up by the Act of Direction and the Regional Waste Management Plan (Programma Regionale di Gestione dei Rifiuti - PRGR), with Resolution no. 280 of November 8, 2011 the Lombardy Regional Council approved in final version the regional Act of Direction on Waste. The Regional Council can proceed with the preparation of the sections making up the Waste Plan.

With a Decree of the Regional Government of November 16, 2011, the Lombardy Region then approved the new means, contents and timing for the compilation of the O.R.SO.

(Osservatorio Rifiuti SOvraregionale - Supraregional Waste Observatory) application relating to the collection of data on the production and management of urban waste and waste managed by the plants in the Region.

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

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 the framework decision no. 2008/98/EC which requires member states to increase their preparation for the 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, by respectively 50% and 70% by weight.

Key quantitative and economic data of the sector are reported below.

Quantitative data

	12 31 2011	12 31 2010	Changes	% 2011/2010
Waste collected (Kton) (*)	949	976	(27)	(2.8%)
Waste disposed of (Kton)	2,626	2,763	(137)	(5.0%)
Electricity sold (GWh)	1,209	1,179	30	2.5%
Heat sold (GWht) (**)	899	907	(8)	(0.9%)

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

(**) Quantities at the plant entrance.

There was a decrease of 2.8% in the quantity of waste collected (949 thousand tonnes) in 2011 over 2010. The quantities of waste disposed of also fell (-5.0%) due to the reduced amounts of industrial waste and urban waste taken to the Group's landfills.

On the other hand the quantity of electricity produced by the waste to energy plants exceeded that of 2010 and this benefited from the rising sales prices.

The production of heat, however, was substantially in line with the previous year.

Economic data

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	823	790	33
Gross operating income	287	262	25
% of revenues	34.9%	33.2%	
Depreciation, amortization and provisions	(108)	(110)	2
Net operating income	179	152	27
% of revenues	21.7%	19.2%	
Investments	35	58	(23)

The Environment Sector recorded revenues of 823 million euro in 2011 (790 million euro in the previous year).

Gross operating income closed at 287 million euro, an increase of 25 million euro over the previous year. This positive performance is basically due to an increase in the contribution made by the Group's waste to energy plants and an increase in revenues from the sale of electricity.

Depreciation, amortization and provisions amounted to 108 million euro, representing a decrease of 2 million euro over the previous year.

As a result of these changes net operating income amounted to 179 million euro, an increase of 27 million euro over 2010.

Capital expenditure during the period amounted to 35 million euro and related mainly to collection vehicles and containers (16 million euro) and maintenance and development work on waste to energy plants (8 million euro) and on treatment plants and landfills (8 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 water purification.
- **Other services:** activities relating to public lighting, traffic regulation systems, the management of votive lights and systems design services.

The Networks Sector includes the following companies:

Networks	Consolidated companies of the a2a group	
Electricity networks	<ul style="list-style-type: none">• A2A Reti Elettriche• A2A Reti Gas• A2A Ciclo Idrico• EPCG• Mincio Trasmissione	<ul style="list-style-type: none">• Camuna Energia• Retragas• Seasm• Aspem S.p.A.• A2A Servizi alla distribuzione
Gas networks		
Integrated water cycle		

Recent regulatory changes in the distribution sector

Natural gas distribution

Allocation and performance of the distribution service

With respect to 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, in conjunction with the Ministry for Regional Affairs, after consulting with the Combined Conference and the Electricity and Gas Authority.

On March 31, 2011 the Decree of the Ministry for Economic Development dated January 19, 2011 was published in the Official Journal; this identifies 177 Minimum Territorial Ambits and provides details by region in attachment 1.

Nevertheless, the precise identification of the individual municipalities making up each Minimum Territorial Ambit was deferred to a subsequent decree of the Ministry for Economic Development, “attachment 2”, published on October 28, 2011 in ordinary supplement no. 255 of the Official Journal. The criteria underlying the identification of the municipalities included in each individual Ambit envisage a maximum of 50 municipalities for Ambits with more than 50,000 effective customers; in addition, municipalities fed by the same distribution plant will be included in the same Ambit. Account will also be taken of population density and the specifics of the area.

In respect of the possibility of calling new tenders before this discipline is completed, the legislator has specified by means of Legislative Decree no. 23 of June 1, 2011 (Third Energy Package) that all tenders for which by the effective date of this law a tender notice has been published in the case of an open procedure or invitation letters have been sent in the case of a restricted procedure may be carried out on the basis of the procedures applicable at the date on which they were called, provided that such documents include the criteria for evaluating the offer and the amount of the repayment to be made to the outgoing operator.

From June 29, 2011, the date on which the decree became effective, tenders not included in these cases must be carried out exclusively for Territorial Ambits as per article 46-bis of Law no. 222 of 2007 and on the basis of the criteria referred to therein.

In respect of the criteria for the tenders for the allocation of the distribution service, article 46-bis establishes that the Ministry for Economic Development, in conjunction with the Ministry for Regional Affairs, after consulting with the Combined Conference and on the basis of the opinion of the Electricity and Gas Authority, shall identify the “criteria for the tender and the valuation of the offer for allocating the gas distribution service”. The criteria that will

be used for this purpose, contained in Decree no. 226 of November 12, 2011, published in ordinary supplement no. 22 of the Official Journal of January 27, 2012, are, in addition to the economic conditions, the benefits for consumers, the quality and safety standards and the soundness of the investment and development plans.

Finally, the Ministerial Decree dated April 21, 2011 has been published; this concerns provisions for regulating the social effects connected with the new means of allocating gas distribution concessions, the “Social Clause” measure. This decree, drawn up by the Ministry for Economic Development and the Ministry for Employment and Social Policies, contains regulations 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 towards the latter.

The protection envisaged for the company’s employees consist in the fact that they will be immediately directly transferred to the company taking over, with the employment conditions they previously had of an economic nature and relating to length of service schemes of which they are members being guaranteed. Suitable lay-off schemes will be applied for those members of staff who turn out to be in excess to needs, without prejudice to the possibility of being rehired should the new company seek additional personnel within two years of the date of the tender.

Distribution tariffs

With Resolution ARG/gas no. 159/08 (Consolidated Text on the regulation of the quality and tariffs of services for the Distribution and measurement of Gas for the regulatory period 2009-2012 (TUDG): approval of part II “Tariff Regulation for services for the Distribution and measurement of Gas for the regulatory period 2009-2012” (RTDG)), the Authority established a compulsory tariff, separated into six tariff areas and applicable for the calendar year, as coverage of the costs relating to the distribution, measurement and marketing service.

The tariff regime envisages remuneration of the net invested capital at a rate of 7.6% for distribution and 8% for measurement.

Operating costs are updated by applying a price cap differentiated by company size.

Since analyses showed that 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 the companies have been reduced by the percentages provided by article 17 of the RTDG.

In 2009, however, certain operators lodged appeals against this provision with the Lombardy Regional Administrative Court (TAR), which in part upheld their requests. As a result, the following tariff regulation schemes have been cancelled:

- the reduction of 10% in the tariff restriction for the previous regulatory period for operators who do not supply the data requested, either wholly or in part;
- the missing estimate of the “volume effect”, namely the exclusion of the possibility to recover in the tariff the negative meteorological effect occurring during the last two years of the second regulatory period;
- the estimate of a productivity recovery coefficient, the “X-factor”, constant for the whole term of the third regulatory period.

As partial protection of the economic and financial balance of operators, the payments on account for the 2011 and 2012 equalizations have been determined, while the balance will only be settled after the publication of the reference tariffs for those years, on the outcome of the appeals in progress.

With Resolution no. ARG/gas n. 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:

- a) dealing with customers who, although not being responsible for it, have ended up without a seller and:
 - i) who are not entitled to the FUI (last resort supplier);
 - ii) or who, despite being entitled to use that scheme, are unable to take advantage of it (e.g. having reached the quantitative limit of the FUI, null auction, etc.);
- b) 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 following the requests for closure for default;
- c) ealing with customers in default who cannot be cut off (identified in the activities of recognized assistance such as hospitals, schools, nursing homes, prisons).

Following the appeals lodged by several businesses against this resolution, the third section of the Lombardy TAR upheld the request for suspension of the provision limited to the default service. The judgment on the merit has been deferred to the public hearing of June 6, 2012.

Despite the ruling of the TAR, with Resolution ARG/gas no. 207/11 the Authority has postponed the date on which the default service will become effective to May 1, 2012.

Gas quality

With Resolution ARG/gas no. 93/11 the Authority has determined the tendential levels for safety recovery for 2010-2012 for each provincial Ambit of A2A Reti Gas S.p.A..

These levels have been calculated on the basis of the information provided to the Authority and the value of the indicators for the 2008-2009 reference period.

Distribution of other gases

With Resolution ARG/Gas no. 195/11 the Authority has approved the tariff options for 2010-2012 for the provision of services for the distribution and measurement of gases other than natural gas. In future, however, following the appeal lodged against the rulings of the Lombardy TAR and the conclusion of the proceeding designed to adopt changes to the current regulation on the determination of tariffs for the provision of services for the distribution and measurement of natural gas and other gases, commenced with Resolution ARG/gas no. 235/11 in order to comply with the rulings of the Lombardy TAR, the tariff options approved for 2010, 2011 and 2012 could require the necessary settlements.

Sale of other gases

With Resolution ARG/gas no. 124/11 the Authority introduced certain changes to attachment A of Resolution ARG/gas no. 64/09 with respect to other gases. In particular, a monthly updating of the component QEPROPMC covering the cost of raw materials has been introduced, eliminating the invariance threshold of 5%; in addition the value of the components QVDgpl and QVD gasmanufatti are established for the period from January 1, 2012 to December 31, 2013, setting these at 0.176000 euro/scm and 44.00 euro/redelivery point per year. Subsequently, with Resolution ARG/gas no. 193/11, the Authority amended the means of updating the element QTCAi covering transport and other costs, which will change its value at the beginning of the calendar year on the basis of the weighted average, with weights of 50%, of the inflation rate and the change in the price of diesel fuel as measured by the Italian national statistics agency ISTAT.

