ACEA S.p.A financial statement

Consolidated Financial Statements of the ACEA Group

for the year 2013

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ACEA Organisational Model

ACEA is one of the major Italian *multiutility* operators, and has been quoted on the stock exchange since 1999.

ACEA adopts an operational model based on an organisational layout in line with the Strategic-Business Industrial Plan consolidating its role to govern, guide and control the Holding not only with the current business portfolio focused on areas of greater value, but also on the strategic development of the Group in new business segments and territories. ACEA's macro structure is organised in corporate functions and four industrial segments – Environment, Energy, Water and Networks.
The activities of each business segment is described below.

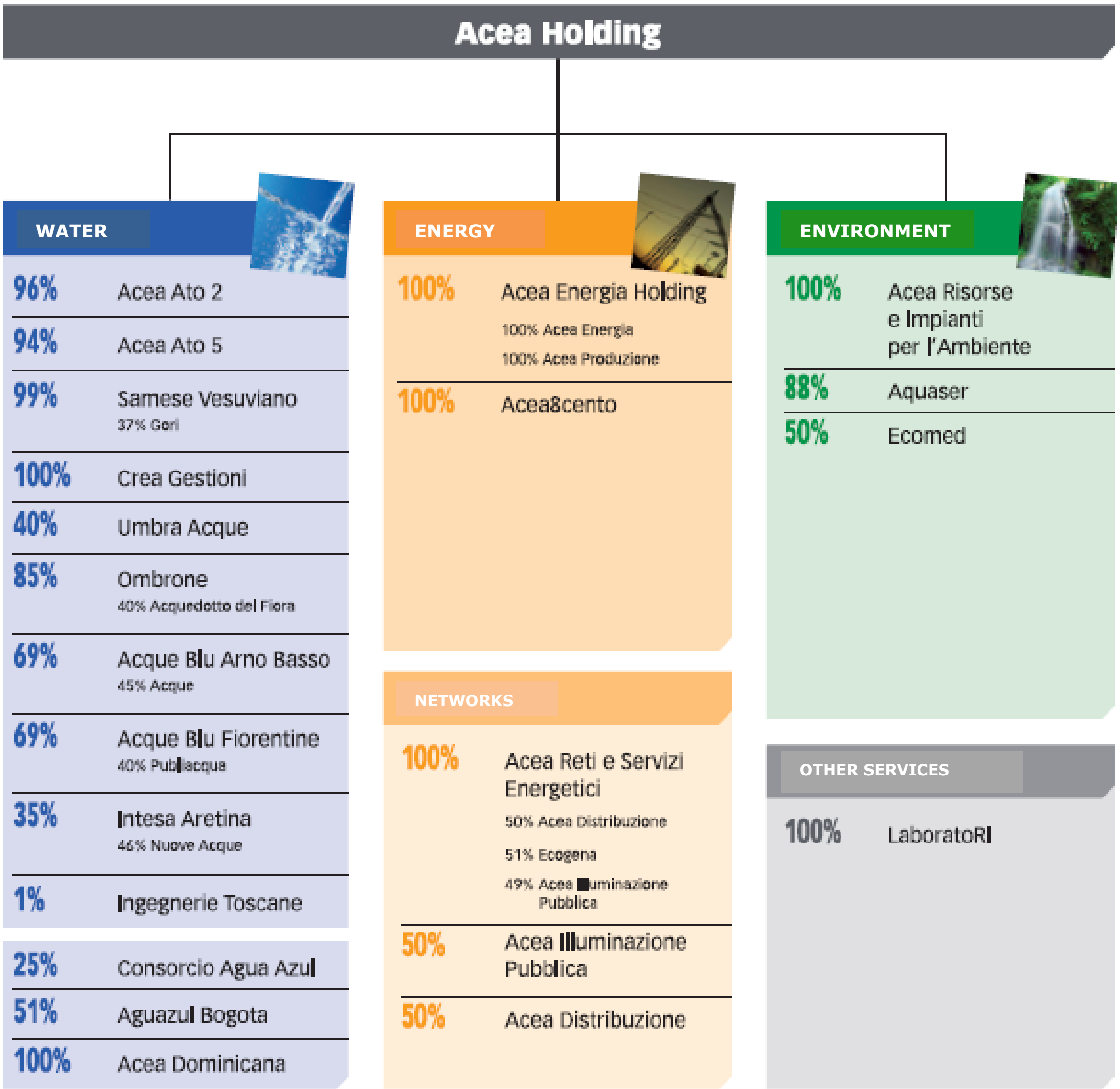
Environment segment
The ACEA Group is a major Italian operator in the urban management of environmental services. Acea runs the biggest waste-to-energy plant and the biggest composting plant in the Lazio region, points of reference for regional RDF (Refuse Derived Fuel) and organic waste operators. In particular, the Group develops investments in the *waste to energy* business, considered high potential, and organic waste management, in accordance with the strategic goal of the Group aimed at producing energy from waste and protecting the environment.

Energy segment
The ACEA Group is a major operator in Italy in the sale of electrical energy and offers innovative and flexible solutions for the supply of electrical energy and natural gas to consolidate its position as a *dual fuel* operator. Acea operates in all market segments, offering its services to families and major companies alike. Finally, the Group operates in the energy generation sector, running hydroelectric and thermoelectric plants in Lazio, Umbria and Abruzzo.

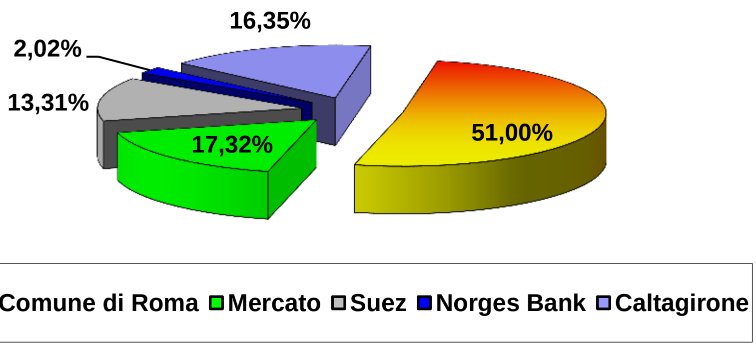
Water Segment
The ACEA Group is the biggest Italian operator in the water sector supplying water to 8.6 million people. The Group manages the integrated water service in Rome and Frosinone and in the respective provinces, as well as in other parts of Lazio, in Tuscany, Umbria and Campania. The Company completes the quality of the services offered with the sustainable management of water resources and respect of the environment. The Group has developed *know how* at the forefront in the design, construction and management of integrated water systems: from the source to the aqueducts, from distribution to the sewer network, and treatment. Laboratory services are of particular importance.

Networks Segment
The ACEA Group is a major operator in Italy with over 11 TWh of electrical energy distributed in Rome, where the Group manages the distribution network providing services for 2.7 million people. The Group also manages the public and artistic lighting of the capital, applying solutions that strive to become more and more efficient with a lower environmental impact every year. By 2020 we plan to replace 100 thousand light bulbs with the same number of leds. The Acea Group is committed to energy efficiency projects and the development of new technologies, such as *smart grids* and electric mobility, through particularly innovative pilot projects.

The Group structure, in the various business segments, comprises the following main companies.



The share capital of ACEA S.p.A. at 31 December 2013 is broken down as follows:



** The above chart only shows equity investments of more than 2%, as confirmed by CONSOB data.*

Corporate bodies

Board of Directors [1]

Giancarlo Cremonesi	Chairman
Paolo Gallo [2]	Chief Executive Officer
Francesco Caltagirone	Director
Diane D'Arras	Director
Paolo Di Benedetto	Director
Giovanni Giani	Director
Antonella Illuminati	Director
Maurizio Leo	Director
Andrea Peruzy	Director

General Manager

Paolo Gallo

Board of Statutory Auditors [1]

Enrico Laghi	Chairman
Corrado Gatti	Statutory Auditor
Laura Raselli	Statutory Auditor
Franco Biancani	Alternate Auditor
Antonia Coppola	Alternate Auditor

Executive Responsible for Financial Reporting [3]

Franco Balsamo

[1] appointed by the Shareholders' Meeting of 15 April 2013

[2] appointed by the Board of Directors on 16 April 2013

[3] appointed by the Board of Directors on 31 July 2013 effective as of 5 August 2013

Letter to shareholders

Summary of Results

Economic Data (million euros)	2013	2012	Increase/ (Decrease)	% Increase/ (Decrease)
Consolidated net revenue	3,570.6	3,612.7	(42.1)	(1.1%)
Consolidated operating costs	2,804.6	2,917.3	(112.8)	(3.9%)
Net income/(costs) from *commodity* risk management	0.1	(0.2)	0.3	(150.0%)
EBITDA	**766.1**	**695.2**	**70.1**	**10.2%**
EBIT	**383.8**	**293.8**	**90.0**	**30.7%**
Net profit/(loss)	**153.3**	**85.3**	**68.0**	**79.7%**
Profit/(loss) attributable to minority interests	11.3	7.9	3.4	43.3%
Net profit/(loss) attributable to the Group	**141.9**	**77.4**	**64.6**	**83.0%**

EBITDA per Operating Segment (million euros)	2013	2012	Increase/ (Decrease)	% Increase/ (Decrease)
ENVIRONMENT	**48.4**	**49.3**	**(0.9)**	**(1.9%)**
ENERGY	**90.7**	**61.0**	**29.7**	**48.6%**
Production	37.7	31.4	6.3	20.0%
Energy Management	2.1	(10.0)	12.0	120.0%
Sales	50.9	39.6	11.3	28.5%
WATER:	**372.5**	**340.6**	**31.9**	**9.4%**
Overseas	4.8	10.2	(5.4)	(53.1%)
Lazio - Campania	253.8	257.6	(3.9)	(1.5%)
Tuscany - Umbria	105.5	62.4	43.1	69.0%
Engineering	8.5	10.4	(1.9)	(18.3%)
NETWORKS	**257.3**	**260.7**	**(3.4)**	**(1.3%)**
ACEA (Corporate)	**(2.8)**	**(16.5)**	**13.7**	**83.0%**
Total EBITDA	**766.1**	**695.2**	**70.9**	**10.2%**

Consolidated balance sheet data (million euros)	2013	2012 *restated*	% Increase/ (Decrease)
Net Invested Capital	3,873.6	3,811.5	1.6%
Net Debt	(2,468.2)	(2,495.5)	(1.1%)
Consolidated Shareholders' Equity	(1,405.4)	(1,316.1)	6.8%

The consolidated balance sheet data at 31 December 2012 differs to that published due to the amendments made to international accounting standards IAS 19 coming into effect.

Net Debt per Operating Segment (million euros)	2013	2012	Increase/ (Decrease)
ENVIRONMENT	**184.6**	**188.9**	**(4.4)**

Net Debt per Operating Segment (million euros)	2013	2012	Increase/ (Decrease)
ENERGY	**297.4**	**332.6**	**(35.2)**
Production	140.7	162.8	(22.2)
Energy Management	(33.2)	(59.7)	26.5
Sales	190.0	229.5	(39.5)
WATER	**831.8**	**738.7**	**93.1**
Overseas	(8.6)	(6.6)	(1.9)
Lazio - Campania	627.9	531.4	96.5
Tuscany - Umbria	209.6	210.9	(1.3)
Engineering	2.9	3.0	(0.1)
NETWORKS	**687.5**	**728.1**	**(40.6)**
ACEA (includes also public lighting)	**466.9**	**507.2**	**(40.3)**
Total	**2,468.2**	**2,495.5**	**(27.3)**

Investments per Operating Segment (million euros)	2013	2012	Increase/ (Decrease)
ENVIRONMENT [4]	**12.2**	**37.5**	**(25.3)**
ENERGY	**11.4**	**27.1**	**(15.7)**
Production	5.2	19.3	(14.0)
Energy Management	0.2	0.5	(0.4)
Sales	6.0	7.3	(1.3)
WATER	**202.5**	**224.4**	**(21.8)**
Overseas	0.2	0.3	(0.1)
Lazio - Campania	134.3	152.1	(17.8)
Tuscany - Umbria	67.5	71.0	(3.5)
Engineering	0.5	1.0	(0.5)
NETWORKS	**104.1**	**101.9**	**2.3**
ACEA (Corporate)	**11.9**	**9.8**	**2.1**
Total	**342.1**	**400.7**	**(58.6)**
Purchase of offices	*0*	*112.5*	*(112.5)*
Total	**342.2**	**513.1**	**(171.0)**

[4] 2013 investments in the Environment Segment do not include the takeover of Samace with an investment of approximately 5 million euros.

Summary of management and income, equity and financial performance of the Group

Definition of alternative *performance* indicators

In line with Recommendation CESR/05-178b, the content and meaning of the non-GAAP measures of performance and other alternative performance indicators used in these financial statements are illustrated below:

1. for the ACEA Group the *gross operating profit* is an operating performance indicator, the sum of Operating profit and "Amortisation, depreciation, provisions and impairment charges";
2. the net financial position is an indicator of the ACEA Group's financial structure, the sum of non-current borrowings and financial liabilities net of non-current financial assets (loans and receivables and securities other than equity investments), current borrowings and other current liabilities net of current financial assets, cash and cash equivalents;
3. *net invested capital* is the sum of "Current assets", "Non-current assets" and assets and liabilities held for sale, less "Current liabilities" and "Non-current liabilities", excluding items taken into account in calculating the *net financial position.*

ACEA Group results of operations

The results of the ACEA Group in financial years 2013 and 2012 are summarized in the following statement.

Notes Ref.		31/12/2013	31/12/2012	Increase/ (Decrease)	% Increase/ (Decrease)
	Revenue from sales and services	3,473.4	3,526.3	(52.8)	(1.5%)
	Other revenue and proceeds	97.2	86.5	10.7	12.3%
1	**Consolidated net revenue**	**3,570.6**	**3,612.7**	**(42.2)**	**(1.2%)**
	Staff costs	279.5	282.0	(2.5)	(0.9%)
	Cost of materials and overheads	2,525.0	2,635.3	(110.2)	(4.2%)
2	**Consolidated operating costs**	**2,804.6**	**2,917.3**	**(112.8)**	**(3.9%)**
3	**Net income/(costs) from commodity risk management**	**0.1**	**(0.2)**	**0.3**	**129.1%**
	Gross Operating Profit	**766.1**	**695.2**	**70.9**	**10.2%**
4	Amortisation, depreciation, provisions and impairment charges	382.3	401.4	(19.1)	(4.8%)
	Operating profit/(loss)	**383.8**	**293.8**	**90.0**	**30.6%**
5	Financial income	40.3	28.1	12.2	43.3%
5	Financial costs	(137.7)	(148.7)	10.9	0.0%
6	(Costs)/Income from Equity Investments	(4.8)	0.9	(5.6)	(652.5%)
	Profit/(loss) before tax	**281.6**	**174.1**	**107.5**	**61.8%**
7	Taxation	128.3	88.8	39.5	44.5%
	Net profit/(loss) from continuing operations	**153.3**	**85.3**	**68.0**	**79.7%**
8	Net profit/(loss) from discontinued operations	0.0	0.0	0.0	0.0%
	Net profit/(loss)	**153.3**	**85.3**	**68.0**	**79.7%**
	Profit/(loss) attributable to minority interests	*11.3*	*7.9*	*3.4*	*43.3%*
	Net profit/(loss) attributable to the Group	**141.9**	**77.4**	**64.6**	**83.4%**

Amounts in millions of euros

The consolidated income statement shown above, with particular reference to data at 31 December 2012, is provided gross of IFRS 5 reclassifications, i.e. comparison data includes those attributable to the photovoltaic unit sold on 28 December 2012 by ARSE.

1. Consolidated net revenue - *3,570.6 million euros*

Revenue from sales and services - *3,473.4 million euros*
3,526.3 million euros in 2012 broken down as follows:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)	% increase/ (decrease)
Revenue from electricity sales and services	2,414.2	2,417.6	(3.4)	(0.1%)
Revenue from gas sales	60.1	53.4	6.7	12.6%
Revenue from the sale of certificates and rights	16.4	37.4	(21.0)	(56.2%)
Revenue from the Integrated Water Service	806.7	792.8	13.9	1.8%
Revenue from Overseas Water Services	13.1	37.4	(24.3)	(64.9%)
Revenue from biomass transfer and landfill management	35.0	32.1	2.9	9.1%
Revenue from services to customers	97.5	128.6	(31.1)	(24.2%)
Connection fees	30.3	26.9	3.4	12.7%
Revenue from sales and services	**3,473.4**	**3,526.3**	**(52.8)**	**(1.5%)**

Revenue from electricity sales and services drop 3.4 million euros to 2,414.2 million euros compared to last year. This decrease was mainly caused by the following events:

- ✓ A 36.5 million euros reduction in revenue from the sale of electrical energy as a result of lower quantities sold;
- ✓ A 3.5 million reduction in energy sales from photovoltaic plants due to the transfer of part of the photovoltaic unit in December last year;
- ✓ An increase of 31.6 million euros in revenue from transport and metering of energy, due to the new tariff rules introduced by the AEEGSI for the fourth regulatory period, and due to the combined effect of the decrease in energy injected into the network and an increase in relations;
- ✓ A 6.1 million euros increase in electrical energy and heat generation as a consequence of plants that had been shut down for *repowering* going back into production and increased water availability reflecting the climatic conditions during the period.

There was a 6.7 million euros (+ 12.6%) increase in **revenue from gas sales** on the previous year. This trend is affected by both the increase in the quantities sold and a price increase.

There was a 21.0 million euros drop in **revenue from the sale of certificates and rights** as a result of the conclusion of energy saving projects and the transfer of white certificates.

There was a 13.9 million euros increase in **revenue from the Integrated Water Service** mainly due to the recognition in 2013 of the FNI (New Investments Fund) component for 2012 and 2013 as resolved by the Area Authorities for the tariff formulation procedure as required in article 6 of Resolution No. 585/2012. The total amount of this component was 45.5 million euros, of which 10.6 million euros referred to 2012. Note that, in 2012, this item included higher tariff adjustments awarded to ACEA Ato2 by resolution of the Mayors' Conference on 17 April 2012 (40 million euros).

Overseas revenues dropped 24.3 million euros mainly following the expiry of the Aguazul Bogotá concession contract on 31 December 2012.

Revenue from biomass transfer and landfill management increased by 2.9 million euros. The period performance was essentially due to the Terni WTE plant going into production at the end of the 2012 financial year, and an increase in the quantities conferred and average price.

Revenue from services to customers dropped 31.1 million euros mainly due to:

- ✓ fewer new installations in the Roma Capitale contract amounting to 11.3 million euros;
- ✓ a 11.4 million decrease in the sale and installation of photovoltaic panels with third parties;
- ✓ a 3.8 million euros decrease in revenues for work done for third parties.

Connection fees increased by 3.4 million euros mainly attributable to Acea Energia.

Other revenue and proceeds - *97.2 million euros*
An increase of 10.7 million euros. Broken down as follows:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)	Increase/ (Decrease)
Non-recurring gains and other revenues	57.6	33.5	24.1	71.7%
Reimbursement for damages, penalties and fines	8.7	6.1	2.7	43.9%
Regional grants	7.8	6.5	1.2	18.6%
Feed-in-tariff	5.4	20.9	(15.5)	(74.2%)
Government grant (Decree of the President of the Council of Ministers of 23/04/04)	7.9	1.9	6.0	312.1%
Seconded staff	1.8	3.1	(1.3)	(41.5%)
Property income	1.7	2.5	(0.9)	(34.4%)
IFRIC 12 margin	1.6	1.9	(0.3)	(14.7%)
Income from end users	1.5	0.9	0.6	71.9%
Service continuity bonuses	1.1	5.5	(4.3)	(79.2%)
Recharged cost of governance bodies	1.1	0.9	0.2	26.5%
Coverage of costs for tariff subsidies for employees	0.6	0.7	(0.1)	(14.3%)
Other	0.3	2.1	(1.8)	(83.7%)
Other revenue and proceeds	**97.2**	**86.5**	**10.7**	**12.3%**

The change compared to 31 December 2012 was due to:

(i) a decrease in revenues from the feed-in-tariff of 15.5 million euros as a result of the sale of the ARSE photovoltaic unit to R.T.R. Capital S.r.l. on 28 December 2012

(ii) the increase in non-recurring gains and other revenue for 24.1 million euros, mainly from the recognition of the non-realisation of costs for which provisions had been allocated in previous years and revenue pertaining to previous years, as well as from energy related items, The change was also due to the recognition of revenues from previous years for the construction of public lighting systems -

(iii) 6.0 million euros increase in the contribution acknowledged by the Italian State to supplement income deriving from the services supplied to the Vatican State. This change is determined by variations in the consideration of this contribution in the quantification of the restriction on guaranteed revenues (VRG) for ACEA Ato2.