Electricity distribution

Distribution service tariff regime

With Resolution no. 348/07 the Authority adopted the Integrated Text (TIT) of the provisions for the regulation of the transmission, distribution and measurement of electricity for the third regulatory period (2008-2011).

The provision provides for a general equalization regime and a specific company-based equalization regime, ensuring that changes in the costs incurred by companies due to external factors are covered.

For the purposes of calculating tariff levels:

- the recognized return on capital invested is established as 7.0% for the distribution service, including the related marketing activities, and 7.2% for the measurement service;
- in respect of the portion of the tariff components covering operating costs, the provision establishes an annual productivity increase target (the “X-factor”) in order that the increased recoveries in efficiency already achieved by companies in the second regulatory period, as identified at an average national level, equal to 1.9% for distribution and 5.0% for the measurement service, may be transferred to end customers within eight years for transmission and distribution and within six years for the measurement service;
- with regard to annual updates, the depreciation charge is excluded from the sphere of application of the price cap.

Finally, with Resolution no. 199/11 the Authority has adopted the Integrated Text (TIT) of the provisions for regulating the transmission, distribution and measurement of electricity for the fourth regulation period (2012-2015). Although amending in part the previous method for calculating the recognized costs, the provision should not introduce significant discontinuities in the level of revenues recognized to those entities carrying out distribution activities.

Company-specific equalization

With Resolution ARG/elt no. 194/11, pursuant to the requirements of the TIT adopted with Resolution no. 348/07 and valid for the period 2008-2011, the Authority has updated the Company-Specific Correction factor for 2010 for the revenues admitted to cover distribution costs for A2A Reti Elettriche S.p.A., setting it at 0.1026. For that year, the Settlement Fund will therefore pay the company concerned the corresponding equalization amount, arranging for the settlement of the amounts already recognized on account for the same years, pursuant to Resolution ARG/elt no. 87/09.

Measurement equalization

In order to mitigate the effects arising from delays in calculating the amounts measurement equalization, the Authority has allowed operators the possibility of asking for an advance on the actual equalization result, subject to settlement and given only if the 2009 equalization was positive. A2A Reti Elettriche S.p.A. has opted for this possibility.

Investments in Smart Grids

With Resolution ARG/elt no. 12/11, the Authority published the classification list of the projects admitted to incentive treatment as per paragraph 11.4 d) of the TIT (2008-2011).

In particular, the investments relating to the pilot projects presented by A2A Reti Elettriche S.p.A. consisting of automation, protection and control systems for medium voltage active networks (smart grids) relating to the Lambrate Primary cabin (Milan) and the Gavardo Primary cabin (Brescia ambit) were classified in first and third places.

For new investments relating to pilot projects consisting of automation, protection and control systems for medium voltage active networks (smart grids), paragraph 11.4 of the TIT provides for the recognition of an increase of 2% in the remuneration rate for invested capital for 12 years. This increase will be recognized in the fourth regulatory period (2012-2015).

Electric cars

With Resolution ARG/elt no. 96/11 the Authority provides for the recognition of the incentive for installing public charging points for electric vehicles to the e-moving pilot project presented by A2A S.p.A..

Penalty for breaching Authority provisions on withdrawal point data

Closing the proceeding initiated with Resolution VIS no. 171/09, with resolution VIS no. 15/11 the Authority inflicted a penalty of 302,000 euro on A2A Reti Elettriche S.p.A. for breaching provisions on managing the data regarding the points of withdrawal and aggregation of withdrawal measurements for the dispatch of electricity, as per Resolutions no.168/03 and no. 111/06.

Further, with Resolution VIS no. 106/11, the Authority inflicted an additional penalty of 187,500 euro on the same company for delays in communicating the information as per paragraph 18.3 of the TIVG required for the correct billing by the sales company and for failing to comply with article 4 of the TILP, which requires the application of the treatment on an hourly basis for all low voltage supplies with available power exceeding 55 kW.

Regulation of the electricity sector in Montenegro

Reference should be made to the specific paragraph discussing the Energy Sector for details of the regulation of the electricity sector in Montenegro.

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

Energy efficiency

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 on December 31, 2001 served at least 100,000 end-customers to comply with specific energy saving objectives based on the energy distributed. In order to achieve these objectives, distributors must develop energy saving projects in compliance with the provisions of Law no. 239/04 (Marzano Law) and the related implementation instructions, especially in matters concerning post-meter activity. The 2007 decree establishes new reference objectives for the three-year period 2010 – 2012.

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

The main measures envisaged, though, may only be implemented following the issue of further ministerial decrees (the majority of which by the Ministry for Economic Development and the Ministry for the Environment).

With Resolution EEN no. 9/11 the Authority updated the Guidelines for the preparation, execution and assessment of the project as per article 5.1 of the Ministerial Decree of July 20, 2004 and subsequent amendments and additions by replacing attachment A of Resolution no.103/03 and subsequent amendments and additions. In addition, the Authority has formalized the application of the new method of calculating energy efficiency savings to all projects, with reference to the savings achieved from November 1, 2011 and up to the end of the useful life of each intervention, in compliance with the requirements of Legislative Decree no. 28/11.

Tariff grant

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

The tariff grant 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 worth 93.68 euro/tonne of oil equivalent (toe) saved.

While waiting for the complete determination of the envisaged legislative provisions for reforming the energy efficiency mechanism, with Resolution EEN no. 9/11 the Authority updated the unit tariff grant for achieving the energy savings objectives for 2012, equal to 86.98 euro/toe.

Energy saving objectives for 2011

With Resolution EEN no. 18/10, the Authority established the specific objectives for primary energy savings for 2011 for the distributors of gas and electricity. The objectives set for the obligated distributors of the A2A Group are set out in the following table:

Distributor	Objective 2011 (toe)
A2A Reti Elettriche S.p.A.	144,103
A2A Reti Gas S.p.A.	144,162

Achievement of energy saving objectives for 2010

Pursuant to Resolution no. 98/06 as subsequently amended and supplemented, the two distributors of the A2A Group subject to the obligation requested the cancellation of the following energy efficiency credits for 2010:

Distributor	Obligation 2010	Obligation 2009
A2A Reti Elettriche S.p.A.	89,371	1,946
A2A Reti Gas S.p.A.	101,694	1,636

Both distributors fulfilled the specific energy saving objective for 2010, as established by Resolution EEN no. 25/09 as amended and supplemented by Resolution EEN no. 1/10, as to 84% of the total obligation. Pursuant to the Ministerial Decree of December 21, 2007, the missing portion to satisfy the obligation for 2010 must be compensated by the end of 2012.

In addition, the distributors arranged for the cancellation of the credits corresponding to the part of the energy saving obligation for 2009, not compensated on the cancellation of the objective for that year.

Provisions concerning accounting and functional separation (unbundling)

With 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, modifying the rules in force (established by Resolutions no. 310/01 and no. 311/01).

This resolution introduces the requirement for vertically integrated groups to unbundle from

a functional standpoint the distribution of electricity and gas, the transmission of electricity and the transport of gas from the activities it carries on in the free market. The purpose is to ensure neutrality in the management of these infrastructures and to prevent discrimination in the access to commercially sensitive information and cross-transfers of resources between segments of the various sectors (this latter objective is more directly pursued through the provisions regarding accounting unbundling).

On the basis of the legislation, the activities subject to functional unbundling have been given decision-making and organizational autonomy by assigning the administration to an “Independent Manager”.

In implementing the provisions adopted by the AEEG with Determination no. 6/10 of the Director of the Tariff Department, A2A Reti Elettriche S.p.A., A2A Reti Gas S.p.A. and Azienda Servizi Valtrompia S.p.A. have carried out the requirements of the TIU for 2010 and 2011, while the Independent Managers of Retragas S.r.l., Mincio Trasmissione S.r.l. and Seasm S.r.l. were appointed during the first half of 2011.

Certification of businesses acting as managers of natural gas transportation systems of electricity transmission systems

The provisions specified in European Directives 2009/72/EC and 2009/73/EC for entities intending to act as a transport or transmission manager were transposed into Italian law with Legislative Decree no. 93/11. This legislative decree also assigns certifying and supervisory powers regarding compliance by operators of the provisions to the Authority. In this respect the Authority has issued Resolution ARG/com no. 153/11 in which it provides an accurate definition of the relative certification discipline.

These certification criteria are also applicable to entities that are owners of sections of the National Transmission Network, while the owners of regional networks for the transportation of natural gas have the option to avail themselves, subject to notifying the Authority, of the provisions of article 10, paragraph 4 of Legislative Decree no. 93/11, as they are not subject to certification. Retragas S.r.l. has availed itself of this option.

Mincio Trasmissione S.r.l. and Seasm S.r.l. satisfied the Authority’s requirements in December 2011.

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 measures and growth (the “Mid-August Budget”), amended current provisions on the “Robin Hood” tax. In addition to increasing the addition to

IRES corporate income tax (which now arrives at 10.5%), the law 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 now 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 taxpayers).

Integrated water service

With Decree Law no. 225 of December 29, 2010 (the “thousand extensions decree”) provision was made for the general extension to March 31, 2011 of certain legal regimes with expiry prior to March 15, 2011.

The conversion into law of Decree Law no. 2 of January 25, 2010 in fact provided for the abolition of the Optimum Territorial Ambit Authorities and gave the regions the task of assigning (possibly to new entities) the functions exercised by the Optimal Territorial Ambit Authorities in accordance with the principles of subsidiarity, differentiation and suitability. With Regional Law no. 21 of December 27, 2010, the Region of Lombardy required the functions exercised by the Ambit Authorities to be assigned to the provinces. The Decree of the Prime Minister of March 25, 2011 entitled “Additional extension of terms relating to the Ministry for the Environment and the Protection of Land and Sea” established December 31, 2011 as the end of the term for the suppression of the Ambit Authorities and completion of the subsequent formalities.

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.

Legislation on integrated water services will therefore undergo further changes.

In conclusion, paragraphs 13 and 14 of article 21 of Decree Law no. 201/11 (the “Save Italy” decree) order the suppression of the national agency for regulating and supervising water matters (which had only recently been set up), providing that in the absence of any liquidation procedure, including of a legal nature, the related functions and intrinsic financial and instrumental resources, including active and passive legal relations, shall be transferred to the Electricity and Gas Authority and the Ministry for the Environment and Protection of the Land and Sea.

The functions to be transferred to the Authority will be identified by a decree of the Prime Minister on the proposal of the Ministry for the Environment and Protection of the Land and Sea.

Further details in this respect may be found in the section relating to risks.

Optimal Territorial Ambit Province of Brescia

During the Consortium general meeting on December 21, 2010 details of tariffs for 2011 were approved; these are applicable, for the various uses, in the municipalities belonging to the Ambit. The municipalities of the Brescia Ambit have been subdivided into three tariff areas.

In addition, the amount of the restricted portion of the water purification tariff applicable to users lacking a purification service was approved.

An updating of the tariffs for the integrated water service for 2012 is currently awaited.

A summary of the key quantitative and economic data of the sector is provided below.

Quantitative data

	12 31 2011	12 31 2010	Changes	% 2011/2010
Electricity distributed (GWh)	11,489	11,375	114	1.0%
Gas distributed (Mcm)	2,011	2,255	(244)	(10.8%)
Gas supply points (Number)	1,269,628	1,255,885	13,743	1.1%
Gas transported (Mcm)	393	439	(46)	(10.5%)
Acqua distribuita (Mcm)	69	69	–	–

Electricity distributed in 2011 amounted to 11,489 GWh, representing an increase of 1.0% over the previous year, due to a pick-up in consumption by industrial customers.

The quantities of gas distributed totaled 2,011 Mcm, 10.8% down on the previous year. This trend was mainly due to the mild temperatures experienced during the winter months which had an adverse effect on the demand for gas for heating purposes.

For the same reasons the amount of gas transported amounted to 393 Mcm (439 Mcm for the year ended December 31, 2010).

The water distributed in 2011, 69 Mcm, was in line with the previous year.

The electricity distributed by the EPCG Group in the year under review rose by 1.9% as the following table shows:

EPCG	12 31 2011	12 31 2010	Changes	% 2011/2010
Electricity distributed (GWh)	2,564	2,516	48	1.9%

Economic data

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	684	705	(21)
Gross operating income	259	298	(39)
% of revenues	37.9%	42.3%	
Depreciation, amortization and provisions	(113)	(129)	16
Net operating income	146	169	(23)
% of revenues	21.3%	24.0%	
Investments	119	134	(15)

The Networks Sector had revenues of 684 million euro in 2011, of which 68 million euro is attributable to the EPCG Group (705 million euro for the year ended December 31, 2010 of which 72 million euro is attributable to the EPCG Group).

Gross operating income closed at 259 million euro (298 million euro in the previous year).

The business of managing gas distribution and transport networks closed with a net operating income of 104 million euro, representing a decrease of 3 million euro over the previous year (107 million euro for the year ended December 31, 2010). This decrease was caused by the existence of “non-recurring” revenue in 2010, only partially offset by the increased margins earned in 2011 by the application of the graduality mechanism for revenues envisaged by the tariff provisions.

Electricity distribution activities closed with a net operating margin of 142 million euro, representing a decrease of 33 million euro over 2010. Excluding the contribution made by EPCG, the decrease of 17 million euro attributable to electricity distribution activities in Milan and Brescia was due to the inclusion in 2010 of the settlements for the “company-specific equalization”.

With respect to EPCG, the decrease of 16 million euro is due to the reduction in distribution tariffs resolved by the local regulator in April 2011.

The decrease of 3 million euro in the gross operating income of the water sector is mainly due to settlements relating to previous years.

Depreciation, amortization and provisions amounted to 113 million euro (129 million euro in the year ended December 31, 2010).

As a result of the above changes, net operating income amounted to 146 million euro (169 million euro in 2010).

Capital expenditure in the Milan and Brescia areas for the year ended December 31, 2011 amounted to 112 million euro and regarded:

- as far as electricity distribution is concerned, development and maintenance work on plant, 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 (49 million euro);
- in the gas distribution area, development and maintenance work on plant relating to the connection of new users and the replacement of medium and low pressure piping and gas meters (48 million euro);
- in the integrated water cycle, work carried out on the water transportation and distribution network and the sewerage networks (15 million euro).

The EPCG Group incurred capital expenditure of 7 million euro which regarded development and maintenance work carried out on the distribution network and the replacement of gas meters.

Other services and corporate

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

- **Corporate (4):** direction, coordination and control activities, such as business development, strategic direction, planning and control, financial management and the 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 aza group
Other services	<ul style="list-style-type: none">• Selene• Aspem S.p.A.• A2A Logistica• EPCG
Corporate	

(4) 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 the Chairman of the Supervisory Board.

Economic data

<i>Millions of euro</i>	01 01 2011 12 31 2011	01 01 2010 12 31 2010	Changes
Revenues	237	241	(4)
Gross operating income	(25)	(28)	3
% of revenues	(10.5%)	(11.6%)	
Depreciation, amortization and provisions	(30)	(39)	9
Net operating income	(55)	(67)	12
% of revenues	(23.2%)	(27.8%)	
Investments	28	24	4

The Other Services and Corporate Sector earned revenues of 237 million euro in the year (241 million euro in 2010).

The gross operating loss of 25 million euro was substantially in line with that of the previous year.

After depreciation, amortization and provisions there was a net operating loss of 55 million euro.

Capital expenditure for the period amounted to 28 million euro and mainly related to investments in information systems (24 million euro) and telecommunication networks (2 million euro).

Human resources and industrial relations

The Group had 11,886 employees at December 31, 2011, of whom 2,786 working in the EPCG Group, representing a decrease of 407 (-3.3%) over December 31, 2010.

Total labor costs increased by 0.7% over 2010: the increase caused by the rise in unit cost, mainly due to the implementation of automatic contractual provisions (the renewal of the National Collective Bargaining Agreement), was to a large extent mitigated by the reduction in the workforce.

During the first half of 2011 an agreement was reached on the supplementary local agreement that is valid for the Milan and Valtellina areas.

As a result of the trade union procedure regarding the transfer of the “Water Cycle” business from A2A S.p.A to A2A Ciclo Idrico S.p.A., the national gas-water collective agreement is applicable to the transferred employees from January 1, 2011, consistent with the new company’s corporate object; following this negotiations began with the Brescia trades union organizations, at the end of which a local agreement was signed in the second half of 2011 to unify the treatment arising from the application of the new National Collective Bargaining Agreement.

Again in the second half year an agreement was reached on the supplementary local company agreement that is valid for the Brescia area (Corporate - Energy and Networks).

In addition, discussions continued with the national sector trade union organizations on matters relating to harmonization and simplification at a Group level; talks with the unions were also developed on subjects regarding work organization, the flexibility of working hours and productivity bonuses, and arranging protocols on Group industrial relations.

More than 120,000 hours of training were given in 2011 with 18,400 attendances. More specifically, around 36,000 hours were dedicated to worker safety, 32,000 hours to technical matters and 26,000 hours to managerial training. In addition, role training was begun in 2011 which amounted to around 9,000 hours, with contents which were part managerial and part technical.

Corporate Social Responsibility

The A2A Group has Sustainability as one of its founding values and this takes shape in the ability to generate and distribute value in a long-lasting and harmonic way by reconciling the needs of the various subjects with whom the Group interacts: investors, workers, local communities, suppliers, customers and institutions.

This is an approach which is the result of over a hundred years of history and which grows and renews itself in the face of new challenges: the liberalization of the markets, the economic crisis, internationalization, climate change and the rise in society's sensitivity to environmental matters.

Underlying this commitment is the awareness that the main sectors in which the Group works have a fundamental impact on the economic wellbeing of companies, people's standard of living, social development and the safeguarding of the environment.

The Group puts this commitment into practice amongst other things by deploying certified management systems in the spheres of quality, environment and safety.

In the autumn of 2011 the ISO14001 environmental certification was extended to the whole of A2A Reti Elettriche S.p.A. (previously only electricity distribution in the Milan area was certified).

The Canavese cogeneration plant (via Cavriana, Milan) of A2A Calore & Servizi S.r.l. also obtained EMAS registration in the autumn of 2011 (registration no. IT-001386).

As far as the environment is concerned, the ISO14001 certification extends to:

Plants

- 100% of installed hydroelectric power
- 100% of installed thermoelectric power
- 80% of the thermal power and 85% 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

- A2A Reti Elettriche S.p.A. - the whole of the company
- A2A Reti Gas S.p.A. - Milan area distribution network
- A2A Ciclo Idrico S.p.A. - integrated water cycle of the Brescia Municipality (including the Verziano purifier)
- A2A Calore & Servizi S.r.l. - Milan area and Brescia area district heating networks.

In addition 12 assets are EMAS registered.

In 2011 the A2A Group published its third Sustainability Report (relating to 2010), the method it has used since 2008 to account for its performance to its main interlocutors in terms of sustainable growth from an environmental, economic and social standpoint. This document is prepared in accordance with the strict principles of the GRI (Global Reporting Initiative) as integrated by the guidelines of the Energy Sector Utility supplement, obtaining a B+ level of compliance (verified by an external firm).

Thanks to its performance in the sustainability field and its commitment to reporting this, A2A S.p.A. is currently listed in the following ethical financial indices.