2. Consolidated operating costs - *2,804.6 million euros*

The breakdown is provided in the following table.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)	% increase/(decrease)
Staff costs	279.5	282.0	(2.5)	(0.9%)
Cost of materials and overheads	2,525.0	2,635.3	(110.2)	(4.2%)
Consolidated operating costs	**2,804.6**	**2,917.3**	**(112.8)**	**(3.9%)**

Staff costs - *279.5 million euros*
The decrease in the cost of work, including capitalised costs amounted to 11.1 million euros, substantially determined by the decrease for ACEA (- 4.5 million euros) and Agua Azul Bogotà (- 9.3 million euros).

The trend by Operating Segment, including capitalised costs, is shown in the following table:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)	% Increase/ (Decrease)
Environment	10.7	9.7	1.0	10.4%
Energy	25.6	25.3	0.3	1.2%
Water	168.5	177.0	(8.6)	(4.8%)
Networks	87.2	86.6	0.6	0.7%
Parent Company	51.2	55.7	(4.5)	(8.1%)
Total staff costs	**343.2**	**354.3**	**(11.1)**	**(3.1%)**

Staff costs for the period were affected by the workforce reduction partially offset by higher average per capita costs resulting from the renewal of employment contracts, remuneration policy and certain management-related factors such as overtime and availability.

Cost of materials and overheads- *2,525.0 million euros*
This item reported a total decrease of 110.2 million euros (- 4.2%) (2,635.3 million euros at 31 December 2012).

€ thousand	31/12/2013	31/12/2012	Increase/ (Decrease)	% increase/(decrease)
Electricity, gas and fuel	2,036.3	2,084.2	(47.9)	(2.3%)
Materials	36.4	62.4	(26.0)	(41.6%)
Services	311.8	333.1	(21.4)	(6.4%)
Concession fees	66.7	74.0	(7.4)	(9.9%)
Lease expense	28.1	30.0	(1.9)	(6.3%)
Other operating costs	45.8	51.6	(5.7)	(11.1%)
Consolidated operating costs	**2,525.0**	**2,635.3**	**(110.2)**	**(4.2%)**

Purchase costs of electricity, gas and fuel drop 47.9 million euros to 2,036.3 million euros compared to last year. This decrease is due to costs for the procurement of electrical energy for the protected and free markets along with the related transport costs and fuel and gas costs amounting to a total of 34.6 million euros as a result of the lower quantities sold in the period. The remaining decrease derives from lower costs for purchasing white certificates (- 12.8 million euros).

Costs for the purchase of materials drop 26.0 million euros to 36.4 million euros. The trend in that item is essentially caused: **i)** by ARSE (- 13.0 million euros) as a result of discontinued purchases of photovoltaic panels used to produce owned or held for sale systems; **ii)** Agua Azul Bogotà (- 4.6 million euros) **iii)** ACEA Distribuzione (- 4.7 million euros).

Service costs dropped 21.4 million euros to 311.8 million euros compared to last year. This trend is mainly caused by: **i)** a 13.9 million euros decrease in sludge and waste disposal costs, mainly for ACEA Ato2; **ii)** an 8.3 million euros decrease in costs for contract work, in particular for Roma Capitale public lighting maintenance and installation.

Concession fees decreased by 7.4 million euros to 66.7 million euros at 31 December 2013. This trend is mainly due to higher costs borne last year following the GORI reclassification of the amount of I.I.S. loans in concession fee costs previously capitalised.

Lease expense decreased by 1.9 million euros following the decrease in other payments and rental costs.

Other operating costs amounted to 45.8 million euros, dropping 5.7 million on 2012. The change refers to: **i)** 8.3 million euros from the fine paid to the Antitrust Authority in 2012 for irregularities committed during tenders for the awarding of water services in Tuscany in 2001 – 2004, **ii)** decrease in non-recurring losses related to costs pertaining to previous years and adjustments to previously recognized revenue.

3. Net income/(costs) from commodity risk management- *(0.1) million euros*

At 31 December 2013 the change in the *Fair Value* measurement of financial contracts is equal to 0 million euros.
The portfolio of financial instruments under *Hedge Accounting* was the predominant component of the overall portfolio.
For further details, refer to the section "Additional disclosures on financial instruments and risk management policies" in the 2013 Consolidated Financial Statements.

4. Amortisation, depreciation, provisions and impairment charges - *382.3 million euros*

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)	% increase/(decrease)
Amortisation and depreciation	244.5	263.4	(18.9)	(7.2%)
Impairment of receivables	89.5	83.5	6.0	7.1%
Provisions for liabilities	48.3	54.5	(6.2)	(11.4%)
TOTAL	**382.3**	**401.4**	**(19.1)**	**(4.8%)**

Depreciation and any accumulated impairment charges drop 18.9 million euros (- 7.2%) to 244.5 million euros. This decrease refers to the end of the depreciation period for part of the ACEA Distribuzione MV/LV network partially compensated by higher amortisation/depreciation for the Water Segment due to the application of the financial method for assets to be relinquished to the Tuscan companies and the Energy Segment for the review of the amortisation/depreciation period for the Tor di Valle plants.

Impairment charges amount to 89.5 million euros with an increase of 6.0 million euros.

Provisions for liabilities amounted to 48.3 million euros (- 11.4% compared to last year). This decrease is mainly due to lower provisions for legal risks, contributions and for subsidiaries, partially compensated by an increase in provisions for early retirements and redundancies and allocation of the estimated charges deriving from the purchase and/or production of energy efficiency certificates to meet the ACEA Distribuzione objective for 2013.

5. Finance costs and income - *(97.4) million euros*

Net finance costs totalled 97.4 million euros, dropping 23.1 million. In particular, this is due to: **i)** a decrease in the average "*all in*" global cost of the ACEA Group payables (3.41% in 2013 compared to 3.46% in the previous year); **ii)** a decrease in factoring fees and **iii)** recognition of the income (14.4 million euros) deriving from discounting PV GORI's debt to Campania Region following its recalculation and rescheduling on the basis of the Agreement signed in June 2013 between GORI, the Region and the Area Authority. The Agreement includes a twenty-year repayment plan subject to the payment of legal interest (at 2.44%) only from the eleventh year.

6. Income and costs from Equity Investments - *(4.8) million euros*

These refer to the result of the consolidation under the equity method of certain Group companies, with particular reference to Agua de San Pedro, GEAL, Sienergia and Marco Polo. With regard to the latter it should be noted that the evaluation result is a loss of 5.9 million euros due to the costs incurred in managing the liquidation.
The item also includes the reversal of provisions for liabilities and charges related to equity investments which proved in excess for 1.4 million euros.

7. Taxation for the period - *128.3 million euros*

Overall tax expenses for the period were estimated at 128.3 million euros compared to 88.8 million euros for the previous year.
The overall increase recorded in the period, equal to 39.5 million euros at December 2013, is the result of the combined effect of the increase in profit before tax and the higher number of companies subject to the additional Corporate Income Tax (IRES). The tax rate for 2013 was 45.6% (51.0% in 2012).

8. Earnings per share

€ thousand	31/12/2013	31/12/2012	Increase/ (Decrease)
Net profit attributable to the Group (€/000)	141,940	77,383	64,557
Net profit attributable to ordinary equity holders of the Group (€/000) (A)	141,940	77,383	64,557
Weighted average number of ordinary shares outstanding for the purpose of determining earnings per share			
- basic (B)	212,964,900	212,964,900	0
- diluted (C)	212,964,900	212,964,900	0
Earnings per share (€)			
- basic (A/B)	**0.6665**	**0.3634**	**0.3031**
- diluted (A/C)	**0.6665**	**0.3634**	**0.3031**

ACEA Group financial position and cash flows

Ref Note	ACEA GROUP STATEMENT OF FINANCIAL POSITION (in millions of euros)	31/12/2013 (a)	31/12/2012 Restated (b)	(a) - (b)	% increase/ (decrease)
	NON-CURRENT ASSETS AND LIABILITIES	**3,737.0**	**3,699.3**	**37.7**	**1.0%**
9	Property, plant and equipment and intangible assets	4,125.9	4,031.5	94.4	2.3%
10	Equity investments	14.7	21.1	(6.4)	(30.5%)
11	Other non-current assets	429.9	420.1	9.8	2.3%
12	Staff termination benefits and other defined benefit plans	(117.4)	(128.7)	11.4	(8.8%)
13	Provisions for liabilities and charges	(259.9)	(272.4)	12.5	(4.6%)
14	Other non-current liabilities	(456.2)	(372.3)	(83.9)	22.5%
	NET WORKING CAPITAL	**136.6**	**112.2**	**24.4**	**21.8%**
15	Current receivables	1,500.7	1,477.2	23.5	1.6%
16	Inventories	37.3	42.0	(4.6)	(11.1%)
17	Other current assets	237.3	221.3	16.0	7.2%
18	Current payables	(1,306.9)	(1,267.2)	(39.7)	3.1%
19	Other current liabilities	(331.9)	(361.2)	29.3	(8.1%)
	INVESTED CAPITAL	**3,873.6**	**3,811.5**	**62.1**	**1.6%**
20	**NET DEBT**	**(2,468.2)**	**(2,495.5)**	**27.3**	**(1.1%)**
	Medium/long-term loans and receivables	34.8	33.0	1.8	5.5%
	Medium/long-term borrowings	(2,507.6)	(2,211.6)	(296.0)	13.4%
	Short-term loans and receivables	114.6	152.2	(37.6)	(24.7%)
	Cash and cash equivalents	589.5	423.7	165.8	39.1%
	Short-term borrowings	(699.4)	(892.8)	193.3	(21.7%)
21	**Total shareholders' equity**	**(1,405.4)**	**(1,316.1)**	**(89.4)**	**6.8%**
	FUNDING	**(3,873.6)**	**(3,811.5)**	**(62.1)**	**1.6%**

Amounts in millions of euros

The above statement of financial position has been reclassified to show the components of invested capital and the corresponding funding.
In particular, the net carrying amounts of non-current assets and net working capital, consisting of current receivables, other receivables, inventories, current payables and the short-term portion of long-term borrowings have been added together.
The figure obtained for invested capital is then compared with the corresponding amounts for shareholders' equity and net debt, thereby showing the weight of funding.

The ACEA Group's statement of financial position records an increase in invested capital of 62.1 million euros (1.6 %) compared to 31 December 2012. This is the result of the increase in net fixed assets (37.7 million euros) and in net working capital (24.4 million euros).

Non-current assets and liabilities - *3,741.7 million euros*

This item increased by 37.7 million euros compared to 31 December 2012 (+ 1.0%) and is broken down as follows.

9. Property, plant and equipment/intangible assets - *4,125.9 million euros*

This item increased by 94.4 million euros (2.3%) compared to the previous year.
Investments in 2013 amounting to 342.1 million euros and depreciation and amortization for 244.5 million euros contributed to the change.

The table below shows the level of investments made in 2012 by Operating Segment, compared to those at 31 December 2012.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
ENVIRONMENT	**12.2**	**37.5**	**(25.3)**
ENERGY	**11.4**	**27.1**	**(15.7)**
Production	*5.2*	*19.3*	*(14.0)*
Energy Management	*0.2*	*0.5*	*(0.4)*
Sales	*6.0*	*7.3*	*(1.3)*
WATER:	**202.5**	**224.4**	**(21.8)**
Overseas	*0.2*	*0.3*	*(0.0)*
Lazio - Campania	*134.3*	*152.1*	*(17.8)*
Tuscany - Umbria	*67.5*	*71.0*	*(3.5)*
Engineering	*0.5*	*1.0*	*(0.5)*
NETWORKS	**104.1**	**101.9**	**2.3**
Corporate	**11.9**	**9.8**	**2.1**
Total	**342.1**	**400.7**	**(58.6)**
Purchase of offices	***0***	***112.5***	***(112.5)***
Total Investments	**342.1**	**513.2**	**(171.1)**

The reduction in capital expenditure compared to the previous year, was mainly attributable to the **Parent Company** (- 112.5 million euros), due to the purchase of the corporate Head Office in Rome on 23 January 2012.

The **Environment Segment** reduced the level of investments (- 25.3 million euros) following completion of the *revamping* of the Terni WTE plant.

The **Energy Segment** recorded a decrease of 15.7 million euros mainly attributable to Acea Produzione (- 14.0 million euros) due to the completion of *repowering* activities concerning the Salisano and Orte power plants.

Compared to 2012, the **Water Segment** made less investments for a total of 21.8 million euros.

Investments for the **Networks Segment** recorded an increase (+ 2.3 million euros), as a result of the expansion of the HV network and the renovation of the LV and MV network.

10. *Equity investments* - *14.7 million euros*

Compared to 31 December 2012, they decreased by 6.4 million euros mainly due to the valuation of the equity investment in Marco Polo, which resulted in recognition of an impairment loss of 5.9 million euros. The overall change also includes the evaluation of Agua de San Pedro and GEAL accounted for with the equity method.

11. *Other non-current assets* - *429.9 million euros*

The balance of this item is summarised in the table below.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Deferred tax assets	343.2	361.6	(18.5)
Other receivables	47.8	51.5	(3.7)
Accrued income and deferred charges	5.8	6.9	(1.1)
Receivable for tariff adjustments	33.1	0.0	33.1
Total non-current assets	**429.9**	**420.1**	**9.8**

The increase in this item compared to the end of the previous year totals 9.8 million euros (+ 2.3%).
A portion of receivables for tariff adjustments accrued by GORI was reclassified which, on the basis of the Agreement signed in June with the Campania Region and the Area Authority and subject to the decisions by the Authority, should be recovered in the period 2013-2025.
There was a 18.5 million euro reduction in the allocation of **deferred tax assets** compared to 31 December 2012.
Other receivables amounted to 47.8 million euros (- 3.7 million euros) and represent the total capital spending incurred up to 31 December 2010 as part of the public lighting service agreement: these receivables were recognised following the application of IFRIC 12 using the financial asset model.
Prepayments and accrued income decreased by 1.1 million euros and mainly refer to insurance premiums paid in advance, lease payments, maintenance fees and rent on public land.

12. *Staff termination benefits and other defined-benefit plans - 117.4 million euros*

Compared to the end of the previous year the provision decreased by 11.4 million euros, due to the net effect of:

- - 5.0 million euros relating to staff termination benefits,
- - 4.4 million euros relating to tariff subsidies and additional monthly salaries
- - 2.0 million euros relating to the medium/long term Incentive Scheme.

The change refers to: **(i)** allocations for the period of 15.3 million euros, **(ii)** the partial release of amounts allocated for the second round of the medium/long term Incentive Scheme as the objectives underlying this Plan were only partially achieved, to an extent mitigated by the provision for the third round of the same Scheme for the period 2013 - 2015 approved by the ACEA Board of Directors in the first half of 2013, **(iii)** resignations during the period and **(iv)** the impact of the entry into force of the amendments to IAS 19 which, in summary, concern the abolition of the corridor method for the recognition of actuarial gains and losses to be recognized instead in "*Other Comprehensive Income*" (OCI). The impact of these changes resulted in an increase in liabilities at 1 January 2013, measured on the basis of IAS 19, of approximately 23.4 million euros which also include a review of the discount rate compared to the rate used at end of 2012. In particular, as regards the economic and financial scenario, a 3.17% discount rate was used for the evaluation (compared to a rate of 2.80% used for last year).

13. *Provisions for liabilities and charges - 259.9 million euros*

The provision for liabilities and charges recorded a decrease of 12.5 million euros largely due to provisions for the period (48.3 million euros) net of uses and other changes (totalling 58.1 million euros) with reference to allocations made in previous years to cover redundancies, disputes and litigation, concession fees and tender-related risks.
The following table provides a breakdown by type of the provision for liabilities and charges.

Type of provision	31/12/2013	31/12/2012	Increase/ (Decrease)
Regulatory risks	74.2	83.6	(9.4)
Legal	27.0	32.9	(5.9)
Post mortem	26.4	26.4	0.0
Other liabilities and charges	28.1	21.5	6.6
Investees	6.1	10.0	(3.9)
Contributory risks	7.0	11.2	(4.2)
Tax	4.3	4.5	(0.1)
Early retirements and redundancies	2.0	0.7	1.4
TOTAL	**175.1**	**190.6**	**(15.5)**
Provisions for restoration charges	72.3	64.4	7.8
Contractual commitments	12.5	17.4	(4.9)
TOTAL PROVISION	**259.9**	**272.4**	**(12.5)**

The main changes refer to:

- the provision for regulatory risks decreased by 9.4 million euros, mainly driven by the adjustment of the provision in 2012 resulting from the decisions of the Special Commissioner who, among other things, determined the adjustments and service levels of Acea Ato5 with reference to the 2006-2011 management period,
- the provision for legal disputes decreased by 5.9 million euros, as a result of the disputes settled in the financial year,
- the provision for contribution issues decreased by 4.2 million euros as a result of activities aimed at resolving the known ongoing dispute with INPS,
- the provision for restoration costs increased by 7.8 million euros as a result of allocations related to the costs required to keep the water service infrastructure in good condition,
- the provisions allocated by Acea Ato 2 in relation to the non-application of penalties through the application of the MALL parameter on the works financed by grant from 2012 to 2017; at 31 December 2013, 4.9 million euros of this provision was used to cover the capital expenditure incurred.
- the provision set aside to deal with the charges arising from the voluntary redundancy and early retirement procedure increased by 1.4 million euros,
- the equity investment provision, which recorded a decrease of 3.9 million euros, primarily due to the use of the provision at 31 December 2012 to cope with the resolutions passed by the shareholders of Marco Polo to partially cover the 2012 losses.

14. ***Other non-current liabilities -*** *456.2 million euros*

This item recorded an increase of 83.9 million euros (+ 22.5%).
This item consists of:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Advances from end users and customers	118.3	114.2	4.1
Capital grants, accrued liabilities and deferred income	115.6	104.2	11.4
Provisions for deferred tax liabilities	104.8	93.6	11.2
Due to the Campania Region	61.2	0.0	61.2
Water connection fees	56.2	60.3	(4.0)
TOTAL	**456.2**	**372.3**	**83.9**

The change in the period was mainly due to recognition of the amount payable by GORI to the Campania Regional Authorities among medium/long term liabilities in accordance with the repayment plan envisaged by the Agreement signed in June 2013, scheduling the repayment of the total amount due of 212 million euros (Group share 78.5 million euros) over twenty years and

provides for the payment of interest only from the eleventh year. As a result of the covenants in the agreement, the debt was discounted to present value: this effect amounted to 38.8 million euros (Group share 14.4 million euros) and resulted in an increase in deferred tax liabilities of 4.0 million euros.
The current portion of the Gori payables to the Campania Regional Authorities amounted to 4.8 million euros (Group share 1.8 million euros) and was recognized as trade payables.

Advances includes: **i)** the amount of security deposits and consumption advance subject to adjustment by the water companies; **ii)** the amount of advances relating to liabilities for advances on energy consumption, paid by customers in the Protected Categories market, that bear interest at the conditions set by the regulation issued by the Authority for Electricity and Gas (Resolution No. 204/99).

Capital grants and those for **Water connection** showed a net overall increase of 6.5 million euros, mainly attributable to Umbra Acque.

Accrued liabilities and deferred income amounting to 38.3 million euros refer to grants received, recognised in the income statement by an amount equal to the depreciation generated by the associated capital investment. In particular, this item includes the contribution received by ACEA Distribuzione for the replacement of electromechanical meters with electronic meters (AEEGSI Resolution 292/06).

Net working capital - *136.6 million euros*

Increases by 24.4 million euros compared to the end of the previous financial year as follows.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Current receivables	**1,500.7**	**1,477.2**	**23.5**
- due from end users/customers	1,399.4	1,346.8	52.6
- due to Roma Capitale	69.7	94.3	(24.7)
Inventories	**37.3**	**42.0**	**(4.6)**
Other current assets	**237.3**	**221.3**	16.0
Current payables	**(1,306.9)**	**(1,267.2)**	**(39.7)**
- due to Suppliers	(1,212.9)	(1,193.1)	(28.2)
- due to Roma Capitale	(85.6)	(60.7)	(24.9)
Other current liabilities	**(331.9)**	**(361.2)**	**29.3**
Total	**136.6**	**112.2**	**24.4**

15. Current receivables - *1,500.7 million euros*

The breakdown is shown in the following table:

€ thousand	31/12/2013	31/12/2012	Increase/ (Decrease)
Amounts due from customers	1,399.4	1,346.8	52.6
Amounts due from Roma Capitale	69.7	94.3	(24.7)
Amounts due from subsidiaries and associates	31.6	36.0	(4.4)
Total trade receivables	**1,500.7**	**1,477.2**	**23.5**

Receivables from end users and customers

This item increased by 52.6 million euros compared to the previous year. The breakdown by Operating Segment is provided below:

€ millions	31/12/2013			31/12/2012			Increase/ (Decrease)		
	End users (a)	Customers (b)	Total	End users (c)	Customers (d)	Total	End users (a) - (c)	Customers (b) - (d)	Total
Environment	0.0	27.3	27.3	0.0	43.8	43.8	0.0	(16.5)	(16.5)
Energy	553.4	56.7	610.0	495.1	88.2	583.2	58.3	(31.5)	26.8
Water	577.1	48.9	626.1	535.7	48.1	583.8	41.4	0.8	42.2
Networks	39.9	52.1	92.0	41.3	48.7	90.0	(1.5)	3.4	2.0
Corporate	0.0	44.0	44.0	0.0	45.9	45.9	0.0	(1.9)	(1.9)
Total	**1,170.4**	**229.0**	**1,399.4**	**1,072.1**	**274.7**	**1,346.8**	**98.2**	**(45.7)**	**52.6**

In 2013 sales transactions *without recourse* were carried out for a total amount of 1,393.5 million euros, around half of which referred to the Energy Segment.

With reference to the main changes in receivables from end users or customers:

- the Environment Segment reduced its total receivables by 16.5 million euros mainly attributable to ARIA and SAO,
- the Energy Segment recorded an overall increase in receivables of 26.8 million euros compared to receivables recognised at 31 December 2012.
- The Water Segment increased its total receivables by 42.2 million euros. The change derives substantially from the effect produced by the increase in receivables for bills to be issued as a result of application of the Transitional Tariff Method. There was also a reduction of 10.8 million euros for tariff adjustments recognised by GORI up to 2011 as a result of the Agreement signed with the Campania Region, which provides, inter alia, for a reduction in the adjustments for an amount equal to the discount on debt for the purchase of water and a reduction of 35.7 million euros related to the reclassification under Other non-current assets of the portion of the tariff adjustments recoverable in the medium - long term as a result of the aforementioned Agreement.

Receivables due from the Parent Company Roma Capitale

Trade receivables due from Roma Capitale totalled 69.7 million euros at 31 December 2013 (94.3 million euros at 31 December 2012).
The total amount of receivables (including short-term and medium/long term financial receivables resulting from the public lighting contract) was 154.0 million euros compared to 188.6 million euros at the end of the previous year.
The following table presents an analysis of the ACEA Group's relations with Roma Capitale regarding both receivables and payables, including those of a financial nature.

Amounts due from Roma Capitale	31/12/2013	31/12/2012	Increase/ (Decrease)
Utility receivables	42.5	53.1	(10.6)
Contract work	19.3	17.6	1.6
Services	1.4	6.6	(5.2)
Other receivables	0.3	0.1	0.2
Total services billed	**63.5**	**77.4**	**(13.9)**
Grants receivable	2.4	2.4	0.0
Surcharge receivable	0.0	0.0	0.0
Total services requested	**65.9**	**79.8**	**(13.9)**
Total services to be billed	**7.1**	**13.9**	**(6.8)**
Advances	0.8	2.1	(1.4)
Total trade receivables	**73.8**	**95.8**	**(22.0)**

Amounts due from Roma Capitale	31/12/2013	31/12/2012	Increase/ (Decrease)
Public lighting loans and receivables	50.1	63.3	(13.2)
Total receivables due within one year (A)	**123.9**	**159.1**	**(35.2)**

Amounts due to Roma Capitale	31/12/2013	31/12/2012	Variation
Electricity surtax payable	(14.8)	(14.5)	(0.2)
Concession fees payable	(48.9)	(23.9)	(25.0)
Total payables due within one year (B)	**(63.7)**	**(38.5)**	**(25.2)**

Total (A) - (B)	**60.2**	**120.7**	**(60.5)**
Other financial receivables/payables	**(0.7)**	**30.0**	**(30.7)**
of which: Financial liabilities (including dividends)	(33.0)	(0.9)	(32.1)
of which: medium/long-term loans and receivables for public lighting	32.3	30.9	1.4
Other trade receivables/(payables)	**(5.5)**	**(3.3)**	**(2.2)**
Net balance	**54.0**	**147.4**	**(93.4)**

The significant decrease in receivables is due to the Roma Capitale payments received during the year, equal to 186.8 million euro, also thanks to the "push" from Legislative Decree 35/2013. Furthermore, there was an increase in payables accrued for integrated water services in the financial year, as well as payables arising from the 2013 interim dividend approved by the Board of Directors on 18 December 2013.

As well as the payables in the above table, there are also those for the water treatment and sewerage fees deriving from the services provided to the Vatican State which cannot be calculated as receivables for Roma Capitale as the Vatican payables have still not been paid.

With reference to Group relations with Roma Capitale related parties, Group receivables due from AMA and ATAC amount to 51 million euros recorded in amounts due from customers.

Amounts due from associates

Amount to 6.6 million euros and substantially in line with the previous year (5.6 million euros).

Amounts due from subsidiaries

Amount to 24.9 million euros (30.4 million euros at 31 December 2012) recording a decrease of 5.4 million euros. They refer to receivables due from subsidiaries consolidated using the proportional method.

16. Inventories - *37.3 million euros*

A 4.6 million euro decrease compared to 31 December 2012. The changes by industrial segment are shown in the following table:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Environment segment	3.4	3.2	0.3
Energy segment	1.8	2.7	(0.8)
Water Segment	13.5	13.0	0.5
Networks Segment	18.3	20.6	(2.3)
Parent Company	0.3	2.5	(2.3)
Total	**37.3**	**42.0**	**(4.6)**

17. Other current assets - *237.3 million euros*

There was an overall increase of 16.0 million euros, equal to 7.2% compared to the previous year, as follows:

€ thousand	31/12/2013	31/12/2012	Increase/ (Decrease)	% Increase/ (Decrease)
Other receivables	116.1	124.1	(7.9)	(6.4%)
Accrued income and prepayments	11.7	8.8	2.8	32.1%
Tax receivables	109.5	85.6	23.9	27.9%
Receivables from *commodities* derivatives	0.0	2.9	(2.8)	(98.3%)
Total other receivables and current assets	**237.3**	**221.3**	**16.0**	**7.2%**

Other receivables amount to a total of 116.1 million euros, a 7.9 million drop as shown in the following table with the composition and changes compared to the previous year:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Receivables due from the Equalisation Fund	41.1	16.6	24.5
Receivables due from Authority for Tariff adjustments	18.0	31.5	(13.6)
Receivables due from Trifoglio property company	10.3	10.3	0.0
Receivables due from Municipal Authorities	7.4	7.3	0.1
Receivables due from INPS welfare contributions in accordance with article 41, paragraph 2, letter A of Act 488/1999	7.1	0.0	7.1
Regional grants due	4.8	6.7	(1.9)
Receivables from Equitalia	4.1	7.6	(3.5)
Receivables due from social security institutions	3.9	4.2	(0.3)
Receivables due for green certificate revenue accrued	3.2	0.0	3.2
Security deposits	2.9	1.5	1.4
Suppliers' advances	2.9	1.9	1.1
Receivable due from single transfers	2.6	5.5	(2.9)
Other receivables due from Equalisation Fund	1.2	2.4	(1.2)
Receivables due from the Equalisation Fund for TOE	0.4	14.1	(13.8)
Receivables due for repayment of tariff restrictions	0.2	0.2	(0.1)
Receivables due from GDF Suez for activities performed before winding-up	0.0	3.3	(3.3)
Other minor receivables	6.1	11.1	(5.0)
Total	**116.1**	**124.1**	**(7.9)**

The decrease of 7.9 thousand euros compared to 2012 is mainly attributable to the following phenomena:

- ✓ - 13.6 million euros refers to "amounts due from the Area Authority", following the recognition of adjustments payable to ACEA Ato5 for the 2006-2011 period managed by the Commissioner in accordance with Decision 30 May 2013,
- ✓ - 13.8 million euros recognised by ACEA Distribuzione for receivables due from the Equalisation Fund as repayment of the portion of the purchase cost of energy efficiency certificates cancelled for achieving the assigned energy savings targets for 2012,

✓ + 24.5 million euros recorded by ACEA Distribuzione relating to the general equalisation for 2010 and 2013.

Tax receivables, amounted to 109.5 million euros (+ 23.9 million euros) and mainly include VAT credits for 41.2 million euros and IRES and IRAP tax credits for 22.3 million euros.
Accrued income and prepayments amount to 11.7 million euros (8.8 million euros at 31 December 2012) and refer mainly to land rent, lease payments and insurance.

18. Current payables - *1,306.9 million euros*

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Amounts due to third-party suppliers	1,212.9	1,193.1	19.8
Due to the Parent Company Roma Capitale	85.6	60.7	24.9
Due to associates	7.2	10.9	(3.7)
Due to subsidiaries	1.2	2.5	(1.3)
TOTAL	**1,306.9**	**1,267.2**	**39.7**

Amounts due to third-party suppliers
Trade payables amounted to 1,212.9 million euros (1,193.1 million euros at 31 December 2012).
The following table provides the breakdown by operating segment:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Environment segment	33.5	55.8	(22.3)
Energy segment	483.3	370.7	112.6
Water Segment	313.9	372.0	(58.1)
Networks Segment	315.7	314.2	1.5
Corporate	66.5	80.3	(13.8)
Total	**1,212.9**	**1,193.1**	**19.8**

There was a reduction in all Business segments, except for the Energy segments with an overall increase of 112.6 million euros for the purchase and transport of electrical energy.
The reduction in the Water Segment can mainly be attributed to the reclassification of 61.2 million euros as Other non-current liabilities which refer to the sum GORI must pay the Campania Regional Authorities as a result of the Agreement signed between GORI, the Campania Regional Authorities and the Area Authority.

Amounts due to Parent Company Roma Capitale
These amount to 85.6 million euros and the 24.9 million increase is essentially due to an increase in payables accrued for integrated water services in the financial year.

Amounts due to associates
The balance of 7.2 million euros is 3.7 million euros less than that at 31 December 2012 and mainly refers to payables for the management of the public lighting service provided by the associate Citelum Napoli Pubblica Illuminazione in the Municipality of Naples, and for relations with Gruppo Acque subsidiaries in Tuscany.

Amounts due to subsidiaries
The amounts due to subsidiaries were 1.2 million euros and mainly included the payables of Acque to its subsidiaries.

19. Other current liabilities - *331.9 million euros*

An increase of 29.3 million euros (8.1%). The following table shows the main items making up the balance and the change compared to 31 December 2012.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Other current liabilities	254.1	265.2	(11.1)
Tax Payables	49.3	61.5	(12.2)
Social security contributions	21.5	21.2	0.2
Other amounts due to end users for repayment of tariff restrictions	1.2	7.1	(5.9)
Accrued liabilities and deferred income	5.4	6.1	(0.7)
Liabilities deriving from Fair Value evaluations of *commodities*	0.5	0.0	0.5
Other current liabilities	**331.9**	**361.2**	**(29.3)**

Other current liabilities amount to 254.1 million euros, 11.1 million less than at 31 December 2012 (265.2 million). The following table shows the composition and changes compared to the previous year:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Payables to municipalities for concession fees	55.9	60.7	(4.9)
Payables for collections subject to verification	43.0	32.5	10.5
Amounts due to staff	41.7	37.8	3.9
Payables to Equalisation Fund	31.8	23.7	8.1
Other payables due to Municipalities	26.9	41.9	(15.1)
Other payables	15.7	21.1	(5.5)
Payables due to Equitalia	13.2	21.3	(8.1)
Welfare contribution payables	12.0	8.1	3.9
Payables to INPS, due in instalments	7.4	16.2	(8.8)
Payables to Area Authority	2.5	0.0	2.5
Payables for purchase of surface rights	1.3	0.0	1.3
Payables for environmental premium Art. 10 of ATI4 agreement of 13/08/2007	1.3	1.7	(0.4)
Insurance payables	0.7	0.0	0.7
Payables for staff termination benefits from single transfers	0.5	0.0	0.5
Payables for rebate of water treatment tariff (Sent.335/08)	0.2	0.0	0.2
Total	**254.1**	**265.2**	**(11.1)**

The change is due to the effect of recognition of the amount payable by GORI to the Campania Regional Authorities among medium/long term liabilities as a consequence of the Agreement signed in June 2013.

These tax payables amount to 49.3 million euros (61.5 million euros at 31 December 2012) and include 11.6 million euros IRES and IRAP tax payables for the period and 27.4 million euros VAT. The remainder includes 10.3 million euros for additional municipal and provincial tax payables.

Social security and welfare payables amount to 21.5 million euros (21.2 million euros at December 2012) as follows by Operating Segment:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Environment segment	0.6	0.6	0.0

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Energy segment	1.8	1.5	0.3
Water Segment	10.0	10.6	(0.7)
Networks Segment	5.9	5.6	0.3
Corporate	3.2	3.0	0.3
Total	**21.5**	**21.2**	**0.2**

The change in amounts due to end users for tariff restrictions (5.9 million euros) derives essentially from recognition of the non-realisation of the requirement for liabilities concerning excess revenues for 2001.
The application of excess revenues ended with the second regulatory period.

Accrued liabilities and deferred income amount to 5.4 million euros, with a reduction of 0.7 million euros on last year.

Payables from ***commodity*** derivatives include the Fair Value of some financial contracts drawn up by Acea Energia Holding. At 31 December 2013 this value was 0.5 million euros.

20. Net debt - *(2,468.2) million euros*

Group debt at 31 December 2013 dropped by
27.3 million euros, from 2,495.5 million euros at the end of 2012 to 2,468.2 million euros.
The following table provides the breakdown of the items concerned:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Non-current financial assets/(liabilities)	2.5	2.1	0.4
Intragroup non-current financial assets/(liabilities)	32.3	30.9	1.4
Non-current borrowings and financial liabilities	(2,507.6)	(2,211.6)	(296.0)
Net medium/long-term debt	**(2,472.8)**	**(2,178.6)**	**(294.2)**
Cash and cash equivalents and securities	589.5	423.8	165.7
Short-term bank borrowings	(466.2)	(753.9)	287.6
Current financial assets/(liabilities)	(141.5)	(56.9)	(84.6)
Intragroup current financial assets/(liabilities)	22.9	70.1	(47.3)
Net short-term debt	**4.6**	**(316.8)**	**321.5**
Total net debt	**(2,468.2)**	**(2,495.5)**	**27.3**

Net medium - long term debt - *(2,472.8) million euros*

With regard to this component it should be noted that:

- non-current financial assets/(liabilities) recorded a balance of 2.5 million euros, in line with the end of 2012 (2.1 million euros),
- Intragroup financial assets/(liabilities) stood at 32.3 million euros and include financial receivables from Roma Capitale for upgrading works completed to adapt systems to safety and regulatory standards and new constructions as envisaged in the *addendum* to the Public Lighting contract. This receivable refers to the long-term portion due following application of the financial asset model as envisaged in IFRIC 12 on Service Concession Agreements and increased by 1.4 million euros compared to 31 December 2012.
- non-current payables and financial liabilities totalled 2,507.6 million euros, up 296.0 million euros from 31 December 2012 and can be broken down as follows:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Bonds	1,290.8	1,011.1	279.6
Medium/long-term borrowings	1,216.9	1,200.5	16.4
Total	**2,507.6**	**2,211.6**	**296.0**

Bonds - *1,290.8 million euros*

The change compared with the end of the previous financial year can be broken down as follows: 600.0 million euros regarding the bond issued by ACEA on 12 September 2013, mitigated by the reclassification in "Short-term bonds", by the 300.0 million euros bond issued in 2004 and due 23 July 2014, as well as the bond issued by Consorcio Agua Azul due 9 January 2014.

This item includes:

- 600.6 million euros (including accrued interest and *Fair value* of the hedge) regarding the bond issued by ACEA in early September, with a duration of 5 years due 12 September 2018. The *Fair Value* of the derivatives hedged on this debt is positive and equal to 0.8 million euros. The bonds pay one gross coupon annually of 3.75% and were placed at an issue price of 99.754. The gross effective yield at maturity is therefore 3.803% corresponding to a return of 230 base points on top of the reference rate (mid-swap at 10 years). The bonds are subject to British law. The settlement date is 12 September 2013. Interest accrued during the period amounted to 6.8 million euros,
- 515.3 million euros (including accrued interest and *Fair value* of the hedge) regarding the bond issued by ACEA in March 2010, with a duration of 10 years due 16 March 2020. Interest accrued during the period amounted to 22.5 million euros,
- 174.8 million euros (including accrued interest and *Fair value* of the hedge) relating to the *Private Placement*. The *Fair Value* of this hedge was a negative 36.2 million euros and has been allocated to a specific equity reserve. The exchange rate difference - positive by 26.9 million euros - calculated at 31 December 2013 on the hedged instrument was allocated to a translation reserve. The exchange rate at 31 December 2013 amounted to 144.72 euros against 116.61 euros at 31 December 2012. Interest accrued during the period amounted to 3.6 million euros,

Medium/long term borrowings (including short-term portions) - *1,312.4 million euros*

At 31 December 2013 there was a decrease of 153.5 million euros, compared to the 1,465.9 million euros of 2012, which can be attributed to the net effect produced on one hand by the repayment on 4 August of the 200 million euros loan to Banco Bilbao, and on the other hand by a new 100 million euros loan taken out by ACEA with European Investment Bank, due 31 July 2028.

The following table shows medium/long–term and short-term borrowings by term to maturity and type of interest rate:

Bank Loans:	Residual debt	Due by 31/12/2014	from 31/12/2014 to 31/12/2018	After 31/12/2018
fixed rate	348.1	23.0	85.4	239.6
floating rate	704.6	56.4	396.0	252.3
floating rate to fixed rate	259.8	16.2	94.6	149.0
Total	**1,312.4**	**95.6**	**576.0**	**640.9**

The following table provides a breakdown by company of the *Fair Value* of hedging derivatives compared with the figures from the previous year.

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Acque	(10.6)	(15.3)	4.6

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Nuove Acque	(1.1)	(1.5)	0.5
Umbra Acque	(0.7)	(1.1)	0.3
ACEA	(8.7)	(12.7)	4.0
Total	**(21.1)**	**(30.5)**	**9.4**

As regards the medium/long-term financing and bond loan conditions, please refer to the 2013 Consolidated Financial Statements.

Net short-term debt - *(4.6) million euros*

The short-term component was a positive 4.6 million euros. Compared to 31 December 2012, the 321.5 million euros overall improvement was mainly due to a reduction in short-term bank debt (287.6 million euros) and an increase in cash and cash equivalents (165.7 million euros), partially mitigated by third party and Intragroup current financial assets and liabilities (131.8 million euros).

Short-term bank borrowings totalled 466.2 million euros, broken down as follows:

€ millions	31/12/2013	31/12/2012	Increase/ (Decrease)
Short-term bonds	306.3	0.0	306.3
Short-term bank credit lines	64.4	488.4	(424.0)
Short-term bank lines of credit - mortgages	95.6	265.4	(169.9)
Total	**466.2**	**753.9**	**(287.6)**

The change during the period (- 287.6 million euros) derives mainly from the reduction in debt of the Parent Company (- 305.5 million euros).
With reference to the above, note that the reduction in debt depends on the one hand on a 415.7 million euro repayment of current credit lines at 31 December 2012 and a 200 million euro loan taken out with Banco Bilbao, and on the other hand on the reclassification of the bond due in the following 12 months.

At 31 December 2013 the Parent Company held *uncommitted* and *committed* credit lines totalling 719 million euros and 500 million euros respectively, neither of which is used. No guarantees were issued to obtain these credit lines.
The *committed* credit is *revolving* with a contractual term of three years from the date of signing. Regarding the availability of these lines (i) 200 million euros mature in 2014, and (ii) the remaining 300 million euros mature in 2015. The contracts entered into provide for the payment of a fee for non-use plus an up-front fee paid at the time the credit lines are opened.

Current financial assets and liabilities reported a balance at 31 December that increases debt by 141.5 million euros (56.9 million euros at 31 December 2012). The 84.6 million euro increase in borrowing can be broken down as follows: receivables arising from the sale of the photovoltaic business unit completed on 28 December 2012 (- 10.5 million euros) and those resulting from the balance on the dissolution of the *Joint - Venture* with GDF - Suez (- 13.5 million euros), with the simultaneous settlement of the corresponding financial liabilities recognized in Acea Produzione(+ 13.5 million euros).
With reference to the individual Operating segments, the Factoring exposure for the transfer of receivables of the Companies in the Networks and Energy Segments (67.2 million) increased.
Current financial assets include 29.1 million euros for transfers made in December and collected at the beginning of 2014.

Intragroup current financial assets and liabilities reduced borrowings by 22.9 million euros and mainly include the net exposure to Roma Capitale (17.1 million euros).

The overall change of - 47.3 million euros, derives primarily from the decrease in receivables (- 13.2 million euros) arising from the service agreement for the management of public lighting in the Rome area, and the residual payable arising from distribution of the 2013 interim dividend (- 32.1 million euros) approved by the Board of Directors on 18 December 2013.

21. **Shareholders' equity** - *1,405.4 million euros*

The changes occurred during the period, amounting to 89.4 million euros, are detailed in the table below.

The change, net of profit for the period amounting to 153.3 million euros, was essentially due to changes in the *cash flow hedge* reserve *related to financial instruments* for 15.3 million euros (net of taxation), in the reserve for the fair value measurement of derivative contracts of ACEA Energia Holding for - 2.4 million euros and the application, as of 1 January 2013, of the new accounting method required by IAS 19 following the drafting of the new accounting standard for - 3.3 million euros. The change was also affected by the dividend distribution of 77.4 million euros.