Indices	Ratings agency
ECPI Ethical Index EMU	ECPI
Axia CSR Italia	Axia
Axia Ethical Italia	Axia
Solactive Climate Change Index	Structured Solutions
FTSE ECPI Italia SRI Benchmark Index	FTSE ECPI
	AEI Standard Ethics

A selection of the main results achieved by the A2A Group in the Corporate Social Responsibility field since the beginning of 2011 are as follows:

- On June 14, 2011, in the Assolombarda Auditorium, A2A S.p.A. reached the final of the “Initiative in favor of the environment” category of the Sodalitas Social Award with its Contagio environmental awareness project. This award is given each year to companies, business associations, industrial clusters and organizations who have been actively involved in Corporate Social Responsibility and Sustainability projects, consistent with their declared values. The ninth edition of the Award saw 206 companies taking part with a total of 251 projects.
- On June 20, 2011 A2A S.p.A., Abruzzoenergia S.p.A. and Ecodeco S.r.l. received the Certiquality Excellence Award 2011 during the conference “The economic benefits of

sustainability in the successful business - prospects, tools, benefits of certification”. This certificate of excellence testifies to the commitment in corporate governance to effectively integrate Environmental Management Systems as part of Quality (ISO9001), Environment (ISO14001, EMAS), and Safety (British Standard OHSAS ISO18001).

- The Canavese district heating plant was awarded the Certificate of Merit in the “New district heating systems” category on the occasion of the 2011 edition of the International District Heating Energy Climate Awards, organized by the International Energy Agency (IEA) and by Euro Heat & Power (the European association of district heating operators).
- As part of its relations with trade associations, the general manager of the Technical-Operations Area of A2A S.p.A., Paolo Rossetti, has been appointed for the next three years to lead the CIG, the Italian Gas Committee, the UNI-federated body delegated with the responsibility for technical standards for fuel gases in Italy.
- In terms of human resource appraisal, the performance management system initiated in 2009 has been extended to all of the Group’s employees, reaching the 4,300 people appraised in June. In addition, an induction training program for over 200 newly hired employees began in the first part of 2011 with the aim of presenting the Group’s main activities and businesses.
- The convention between the regional administration and Aprica S.p.A. to carry out five new projects as part of the PARR (Action Plan for Reducing Waste) was approved on July 6, 2011. Six projects were started up during the first stage: the recovery of unsold food, the promotion of domestic compost, the use of washable nappies for the city’s newborn babies, the sale of products on draught in the Simply SMA and Coop supermarkets, the organization of re-use days and the promotion of farm deliveries (local fruit and vegetables, bio, in reusable crates). The results of the experiments were presented on November 15 at the workshop organized at the Lombardy region’s premises.
- On July 5, 2011 A2A S.p.A. and the Confederations of Small and Medium Enterprises signed a protocol of understanding on the Joint Settlement Procedure. This procedure acts as an out of court tool for resolving certain types of dispute which have not been settled by previous complaint procedures and which relate to the supply of electricity and gas on both the protected and free markets and arise between business customers belonging to the Confederations and A2A Energia S.p.A., the single sales company of the A2A Group. A2A S.p.A. had already signed a similar agreement for domestic customers in July 2010.
- In 2011 A2A Energia S.p.A. entered an agreement with the Municipality of Milan for the supply of 100% renewable energy: 236 million clean kilowatt hours supplied, leading to a reduction of 90 thousand tones of CO₂ each year. In addition, a plate is attached to buildings fuelled by green energy certifying that only energy from renewable sources is used there, thanks also to the use of the “Energia A2A Rinnovabile 100% Certificata Recs” certificate.

- Macedonio Melloni is the first hospital in Milan connected to the A2A Calore & Servizi S.r.l. district heating network: thanks to this intervention, emissions into the atmosphere of approximately 920 tonnes of CO₂ (carbon dioxide) and one tonne of nitrogen oxides will be avoided. The plant uses high efficiency cogeneration systems and the heat pump of the Canavese power station, with the recovery of the heat from the underground water table.
- From October 21, 2011 to March 31, 2012 A2A Energia S.p.A. promoted a prize competition among customers opting for the electronic billing service. The bollett@mail service is free of charge, enables customers to receive their bills by email on the day of issue and to consult previous bills on their computer and also leads to environmental benefits due to the reduced use of paper.
- A2A S.p.A. has been a member of the Global Compact since November 2011; the Global Compact is an initiative for the promotion of the culture of business citizenship launched in July 2000 by the Secretary General of the United Nations at the time, Kofi Annan, and works as a platform for information by ensuring support and coordination for businesses and organizations that decide to agree, support and apply a set of universal principles relating to human rights, labor, the environment and the fight against corruption, thereby contributing to creating “a more inclusive and more sustainable global economy”.
- Since December 2011 the atmospheric emissions of the Group’s main plants may be found on line on the website www.aza.eu: these being the Bergamo waste to energy plant, the Silla 2 waste to energy plant, the Brescia waste to energy plant, the Corteolona waste to energy plant, the Filago waste to energy plant and the Acerra waste to energy plant. The quantities of the daily emissions of the main substances (hydrochloric acid, ammonia, carbon monoxide, ...) are published on this site.
- On November 17, 2011, A2A S.p.A. together with Codici, ACU, Lega Consumatori and La Casa del Consumatore signed an agreement aiming to prevent and report cases of consumer deceit, an agreement that envisages certain important initiatives aiming to highlight illicit commercial practice and encourage the utmost transparency and correctness in relations between electricity selling companies and the end customer.
- The website www.e-moving.it has been active since June; this site is dedicated to the “e-moving” electric vehicle recharging service promoted by A2A S.p.A. with the support of the Municipalities of Brescia and Milan. Besides having the possibility of obtaining updates on the project, visitors to the site can also subscribe to the service and read the instructions for downloading onto their mobile phones the application software that enables the nearest recharging post to be found in mobility.
- Since October 2011, the A2A Group has extended its Schools Project offer, which consists of guided tours of its plants (waste to energy plants, hydroelectric stations, thermoelectric stations, cogeneration plants, water sources, purifiers and landfills for

waste) and visits to the House of Energy, a permanent communication centre dedicated to energy. This year the Acerra waste to Energy plant has been opened to school visits for the first time, while in addition a system of online booking has been made available on the website www.a2a.eu. Further, A2A S.p.A. and the ASM Brescia Foundation offer all students and teachers visiting the Group's plants membership of the FAI (Italian Environmental Fund), a foundation which works to safeguard the artistic and natural heritage.

- In three municipalities of the Brescia area Aprica S.p.A. has tested the use of non-differentiated collection using swing-top bins. These bins can only be opened with the aid of a customized electronic key that enables the waste entered to be monitored and in future will allow a fee to be charged based on the volume of non-differentiated waste thrown away, thus rewarding residents who are more active in differentiated collection. This testing has enabled the threshold of 65% of differentiated waste to be superseded.

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 set out in its Charter of Values.

These are activities which thanks also to the collaboration of external organizations such as research institutions and bodies provide considerable value added to the Group's development and growth.

District heating development plan for Milan

The realization of the "District heating development plan for the city of Milan" continued in 2011; this plan has as its objective the upgrading of district heating throughout the city in order to achieve a significant reduction in the polluting emissions deriving from energy requirements for city heating.

The plan envisages the further development of the single sections of district heating already active and their gradual combination through the interconnection of the networks in order to construct macro-systems fed by a wide variety of sources. In this way the use of technologies that maximize the energy and environmental efficiency of heat production will be increased: the recovery of energy from the disposal of waste, the use of renewable sources through the deployment of water table heat pumps and the cogeneration of thermal energy and electricity.

Among the more significant activities performed in 2011 were the further extension of the district heating network and of the power of the users connected to the Canavese section, which have increased by approximately 20% and 50% in 2011 respectively: since 2011 the courthouse is also one of the users supplied by the Canavese district heating system. Standing out within the sphere of heat production plants are the activities to increase thermal recovery at the AMSA Silla 2 waste to energy plant by strengthening the heat exchange section and installing new gas boilers at the Famagosta station.

New heating-cooling plant with cogeneration at Varese hospital

Varese Risorse S.p.A. is implementing a project for the construction of a heating-cooling plant with cogeneration at the new Varese Hospital. On September 24, 2009 the thermal section of this new plant entered service; this produces steam and hot water to support/supplement the district heating by means of three dual fuel boilers (natural gas and diesel) and has a heating core power of ~27 MWt. The cooling section (total installed power of 10 MWf through 4 absorption groups, 2 fuelled by hot water and 2 by steam) and cogeneration section (1 MWe motor) of the new plant will enter service in September 2011.

Completion of this project will enable “trigeneration” (the combined generation of electricity, heat and cooling), which is seen by everybody as the new frontier of cogeneration, to be achieved. In addition, there will be a significant saving of energy and reduction of greenhouse gas (GHG) emissions arising from the increase in the number of hours worked in cogeneration mode by the turbogas having nominal power of 5 MWe located in the Via Rossi district heating plant.

The total savings achieved in this way will be entitled to white certificates (Energy Efficiency Credits).

A2A S.P.A. Electric Mobility

E-moving is the electric mobility project being promoted by A2A in partnership with Renault and in conjunction with the municipal administrations of Brescia and Milan. A2A is in charge of realizing the infrastructure for the recharging of electric cars while Renault provides the vehicles from its zero emission range (saloon cars and small vans) which is equipped with the latest generation lithium-ion batteries.

The pilot stage took off in June 2010 and continued for the whole of 2011. The two Lombardy municipalities see themselves becoming the cities of reference for electric mobility in Italy, being the first to begin developing a complete cutting edge structured electric recharging network with a total of 270 recharging points, of which around 150 will be available for the use of motorists in public places (roads, parking lots etc.) while the remainder will be for private use (garages, condominium parking lots, business parking lots).

As of today, 18 columns have been installed in Brescia, making a total of 36 recharging points; as regards private points, 3 have been set up at Renault dealers and 31 are aimed at company fleets and private users.

In Milan 32 columns have been installed for a total of 64 recharging points on public land. For the private areas there are 10 recharging points at Cadorna station, where a short while ago the new electric car-sharing service E-VAI, created out of the collaboration between the Region of Lombardy, A2A, Trenitalia – Ferrovie Nord and Sems, a company of the Fnm group, was inaugurated. Eight recharging points have been set up at Renault dealers (the partner in

the project), 4 in AzA areas and 4 in areas belonging to the Municipality. To these a further 40 recharging points at ATM interchange points are about to be added.

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.

Consistent with the initiative's environmental aims, the electricity to fuel the vehicles will mostly be produced from renewable sources, a factor useful in pursuing the objective of having a complete zero emission cycle.

Acerra waste to energy plant

The Acerra waste to energy plant exceeded its annual target of 600 thousand tonnes of waste, corresponding to its nominal capacity, a few days early, on 23 December. At the same time the plant put 538 million GWh of electricity into the grid, equivalent to the annual needs of around 200 thousand households, thereby avoiding the use of 100 thousand tones of oil.

Particular emphasis has been placed on environmental aspects: the waste to energy plant is equipped with leading edge combustion gas purification technologies and as part of the structural improvement measures envisaged by the Integrated Environmental Authorization the following have been installed at the Acerra (province of Naples) waste to energy plant under specific instructions from the Prime Minister's Office: a portal measuring the radioactivity of the vehicles transporting the waste, a second continuous monitoring system for controlling furnace emissions (SME), a continuous system for monitoring the mercury in the fumes and a system for sampling micro- pollutants (PAHs, dioxins and furans and PCBs). These instruments entered full service in February 2011.

Project for soundproofing double chamber compressors for the collection of glass and paper

The objective of this project is to identify measures to soundproof the rear part of the double chamber compressors used in the city of Milan to collect glass and paper and evaluate these by testing.

Between 2011 and 2012, 36 vehicles will be equipped with a rear cap soundproofing system developed by Amsa which consists in the installation of sound absorption panels inside and outside 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 the intervention on the equipment envisages the presence of a flap positioned on the mouth from which the glass falls, activated by a hydraulic cylinder which remains in a closed position when the bin is emptied and subsequently assumes an open position.

This interruption to the fall and the panel soundproofing have enabled a reduction of up to 12

decibels to be achieved at the rear part of the vehicle and at a distance of 6 meters when the glass is being collected, which in terms of noise peaks, measured in pascals, means a decrease from 40 to 10 Pa.

District heating from the Cassano d'Adda thermoelectric plant - auxiliary boiler

The Cassano d'Adda (MI) thermoelectric plant produces electricity by means of two combined cycles for a total installed electric power of 995 MW. The heat for the district heating users of the Cassano d'Adda municipality is extracted from the combined cycles. As of today the power installed with users amounts to approximately 33 thermal MW; the development plan for the district heating network envisages a further increase in users during 2011 and 2012 and also includes the district of Albignano in the municipality of Truccazzano (MI).

Brescia waste to energy plant: air nozzle testing in the nox reduction system

Following the start of 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 called NextGenBioWaste – Innovative Demonstration for the Next Generation of Biomass and Waste combustion plants for energy recovery and renewable electricity production), since June 2011 testing has been taking place on optimizing the non-catalytic reduction system (SNCR) with which the plant has been equipped since it entered use. An air nozzle will be installed on line 3 to inject ammonia solution into the combustion chamber to check the possibility of replacing the present water injection system in order to obtain better nebulization and hence a more effective reaction of the ammonia to reduce NOx.

Brescia waste to energy plant: new fire detection system in the waste bunker

Since the end of 2010 a system of infra-red television cameras connected to monitors situated in the control room and the overhead travelling crane command cabin has been in service at the plant, the first application of this type on a waste bunker, with the aim of detecting sources of heat in the waste in the bunker in order to prevent potential fires breaking out in the bunker and in any case enabling the equipment to be maneuvered in the event of poor visibility, for example in the case of intervention with remote-controlled hydrants on the source of a fire.

Brescia waste to energy plant: inertization of fly ash (cosmos project)

A project has been initiated for the inertization of fly ash through the use of pilot equipment to check the effectiveness of the process, which has already been demonstrated in laboratory tests, also on a pre-industrial scale.

The process for rendering end filtration dust inert has been developed by the University of Brescia and is funded by the European Commission as part of the LIFE+08 Program - Project ENV/IT/434 title COSMOS "COLloidal Silica Medium to Obtain Safe inert".

The equipment, which is located in an area of approximately 100 m² inside the Brescia waste to energy plant, is made up of four separate units:

- 1) storage and moving of dusts and liquids;
- 2) blending of dusts with suitable additives;
- 3) dosage of dusts and additives/control panel;
- 4) sludge washing.

A reverse osmosis system has been installed at the Monfalcone (province of Gorizia) thermoelectric station for the production of demi water previously obtained with ion exchange resins. The use of hydrochloric acid and soda has been eliminated through the introduction of the reverse osmosis system.

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 for the years 2007 to 2015 conferred by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed in the Group during 2011, 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	169.6	
Audit of consolidated financial statements	39.6	
Periodic tests of accounting	20.9	
Review of half-yearly report	59.4	
Audit of the separate annual accounts for AEEG	18.8	
Other testing and attestation engagements	–	
Total	308.3	–
Subsidiaries		
Audit of annual financial statements	892.2	
Audit of consolidated financial statements	–	
Periodic tests of accounting	233.9	
Audit of the information sent to shareholders for the consolidation		
– at year end (full audit)	77.4	
– at June 30 (review)	279.7	
Audit of the separate annual accounts for AEEG	115.6	
Other testing and attestation engagements	–	
Total	1,598.8	–
Associates and joint ventures (1)		
Audit of the information sent to shareholders for the consolidation	63.7	25.0
Total	63.7	25.0
TOTAL A2A GROUP	1,970.8	25.0

(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 work for fees amounting in total to 230 thousand euro in 2011, which related to tax assistance.

Treasury shares

At December 31, 2011 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, 2011 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

The Policy Document on Privacy (Documento Programmatico sulla Sicurezza - DPS) was updated on March 31, 2011 as required by Legislative Decree no. 196 of June 30, 2003, the “Personal Data Protection Code”, and subsequent amendments and additions.

Decree Law no. 5 of February 9, 2012 on “Urgent provisions on simplification and growth” (Official Journal no. 33 of February 9, 2012 - Ordinary Supplement no. 27) came into effect on February 10, 2012, which at article 45 “Simplifications regarding personal data” withdrew 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 39 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 companies with control over companies established and regulated under the law of non-EU countries” as per article 36 of the above 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.

No companies were purchased during the year having headquarters in countries not belonging to the European Union which, considered on their own, are of significant importance for the purposes of the law in question.

* * *

The information on corporate governance and ownership structure 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 Structure for the year ended December 31, 2011” which forms an integral part of the financial statements documentation.

In compliance with the requirements of the “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, with a resolution of November 2010 the Management Board approved, subject to the favorable opinion of the Internal Control Committee, the prescribed procedure to identify 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, was introduced as from January 1 2011.

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 particular, A2A has defined a risk model that takes account of the Group's characteristics, its multi-business vocation and the sector to which it belongs. The process of self-assessment of risks it commenced in 2010 directly involves management. The Group has set up a new Risk Management Function, to which responsibilities in the Enterprise Risk Management process and Energy Risk Management process (already consolidated) respond, with the aim of further developing and integrating risk management activities into the business process.

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 specific aspects of its business model.

Financial risks

Commodity price risk

Commodity price risk, namely the market risk linked to changes in the price of energy raw materials such as electricity, natural gas, coal and fuel oil as well as the by-products of these materials, is handled as part of the Risk Management Organizational Unit.

Market risk linked to fluctuations in energy commodity prices and the exchange rates connected with these are 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 pursued through the use of derivative financial instruments, to ensure there is economic and financial equilibrium in the Group.

Each year the Management Board of A2A S.p.A. defines the commodity risk limits for the Group.

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.

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

Interest rate risk is connected with medium-long term loans and has a different effect depending on whether the loan bears interest at a fixed or floating interest rate. If interest is payable at a floating rate then the interest rate risk is based on the cash flows, while if interest is payable at a fixed rate then the interest rate risk is based on the fair value.

The interest rate risk management policy that has been adopted is designed to reduce any losses arising from a fluctuation in interest rates in the floating rate case to a minimum by converting these to fixed rates or arranging collar contracts, and to reduce the increased cost of the fixed rate over the floating rate ("negative carry") to a minimum.

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

Liquidity risk

The Group is currently not exposed to short-term liquidity risk, having 1,785 million euro of committed lines of credit available at the balance sheet date. These lines will be used mainly to satisfy temporary liquidity requirements.

In addition, the Group has medium-long term facilities, forming part of agreements but not yet used, totaling 165 million euro.

Default risk and covenants

In October 2003 and in May 2004, A2A S.p.A. issued two bond loans each having a nominal value 500 million euro and a 10-year maturity. In 2009, the Company issued a bond loan of 1 billion euro maturing in November 2016.

Credit rating clauses exist in the agreements for the EIB loan originally of 100 million euro falling due in 2012 (a rating lower than BBB), for the EIB loan originally of 100 million euro falling due in 2014-2016 (a rating lower than BBB), for the EIB loan originally of 200 million euro falling due in 2023 (a rating lower than BBB), for the EIB loan originally of 200 million euro falling due in 2025/2026 (a rating lower than BBB), for the CDP loan of originally 200 million euro falling due in 2025 (a rating lower than BBB-), for the EIB loan of originally 95 million euro falling due in 2026 and used as to 50 million euro (a rating lower than BBB) and for the bond loan in yen falling due in 2036 and the related cross-currency swap contract with CSA ("put right" with a rating lower than BBB-).

There is a credit rating clause in the agreement for the A2A S.p.A. loan of 85 million euro, brokered by EIB, bearing floating rate interest and falling due in June 2018; more specifically, the company has undertaken to maintain an investment grade rating throughout the whole term of the loan.

If that commitment is not met, there are balance sheet, income statement and financial covenants linked to the debt/equity ratio, the debt/gross operating income ratio and the gross operating income/financial expenses ratio. To review these covenants the company calculates these ratios every twelve months on the basis of its consolidated financial statements.