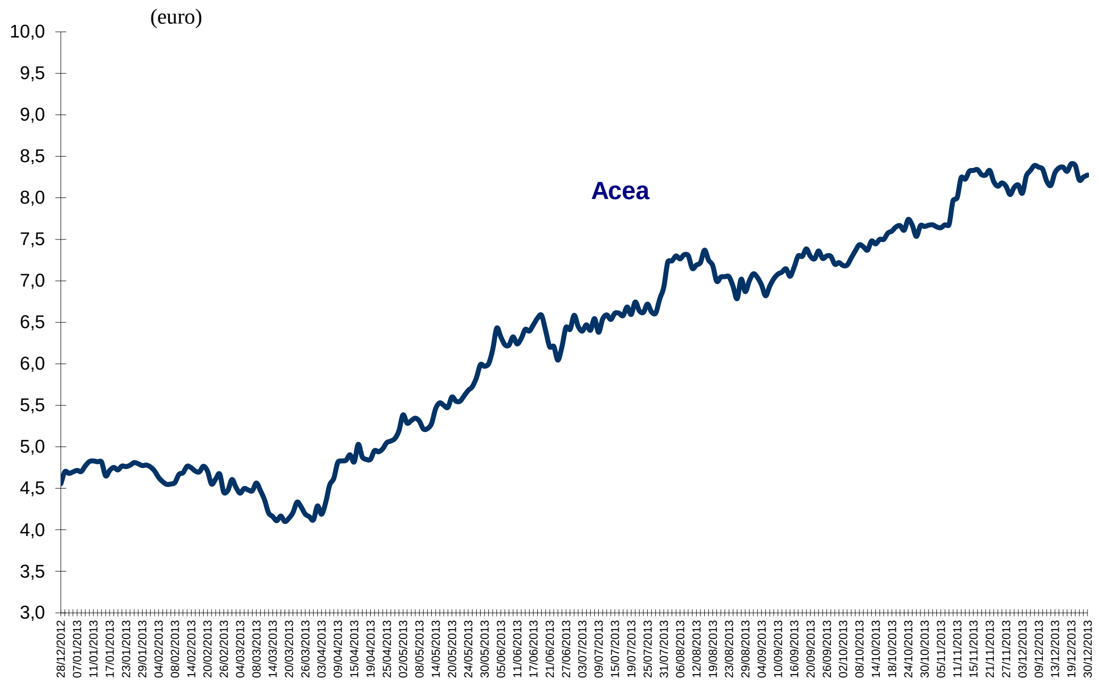
Reference context

Performance of the equity markets and the ACEA share

In 2013 the recovery of the International stock exchange, which started in November 2012, continued. The Stock market trend was mainly influenced by the monetary policy of major Central Banks.
In Europe, the Frankfurt stock exchange registered the best performance, followed by Madrid, Paris, Milan and London.

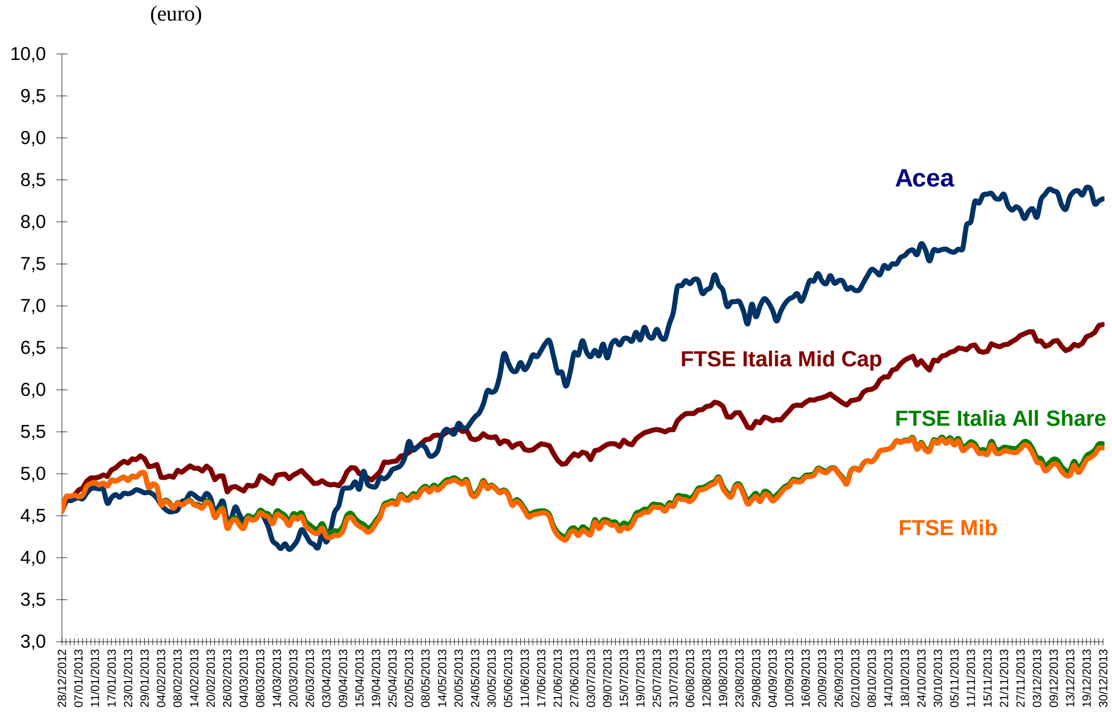
ITALIAN STOCK EXCHANGE
The changes recorded by the principal Italian Stock Market are shown below: **FTSE MIB +16.6%, FTSE Italia All Share +17.6% and FTSE Italia Mid Cap +48.8%.**

PERFORMANCE OF THE ACEA SHARE IN THE PERIOD OF REFERENCE AND IN THE THIRD QUARTER
ACEA's share price stood at 8,275 euros in the last trading session of 2013 (capitalisation: 1,762.3 million euros) a 81.7% increase on 31 December 2012. In 2013 a high of 8,41 euros was recorded on 19 December with a low of 4,10 euros recorded on 19 March.
The average daily traded volumes amounted to 132,262 (in line with those recorded in 2012, equal to 126,078).



(Source: Bloomberg)

The following graph shows re-based figures for ACEA's share price, compared to Stock Market indexes.



(graph of standardized Acea values – Source Bloomberg)

	% increase/decrease 31/12/2013 (compared to 31/12/2012)
Acea	**+81.7%**
FTSE Italia All Share	+17.6%
FTSE Mib	+16.6%
FTSE Italia Mid Cap	+48.8%

(Source: Bloomberg)

In 2013, ACEA stepped up meetings with the Financial community, organizing numerous "*one on one*" meetings, open presentations, *roadshows* (in major European and American venues) and participated at the *Utility Conference* coordinated by major Merchant Banks. Meeting were held with over 250 *equity* investors, *buy side* analysts and *credit* investors/analysts. Furthermore, market *conference calls* were held to approve annual and interim results.
Around 70 reports/notes were published on ACEA's share in 2013.

Energy market

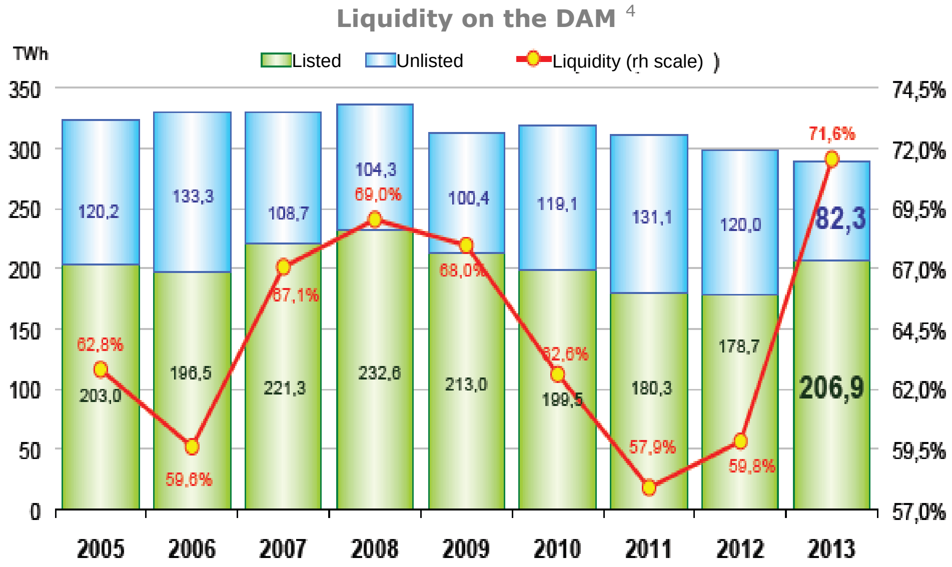
2013 was characterised by the continuation of the economic crisis with a significant impact on both the offer of electrical energy and on the demand for electrical energy, reaching 317,144 GWh [5] with a 3.4% decrease on the trend.
In Italy the electrical energy demand dropped by 11,076 GWh, which in non-calendar terms corresponds to a 3.1% decrease. 87% of requirements were covered by national production and the remaining by imports from abroad.

In this context, net national production (277,380 GWh) decreased by 3.6% compared to 2012, while the overseas balance showed a decrease of 2.2%. Except for thermoelectric production (-12.0%), there was an increase in all other Italian energy sources on the previous year: wind power (+ 11.6%), hydroelectric (+ 21.4%), PV (+ 18.9%) and geothermal (+ 1.0%).

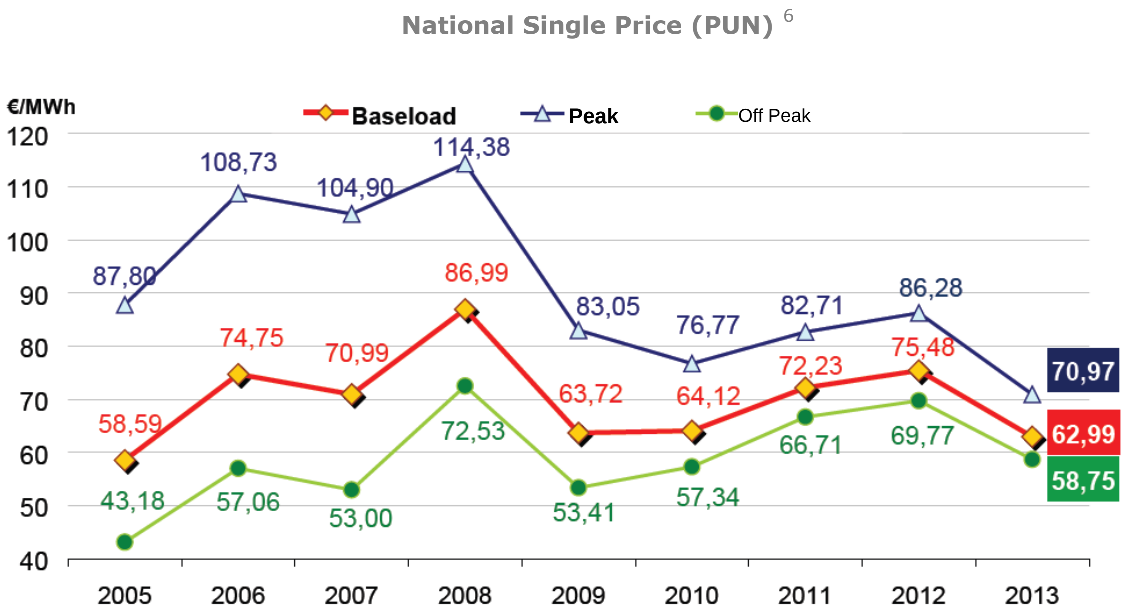
GWh	2013	2012	increase/decrease % 2013/2012
Net Production			
- Hydroelectric	52,515	43,260	21.4%
- Thermoelectric	182,528	207,331	(12.0%)
- Geothermal	5,305	5,251	1.0%
- Wind power	14,886	13,333	11.6%
- PV Power	22,146	18,631	18.9%
Total Net Production	**277,380**	**287,806**	**(3.6%)**
Imports	44,331	45,408	(2.4%)
Exports	2,178	2,305	(5.5%)
Balance of Imports	**42,153**	**43,103**	**(2.2%)**
Pumping systems consumption	**2,389**	**2,689**	**(11.2%)**
Electrical Energy Demand	**317,144**	**328,220**	**(3.4%)**

Electrical energy traded on the day-ahead market decreased considerably once again on a yearly basis (- 2.9%) to 289,154 GWh of volumes purchased, which represents an all-time low since the regulated market came into effect; OTC trade on the PCE and nominated on the DAM dropped to 82.3 TWh (- 31.3% compared to 2012). Market liquidity increased by 11.7% compared to 2012, reaching a record value of 71.6%.

[5] Source: Terna – December 2013, monthly report on the electricity system.



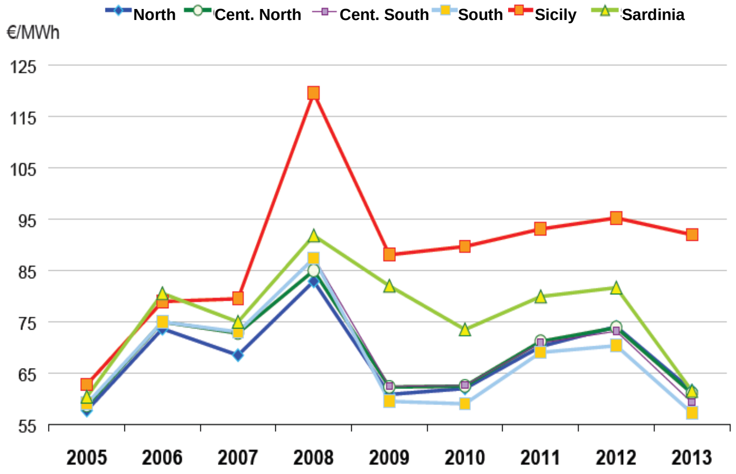
There was a (- 16.6%) reduction in the average purchase price for electricity (PUN) compared to the average value in 2012, reaching 62,99 €/Mwh, a 12,49 €/Mwh decrease on the trend.
An analysis by time bands shows an annual decrease of 15,31 €/MWh (-17.7%) at peak times and 11,02 €/MWh off-peak, with prices reaching minimum values of 70,97 €/MWh and 58,75 €/MWh respectively.

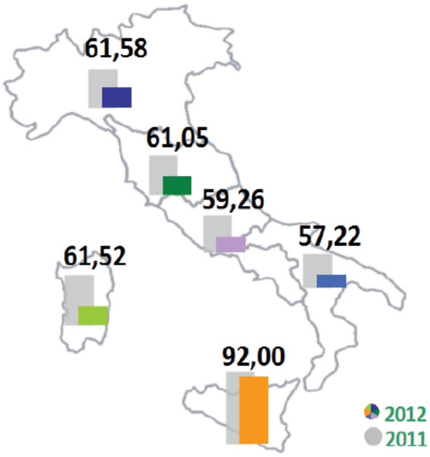


The average sale prices in Italy dropped significantly in all areas except Sicily, which recorded a price of 92,00 €/MWh, with a 3.4% decrease going against the current trend in other areas where there are considerable reductions in average sale prices ranging from 57,22 €/MWh in the South to 61,58 €/MWh in the North. The sale price in Sardinia of 61,52 €/MWh quashes the historical spread of continental zones.

[6] Source: Energy Market Operator (GME) - December 2013, GME Newsletter

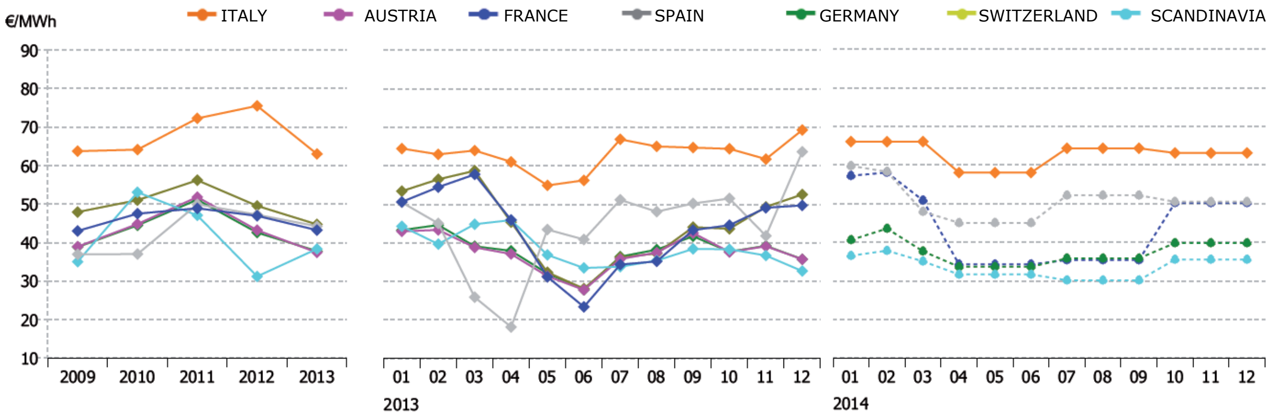
DAM, Sale prices [5]





At a European level the negative trend of electricity spot markets (a 6% - 13% decrease) worsened the trend that started last year in France and Germany and reversed the positive trend in Italy; while the Italian price remained generally higher, it is dropping, following the contemporary reduction in the national gas *hub* and the price of oil products, reaching an all-time low since 2005 (62,99 €/MWh), a decrease of almost 17%. The futures market expects monthly profiles for 2014 to be similar to those of last year.

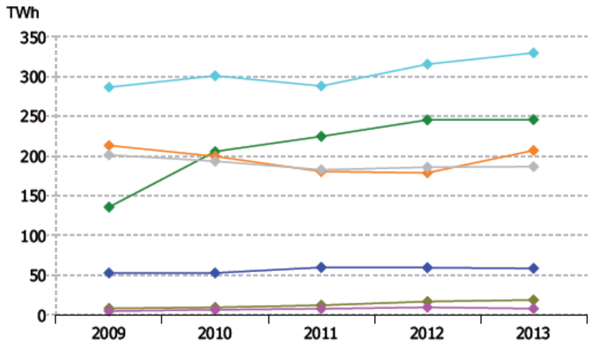
Price on the European Power Exchanges (arithmetic mean €/MWh) [5]



IPEX: Italian Power Exchange; **EPEX**: European Power Energy Exchange, the German Power Exchange; **EPEX**: the French Power Exchange; **OMIE**: Compañía Operadora del Mercado Español de Electricidad, the Spanish Power Exchange; **NordPool**: the Scandinavian Power Exchange (Norway, Sweden, Denmark, Finland).

Annual and Monthly Volumes on European Power Exchange spot markets [5]

Volume (TWh)			
Area	2013	Var Y-1 (%)	December 13
ITALY	206,9	+ 16 %	15,5
FRANCE	58,5	- 1 %	5,4
GERMANY	245,6	+ 0 %	22,2
SPAIN	186,6	+ 0 %	16,9
SCANDINAVIA	329,6	+ 4 %	31,5
AUSTRIA	7,8	- 17 %	0,5
SWITZERLAND	18,7	+ 12 %	1,5



Natural gas consumption in Italy dropped to 69,460 million m3 (- 6.3% on the basis compared to 2012) with a down turn mainly in the thermoelectric sector (- 15.6%).
On the supply side, national production continued on a down trend (- 9.5%) as did natural gas imports with a 61,509 million m3 (- 8.8%) decrease on the trend, while there was an increase in gas supplied from storage systems (+ 31.9%), the highest level in recent years.

Regulations and tariffs

Regulations for local public services

Italian Law Decree no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011 provided applicable regulations following the vacuum created by the Abrogative referendum of 12 and 13 June 2011.

Following the appeal filed by some Regional Authorities, the above regulations were declared to be partly illegitimate by Constitutional Court Sentence No. 199 on 17 July 2012.

As a result of this sentence, as explained in detail below, while the regulations concerning the management of local public services in networks on the basis of Area Authorities in article 3 *bis* of Law 148/2011 remain valid, the early expiry of concessions for non-compliant assignments in art. 4 of the same Law 148/2011 is no longer valid.

Further legislation of reference was passed in the form of article 34, paragraphs 20-26, of Italian Law Decree No. 179 - 8 October 2012 "the so-called *Growth Decree 2"* converted to Law No. 221 - 17 December 2012.

On the basis of the provisions of said decree, the awarding body is exclusively responsible for assessing the service assignment procedures, provided this is carried out on the basis of a dedicated, grounded report on the "*reasons*" and the "*fulfilment of European legal requirements for the chosen form of assignment*." The regulation also refers to the guarantee of equality amongst operators, the economic efficiency of the service" and a suitable disclosure to the reference community.

The non-observance of the 31 December 2013 deadline indicated by law for the publication of the above report for the regularization of assignments "not compliant with European regulatory requirements", is penalised with assignment termination on the same date, 31 December 2013.

On that date, assignments which were not due to expire shall in any case be terminated.