The A2A Group has stipulated a number of committed lines of credit with various financial institutions for a total of 2,890 million euro (of which 2,785 million euro stipulated by A2A S.p.A.) which are not subject to any covenants.

As regards the bond loans, the above-mentioned loans and the committed lines of credit contain (i) negative pledge clauses under which A2A S.p.A. undertakes not to set up real guarantees on the assets of A2A S.p.A. and 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 EIB loan agreements for 200 million euro falling due in 2025 and 95 million euro falling due in 2026 provide the bank with the right to call for early repayment of the loan in the case of a change of control of A2A S.p.A., subject to notice to be given to the company with details of the reasons for this.

Further, A2A S.p.A. has undertaken not to give up control over Delmi S.p.A. for certain committed lines of credit and for all lines to reserve the same treatment for the lending banks as that due to creditors under other unsecured loan agreements (*pari passu*).

In addition, the loan of the subsidiary Abruzzoenergia S.p.A. is secured by a mortgage of up to 264 million euro.

Certain financial covenants are included as part of a loan of 35 million euro given to EPCG of which 3 million euro had been drawn down at December 31, 2011.

As matters currently stand there is no default on the part of companies of the A2A Group nor a breach of any of the covenants mentioned above, other than in relation to the above-mentioned EPCG loan for which the covenants have not been fully respected. In this connection an agreement exists, which will shortly be formalized with the lending bank, under which the effects of these covenants will be suspended for a period of time yet to be determined and having retroactive effect.

Context risk

Legislative and regulatory risk

The 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 this is 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 concessions;
- the evolution in the rules of CIP 6/92 conventions;
- the rules on the regulation of local public services, particularly in light of the amendments and additions made to article 23-bis of Law no. 133/08 on the duration of the transitional

period for current mandates, as per article 15 of Law no. 166/2009 referred to above, as subsequently repealed following the referendum of June 2011 and replaced by article 4 of Decree Law no. 138/11 as converted into law with amendments by Law no. 148/11;

- the evolution of the rules for the Green Certificates market.

Large hydroelectric concessions

The 2006 Finance Law provided for a 10-year extension of large concessions regarding water for hydroelectric use in exchange for adequate investment in the modernization of the installations (this 10-year extension was based on paragraphs 6, 7 and 8 of article 12 of Legislative Decree no. 79/99, the "Bersani Decree"). Sentence no. 1/2008 of the Constitutional Court declared that part of the law was illegitimate as it violated constitutional provisions regarding the jurisdiction of regions over energy matters with respect to the State. This sentence by the Court led to a situation where it was no longer possible to extend the concessions, although it did not entirely reinstate the rules contained in article 12 of the Bersani Decree (paragraphs 3 and 5 remain repealed, paragraph 2 has been repealed and paragraph 1 has been replaced by the first part of paragraph 483 of article 1 of the 2006 Finance Law). According to the sentence of the Constitutional Court, the determination of the tender parameters (minimum organizational and financial requisites for operators, parameters for the increase in power and energy generated) by the Ministry for Economic Development will also have to provide for the suitable involvement of the regions which can be achieved through the Joint Conference.

Article 15, paragraph 6 of Decree Law no. 78/2010 (the Budget Decree Law), published in the Official Journal of May 31, intervened on this matter by raising the bases for the calculation of the extra fees payable on large hydroelectric concessions (article 15, paragraph 6).

With an amendment to the text, in view of the conversion of the decree into law which was carried out at the end of July by means of Law no. 122/2010, the above legislation was supplemented by additional provisions concerning the duration of outstanding concessions.

With a note of March 15, 2011, the European Union issued a notification of default letter against the Republic of Italy for the request for clarifications regarding the provisions as per Law no. 122/2010, maintaining that the means by which an extension to the concessions provided therein is given may represent a breach of freedom of establishment regulations as per article 49 of the TFEU. In particular, said law provided for a general extension of 5 years for all concessions and a further extension of 7 years to be granted on the occurrence of specific conditions.

The infringement procedure is expected, however, to be dismissed following sentence no. 205/2011 (published on July 13, 2011), with which the Constitutional Court upheld the appeal

made by the Region of Liguria on these matters, stating that the following were illegitimate:

- the provisions of Law no. 122/10 extending large hydroelectric concessions (for periods of 5 and 7 years) as they are inconsistent with the constitutional provisions on the subdivision of state-region responsibilities (the matter is subject to regional legislation);
- the clause that specifies that the provisions in question are effective “... *until the Regions adopt other legislative provisions to the extent of their jurisdiction ...*” (the “transferability” clause”), as “...*the need to fill a legislative gap in the application of basic state principles, for the time needed for regional laws to be issued, does not exist in practice...*”.

At a local level, also in view of the expiry of certain concessions in its territorial catchment area, with 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 “Temporary continuation of use” on the basis of which the Regional Council may, solely for concessions expiring up to December 31, 2015, permit the granting of the concession to the outgoing concessionaire to continue on a temporary basis for the time required to complete the assignment procedures and for periods which in any case do not exceed five years.

a. *Expiry of the concession*

On the expiry of the mandate, the region acquires title to the works and plant subject to the concession, in order to contribute them, within 6 months of that date, in ownership to special-purpose companies with non-transferable wholly-owned public capital which are controlled by the region, and in which local authorities and/or their forms of aggregation participate, without charge, in an amount of not less than 30%. The industrial usage of the works and plant will then be entrusted to third parties by means of open public competitive procedures or alternatively to mixed public and private companies held by the mountain province having territorial jurisdiction.

b. *Use of infrastructure and plant*

In order to use the infrastructure and the plant, the mandated party will obtain access to the assets owned by the special-purpose company against payment of a fee in part fixed (determined on the basis of the average annual nominal power of the plant) and in part variable (in proportion to the production achieved, valued on the basis of the results of the power markets).

As the first step in implementing the above provisions, with Resolution no. 1205 of December 29, 2010 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, considered expired - despite the cited provisions of state legislation - at 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, among other things it deferred to a subsequent resolution the determination of the additional fee to be paid from January 1, 2011.

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

With Sentence no. 339/2011 the Constitutional Court, on the appeal of Council of Ministers against article 3, paragraph 2 and article 14, paragraphs 3, 7, 8, 9 and 10, ruled that the challenged clauses are unconstitutional. As a consequence, paragraphs 4 and 5 of article 53-bis, which provide for the contemporary continuation of the concessions 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. In fact these paragraphs were not challenged by the government but by A2A S.p.A. with an incidental appeal as part of the case raised against the resolution of the Regional Council at the end of 2010 before the TSAP, which as of today has not yet ruled on the matter.

Large dams legislation

With 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 December 31, 2012 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”, work 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 ducts, 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.

Evolution of the rules of the CIP 6/92 conventions

Law no. 99/2009 (the “Development Law”) establishes that the Ministry for Economic Development has responsibility for defining the criteria for the updating of the Avoided Fuel Cost and that mechanisms be proposed to producers for the early termination of the CIP 6/92 conventions in order to reduce the costs of maintaining these arrangements.

This regulation was introduced by a decree of December 2, 2009, which applies solely to

plants fed by process or residual fuels or by energy recoveries, or similar types fed by fossil fuels, and by a decree of August 2, 2010 on the early termination of the CIP 6/92 conventions for approximately 2,000 MW of similar plant fed by fossil fuels.

Both decrees describe the method of calculating the fees due in the case of the continuation of the conventions through to their expiry date and the fees 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 fed 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.

Regulation of local public services

After the government had introduced regulations, by issuing Presidential Decree no. 168/10, implementing the provisions of article 23-bis of Law no. 133/08, completing the legislation originally planned, and after Decree Law no. 70/11, as converted into law with amendments by Law no. 106/11, had innovated the legislation regarding the participation in tenders by subsidiaries of listed companies, the question of local public services of economic importance concerned itself with the results of question 1 of the abrogative referendum of June 12 and 13, 2011, as announced by Presidential Decree no. 113 of July 18, 2011 and then by article 4 of Decree Law no. 138/11, as converted into law with amendments by Law no. 148/11.

Article 4 of Decree Law no. 138/11 (the summer Budget Law which became effective on August 13, 2011), as converted into law by Law no. 148/2011 (effective from September 17, 2011), contains a reform of the legislation concerning local public services which, as far as the Group is concerned, affects waste management (the integrated water service, the natural gas distribution service and the electricity distribution service are, in fact, excluded from the scope of application of the legislation).

The regulations require local authorities to assess the feasibility of having local public services of economic importance (“local public services”) run on a competitive basis by liberalizing all economic activities, compatible with the features of the universality and accessibility of the service, limiting the exclusive assignment of rights to the cases where, on the basis of a market analysis, free private economic initiative is not suitable for ensuring a service responding to the community’s needs.

This assessment must be carried out for the first time within twelve months of the effective

date of Decree Law no. 138/11 and then on a regular basis depending on the respective legislative system of the local authorities. It must however be carried out before allocating and renewing the management of the services. The resolutions adopted by the local authorities must also be sent to the antitrust authority for the purposes of preparing that body's annual report to parliament.

Where necessary, the local authorities firstly determine the public service requirements, specifying any economic compensation payable to the companies providing the services, taking into account the income arising from the tariffs charged and the limits of the availability of the budget used for the purpose. In the case that a local authority intends to assign exclusive rights, the management of the services is assigned to businessmen or companies, however established, even if the capital is wholly public (unless there are any specific prohibitions provided by the law), identified by open public competitive procedures.

In addition, the legislation sets out provisions relating to the way the allocation tender is to be arranged, including with reference to the specific case in which the procedures have at the same time the object of the capacity as partner, to whom an interest not less than 40% must be assigned together with specific operational duties connected with the management of the service.

Without prejudice to the public ownership of the networks, management can be assigned to private subjects. At the end of the term of the local public service management or in the case of early termination, the previous manager transfers to the incoming manager the business assets and their necessary pertinences, as they cannot be duplicated at a socially sustainable cost, in order to continue the service, as identified by the granting body, free of charge and free from encumbrances. If at the time of the termination of management the business assets object of the transfer are not fully depreciated, the incoming manager pays the previous manager an amount (specified in the tender) equal to the original book value not yet depreciated, net of any public grants directly relating to the assets involved. The provisions contained in industry legislation, including regional legislation, in force at the effective date of the decree remain unaltered, as well as any different agreements between the parties entered into before the effective date of this decree.

As far as any mandates specifically relating to Group companies are concerned, the transitory regime for mandates not complying with the provisions of the decree provides in particular, as specified by article 23-bis, that direct appointments assigned at October 1, 2003 to publicly held companies listed on the stock exchange at that date and to those controlled by such pursuant to article 2359 of the Italian civil code are terminated at the deadline envisaged in the service contract, on condition that the public holding reduces, also gradually, by means of a public procedure or forms of private placement with qualified investors and industrial operators, to a holding not exceeding 40% by June 30, 2013 and not exceeding 30% by

December 31, 2015; where such conditions do not occur, the mandates cease on June 30, 2013 and December 31, 2015 respectively, without the possibility of extension and without the need for a resolution on the matter by the assigning body.

Companies, their subsidiaries, their parent companies and subsidiaries under common control, including those not belonging to a member state of the European Union, which inside or outside Italy manage local public service de facto or by law, administrative deed or contract by virtue of a direct mandate or a non-public procedure or as the result of procedures having as object the capacity as partner and the assignment of specific operational duties connected with the management of the service, as well as subjects entrusted with the management of the networks, the plant and the other assets of the local authorities, provided separate from the activity of providing the services, may not acquire the management of services that are additional or in different territorial ambits, nor may they perform services or carry out activities for other public or private bodies, either directly or through their parent companies or other companies, be they subsidiaries or investees, or participate in tenders.

This prohibition holds for the whole of the management term and is not applicable to companies listed on regulated markets or to companies directly or indirectly controlled by these pursuant to article 2359 of the Italian civil code, or to the partner selected as the result of procedures having as object the capacity as partner and the assignment of specific operational duties connected with the management of the service.

Direct recipients of mandates for local public services may in any case participate throughout the country in the first tender subsequent to the cessation of the service that is carried out by a public competitive procedure and has as its object the services they provide.

The assignment procedures already initiated at the effective date of the decree remain unaltered.

Concerning possible market developments, it is recalled that article 4 requires that where local authorities must recognize exclusive rights, a possibility which as stated at the beginning will occur on a restricted basis and which must be substantiated, the organizational means available are the assignment to a third party by a public procedure, assignment to a mixed company whose shareholder that performs functional activities has the prerequisites and has been selected in accordance with the requirements of paragraph 12 and assignment to an in-house provider, on condition that the annual fee is less than 900,000 thousand euro.

Article 4 contains many of the provisions of Presidential Decree no. 168/10 which no longer holds as a result of the repealing of article 23-bis; reference has already been made to legislation concerning the conveyance of assets, but it is worth noting that incompatibility, the formation of the arbitration panels and the specific rules to be followed by in-house and mixed companies concerning provisioning and personnel selection have once again been provided for.

With Law no. 183 of November 12, 2011, the legislator also notes that the “2012 Stability Law” makes further changes to the legislation on local public services of economic importance. In particular, article 9 introduces certain amendments and additions to article 4 of Decree Law no. 138 of August 13, 2011 in order to:

- create a liberalized system of local public services of economic importance by means of full competition on the market;
- pursue the aim of liberalizing and privatizing these services in accordance with the requirements of article 4 of Law no. 183 of November 12, 2011;
- ensure the progressive improvement of the quality and efficiency of the management of such services by means of a system of benchmarking.

As established by article 36, the changes introduced take effect from January 1, 2012.

The outcome of the consultation concerning referendum question no. 2, as stated in Presidential Decree no. 166 of July 18, 2011, has on the other hand led to the repealing of article 154, paragraph 1 of Legislative Decree no. 152 of 2006 (reported below), restricted to the following section:

- *“The tariff represents the fee for the integrated water service and this shall be calculated by taking into account the quality of the water service and the service provided, the necessary works and adjustments, the extent of the costs for managing the works, the adequacy of the remuneration of the capital employed and the costs for managing the protected areas, and a share of the running costs of the Ambit Authority, in order that full coverage of the investment and running costs is assured in accordance with the cost recovery principle and in accordance with the principle of ‘who pollutes pays’. All the portions of the tariff for the integrated water service have the nature of a fee”.*

For the purpose of determining the tariff for the integrated water service, therefore, the normalized method will continue to apply. This method is dictated by the Ministerial Decree of August 1, 1996, legislation delegated by article 13 of Law no. 34/96, and providing for the remuneration of employed capital, until the legislator issues the decree envisaged by article 154.

In this respect, it should also be noted that also in the event of a generalized application of the principles contained in the Water Framework Directive (2000/60/EC), at article 9 this latter establishes the principle of the “recovery of costs for water services”, which must be pursued starting from an economic analysis (Annex III) which considers an estimate of the investments connected with meeting long-term supply and demand.

Finally, it should be noted that the inter-ministerial decrees that must be issued to implement article 154 of Legislative Decree no. 152/06 must take into account the abrogation required by

the referendum and hence regulate the tariff in consideration of all the additional factors also present in paragraph 1:

- quality of the water resource;
- quality of the service provided;
- necessary works and adjustments;
- running costs for the works;
- costs for managing the protected areas;
- share of the functioning costs of the AATOs (which are shortly expected to be replaced by other bodies).

Natural Gas and Electricity Distribution

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.

With respect to the natural gas distribution service, in safeguarding the provisions of Legislative Decree no. 164/2000 and article 46-bis of Decree Law no. 159 of October 1, 2007, converted with amendments into Law no. 222 of November 29, 2007 on the distribution of natural gas, Law no. 99/2009, the “Development Law”, defines the new “Minimum Territorial Ambits” for which tenders will be called to allocate the service to the Ministry for Economic Development, in conjunction with the Ministry for Regional Affairs, after consulting with the Combined Conference and the Electricity and Gas Authority.

On March 31, 2011 the Decree of the Ministry for Economic Development dated January 19, 2011 was published in the Official Journal; this identifies 177 Minimum Territorial Ambits and provides details by region in attachment 1. The precise identification of the individual municipalities belonging to each Minimum Territorial Ambit was deferred to a subsequent decree of the Ministry for Economic Development, issued on October 18, 2011.

The criteria followed for identifying the municipalities included in each individual Ambit envisage a maximum of 50 municipalities for Ambits with more than 50,000 effective customers; in addition, the metal interconnection of the plants is safeguarded and consideration of population density and the specifics of the area are also taken into consideration.

In respect of calling tenders to assign distribution activities, article 24, paragraph 4 of Legislative Decree no. 93 of June 1, 2011 (the Third Energy Package) specifies in greater detail that all the tenders for which by the effective date of the above-mentioned legislative decree a tender notice has been published in the case of an open procedure or invitation letters have

been sent in the case of a restricted procedure may be carried out on the basis of the procedures applicable at the date on which they were called, provided that such documents include the criteria for evaluating the offer and the amount to be repaid to the outgoing operator.

On the other hand tenders not included in these cases must, from June 29, 2011, the date on which the above-mentioned decree became effective, be carried out exclusively for Territorial Ambits as per article 46-bis of Law no. 222 of 2007 and on the basis of the criteria referred to therein, to be issued shortly.

The Regulation with which the Ministry of Economic Development determined the “criteria for the tenders for the allocation of the distribution service, was signed on November 11, 2011, although was only published in the Official Journal on January 27, 2012.

In conclusion, 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”) establishes 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. The incoming operator is required to hire at least a number of employees not exceeding the sum of the staff at the plants forming part of the tender and a portion of the personnel with central functions supporting distribution and measurement.

The protection envisaged for employees with the above hiring requirement consists in the fact that they will immediately be directly transferred to the company taking over, with guarantee being made of their previous employment conditions of an economic nature and regarding the long-term service schemes of which they are members. Suitable lay-off schemes will be applied for those members of staff who on the basis of the above-mentioned conditions turn out to be in excess to needs, without prejudice to the possibility of being rehired should the new company seek additional personnel within two years of the date of the tender.

Evolution of the market rules regarding Green Certificates and legislation regarding the encouragement of production from renewable sources

On March 29, 2011 the Legislative Decree implementing Directive 2009/28/EC on the promotion of the use of energy from renewable sources became effective.

Certain aspects of the draft proposed in December were amended during the subsequent review.

The main measures adopted by the decree, though, may only be implemented following the

issue of further ministerial decrees (the majority of which by the Ministry for Economic Development and the Ministry for the Environment) with six-monthly deadlines, starting from the effective date of the legislation.

Reform of mechanisms to encourage renewable sources - Reference provisions when fully operational

The decree requires that production from renewable sources for plants entering use after December 31, 2012 should be given incentives by:

- recognizing a feed-in tariff for plants of up to 5 MW of installed power (this threshold will vary on the basis of the characteristics of the various renewable sources used);
- Dutch auction mechanisms run by the GSE for plants having installed power exceeding the above limits.

The feed-in tariff will be attributed exclusively to the production of new plants, including those built following complete reconstruction, upgraded plants, limited to the additional production available, and hybrid power plants, limited to the portion of energy produced from renewable sources.

The incentive will additionally be allocated, “for power quotas”, to the production of plants which have been fully or partially refurbished, up to a maximum of 25% for partial refurbishment and 50% for total refurbishment. The two portions can increase to 80% and 90% (respectively in the cases of partial and total refurbishment) for plants fuelled by biomasses, including those fuelled by the biodegradable fraction of waste.