Decree Law no. 150 of 30 December 2013, the so-called *"Milleproroghe" (the annual decree extending the life of various government measures)* decreed that, in departure to said regime, in order to guarantee service continuity, if the ATO has already initiated assignment procedures, the service will be performed by the current operators until the new operator takes over, in any case only up to 31 December 2014 at the latest. Furthermore it decreed, that if the ATO is not set up or designated in accordance with paragraph 1 of article 3-bis of Decree Law No. 138 - 13 August 2011, converted with amendments to Law No. 148 - 14 September 2011, or a resolution is not passed for the assignment by 30 June 2014, the Prefect competent for the territory will exercise powers of substitution, the cost of which will be paid by the defaulting party, who will make the adjustments required to complete the assignment procedure by 31 December 2014. The non-observance of the deadlines will lead to termination of assignments that fail to meet the requirements of European regulations by 31 December 2014.

Paragraph 22 of the above-mentioned article 34 of Legislative Decree 179/2012, which sanctions the termination of "*direct assignments approved at 1 October 2003 to public limited companies already listed on the stock market at that date and to their subsidiaries pursuant to art. 2359 of the Italian Civil Code*" on the date set forth in the deeds governing the relationship, establishes the expiry of those assignments sine die as 31 December 2020, "*with no option to extend and without the need for a special resolution by the awarding party*".

As for the criteria that should inform the organisation of networked local public services, the provisions pursuant to art. 3-*bis* of the aforementioned Decree Law 138/2011, as supplemented by paragraph 23 of article 34 in question, remains valid within the regulatory system. The legislator introduces paragraph 1-bis into art. 3-bis, which sets forth "an exclusive reservation of functions" inherent to the organisation of the aforementioned services, attributed to the bodies which oversee the areas pursuant to paragraph 1 of art. 3-bis. The regulation refers in particular to the choice of management form, the determination of end user tariffs (insofar as they are responsible), and the assignment of services and control over the regulation.

Art. 34, paragraph 29, also updates art. 154, paragraph 4, of Legislative Decree 152/2006 (so-called Environmental code) with regard to the "integrated water service tariff" in order to create the necessary regulatory connection between sector regulations and additional legislative measures that have radically changed the structure of responsibilities within integrated water services. The regulation now sets forth that "in order to prepare the Economic-financial plan referred to in article 149, paragraph 1, letter d)", the "competent party" "shall prepare the basic tariff, in observance of the tariff method pursuant to article 10, paragraph 14, letter d), of Decree Law No. 70 of 13 May 2011, converted with amendments by Law no. 106 of 12 July 2011, and send it to the AEEGSI for approval."

Abrogative referendum of 12 and 13 June 2011

As known, following the referenda carried out on 12 and 13 June 2011, article 23-bis of Law Decree 112/2008, converted to Law 133/2008 as amended and supplemented by article 15, paragraph 1 of Law Decree 135/2009, converted to Law 166/2009, regarding economically significant local public services, as well as article 154, paragraph 1 of Legislative Decree 152/2006 (Environmental Code), the part which referred to "the adequacy of the return on capital invested" amongst the criteria for determining the water tariff, was repealed. Furthermore, the approved referendum petitions require the abolition of Italian Presidential Decree 168 of 7 December 2010, including the regulation implementing the provisions of article 23-bis, while leaving the current temporary provisions of article 170 of Legislative Decree 152/2006 (not subject to referendum) unchanged, which involve the application of the Standardised Method pursuant to Ministerial Decree 1 August 1996 until the adoption of a new tariff method.

On 23 October 2012 the AEEGSI, assuming the functions of the defunct National agency for water regulation and supervision, presented the Council of State with a request for opinion on the legitimacy to act in relation to issues regarding periods prior to the transfer of sector regulatory functions.

Following the opinion of the Council of State on 25 January 2013 and after the consultation opened by Resolution No. 38/2013/R/idr, AEEGSI published Resolution No. 273/2013/R/idr establishing the operating procedures to adopt for the rebate.

Refer to the paragraph "Water Operating Segment" for updates on the decisions taken by each single Area Authority.

Incentive schemes for the production of energy from renewable sources

Regulations on incentive schemes for the production of energy from renewable sources have been characterised by a trend which, in implementation of the provisions of EC Directive 2001/77, progressively limited incentives for biodegradable waste.

On the basis of current regulations, the following general context is evident:

- in general, incentives apply to biodegradable waste;
- for plants declared to be operating in emergency waste situations before January 2007, when Law No. 296 - 27 December 2006 came into effect, the above incentives are envisaged, with no differentiation between organic and inorganic waste, according to a specific departure;
- for plants using RDF/SSF from municipal waste and a pre-established quantity of special waste that meet specific technical standards, the incentives may be applied as a flat rate to 51% of total production.

There was a major reform of the incentives system after Legislative Decree No. 28 - 3 March 2011 came into effect, implementing EC Directive 2009/28 to promote the use of energy from renewable sources. For plants which went into production before 31 December 2012, this Legislative Decree requires:

- the linear reduction of obligatory quotas, in accordance with art. 11, paragraph 1, of Legislative Decree No. 79 - 16 March 1999;

- a pre-set Price for the collection of Green Certificates by the grid operator which, in any case, must be changed, in the way established by Ministerial Decree 6 July 2012, for the years following 2015, into an incentive diversified in terms of power brackets and renewable source to guarantee the profitability of the investments made; as a consequence, art. 2, paragraph 149 bis of Law 244/2007 concerning the limitation of the cost of purchasing green certificates for the grid operator, was repealed;
- the stabilization of multiplying factors for renewable sources in article 2, paragraph 147, of Law No. 244 - 24 December 2007 and article 1, paragraph 382-quater, of Law No. 296 - 27 December 2006.

The implementing provisions of above-mentioned Legislative Decree 28/2011 however, indicate that plants that went into production after 1 January 2013, with an output of over 5 MW, must bid for incentives, while plants with a lower output and in cases of revamping can register for position in the relevant incentive Registries.

This new regime (and registration for the incentives in particular) only applies to the *revamping* of the first line of the San Vittore del Lazio plant, which was registered in said registry in January 2013; lines 2 and 3 of the same plant are in fact subject to CIP 6/92 regime in consideration of the emergency in the waste sector declared by the Lazio Regional Authorities. In any case, lines 2 and 3 went into production before 31 December 2012 and Waste-to-energy plant qualification (WTE) has already been obtained for the same to obtain green certificates for the energy produced in excess of that transferred under CIP 6/92. Similar qualification was obtained for the *revamping* project of the Terni plant, which also went into service on 31 December 2012.

The Orte and Salisano hydroelectric plants, subject to a revamping project, also went into service in the post-revamping configuration before 31 December 2012 and, having obtained WTE plant qualification are eligible for Green Certificate incentives, so do not need to be registered for said purpose.

As for the revamping of the Castel Madama hydroelectric plant, we will apply under the new incentives regime in accordance with Ministerial Decree 6 July 2012, after registration in the relevant registry.

In January 2014, the national grid operator revised the procedures for incentive application and management, implementing Legislative Decree 28/2011, with Ministerial Decree 06 July 2012.

Evolution of CIP 6/92 agreement regulations

In consideration of AEEGSI proposals, in accordance with Ministerial Decree 24 April 2013, in application of the final methodology defined by the above decree 20 November 2012, the adjustment values of the Avoided Cost of Fuel in CIP Measure 6/92 were established for 2012.

In this case, the competent Ministry did not accept the AEEGSI proposal for 2012, which ties the Avoided Cost of Fuel to the trend of gas prices on the balancing market and eliminates the wholesale marketing margin from the equation.

Article 5 of Legislative Decree No. 69 - 21 June 2013, converted to Law No. 98 - 9 August 2013, determines the procedures for calculating the Avoided Cost of Fuel from 2013.

According to these provisions, the value of the Avoided Cost of Fuel to be entered in accounts before the annual adjustment value is determined, as far as the agreed component of the cost of fuel is concerned, for 2013 is established on the basis on the basket of reference in accordance with art. 30, paragraph 15, of law No. 99 - 23 July 2009, in which the incidence of oil products is progressively reduced every quarter. Total competition is determined on the basis of the cost of natural gas on the wholesale market. Also for 2013, the provision in question confirmed the procedures currently in force for calculating the wholesale marketing margin component and the transport component, as well as specific consumption values in accordance with Ministerial Decree 20 November 2012.

From 1 January 2014, until organic legislation is established to regulate the sector, the value in paragraph 1 will be revised every quarter on the basis of the procurement cost of natural gas on

wholesale markets, notwithstanding the application of the specific consumption values in above-mentioned Ministerial Decree 20 November 2012.
In departure to the above regime, for waste-to-energy plants that have been operating for no longer than eight years from the date on which Legislative Decree 69/2013 came into effect, authorised in accordance with CIP Measure No. 6/92, up to completion of the fourth year from the same date, the Avoided Cost of Fuel value will be determined on the basis of the basket of reference in accordance with article 30, paragraph 15 of Law No. 99 - 23 July 2009, which quantifies the incidence of oil products as 60 percent. For the following years, the revision procedure in art. 5, paragraph 4 of above-mentioned Legislative Decree 69/2013 will be applied, in other words the regime applied to other plants from 2014. For plants in a waste cycle management emergency zone, the Avoided Cost of Fuel value will be determined on the basis of the basket of reference which quantifies the incidence of oil products as 60 percent until the end of the eighth year of service from the date Legislative Decree 69/2013.

Green Certificates
AEEGSI Resolution No. 17/2013/R/erf, implementing article 13, paragraph 3 of Legislative Decree No. 387 - 29 December 2003 established the average annual value of the price for the transfer of electrical energy recorded in 2012. This value is equal to 77,00 €/h.
In relation to the above, the national grid operator informed operators that:

- the price of reference for the 2013 Green Certificates market, in accordance with article 2, paragraph 184 of Law No. 244 - 24 December 2007, is 103,00 €/MWH before VAT, calculated as the difference between the value 180,00 €/MWh and the average annual value recorded in 2012, of the transfer cost for electrical energy in accordance with article 13, paragraph 3 of Legislative Decree No. 387/03;
- the price for the collection of Green Certificates issued for production from renewable sources in 2012 is 80,34 €/MWh before VAT;
- the price for the collection of Green Certificates issued for production from cogeneration plants and district heating in 2012 is 84,34 €/MWh before VAT;

As for 2014, AEEGSI Resolution No. 20/2014/R/EFR, established the average annual value of the price for the transfer of electrical energy recorded in 2013 as 65,54 €/MWh.
Again in January the national grid operator issued an update on the application procedure for the issue of green certificates for the owners of WTE qualified plants in accordance with Ministerial Decree 18 December 2008 for production from 2013 to 2015 (the date on which the green certificate incentive scheme ends) also in application of the provisions of above-mentioned Ministerial Decree 06 July 2012.
This also clarified that, with the implementation of article 20, paragraph 2, of Ministerial Decree 6 July 2012, Green certificates will no longer be issued on the basis of estimates guaranteeing the expected production or on the basis of guarantees, except for certain types of plants such as those using the biodegradable fraction of waste, for which the operators cannot use monthly issues.

The evolution of Environmental Legislation
EEC system for trading greenhouse gas emission quotas
Legislative Decree No. 30 - 13 March 2013 implements EC Directive 2009/29, which modifies the previous EC Directive 2003/87, to establish and extend the EEC system for trading greenhouse gas emission quotas (the so-called “ETS” Emission Trading System).
The provisions of art. 2, paragraphs 2 and following of the above Legislative Decree 30/2013 are of particular relevance, which exclude the “ETS” for incinerators which currently burn the following types of fuel (over 50 percent in weight of the total waste treated):

a) municipal waste;
b) hazardous waste;
c) special non-hazardous waste produced by waste treatment plants fuelled every year by over 50 percent in weight of municipal waste.

These conditions are evaluated by the National Committee for directive 2003/87, which the operators of said plants should apply for on the basis of the conditions in Committee Resolution No. 21/2013.
This procedure was implemented in a timely way in the San Vittore del Lazio waste-to-energy plant; on the basis of a communication sent by the subsidiary ARIA, the Committee by Resolution No. 28/2013 verified the conditions for exclusion of said plant from the scope of application of the above-mentioned Legislative Decree No. 30/2013.
The Terni waste-to-energy plant, in consideration of the fuel used, is not currently in a condition to be excluded from the scope of "ETS" application.

The Single Environmental Authorisation

Italian Presidential Decree No. 59 - 13 March 2013 implementing art. 23 of Legislative Decree No. 5 - 9 February 2012, introduced Single Environmental Authorisation (Sea).
The main purpose of the regulation is to unify and simplify environmental administrative requirements for companies and plants not subject to Integrated Environmental Authorisation, reducing the administrative requirements of current environmental legislation, while guaranteeing the highest levels of environmental protection.
The Single Environmental Authorisation replaces seven different pre-existing authorisation procedures, such as waste water discharge authorisation, atmospheric emissions authorisation, estimated acoustic impact documentation, authorisation for the use of sludge and notification of waste disposal and recovery.
The Regional Authorities can extend this list to include other authorisations.
The authorisation procedure is managed electronically through the One-Stop office for Municipal Productive Activities. This Authorisation will be valid for 15 years.
If correctly implemented by the competent Authorities, the new procedure, which as the Ministry of Environment explained in a circular applies to all plants not subject to Integrated Environmental Authorisation if managed by anything other than small and medium enterprises, may represent an appreciable simplification in terms of authorisation for treatment plants.

Italian Ministerial Decree 15 January 2014 "Amendment to part I of Annex IV, part five of Legislative Decree No. 152 - 3 April 2006"

Decree of the Ministry for the Protection of the Environment, Land and Sea 15 January 2014 amended part I of Annex IV, part V of Legislative Decree No. 152 - 3 April 2006.
In particular, by effect of the new decree, «*Sludge treatment lines operating in waste water treatment plants with a capacity of under 10,000 population equivalent for biological type treatment, and with less than 10 m^3/h of water treated for chemical/physical type treatment*» are included in the plants and activities with scarcely relevant emissions in terms of atmospheric pollution, in accordance with art. 272, paragraph 1, of Legislative Decree No. 152/2006. This provision also constitutes a simplification in terms of authorisation for treatment plants.

The SISTRI waste traceability control system

SISTRI, set up in 2009 on the initiative of the Ministry for the Protection of the Environment, Land and Sea with the aim of creating a new framework of innovation and modernization of Public Administrations through the computerization of the entire waste sector throughout Italy, and municipal waste in the Campania regional territory, over the years has been subject to various amendments that postponed it coming into effect on several occasions.
The system was finally implemented by Italian Law Decree No. 101 - 31 August 2013, converted to Law No. 125 - 30 October 2013.
The scope of application, which originally included all types of waste, has been limited to the initial producers of hazardous waste and bodies and companies collecting and transporting hazardous waste professionally, or who treat, recover, dispose of, sell or act as brokers for hazardous waste, including new producers.

For the initial producers of hazardous waste and Municipalities and companies transporting municipal waste in the Campania regional territory, the date for the start of operations is 3 March 2014; for all the other above subjects, the date for the start of SISTRI operations is 1 October 2013.
After SISTRI's scope was limited to hazardous waste, Group Companies had to adjust their operating procedures to this system, with specific reference to activities that produce hazardous waste, as the Group does not transport, recover or dispose of a significant amount of said hazardous waste.

Water service activities of the Authority for Electricity and Gas (AEEGSI)
After a long period of consultation which lasted throughout 2012, AEEGSI passed Resolution No**. 585/2012/R/idr** on 28 December 2012 with provisions concerning the Transitional Tariff Method (MTT).
With reference to the procedural provisions of the above resolution:

- by 30 April 2013, as amended by Resolution No. 108/2013/R/idr on 15 March 2013, the Area Authorities shall update or prepare, if not yet drawn up, the financial and economic plan for each area plan on the basis of the new methodology. Changes made during the update of the economic-financial plan which cause an increase in the difference between plan costs, as identified prior to the update, and costs calculated pursuant to Annex A of resolution 585/2012, net of costs which cannot be reduced, are deemed void,
- if not updated by 31 March 2013, the contractual clauses and deeds governing relations between operators and the applicable authorities that are incompatible with the resolution shall be void,
- the tariff shall be set forth by the Area Authorities and transmitted to the AEEGSI and the operators by 30 April 2013. By 31 July 2013 the Authority will approve the tariffs in accordance with article 154, paragraph 4, of Legislative Decree 152/206, possibly also determining the tariffs on the basis of information available, with a view to user protection, if the Area Authorities do not send them by the established deadline,
- beginning on 1 January 2013, operators are required to apply to users **(i)** until the Area Authorities determine the tariffs, the tariff applied in 2012 with no change, or the 2013 tariff if determined by the Area Authorities prior to the approval of resolution 585/2012 provided the operators have not changed the tariff breakdown, **(ii)** subsequent to determination by the Area Authorities and until approval by the AEEGSI, the 2012 tariffs multiplied by a factor ($theta^{2013}$) determined by the Area Authority, (iii) following the Authority's approval of the tariffs, the 2012 tariffs multiplied by $theta^{2013}$ approved by the Authority,
- the difference between tariff revenues determined by the application of the temporary tariffs pursuant to points (i) and (ii) and those calculated on the basis of point (iii) shall be subject to adjustment subsequent to the AEEGSI's approval,
- by 30 June 2013, operators are required to provide the Authority with the required data to determine the revenue restriction update (volumes, pass-through costs, changes in the basis of consolidation, etc.). The adjustment, adjusted for inflation, shall be recognised in the tariff in year n+2.

Within the scope of said procedural provisions, the 2012 and 2013 tariffs and the relevant tariff multipliers of the Group Companies procuring the integrated water service in Tuscany and Umbria were finally approved. As for GORI, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority approved the tariff proposals for 2012 and 2013 on 29 April 2013.

Please note that the main Group Companies submitted an appeal to the Lombardy Regional Administrative Court against the Italian Authority for Electricity and Gas (AEEGSI) for the cancellation of Resolution No. 585/2012. With regard to said appeals, the Regional Administrative

Court (TAR) has not ordered any suspension and the hearing to be held on 7 November 2013 was postponed to 20 February 2014, and a sentence is expected to be passed.

On 17 October 2013 the AEEGSI published Resolution No. 459/2013/R/idr: the resolution revises the content of Resolutions Nos. 585/2012/R/idr and 88/2013/R/idr and the relevant annexes of the Temporary Tariff Method (MTT) for determining tariffs in 2012 and 2013, and the guidelines for updating the Economic-financial plan, in accordance with Resolution No. 73/2013/R/idr.
Resolution No. 459/2013 issued following public consultation during which the requests of companies operating in the sector including those of the Operators were heard, amongst other things reintroduces the possibility of having recourse to financial amortisation from the year 2014, instead of that based on the useful life which was the only form of amortization permitted by Resolution No. 585/2012; the reasons for this change lie in the need to safeguard economic – financial management.
The provision envisages the right to adopt financial amortization for 2012 and 2013 only for cases in which some specifically listed conditions arise simultaneously, such as if financial amortization was already included in the tariff on the basis of previous regulations (as is the case for the Tuscan water board). The Area Authorities have thirty days to change the decisions already taken, subject to presenting a motivated request and having asked the Operator's opinion.

On the 27 December 2013 AEEGSI finally passed **Resolution No. 643/2013/R/idr** approving the **Water Tariff Method (MTI) for 2014 and 2015**, to end the first regulatory period 2012 - 2015.
This method introduces important changes with which the Authority aims to guarantee conditions that will favour the modernization of water infrastructures, guarantee and facilitate the implementation of regulations, and solve credit access problems. In short, the Decision introduces the following changes, amongst others:

- the possibility of using forms of accelerated depreciation;
- replaces the gradual mechanism of the temporary method with a mechanism of regulatory schemes defined on the basis of whether or not it is necessary to change objectives or the operator's perimeter of activity and the sum of investments required in the period 2014/2017 in relation to the value of assets managed;
- acknowledgement of arrearage costs;
- establishing criteria for quantifying residual value.

The resolution also establishes the procedure for defining tariffs, introducing a system for reducing the regulatory risk, acknowledging that the operator can file a claim with the Authority for the tariff update in the case of default by the Local Authorities.
Some Group companies appealed before the Lombardy Regional Administrative Court for the cancellation of some of the provisions in AEEGSI Resolution No. 643/2013/R/idr and, as an alternative, applied to the European Court of Justice requesting it assess the compatibility of the Italian regulations the challenged Resolution is based on with EEC principles and rules.

Trend of operating segments

Economic results by area

The results by area are shown on the basis of the approach used by the *management* to monitor Group *performance* in the financial years compared in observance of IFRS 8 accounting standards. Note that the results of the "Other" area include those deriving from ACEA corporate activities as well as intersectorial adjustments.

2013		Energy					Water				
Million euros	Environment	Energy Generation	Sales	Energy Management	Elisioni intra segment	Segment Total	Italian Water Services	Overseas	Engineering	Elisioni intra segment	Segment Total
Revenue	115	62	2,244	889	(808)	2,387	867	14	25	(20)	886
Costs	67	24	2,193	886	(808)	2,296	508	9	17	(20)	514
Gross operating profit	**48**	**38**	**51**	**2**	**0**	**91**	**359**	**5**	**8**	**0**	**372**
Depreciation and accumulated impairment charges	28	18	69	1	0	88	144	1	1	0	146
Operating profit/(loss)	**20**	**19**	**(18)**	**1**	0	**2**	**215**	**4**	**7**	**0**	**226**
Investments	**12**	**5**	**6**	**0**	0	**11**	**202**	**0**	**0**	**0**	**203**

2013	Networks					Other		Consolidated Total
Million euros	Distribution	Public Lighting	PV power	Elisioni intra segment	Segment Total	Corporate	Consolidation adjustments	
Revenue	468	68	9	(2)	543	111	(472)	3,571
Costs	223	62	3	(2)	286	114	(472)	2,805
Gross operating profit	**245**	**6**	**6**	**0**	**257**	**(3)**	**0**	**766**
Depreciation and accumulated impairment charges	95	1	0	0	97	24	(1)	382
Operating profit/(loss)	**150**	**5**	**6**	**0**	**161**	**(26)**	**1**	**384**
Investments	**103**	**0**	**1**	**0**	**104**	**12**	**0**	**342**

2012		Energy					Water				
Million euros	Environment	Energy Generation	Sales	Energy Management	Elisioni intra segment	Segment Total	Italian Water Services	Overseas	Engineering	Elisioni intra segment	Segment Total
Revenue	110	54	2,268	966	(878)	2,410	849	38	27	(24)	890
Costs	61	23	2,228	976	(878)	2,349	529	28	17	(24)	549
Gross operating profit	**49**	**31**	**40**	**(10)**	**0**	**61**	**320**	**10**	**10**	**0**	**341**
Depreciation and accumulated impairment charges	30	10	50	2	0	62	154	2	1	0	157
Operating profit/(loss)	**19**	**21**	**(11)**	**(12)**	0	**(1)**	**166**	**8**	**9**	**0**	**183**
Investments	**37**	**19**	**7**	**1**	0	**27**	**223**	**0**	**1**	**0**	**224**

2012	Networks					Other		Consolidated Total
Million euros	Distribution	Public Lighting	PV power	Elisioni intra segment	Segment Total	Corporate	Consolidation adjustments	
Revenue	445	78	29	(2)	550	107	(476)	3,592
Costs	214	70	24	(2)	307	123	(476)	2,914
Gross operating profit	**231**	**8**	**4**	**0**	**243**	**(16)**	**0**	**678**
Depreciation and accumulated impairment charges	113	0	2	0	116	33	(2)	396
Operating profit/(loss)	**118**	**8**	**2**	**0**	**127**	**(49)**	**2**	**282**
Investments	**102**	**0**	**0**	**0**	**102**	**122**	**0**	**513**

Environment Operating Segment

Operating figures, equity and financial results for the period

Operating figures	U.M.	2013	2012	Increase/ (Decrease)	increase/decrease %
WTE conferment	kTon	292	200	92	46.0%
RDF production plant conferment	kTon	20	27	(7)	(25.9%)
Electrical Energy transferred	GWh	226	190	36	17.4%
Waste coming into Orvieto plants	kTon	120	143	(23)	(18.9%)
Waste Recovered/Disposed of	kTon	294	296	(2)	(0.7%)

Equity and financial results (millions of euros)	2013	2012	Increase/ (Decrease)	increase/decrease %
Revenues	115.4	110.2	5.3	4.8%
Costs	67.0	60.8	6.2	10.2%
Gross operating profit	48.4	49.3	(0.9)	(1.9%)
Operating profit/(loss)	20.2	19.0	1.1	5.9%
Average number of staff	212	198	14	6.9%
Investments	12.2	37.5	(25.3)	(67.6%)
Net debt	184.6	188.9	(4.4)	(2.3%)

This Segment closed 2013 with EBITDA at 48.4 million euros, a decrease on the same period in 2012 of a total 0.9 million euros due to the combined effect of the increase in the industrial margin of all the plants managed by ARIA (+ 0.7 million euros) and the Aquaser Group (+ 0.7 million euros), only partially offset by the reduction of SAO's industrial margin (- 2.0 million euros) in the period due to the effects of the lower quantities conferred in the period at a lower average price than that of the same period in 2012.

The average number of staff at 31 December 2013 was 212, 14 more than the same period of the previous year, mainly due to the effect of the SAMACE consolidation following the takeover of the company in the month of July with an increase of 11 employees. ISA (+ 5 employees) and ARIA (+ 4 employees) contribute to the increase, while the number of persons employed by SAO decreased (- 7 employees).

Investments in the Segment amount to 12.2 million euros with a reduction on last year due to the completion of the Terni plant *revamping* that ended in December last year.

Borrowings in the Segment amounted to 184.6 million euros, down 4.4 million euros on the end of the 2012 when the total was 188.9 million euros. This variation is essentially attributable to SAO as a result of higher receivables in 2013.

Operating review

ARIA

ARIA's activities were concentrated on the direct management of *assets* of the subsidiaries Terni En.A., E.A.L.L., Enercombustibili and Ergo En.A., incorporated during the 2011 financial year. Furthermore, activities were conducted to coordinate and provide services for the subsidiary S.A.O. and Ecoenergie, placed in liquidation in 2012. Finally the meeting held on 16 October 2013 passed a resolution to place Arkesia, a company in which the group held a 33% equity investment, in liquidation.

The company was involved in electrical energy marketing with Acea Energia Holding, which performs market operator activities to which it transfers volumes of energy produced by the two new lines of the San Vittore plant over and above that withdrawn by the national grid operator under the CIP 6/92 regime.

Terni waste-to-energy plant (UL1)

The tests required by law planned and approved by Terni Provincial Authority and Umbria Regional Environmental Agency started in the first months of 2013.

The tests results showed atmospheric emission laws are being observed, as was proven by the cross verification tests performed with the Control bodies.

After the first parallel of the plant with electricity from the national grid on 21 December 2012, the Company informed the National Grid Operator that the plant could go into production for the start of the incentive period.

During 2013, plant activity was affected by a series of alternator faults that resulted in a significant reduction in the number of operating hours at full capacity.

In May 2013, the national grid operator (GSE) opened an enquiry in accordance with art. 7 of Law No. 241 - 7 August 1990, for performing controls through the auditing of documents in accordance with art. 18 paragraph 1 of Ministerial Decree 18 December 2008.

In September 2013, in consideration of the explanations and documented proof received from ARIA and the Terni Provincial Authorities, as the Body with territorial competence for issuing and verifying authorization for the Terni plant, the national grid operator (GSE) reported the enquiry had ended confirming the validity of the IAFR qualification and that requirements had been met for providing the incentives in accordance with the provisions of paragraph 6 of art. 21 of Ministerial Decree 18 December 2008. We are still waiting for the national grid operator to complete the procedure and approve the characterization plan for the waste to be processed and recovered in the Terni plant. In fact, the national grid operator (GSE) asked RSE (a GSE company) to do the technical analysis of the characterization plan drawn up by the company to determine the biodegradable fraction of the waste sent for incineration and subject to incentives.

Furthermore, during the period, the other necessary *pulper* contracts were finalised to meet the fuel requirements of the plant this year.

Paliano RDF production plant (UL2)

The Paliano RDF production plant possesses a single authorisation for the production of RDF, expiring on 30 June 2018.

During the first 5 months of 2013, RDF production continued regularly, mainly processing combustible dry waste as indicated in EWC 19/12/12 from AMA plants and waste from the COREPLA National Consortium. All the RDF produced was used in the San Vittore del Lazio waste-to-energy plant.

On 19 June 2013 part of the plant was destroyed by a major fire. After the fire was put out, the plant was put under sequestration by the Authorities so the Fire Investigation Unit of the Italian Fire Brigade could carry out an investigation. At the same time, the Company started the paperwork with the Insurance Companies who insure the company against a variety of risks such as in the case in hand.

The expert appointed by the Frosinone Public Prosecutor's Office started the inspection on 6 September 2013, resulting in access to the area for the first time since the fire. As part of the investigations, another inspection was performed on 28 November 2013 to complete the technical verification of the equipment affected by the fire. The area inside the shed where the RDF plant is located no longer involved in the investigation were cordoned off the same day. This plant has already been approved for release from seizure subject to presentation of a sampling plan for the various types of waste identified. A request for the partial release from seizure of the area was

therefore filed enclosing the relevant sampling plan, specifying that said activity must be the first step towards the progressive restoration of the state of the place in order to implement an intervention plan for the complete replacement and reconstruction of the RDF plant and put the plant back into service.
Therefore, at the date of today, it is impossible to estimate the extent of the damage to the plant and property, although the RDF plant will certainly not go back into production in 2014.
The net carrying amount at 31 December 2013 amounts to 6.8 million euros of which 1.7 million for the land. The insurance settlement will be calculated on the basis of the cost of reconstructing the new plant which, on the basis of the contractual clauses, will be reduced by 20% as the fire is considered to be a case of arson perpetrated by third parties.

San Vittore waste-to-energy plant, Lazio (UL3)

The San Vittore waste-to-energy plant in Lazio produces electrical energy from renewable sources, particularly RDF.
Note that regarding the preliminary enquiry for the renewal of the Integrated Environmental Authorisation for the plant, ARIA has already met all the requirements for further documentation and received no other requests from the person at the Lazio Regional Authority responsible for the proceeding. The preliminary enquiry will therefore end with the decision-making Services Conference, called by the competent Regional Administration after which AIA (Integrated Environmental Authorisation) will be given for an eight-year period.
In 2013, lines 2 and 3 of the plant guaranteed regular service, both in terms of the electricity produced and in terms of RDF used for energy recovery.

SAO

The company owns the waste dump located in the municipality of Orvieto and manages municipal and special waste.
With Resolution No. 2 of 16 January 2013, the General Meeting of Umbria Region ATI No. 4 approved the Annual Plan for the integrated urban waste management service, pursuant to Regional Law No. 11/2009 and with Resolution No. 1 of 16 January 2013, the same general meeting approved the new Orvieto plant access tariffs.
Furthermore, to favour the gradual adjustment of Municipalities to the new tariffs, on 28 February 2013 the ATI No. 4 Area General Meeting approved a further quantity of special waste for 2013 only.
The forecasts introduced by the above Area Plan, have meant a significant change in the flow of waste coming into the plants in Orvieto with the need to reconfigure plant operations, also with particular reference to the combined processing of the organic fraction of the waste in the new biogas and *biotunnel* sections and in the section of the plant used for the production of dry waste.

With reference to the waste treatment plant, in April 2013 the enquiry on the Company's application for revocation of exclusion order GSE/P020130041691 from the registry listing was approved. In accordance with Italian Ministerial Decree 6 July 2012 this is a necessary requirement for access to the system of incentives for the production of electricity from renewable sources other than PV. As a consequence, the section of the plant fuelled by biogas with an output of 0.998 MW is listed in the above register for access to the system of incentives.

Aquaser Group

Aquaser

Aquaser was set up to manage ancillary services associated with the integrated water cycle, recovering and disposing of sludge from biological treatment and waste produced from water treatment, treating effluent and liquid waste and providing the services connected thereto.

It currently transports and recovers treatment sludge for most of the water companies in the ACEA Group.
The sludge is recovered through delivery to composting plants, mostly third party, and by spreading sludge on farmland according to largely third party authorisation.
During the financial year, the company also consolidated its position on the market by developing its activities for transporting and disposing and/or recovering waste produced by customers, confirming the results obtained in its sector of competence in relation to previous years, and consolidated the perimeter of its activities by entering the transport sector with the company ISA, to complete its waste management offer.
With reference to the consolidation of the activities on the territory, SAMACE, a company owning a composting plant for the treatment of sludge and organic waste and a liquid waste treatment plant, was bought up on 5 July 2013.

KYKLOS

Kyklos operates in the waste treatment sector. It produces and markets mixed compost conditioners; in particular it operates in the areas of Nettuno Ferriere in Aprilia on the basis of a Single Authorisation for special non-hazardous waste treatment and recycling plants obtained from the Province of Latina with a maximum capacity of 66,000 tonnes/year.
On 8 June 2010, the authorisation procedure was started for the adjustment of the current plant and the enlargement of its capacity up to 120,000 tonnes/year through the construction of a biogas plant with recovery of electricity and heat energy.
Note that the Provincial Authorities of Latina, on 28 March 2013, issued a single authorisation for a substantial variation in the waste treatment and recovery plant and for the production of energy.
The authorised intervention to bring the compostable waste treatment capacity up to 120,000 t/year is to guarantee organic waste recovery requirements are met, in particular considering the current waste emergency at a regional level, avoiding dumping, and consolidating the leading role of Kyklos in the territory of reference.
As a result of the appeal for cancellation filed by the Municipality of Nettuno, subject to effective suspension, of the above authorisation and the appeal filed by Kyklos for the cancellation of some parts of the same authorisation, on 25 February 2014 the Company presented a request for suspension of the term for the start of work (within twelve months of issue) until the Latina Regional Administrative Court passes sentence on the above.

SOLEMME

Solemme operates in the waste recycling sector, composting organic waste, in particular sludge from civil waste water treatment and producing mixed compost conditioners. The composting plant is included in the Grosseto Provincial Authorities' Waste management plan.
Solemme's market of reference is represented by residential sludge produced in Tuscany, and in particular within the scope of ATO6 Ombrone, for the Province of Grosseto and Siena and from the treatment of waste from separate collection.
The current capacity of the plant is insufficient to guarantee recovering the amount currently produced and an increase in production is expected considering the increase in residential waste treatment.
The difficulties in developing an integrated WTE solution for this sludge led to the start of the decision-making procedure to upgrade the existing plant.

The composting plant has been the subject of discussion with the municipality of Monterotondo Marittimo for some time, concerning its development and industrial typology.
In fact, the Municipal Authority filed an appeal with the Regional Administrative Court against the authorisation issued by the Grosseto Provincial Authorities concerning the proposal for the new biogas and composting plant presented by Solemme with a capacity of 70,000 T/year.

This authorisation for plant development requires the approval of the Monterotondo Marittimo Municipal Authority for the plan of implementation presented by the company, which the Municipal Administration refuses to give after passing a town council resolution on 26 March 2013. The parties involved met in February 2014 to attempt to clarify all the technical aspects and find a solution to obtain the authorisations which are still required.

ISA

Isa operates in the logistics and transportation sector and was held to be of strategic importance to reach market consolidation objectives. In fact, the Company was bought up to strengthen group organisation and provide group services in a more independent way, not only transportation but also services relating to other activities associated with and complementary to the farmland spreading of sludge, the maintenance of the drying beds and automatic discharge services, which have led in fact to a significant increase in business activities.

Note that the company currently has its own fleet for haulage activities.

SAMACE

The Company was taken over by Aquaser on 5 July 2013.

Operates in the waste recovery sector, producing and selling compost conditioners. The Company operates in Sabaudia with a Single Authorisation for special non-hazardous waste treatment and recycling plants obtained from the Province of Latina.

Energy Operating Segment

Operating figures, equity and financial results for the period

Operating figures	U.M.	2013	2012	Increase/ (Decrease)	increase/decrease %
Energy Produced	GWh	500	367	133	36.3%
Electrical Energy sold - Free	GWh	9,382	9,998	(616)	(6.2%)
Electrical Energy sold - Protected	GWh	3,234	3,418	(184)	(5.4%)
Electrical Energy - No. Customer of Free Market (P.O.D.)	N/000	301	298	3	1.1%
Electrical Energy - No. Customer of Protected Market (P.O.D.)	N/000	1,072	1,089	(17)	(1.6%)
Gas Sold	Msm^3	100	86	14	16.3%
Gas No. Customers on Free Market	N/000	99	98	1	1.0%

Equity and financial results (millions of euros)	2013	2012	Increase/ (Decrease)	increase/decrease %
Revenues	2,386.7	2,409.9	(23.2)	(1.0%)
Costs	2,296.0	2,348.9	(52.9)	(2.3%)
Gross operating profit	90.7	61.0	29.7	48.6%
Operating profit/(loss)	2.3	(1.2)	3.5	298.1%
Average number of staff	536	519	17	3.4%
Investments	11.4	27.1	(15.7)	(58.0%)
Net debt	297.4	332.5	(35.2)	(10.6%)

The Area closed 2013 with an EBITDA level of 90.7 million euros, a 29.7 million euro increase on last year.
This increase is common to all the industrial sectors of the Segment, in particular:

- Acea Produzione generation increased by 6.3 million euros as a consequence of the highest margin in 2012, due to an increase in green certificate revenue accrued after *repowering* the Salisano and Orte plant (+ 4.2 million euros), and more energy produced (+ 5.2 million euros, + 133 Gwh). Note that the Orte plant went back into production in the second quarter of 2012, while the Salisano plant went back into production in the first quarter of 2012,
- in the *Energy Management* sector there was a 12.0 million euros increase in EBITDA, reaching 2.1 million euros at the end of the period compared to - 10.0 million euros at 31 December 2013. This change is essentially a result of: an improvement in the energy margin due to the *fair value* measurement of portfolio hedges,
- the sales sector closed 2013 with an EBITDA equal to 51.0 million euros compared to 39.6 million euros for 2012; this increase derives from the higher energy margin (+ 10.9 million euros), partially offset by an increase in Acea Energia cost of materials and overheads, with particular reference to the handling of complaints, printing bills and higher Intragroup costs. Acea8cento helped contribute to the positive result in 2013, with 2.6 million euros, reaching 1.2 million euros compared to the - 1.4 million euros at 31 December 2012. The energy margin as a whole at 31 December 2013 was equal to 108.1 million euros while the margin for the gas market amounted to 8.9 million euros recording an increase over 2012 (when the margin was 8.2 million euros) mainly due to higher sales.

In terms of staff, at 31 December 2013 the average number of employees was 536, 17 more than last year.

Segment investments of 11.4 million euros dropped 15.7 million euros essentially due to the completion of the Acea Produzione hydroelectric plants *repowering*.

Net debt at the end of 2013 decreased by 35.2 million euros to 297.4 million euros, compared to the figure at the end of 2012. This decrease can be attributed to the combined effect of **(i)** a decrease in the sales sector (- 38.9 million euros) essentially due to a drop in payments received recorded in the period, **(ii)** a decrease in the production sector (- 22.2 million euros), which can mainly be attributed to collecting green certificates matured in 2012, and payments received from the transaction drawn up between ACEA and GDF Suez Italia and **(iii)** an increase in the *Energy Management* sector of 26.5 million euros.

Operating review

Energy Management

Up to 31 December 2013 Acea Energia Holding (AEH) is the legal entity for the Energy segment, responsible for performing *"Energy Management"*, this being necessary to Group operations, particularly with regard to the sales company (Acea Energia) and the production company (Acea Produzione). From 2014 as a consequence of the merger of AEH in Acea Energia, Energy Management was combined with sales.
AEH customers are therefore mainly its subsidiaries and some companies operating in the Water Segment to which electrical energy is transferred in accordance with art. 218 of Legislative Decree No. 163 - 12 April 2006.
In 2013 AEH also liaised with the Energy Market Operator (GME) and with TERNA. In relation to institutional entity Terna, the Company is the input Dispatch User for Acea Produzione and other companies in the ACEA Group.

In addition, the Company operated particularly on behalf of companies in the Energy Segment, performing the following core business activities:

- the optimization and assignment of electrical energy produced by the Tor di Valle and Montemartini thermoelectric plants and by the S. Angelo hydroelectric plant,
- the negotiation of fuel procurement contracts for the power generating plants,
- the procurement of natural gas and electrical energy for the sales company to sell to end customers,
- the sale of environmental certificates (green certificates, issue rights and renewable source production certificates) for Acea Energia and Acea Produzione,
- the optimisation of the supply portfolio for the procurement of electrical energy and management of the Energy segment companies' risk profile.

In 2013, the company purchased a total of 11,466 GWh, of which 9,604 GWh from the market through bilateral agreements and 1,862 GWh from the Power Exchange. As indicated previously, sales were mainly to Group companies: 9,712 GWh to Acea Energia, and a total of 444 GWh to ACEA Ato2 and ACEA Ato5.

Electricity production

The **Acea Produzione** production system comprises a series of power generating plants with a total installed capacity of 344.8 MW, including five hydroelectric plants (three in Lazio, one in Umbria and one in Abruzzi), two so-called "mini hydro" plants in Cecchina and Madonna del Rosario, two thermoelectric plants - Montemartini and Tor di Valle (the latter fitted with a combined cycle module for steam turbine extraction and an open-cycle turbogas module providing cogeneration for the district heating in the Torrino Sud, Mostacciano and Torrino-Mezzocammino districts of Rome).

Through its directly owned plants, in 2013 the company achieved a production volume of 500.3 GWh of which **(i)** 486.6 GWh from hydroelectric plants, **(ii)** 2.2 GWh from mini hydro plants and **(iii)** 11.5 GWh from thermoelectric production.
In the district heating segment, through the Tor di Valle plant's cogeneration unit, Acea Produzione supplied 2,643 end users located in the Torrino Sud, and Mostacciano districts (located in the southern part of Rome) with 76.6 GWh.