Reform of mechanisms to encourage renewable sources - Transition to the regime

Production from renewable sources for plants entering use by December 31, 2012 will be encouraged with existing mechanisms. For the Green Certificate mechanism a gradual reduction of the required portion is however envisaged, which will fall to zero by 2015, as well as the repeal of the reference legislation (as per article 11 of the Bersani Decree) starting from 2016, after which therefore producers from renewable sources will no longer receive the Certificates.

From 2012 to 2015 the GSE will withdraw the certificates issued for production from renewable sources and left unsold at a price of 78% of that established by paragraph 148 of article 2 of the 2008 Finance Law. Over the same period of time the GSE will additionally withdraw the unsold certificates issued for production from cogeneration sources connected with district heating at the average price of the certificates on the market during 2010.

Electricity imported from January 1, 2012 will not be liable to the requirement to purchase Green Certificates only if it forms part of national energy saving objectives.

The implementation decrees for the incentive mechanisms planned when everything is fully operational (feed-in tariffs and Dutch auctions) will govern the transition from the old to the new incentive mechanism, in particular as far as the right to use the Green Certificates for years after 2015 is concerned.

Guarantee of origin

The decree requires that by the means envisaged by article 1, paragraph 5 of Decree Law no. 73 of June 18, 2007 (completing the liberalization of the sale of electricity), converted with amendments into Law no. 125 of August 3, 2007, the method for the issue, recognition and use of the guarantee that the electricity has been produced from renewable sources should be updated in compliance with the provisions of article 15 of Directive 2009/28/EC.

From January 1, 2012, electricity suppliers will only be able to use that guarantee to attest to the portion/quantity of energy from renewable sources included in their energy mix.

Support regimes for the production of thermal energy from renewable sources for energy efficiency

The decree provides for incentives for measures increasing energy efficiency and producing thermal energy from renewable sources by means of the following support regimes:

- a) contributions valid for natural gas tariffs for small-sized measures;
- b) the issue of White Certificates for all measures which do not fall amongst those included at the previous point.

a) Incentive is given to small-sized measures for the production of thermal energy from renewable sources and increasing energy efficiency carried out after December 31, 2011. With the aim of ensuring a fair remuneration of the investment, the incentive is proportional to the energy savings produced by the measures and its term may not exceed ten years starting from the date of completion of the measure.

b) Consistent with the provisions of article 7 of Legislative Decree no. 115 of May 30, 2008, the means are established by which the obligations of the distribution companies as per article 9.1 of Legislative Decree no. 79 of 1999 and article 16.4 of Legislative Decree no. 164 of 2000 tie in with the national energy efficiency objectives.

The decree links the period of entitlement to Green Certificates to the useful life of the measure and specifies that the energy savings realized by efficiency measures for the electricity and gas networks may form part of reaching the obligations of the distribution companies without the issue of White Certificates.

Third Energy Package

On June 29, 2011, Legislative Decree no. 93/2011 came into force implementing 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 and a community procedure on the transparency of the price of gas and electricity for the end industrial user and the repealing of Directives 2003/54/EC and 2003/55/EC.

The following is a summary of the main provisions of interest which have to be implemented by the Regulator.

Provisions concerning accounting and functional unbundling

The provisions dictated by the decree for the two sectors concerning functional unbundling for distribution activities in substance follow those already in force, as contained in AEEG Resolution no. 11/07.

The decree dictates measures concerning accounting unbundling only for the gas sector, but in this case too these relate to provisions already implemented pursuant to Resolution no. 11/07.

On November 3, the Authority issued Resolution ARG/com no. 153/11 by which it precisely establishes the certification discipline for the certification of companies that act as managers of natural gas transportation systems or electricity transmission systems, applicable also to owners of sections of the National Grid. In December 2011, Mincio Trasmissione S.r.l. and Seasm S.r.l. sent the documentation required, among other things, to ensure compliance with the obligations provided to Terna S.p.A. concerning the independence of the owner and the confidentiality of sensitive data.

Further provisions relating to the natural gas sector – protection of end customers

The suitability of all customers is confirmed and categories of “vulnerable” end customers are identified (domestic customers, hospitals, nursing homes, retirement homes and similar institutions, as well as civil and non-civil customers with a usage not exceeding 50,000 cm a year), for whom there is the requirement to assure supply with the highest safety level, also at critical times.

For these customers, additionally, the AEEG will continue on a transitional basis to determine the reference points.

In addition to the last resort service, if these customers find themselves without any supply and lacking the requirements for activating such service (FUI), the distributor will 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, which has to ensure that the distribution company receives adequate remuneration for the service provided (in addition to the costs it incurs). The Electricity and Gas Authority has incorporated the above provisions into its regulations by means of Resolutions ARG/gas no. 71/11 and no. 99/11 respectively, establishing a default service in the distribution companies. The distribution companies ASPEM S.p.A. and A2A Reti Gas S.p.A. have lodged an appeal against this measure with the Regional Administration Court (TAR), which has suspended the provision until June 6.

Finally, the decree provides for a period of up to three weeks for satisfying the requests for a change of supplier, clarifying that the switch-over must take place on the first day of the month.

Further provisions relating to the natural gas sector - unbundling of transportation activities

The regulation confirms the suitability of all end customers and takes up the measures already adopted by means of Law no. 125/07 to confirm their framework of reference (the setting up of markets for greater protection and safeguarding).

In addition, the three week term for the activation of a new supply as the result of the switch-over is also introduced for the sale of electricity (the regulation is consistent with the provisions introduced for natural gas).

Further provisions relating to the electricity sector – retail markets

The provisions as per article 41 require the communication and branding policies relating to sales to customers on the free market or to customers on the markets for greater protection not to 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, it is stated that in the case where a single company performs both activities, the AEEG should adopt the provisions required to prevent that company from obtaining a competitive advantage from the availability of the data relating to the same user, both as far as end customers are concerned and “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

The decree introduces the possibility for the company receiving sanction measures from the AEEG to propose commitments which serve to pursue the interests protected by the regulations for which the violation is raised in the most effective manner.

In this respect, with Resolution ARG/com no. 136/11, the AEEG has started a proceeding for the adoption of the new regulations for regulating sanctioning proceedings for which it responsible and the procedural means for assessing the commitments.

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 moreover be accentuated by changes in the competitive context and in the markets of reference. To the extent that the risk of unavailability of the plants may be considered an inherent part of the business and one that is impossible to eliminate entirely, A2A S.p.A. 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 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), and the periodic revision of the plants and networks, and keeping these constantly updated, all with respect to best practice; it also involves providing specific training courses for technical personnel, including those on the operating procedures currently in use. The Group also makes widespread use of instruments for the control and remote control of technical parameters capable of permitting adequate monitoring and timely detection of any anomalies as well as having a back-up of the components needed to guarantee operational continuity, where possible.

Improvements designed to further mitigate the risk of business interruption continued during 2011. This process was characterized by investments regarding the Group's assets, by

means of targeted intervention on plants and networks of a critical nature and the development of interconnections between transmission networks to avoid congestion risks. 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 plants safely is well controlled when taken overall.

In respect of the Environment Sector, activities and specific 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 aid between the Group's plants.

With reference to the distribution networks, technical safety tools and contingency plans also exist in the case of particularly critical natural events (such as earthquakes or climatic events).

Operating means for regulating customer usage (in district heating) have been successfully tested; these are aimed at avoiding excessive peaks in the use of installed power at specific time periods, with the possibility of a consequent critical effect on the optimum working of the networks.

Finally, the Group takes out insurance to cover any direct and indirect damages 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 of influence of the Group's activities (for example for 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 more stringent legislation.

The Group pays constant attention to the prevention of such risks, and in particular has adopted a policy document entitled "Policy for the Quality, Environment and Safety of the A2A Group", which is the instrument that now lays down 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 Quality, Environment and Safety

Department is committed to spreading and sharing as guidance for the day-to-day work of all concerned.

The purpose of the Quality, Environment and Safety Department is also to provide top management with support in establishing company policy in these areas, and it checks that this is implemented properly in compliance with the rules applicable in all areas and internal processes.

Operational implementation of the policy takes place through the use of an Environmental Management System (EMAS) by the Group's operating entities that 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. For the purpose of arriving at a single model, measures which are at the completion stage are currently being taken which will allow all the operating companies of the Group to make reference 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 conduct that does not comply with the environmental procedures established for all of the Group's operating companies.

From the perspective of having 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, including 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 against damage from both accidental and gradual pollution in order to cover any residual environmental risk.

Each year the Group also publishes a Sustainability Report which reports key data and information on environmental aspects in order to encourage the circulation of these among the public. Starting in 2010, the Sustainability Report is certified by the auditors, who attest that it is in compliance with the Sustainability Reporting Guidelines issued by the Global Reporting Initiative. In addition, a process has been scheduled to develop the Sustainability Report further with the aim of responding to the DJSE sustainability index questions, which act as a reference parameter for achieving excellence in this matter.

Information technology risks

ICT infrastructure

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 and the necessity to keep these updated, possible "downtime" making them 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 2011 the Group continued with 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 updating the key information systems supporting administration and commercial activities and designed to further increase their level of reliability and integration was established to strengthen the integration process.

To mitigate the potential risks of the interruption of business activities on strategic processes, A2A S.p.A. makes use of technological back-up infrastructure that 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.

Given 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 to protect their stability.

To make the software dedicated to Energy Trading and Risk Management more suitable for supporting a gradual increase in the operational complexity and the volumes handled, a project for the integration and development of the current applications platform ETRM has been started up.

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 by means of specific contractual agreements with any third parties who may have to access the information handled. In particular, work has initiated that is aimed at checking 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. Finally, 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.

Human resources risks

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.

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), the prevention measures adopted aim for a “zero risk” objective, encouraging a constant rise in the level of safety in the workplace.

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 execution stage at worksites.

The gradual strengthening of the organizational control structure is planned, which among other things carries out specific inspections to monitor compliance with the legislation on the subject as well as personnel update training.

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 is scheduled as support to the process of constant improvements in safety matters. In particular, the preparation of a periodic report is planned, which by means of increasingly detailed specific indices and information will provide support for identifying causes and corrective and mitigating action.