The hydroelectric segment recorded production of 488.8 GWh, benefiting from the contribution of the run-of-river Salisano drinking water plant which re-started operations at the end of 2011, slightly higher than the ten-year historic average (+ 3.3%). Production at the Castel Madama, Mandela and Orte run-of-river plants was significantly higher (+ 63.3%) than the ten-year average due to an increase in the level of water input for plants on the Tiber basin (Aniene and Nera rivers). An increase in production was recorded compared to the ten-year average by the S. Angelo plant (+19.6%) with 177.0 GWh. The average yearly water inputs of the Aventino river at the Casoli dam (5.4 m3/s) and Sangro river at the Bomba dam (14.4 m3/s), were respectively 13.0% and 35.0% higher than the average in the three previous years 2010/-2012. The weather trend in fact was particularly rainy in winter, spring and autumn, and this meant a significant water input from the rivers with an average power output in the year of 20.2 MW.
The procedures for the auditing of documents implemented by the national grid operator for issuing Green certificates to the Salisano and Orte hydroelectric plants were successfully concluded in 2013 with the consequent recording of the items accrued by the Company.

The company's thermoelectric production stood at 11.5 GWh at 31 December 2013.
2013 saw a continuation of the negative trend in production for the combined cycle of the Tor di Valle plant, no longer suitable for sustaining the market impact due to the efficiency *gap* with respect to the latest generation modern combined cycles which is accentuated by dropping market prices. In addition, particularly low market prices have also affected cogeneration, which recorded a further drop in production compared to the past. Due to the restriction placed on the TG3 units of the cogeneration section on maximum *NOx* emissions, it was therefore necessary to use auxiliary boilers to produce heat for district heating.
With the help of Laboratories – ACEA Group engineering companies – planning and engineering work started for the modernization of the Tor di Valle power station and cogeneration plant. The authorisation procedure continues.

2013 was the sixth year of operation of the Montemartini plant as a generating unit essential to the security of the National Electricity System, pursuant to AEEGSI Resolution No. 111/06, as part of the National Electricity System Security Plan – Emergency Plan for the City of Rome. The plant's TG1, TG2 and TG3 units were subject to dispatching orders from Terna, except for short periods of maintenance and *"black start-up"* testing. Plant production was therefore limited exclusively to dispatching orders from Terna, as well as the testing activities. The economic result is, however, guaranteed by the reintegration of costs recognised by the AEEGSI.
AEEGSI Resolution No. 635/2013/R/eel approved the Company's request for admission to the power generation cost reintegration regime for the period from 1 January 2014 to 31 December 2023 for the Montemartini plant.
In the same Resolution, the Authority approved the changes to the criteria for determining the fee by applying the method that came into effect with Resolution No. ARG/elt 161/10 instead of the previous method based on so-called *Stranded Costs*. This new method lets the Company remunerate new investments for extraordinary maintenance and/or environmentalization of the plant.

Electricity and gas sales

As for the sales market, the refocusing of **Acea Energia's** sales strategy continued in the period with a more capillary and attentive selection of customers with a plan in two parts. The first tends to favour contracting small customers (residential and *microbusiness*) while the second consists of maintaining the current *joint ventures* when deep-rooted in the territory if they can guarantee adequate profitability.

In line with the above, concerning the *joint venture* between ASM Voghera and Acea Energia, it was decided to put **Voghera Energia Vendita** (VEV) into liquidation and start procedures for the dissolution of the *partnership*; for this purpose, in 2013 an agreement was drawn up between the partners to mutually define existing relations. This dissolution has not yet been concluded as VEV was served a notice of findings report by the Pavia Customs Authority after which advice of payment was notified in February 2014 for the application of penalties equal to approximately 10 million euros. The company has prepared all the acts required to prove its business practice is correct in all cases for cancellation of the request.

Other *joint ventures* on the territory are as follows:

- **Umbria Energy (50%)**: which operates in Umbria, was set up on 24 September 2004 as a joint venture between ASM Terni S.p.A. and Acea Energia.
- **Elgasud (49%)**: which operates in Puglia and Basilicata, was set up on 10 November 2006 under an agreement between Amgas Bari, Amet and Acea Energia.

On 26 June 2013, following the result of the technical-financial analysis and audits, the Arkesia business unit selling electrical energy and gas to end users was bought up.

With reference to the tariffs applied to the protected categories service:

- In terms of distribution tariffs, compulsory distribution tariffs - updated quarterly in accordance with Annex A of the Authority's Transport Code - have been applied to end users on the protected categories market and are valid for all of 2013.
- With regard to connection fees and flat rate charges the parameters used were those defined by the Authority in Resolution 348/2007, Annex B (the Connection Code) and are valid for all of 2013.

The energy and the corresponding economic items Acea Energia purchases to meet the requirements of the protected categories service are determined on the basis of the ACEA Distribuzione energy report.

During the period, the sale of electricity on the protected categories market was equal to 3,234 GWh. There were 1,071,557 Customers; sale of electricity on the Free Market came to 8,601 GWh for Acea Energia and 781 GWh for the retail *Joint Venture*, for a total amount of 9,382 GWh, a decrease of around 6% on 2012.

Acea Energia sold 100 million standard cubic metres (sm3) of gas to final customers and wholesalers. There are 98,676 customers.

Concerning the penalty proceedings that were implemented on 8 November 2012 against Acea Energia with Resolution No. 462/2012/S/eel, as a result of the dispute in 2013 with the Company, AEEGSI Resolution No. 540/2013/S/eel on 28 November 2013 declared the commitment proposal presented on 25 October 2013 to be admissible and approved the same for publication. On 19 February 2014, AEEGSI published the comments presented by the Federconsumatori consumers' association (which were received 79 days after publication of the commitments, well over the 30-day limit), which in substance do not severely affect the company's proposal. After any counter deductions expressed by the company, the Board must decide whether the proposal is finally admissible.

Furthermore, in 2013 the Authority concluded two inquiries into the Company with Resolution No. VIS 45/10 e 167/10, applying two administrative sanctions respectively in **Resolution No. 99/2013/S/eel** on 7 March 2013 and Resolution No. **441/2013/S/eel** on 10 October 2013.

As part of a more extensive reorganisation of the ACEA Group, on 13 January 2014 a merger was drawn up incorporating Acea Energia Holding in Acea Energia.
The merger comes into effect for accounting and tax purposes at the start of the 2014 financial year.

Water Operating Segment

Operating figures, equity and financial results for the period

Operating figures*	U.M.	2013	2012	Increase/ (Decrease)	increase/decrease %
Water Volumes	Mm^3	566	566	0	0.0%
Electrical Energy Consumed	GWh	541	563	(22)	(3.9%)
Sludge Disposed of	kTon	183	183	0	0.0%

* ACEA Group values

Equity and financial results (millions of euros)	2013	2012	Increase/ (Decrease)	increase/decrease %
Revenues	886.0	890.0	(3.9)	(0.4%)
Costs	513.6	549.3	(35.8)	(6.5%)
Gross operating profit	372.5	340.6	31.9	9.4%
Operating profit/(loss)	226.3	183.4	42.9	23.4%
Average number of staff	3,543	4,349	(806)	(18.5%)
Investments	202.5	224.4	(21.8)	(9.7%)
Net debt	831.8	738.7	(93.1)	(12.6%)

The Segment's EBITDA at 31 December 2013 totalled 372.5 million euros, up 31.9 million euros on 2012.
The change was mainly influenced by the recognition of the FNI (New Investments Fund) component for 2012 and 2013 as resolved by the Area Authorities for the 2012 and 2013 tariff formulation procedure as required in article 6 of AEEGSI Resolution No. 585/2012. The total amount of this component was 45.5 million euros, of which 10.6 million euros referred to 2012. The Companies for which said component was established are ACEA Ato2, Acquedotto del Fiora, Acque, Publiacqua and Umbra Acque.
The EBITDA of the Companies operating abroad (- 5.4 million euros) decreases due to the transfer – on 31 December 2012 - of the Aguazul Bogotà management contract (- 2.0 million euros).

With reference to the operating costs, there was an overall decrease of 39.8 million euros, affected by the reduction: **i)** of costs for the management of activities related to the Aguazul Bogotà contract (- 9.8 million euros), **ii)** ACEA Ato2 costs (- 19.8 million euros) mainly as a consequence of a reduction in sludge disposal costs partially offset by an increase in electricity consumption costs, **iii)** by the 8.3 million euro penalty inflicted last year by AGCM on ACEA and Suez Environment as held responsible for anti-competitive agreements, having both participated in the Florence Municipal Authority tender for the joint acquisition of a 40% stake in Publiacqua. The above-mentioned phenomena is offset by the increase: **i) in GORI costs (+ 4.5 million euros), mainly as a consequence of higher purchase costs of water for resale after tariff recalculation, in consideration of the agreement with the Campania Regional Authorities ii) ACEA Ato2 costs (+ 0.9 million euros) for the purchase of water and electrical energy**.

Staff costs, net of capitalised costs dropped 5.2 million euros to 138.5 million euros compared to 2012, mainly due to the termination of the Aguazul Bogotà management contract.
For the same reason, the average number of staff at 31 December 2013 dropped by 806 to 3,543.

Borrowings in the Segment at the end of 2013 amounted to 831.8 million euros, up 93.1 million euros on the end of 2012 when the total was 738.7 million euros.
This increase was mainly generated by ACEA Ato2 (+ 101.0 million euros) and is affected by the working capital trend and shareholders' equity.

Segment investments stand at 202.5 million euros, affected by the reduction in investments of the major Lazio – Campania (- 17.8 million euros) and Tuscany – Umbria (- 3.5 million euros) Companies.

Operating review

Lazio - Campania area

ACEA Ato2

The Integrated Water Service in ATO 2 Central Lazio - Rome started on 1 January 2003. The ATO gradually took over services from the Municipalities and 73 of the total 112 services in the ATO are currently still run by the Municipalities. At 31 December 2013 the overall situation in the territory managed is as follows:

Acquisitions	No. of municipalities
Municipalities fully acquired in I.I.S.	**73**
Municipalities partially acquired, for which ACEA Ato2 provides one or more services:	**21**
Municipalities in which only the acquired consortium service is provided	5
Municipalities partially acquired but with Protected Subject	9
Municipalities partially acquired	7
Municipalities in which ACEA Ato2 provides no services	**13**
Municipalities that declared they do not wish to be part of the I.I.S.*	**5**
* Municipalities with less than 1,000 inhabitants who had the right to express their will in accordance with paragraph 5 of Legislative Decree 152/06.	

The larger Municipalities which haven't been acquired yet include Civitavecchia to which the Lazio Regional Authority in Decree of the Regional Government No. 318 - 10/10/2013, attributed powers of substitution to transfer the integrated water service to the ATO 2 sole operator, appointing a Commissioner to do so.

The company provides the full range of drinking water distribution services (collection, abstraction, retail and wholesale distribution). Water is abstracted from sources on the basis of long-term concessions.
Water sources supply approximately 3,000,000 residents in Rome and Fiumicino, as well as more than 60 Municipalities in the Lazio region, via four aqueducts and a hierarchical system of pressurised pipes.
Three further sources of supply provide non-drinking water used in the sprinkler system of Rome.

The sewerage service comprises a sewer network of about 6,062 km (including approximately 4,072 km of network serving the municipality of Rome) and more than 300 km of trunk lines, without counting the connections to the sewage system.
The company manages the waste water treatment system and pumping stations that serve the network and sewage trunk lines.
In 2013 the main waste water treatment plants handled around 550 million cubic metres, an increase of around 7.8 % compared to the previous year. Sludge, sand and grating production for all managed plants in 2013 was equal to 147 thousand tonnes, almost the same as in 2012.
At the end of 2013, the Company managed a total of 524 sewage pumping stations, including 177 in the municipality of Rome, and a total of 171 waste water treatment plants, including 34 in the municipality of Rome.

Note that from 2007 to 2013, twenty plants and fourteen discharges of untreated water have been seized. In nine cases the sludge had to be transported by drain cleaning trucks to other plants at a high management and economic cost.
The preliminary investigation into the Roma Nord treatment plant ended in November 2013 with indictment of some ACEA Ato2 and Aquaser directors and employees for allegedly dumping sludge in the River Tiber and fraud related to Management Agreement obligations. At this time it is impossible to say what the outcome will be, or estimate the economic consequences which may derive in the unlikely event of a conviction of ACEA Ato2 and Aquaser under Legislative Decree 231/2001.
At the end of the financial year, seven untreated plants and five discharges were still under seizure, despite the fact that interventions for upgrading the same have been completed or underway. There were no new seizures in 2013, and some plants have been released from seizure.
In the first two months of 2014 however, the following plants were seized:

1. on 13 December 2013 the Frosinone Public Prosecutor's Office issued a seizure order for the CO.R.EC.ALT treatment plant in the Municipality of Trevi nel Lazio, authorising the Company to run the same. This seizure is probative, to let the Public Prosecutor's Technical Expert verify the functional character of the treatment plant and decide whether the normative standards of Legislative Decree 152/2006 are observed,
2. on 5 February 2014, the District Court of Rome issued a precautionary seizure order for the "Roma Est" treatment plant for alleged violation of articles 81, see relative paragraph, 110 of the Italian Penal Code, art. 256 paragraphs 1 and 2 of Legislative Decree 152/2006. The Order nominates a court-appointed superintendent to supervise and guarantee the sewage treatment system functions properly.

As for the tariff, established by article 6 of AEEGSI Resolution No. 585/2012, while awaiting the decisions on 2012 and 2013 tariffs, in 2013 the Company applied the tariff set by the Mayors' Conference and the Chairmen of Ato2 Central Lazio - Rome on 17 April 2012 (cent. €/m^3 122,35).
The Mayors' Conference and the Chairmen of Ato2 Central Lazio - Rome met to discuss and resolve various issues regarding the Average Area Tariff including additional tariff adjustments generated by the difference between guaranteed and actual revenues for 2006 – 2011 equal to approximately 94 million euros. The Mayors' Conference established that these adjustments, including interest (totalling 118.4 million euros), will be arranged over six years at a constant rate (19.73 million euros) from 2012.

With reference to the process of approval for the 2012 and 2013 tariff proposals, note that the Mayors' Conference met for the first time on 29 April 2013 without resolving any of the items on the agenda due to lack of a quorum. A valid meeting was then held on 27 January 2014 and a specific resolution was passed on the return on invested capital for the period 21 July – 31 December 2011 approving the enquiry in AEEGSI Resolution No. 273/2013/R/idr of 25 June 2013. The amount to return, adjusted for inflation, as calculated by the AEEGSI up to 2014 in the hypothesis that the sum is returned in this financial year, amounts to 3.228.356,59 euros.

The Mayors' Conference met again on 4 March 2014 after receiving notice given by AEEGSI dated 6 February 2014 and approved the tariffs for the regulatory period 2012 – 2013 and the tariff and financial plan for the same years.
The notice was sent by the AEEGSI as, on 24 January 2014, ACEA Ato2 sent a request to the Local Authority for tariffs to be updated in accordance with art. 9.2 of Resolution No. 643/2013/R/idr, sending a note to AEEGSI.
In fact, as a result of the regulatory changes at the end of 2013, there have been changes in the approval procedure to streamline the same.

In particular, if the Local Authority fails to approve its tariff proposal by 27 December 2013 (date of publication of the above resolution), within the 30 following days the Operator can autonomously send a request to the same Local Authority with a note sent to AEEGSI.
On receipt of said proposal, AEEGSI must give the Local Authority notice to fulfil their obligations within 30 days following receipt of said notice, after which the Operator's request is understood to be approved on the principle of consent by silence.
Following consent by silence, the Operator therefore has the right to directly ask AEEGSI, which must respond within 30 days following receipt of the request, to evaluate and finally approve the proposal for a tariff update proposal presented by the same and implicitly approved.

Revenues in 2013, determined on the basis of the decisions taken by the Mayors' Conference on 4 March 2014, amount to a total of 466.6 million euros, including adjustments of so-called pass-through items, of which 11.0 million euros of the New Investments Fund component.

As required by Resolution No. 643/2013, by 31 March 2014 the Area Authorities must approve the tariff proposal for 2014 including the 2012 adjustments of so-called pass-through items and, if required, also the costs for I.I.S. activities borne for exceptional events, and send the same to the AEEGSI. With reference to this last type of costs, ACEA Ato2 has requested STO and AEEGSI acknowledge the higher costs borne in 2012 to deal with the water and environmental emergencies (approximately 12 million euros): as required by the regulation in force, these costs must be specifically acknowledged after a specific enquiry by the Regulatory Authority.

ACEA Ato5

ACEA Ato5 provides integrated water services on the basis of a thirty-year agreement signed on 27 June 2003 by the company and Frosinone Provincial Authority (representing the Authority for the ATO comprising 86 municipalities). In return for being awarded the concession, ACEA Ato5 pays a fee to all the municipalities based on the date the related services are effectively acquired.

The management of the integrated water service in the territory of ATO 5 Lazio-Frosinone involves a total of 85 municipalities (management still must be surveyed for the municipalities of Atina, Paliano and Cassino Centro Urbano as regards water services only) for a total population of around 480,000 inhabitants, about 460,000 inhabitants supplied and a number of end users equal to around 188,487. No new acquisitions were formalised in 2013.

The drinking water system comprises supply and distribution plants and networks that use 7 main sources from which an equal number of aqueduct systems originate. The coverage of this service amounts to about 97%.
Despite the abundance of available water guaranteed by the sources, problems in the distribution network infrastructure required constant intervention by unit personnel to guarantee water distribution to all of the 85 municipalities managed, shutting down the supply to Municipalities when absolutely necessary and also installing some motor-driven valves and hydraulic valves to automate the manoeuvres.

The sewerage-purification system comprises a network of sewers and trunk lines connected to waste water treatment terminals. The company manages 197 sewage pumping plants and 112 biological waste water treatment plants, as well as 16 Imhoff tanks and 3 percolating filters.
Following the recognition and related assessment of users connected to the sewerage system (as a result of Constitutional Court Sentence No. 335/2008), it emerged that the coverage of this service is equal to approximately 68% of aqueduct users.

With reference to the **tariff**, in 2013 ACEA applied the same tariff as in 2012, in other words the tariff established by the Decree of the Commissioner for deeds no. F66 - 8 March 2013, which set the real average tariff for the reporting period at 1.359 €/m3 and the related tariff breakdown for invoicing users.
This is in line with the provision of Resolution No. 585/2012/R/idr with which the AEEGSI established the Transitional Tariff Method (MTT) valid for 2012 and 2013, at the end of 2012.
On the basis of this resolution, the Area Authority should approve the tariff proposals for 2012 and 2013 by April 2013, and send the same to AEEGSI for final approval.
In consideration of the continuing inertia of A.ATO 5 and on the basis of the above-mentioned article 9.2 of Resolution No. 643/2013/R/idr issued by the AEEGSI on 27 December 2013, on 23 January 2014 ACEA Ato5 sent a Request for an integrated water service tariff update for 2012 and 2013 to the Area Authority. Furthermore, ACEA Ato5 sent a separate note to AEEGSI to inform the same that they had sent a request and asking for notice to be given to the Area Authority. On 6 February 2014 AEEGSI gave notice to the Area Authority to determine the tariffs for 2012 and 2013 of its competence by 8 March 2014 with a warning that, after said term had expired, the Operator's request would be approved by the Area Authority on the principle of consent by silence and would be sent by the Operator to the Authority for evaluation and final approval within the following thirty days.
The Operator's proposal sent in accordance with art. 9.2 of resolution 643/2013 specifies a tariff multiplier ϑ for 2012 and 2013 respectively of 1.350 and 1.397 subject therefore, to the relevant AEEGSI enquiry as they are over the maximum allowed limit (1.065 for 2012 and 1.134 for 2013).
Note that the Mayors' Conference of 5 March 2014:

(i) *approved the calculation proposed, in the technical report, to specify a provisional applicable tariff of 1.447 €/m3 for the 2012 tariff multiplier (Θ=1.065); and a provisional tariff of 1.541 €/m3 for the 2013 tariff multiplier (Θ=1.134), provided that for the values of ϑ, proposed by the operator to calculate tariff variations in absolute terms above the limit set by the Standardised Tariff Method, an enquiry will be opened by the Authority*

(ii) *to send this act to the AEEGSI, with the documentation on the agenda for the consequent enquiry in observance of the conditions of art. 7 paragraph 7.1 of Resolution 585/2012/R/idr*

Implementing the decisions of the Mayors' Conference convened on 5 March 2014, AATO STO sent the AEEGSI the relevant resolution on 3 April 2014 (following publication on 2 April 2014 on the AATO web site), with the tariff proposal presented to the operator, without any comment being made on the same.

As for **prior adjustments** and, therefore, the complex subject of tariff legitimacy, in Decision of 30 May 2013 the Commissioner appointed by the Latina Regional Administrative Court to replace the resigning Eng. Passino, submitted a final report on the determination of adjustments and service levels with reference to the 2006-2011 period and the review of the 2011-2013 3-year plan.
The Commissioner set ACEA Ato5's tariff adjustment at 75.2 million euros net of the penalties applied; the provision also established that within 90 days of notice of determination, the Area Authority, after consulting the company, will define the instruments, mechanisms and amounts for recognition of the items adjusted and deliver its reasoned opinions to the AEEGSI so the same can determine its tariffs.
By appeal notified on 31 July 2013 with the Lazio Regional Administrative Court – Latina District - A.ATO 5 challenged the 30 May 2013 final report of the appointed Commissioner, requesting the cancellation of the same subject to effective suspension.
On 9 September 2013 the Company filed a memorandum of appearance and cross-appeal, and the following day A.ATO 5 filed a formal renouncement to the claim for an injunction order requested in appeal. On the date of today, we are waiting for the hearing to be called.
On 6 December 2013, ACEA Ato5 gave notice to A.ATO5 to put the Commissioner's 30 May 2013 Decision into full effect within 30 days. No reply has been received from A.ATO5 to this date.

The company has so far not taken legal action against AATO to force the same to put the commissioner's resolution of 30 May 2013 into effect, as the following AEEGSI Resolution 643/2013, published on 27 December 2013, specified the forms and ways for recovering said prior-year items, which the company intends to do starting this coming July.

Concerning the **reimbursement of the portion of return on invested capital for the period 21 July 2011 – 31 December 2011**, the Operational-Technical Secretariat of ATO 5 Southern Lazio-Frosinone sent AEEGSI a note that indicates that no such reimbursement is due as "*the deduction of sums* (accounted for - editor's note) *from the portion of return on invested capital, reproportioned for the period of reference results in a negative reimbursement ….*".
AEEGSI, in Resolution 163/2014 published on 3 April 2014, following a positive control by the same on the information produced by AATO, confirmed that ACEA Ato5 owes nothing to its users in the form of return on invested capital component for the period 21 July 2011 – 31 December 2011.

Revenue for 2013, including the adjustments of so-called pass-through items (i.e. electrical energy), amounts to a total 57.2 million euros calculated, as for 2012, using a tariff multiplier higher than the maximum admissible multiplier. In particular, the ϑ used for 2013 is equal to 1.397, as in the Operator's proposal enclosed with the tariff adjustment subject to the Mayors' Conference of 4 March 2014 and currently being examined by the AEEGSI. Note that the difference in terms of revenue between the application of ϑ 2013 obtained using the Transitional Tariff Method (1.397) in the Operator's request is the maximum admissible in the first phase (1.134) amounts to 10.8 million euros for 2012 and 12 million euros for 2013. It is uncertain whether these higher amounts, subject in accordance with article 7.1 of Resolution 585/2012 to specific enquiry by the AEEGSI, can be recovered and a negative outcome of said enquiry could have significant effects on the equity and financial position of ACEA Ato5.

GORI

The Company manages the Integrated Water Service throughout the entire territory of ATO No. 3 Sarnese Vesuviano in the Campania Region with a surface area of 897 Km2 and a population of approximately 1.44 million inhabitants.
The following table shows the main technical data, by service, which are substantially the same in 2012:

Technical data for 2013		
Municipalities Managed	*(No.)*	**76**
Resident population (ISTAT survey 1/1/2013)	*(No.)*	**1 441 170**
Water distribution network	*(Km)*	4 062
Supply network	*(Km)*	268
Total Networks	*(Km)*	**4 331**
Sources	*(No.)*	**9**
Wells	*(No.)*	**77**
Tanks	*(No.)*	**174**
Pumping	*(No.)*	**93**
		Sewerage Service
Sewerage System	*(Km)*	**2 144**
Pumping	*(No.)*	**136**
		Treatment Service
Plants	*(No.)*	**17**

The Company provides integrated water services on the basis of a thirty-year agreement signed on 30 September 2002 by the company and the Sarnese Vesuviano Area Authority.

Of the most significant events in 2013 the Campania Regional Government approved Resolutions No. 171 and 172 on 3 June 2013. Resolution No. 171/2013 finally regulates relations between the Campania Regional Authority, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority (and future assignees) [7] and GORI; to implement said resolution, on 24 June 2013 a specific agreement was drawn up to normalize and regulate reciprocal relations, through which:

- the Area Authority and GORI acknowledged the regional tariffs for wholesale water services and the collection and treatment of waste water in regional plants,
- the Regional Authority, their regional operator Acqua Campania, the Area Authority and GORI have defined and settled the dispute they were involved in,
- GORI's overall debt with the Regional Government for 2002÷2012 was defined for wholesale water services and the collection and treatment of waste water, for a total of 283 million euros (Group share approximately 105 million euros),
- by effect of Regional Law No. 1 of 27 January 2012 (regional financial law 2012), the debt will be re-determined in an overall sum equal to 212 million euros (Group share 78 million euros), with a consequent 20-year repayment plan (without payments in the first ten years and with payments beginning from the eleventh year at the legal interest rate valid when the Agreement was signed (2.5%),
- concomitantly with the GORI debt payable to the Regional Government, the tariff adjustments matured by GORI up to 31 December 2011 were rectified in the same way in which the debt reduction was calculated, with a plan for the recovery of these adjustments (equal to approximately 109 million euros plus legal interest),
- there is the possibility of reorganizing the economic-financial commitments on the basis of future AEEGSI calculations.

Regional Resolution No. 172/2013 transferred the so-called "Regional Works" to the Area Authority and therefore to GORI. Note that the Regional Authorities are still managing some major works and infrastructures (in particular hydroelectric power stations and district treatment systems) in ATO No.3 "Sarnese-Vesuviano" territory which therefore must be transferred to GORI. More specifically, Resolution No. 172 requires that Regional Works to be transferred by drawing up relative the state and condition assessments, in any case within 150 days from the date of publication of the same resolution, therefore regardless of the whether or not the state and condition assessment has been drawn up or the transfer signed. GORI considers this way of transferring works to be prejudicial, as it does not allow for some fundamental and functional aspects for correct I.I.S. management such as the exact acknowledgement of the state of the Work also from a technical-management point of view (verification and examination of all relevant costs), which makes it impossible to enter the economic and financial data required to guarantee full coverage of operating costs for Regional Works, in the Area Plan's Economic-Financial Plan. For these reasons, the company challenged Resolution No. 172/2013 before the Campania Regional Administrative Court in Naples which, suspended the effects until the case is heard.
In this context on 17 January 2014, the company "GEST.I.RE. s.r.l. – Gestione Impianti Regionali" was established, GORI being the sole shareholder, to which the regional plants will be transferred.

[7] As known, art. 2, paragraph 186-bis, of Law No. 191/2009 eliminated Area Authorities starting 31/12/2012. As a consequence, the President of the Campania Regional Government by Decree No. 14 on 21 January 2013, and by effect of art. 1, paragraph 137, of Campania Regional Law No. 5 - 6 May 2013, (Regional Financial Law 2013), from 1 January 2013 nominated the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority to perform the functions previously performed by the eliminated Area Authority and to implement the procedure for winding up said Authority.

As for the tariffs, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in observance of AEEGSI Resolution No. 585/2012 - 28 December 2012, passed Resolution No. 17 - 29 April 2013 establishing the Restriction on guaranteed revenues (VRG) for 2012 and 2013 and the *theta* tariff multiplier for the same years.
On the basis of this decision, revenues for 2013 equal to 151.5 million euros (Group share 56.1 million euros) were calculated including adjustments of so-called pass-through items (i.e. electricity).
On 24 January 2014 the Area Authority sent AEEGSI the update of the ATO 3 Economic-Financial Plan, valid for I.I.S. tariffs for 2012 and 2013, drawn up in accordance with the provisions of Resolution No. 585/2012/R/idr and on the basis of the assumptions in art. 4 of Resolution No. 73/2013/R/idr and subsequent amendments. In any case, the Economic-Financial Plan must be revised again and sent to the Authority by 31 March 2014, in accordance with the criteria in art. 8 of Annex A of Resolution No. 643/2013/R/idr.

Finally, with reference to the effects of resolution 273/2013/R/idr, the Extraordinary Commissioner of the Area Authority, with Resolution No. 35/2013, determined that there are no amounts to be refunded to domestic users for return on capital invested.

As for the 40 million euros bridge loan that matured 30 June 2011, inquiries continued with the Bank in 2013, which expressed willingness to approve the Company's proposal put forward on several occasions, to consolidate the debt by transforming the bridge loan into a long-term mortgage. At the end of these talks, in 2014 the Bank sent Gori the *term sheet*, approved by its Loans Committee and currently under negotiation to define the terms, to transform the loan into a long-term mortgage maturing 31 December 2021.

Tuscany - Umbria Area

Acque

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 28 December 2001. In accordance with said agreement, the Operator took over the ATO 2 exclusive integrated water service, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 57 municipalities. In return for award of the concession, Acque pays a fee to all the municipalities, including accumulated liabilities incurred under previous concessions awarded.

With reference to the process of approval for the 2012 and 2013 tariff proposals by the Area Authorities in article 6 of resolution 585/2012, note that in a meeting held 30 April 2013, the Tuscan Water Authority approved the proposals of the Tuscan Water Authority Conference and acknowledged a New Investments Fund for 2012 and 2013 respectively of 1.6 million euros (Group share 0.7 million euros) and 10.3 million euros (Group share 4.7 million euros). On 17 October 2013, in Resolution No. 10 AIT approved also the Economic-Financial Plan in accordance with AEEGSI Resolution No. 73/2013. Finally, on 14 November 2013, in Resolution No. 518, the AEEGSI approved the tariffs passed in the AIT resolution.

Revenues in 2013 amount to a total of 117.5 million (Group share 52.9 million) euros, including adjustments of so-called pass-through items (i.e. electricity), inclusive of the 2012 and 2013 New Investments Fund component.

Concerning the return on invested capital for the period 21 July – 31 December 2011 the sum recorded as due debts amounts to 1.5 million euros (Group share 0.6 million euros).

Note that on 22 April 2013, the Tuscany Regional Administrative Court passed sentence on the appeal filed for cancellation of Co.N.Vi.Ri. resolution No. 60 - 27 April 2011, with reference to the re-examination of the review for the 2005-2008 3-year period of the Toscana – Basso Valdarno AATO 2 area plan. The Section, ruling against the previous sentence (Tuscany Regional Administrative Court sec. II, 23 December 2010 No. 6863), adhered to the prevailing view of the Council of State (Council of State, sec. VI, 27 October 2011 No. 5788) and rejected the appeal. To allow for any possible effects, the company estimated said risk, allocating a suitable provision.

As is known, in October 2006, Acque signed a contract with a pool of banks which provides for a total loan of 255.0 million euros to cover the financial needs of the investment plan from 2005 to 2021 estimated at around 670.0 million euros. The actual drawdown at 31 December 2013 was 218.0 million euros.

Publiacqua

The management agreement, which came into force on 1 January 2002 with a twenty-year duration, was signed on 20 December 2001. In accordance with said agreement, the Operator took over the ATO 3 exclusive integrated water service, comprising all public water collection, abstraction and distribution services for civil use, sewage systems and the treatment of waste water. The Area includes 49 municipalities, of which 6 managed via agreements inherited from the previous operator, Fiorentinagas. In return for awarding the concession, the Operator pays a fee to all the Municipalities, including accumulated liabilities incurred prior to award of the related contracts.

In June 2006, ACEA - via Acque Blu Fiorentine S.p.A. – completed its acquisition - of an interest in the company.

With reference to the procedure for approval of the tariff proposals for 2012 and 2013 by the Area Authorities required by article 6 of Resolution No. 585/2012, on 19 April 2013 the Tuscan Water Authority Conference decided not to approve the 2012 and 2013 tariff proposals submitting the decisions on the matter to the Tuscan Water Authority also with reference to the New Investments Fund component.

On 30 April 2013 the Tuscan Water Authority, with regard to Publiacqua, postponed deliberation on the revision of Economic-Financial Plans and decided not to revise the contractual clauses and other acts regulating relations with Operators. The Tuscan Water Authority also requested the Tuscan Water Authority Conference to examine the relative tariff proposals again. On 10 May 2013 the Tuscan Water Authority Conference approved the New Investments Fund component for 2012 and 2013. Furthermore, on 17 October 2013 the Tuscany Water Authority approving the Economic-Financial Plan, set the 2012 New Investments Fund investment allocation at 22.7 million euros.

As a result of these acts, the Tuscan Water Authority only sent the AEEGSI the resolution concerning the Fund, as it hadn't been able to pass resolutions on tariffs or draw up an Economic-Financial Plan.

On 17 October 2013 the Meeting of the Tuscany Water Authority finally approved the tariff economic plan (and therefore the tariffs) in Resolution No. 10/2013 and, on 14 November 2013, in Resolution No. 518, the AEEGSI approved the tariffs passed by AIT resolution for 2012 and 2013 setting the tariff multiplier for the same years.

2013 revenues were calculated on the basis of AEEGSI tariff calculations, which amount to a total, including adjustments of so-called pass-through items (i.e. electricity), of 217.6 million euros (Group share 87.0 million euros). The revenues are inclusive of the 2012 and 2013 New Investments Fund component.

The Tuscan Water Authority, in a letter dated 27 September 2013, implemented the 4th tariff review relevant to costs, announcing it wished to apply it to the years 2010-2011, excluding 2012 therefore, the year in which the Transitional Tariff Method came into force.

Finally, the competent Authorities defined the tariff for the return on capital collected by Publiacqua in the second half of 2011 which must be reimbursed to users. The payables recorded on the books amount to 3.4 million euros (Group share 1.4 million euros).

In terms of **financing** sources, on 29 November 2012, the company took out a new bridge loan with a duration of 18 months minus one day, until 23 May 2014 for a total of 75 million euros, of which a total of 60 million euros was disbursed on the subscription date. To meet the Company's financial needs, in March 2013 a Request was made to use the loan granted, and on 18 March 2013 the banks extended the loan by another 5 million euro.

Acquedotto del Fiora

Based on the agreement signed on 28 December 2001, Acquedotto del Fiora is to supply integrated water services on an exclusive basis in ATO 6, consisting of public services covering the collection, abstraction and distribution of water for civil use, sewerage and waste water treatment.
The concession term is twenty-five years from 1 January 2002.
In August 2004, ACEA – via Ombrone SpA – completed its acquisition - of an interest in the Company.

With reference to the process of approval for the 2012 and 2013 **tariff proposals** by the Area Authorities in article 6 of resolution 585/2012, note that in a meeting held on 30 April 2013 with the Tuscan Water Authority determined and approved the proposals of the Tuscan Water Authority Conference and acknowledged a New Investments Fund for 2012 and 2013 respectively of 5.5 million euros (Group share 2.2 million euros) and 10.2 million euros (Group share 4.1 million euros). Acquedotto del Fiora 2012 and 2013 tariffs were also subject to approval by the AEEGSI in Resolution No. 518/2013/R/IDR on 14 November 2013.

Revenues in 2013 amount to a total of 90.5 million (Group share 36.2 million) euros, including adjustments of so-called pass-through items (i.e. electricity), inclusive of the 2012 and 2013 New Investments Fund component.

In financial terms, on 5 March 2012 the company signed an extension to the bridge loan agreement for a further 18 months, i.e. to September 2013, which increased from 80 million euros to 92.8 million euros after disbursement of a further 12.8 million euros. Finally, on 5 September 2013 a further extension of the *Bridge* was agreed up to 105.0 million euros (Group share 42.0 million euros) expiring 30 September 2014 required to cover the remaining new investments in 2013 and a significant portion of the investments listed in the Plan for 2014.

Umbra Acque

On 26 November 2007 ACEA was definitively awarded the tender called by the Area Authority of Perugia ATO 1 for selection of the minority private business partner of Umbra Acque S.p.A. A stake in the company (40% of the shares) was acquired on 1 January 2008.
During the period, the company exercised its activities in all 38 Municipalities constituting ATO 1 and 2.

With reference to the **tariff** applied to users in 2013, the tariff was calculated on the basis of Single Assembly Resolution No. 4 - 30/04/2013 of ATI No.1 and No.2 concerning the "AEEGSI 2012 and 2013 new temporary tariff system": with said resolution the Area Authorities agreed to a New

Investments Fund component of 4.0 million euros (Group share 1.6 million euros) for Umbra Acque in 2013 alone. Subsequently, on 7 November 2013, AEEGSI approved the tariffs and related Economic-financial Plans in Resolution No. 505/R/idr.

Revenues in 2013 amount to a total of 62.9 million (Group share 25.2 million) euros, including adjustments of so-called pass-through items (i.e. electricity), inclusive of the 2013 New Investments Fund component.

Networks operating segment

Operating figures, equity and financial results for the period

Operating figures	U.M.	2013	2012	Increase/ (Decrease)	increase/decrease %
Electrical Energy distributed	GWh	10,784	11,089	(305)	(2.8%)
Energy produced by photovoltaic plants	GWh	17	60	(43)	(71.1%)
Energy Efficiency Certificates sold/cancelled	No.	3,578	160,529	(156,951)	(97.8%)
No. Customers	N/000	1,627	1,625	2	(0.1%)
Km of Network	Km	29,421	29,225	196	(0.7%)

Equity and financial results (millions of euros)	2013	2012	Increase/ (Decrease)	increase/decrease %
Revenues	543.1	549.4	(6.4)	(1.2%)
Costs	285.8	306.5	(20.8)	(6.8%)
Gross operating profit	257.3	242.9	14.4	5.9%
Operating profit/(loss)	160.8	127.3	33.4	26.3%
Average number of staff	1,403	1,433	(30)	(2.1%)
Investments	104.1	101.9	2.2	2.2%
Net debt	687.5	728.1	(40.6)	(5.6%)

EBITDA at 31 December 2013 was 257.3 million euros. and increase of 14.4 million euros, on a like-for-like basis, compared to the previous year.
This increase is the result of the net effect of higher ACEA Distribuzione margins (+ 14.2 million euros), mainly due to an increase in equalisations revenues equal to 11.6 million euros, and an increase for ARSE in the PV segment (on a like-for-like basis of 1.4 million euros) closing the period with an EBITDA of 5.8 million euros.
Public lighting recorded an EBITDA decrease of 1.3 million euros, reaching 6.4 million euros at 31 December 2013.

In terms of staff, as of 31 December 2013 the average number of employees was 1,403, 30 less than the same period of the previous year, mainly attributable to ACEA Distribuzione.

Segment investments stand at 104.1 million euros, an increase of 2.2 million euros. This increase is mainly attributable to ACEA Distribuzione (+ 3.4 million euros), due to an increase in expansion activities and upgrading of the High and Medium - Low Voltage Networks and primary substations.

Net debt at the end of 2013 decreased to 687.5 million euros, a decrease of 40.6 million euro compared to last year; this change is mainly attributable to ACEA Distribuzione and is the direct consequence of the improvements in the invoicing process which contained working capital growth.

Operating review

Electrical energy distribution

Energy report

As shown in the following table, at 31 December 2013 ACEA Distribuzione injected 11,385.3 GWh into the network with a 4.03% drop compared to 2012.

GWh	2013	2012	% Increase/ (Decrease)
Source A.U.	3,107.6	3,326.9	(6.59%)
Imports	431.5	433.6	(0.48%)
Market subject to additional safeguards	**3,539.1**	**3,760.5**	**(5.89%)**
Free market	**7,844.1**	**8,100.3**	**(3.16%)**
Underlying distributors	**2.1**	**2.5**	**(15.44)%**
General total	**11,385.3**	**11,863.3**	**(4.03%)**

Transport service tariffs

2013 represents the second year of application of the new tariff structure defined by the Italian Authority for Electricity and Gas (AEEGSI) for the 2012-2015 regulatory period.
The regulatory provisions are divided into Three Consolidated Regulations, and for the distribution service the AEEGSI confirmed unbundling of the tariff applied to end customers (the compulsory tariff) from the reference tariff to determine the permitted restriction on revenue for each company (the reference tariff).
The main new element introduced since the previous regulatory period (2008-2011) is the reference tariff of the distribution service for business, which replaces the previous mechanism for calculating permitted revenue, based on the national average tariff integrated with general equalisations on HV, HV/MV and LV distribution and specific corporate equalisation.
For the fourth regulatory period the new tariff recognises the following for each company:

- net invested capital of the MV and LV sector reapplied to 2007 using a parameterised criterion and actual invested capital from 2008;
- actual net invested capital at 2010 for the HV sector and for HV-MV transformation.

The rate of return on net invested capital (*wacc*) is envisaged at 7.6% for the distribution service on investments made up to 31 December 2011 and at 8.6% on investments made thereafter. The 1% increase is associated with the AEEGSI objective of offsetting the time *lag* between implementing the investment and tariff coverage of the cost (the regulatory *lag*). In relation to the extraordinary economic and financial scenario, the AEEGSI has introduced a *wacc* review mechanism mid-way through the regulatory period, based on updating the parameter relating to the rate on risk-free assets. For 2014 the *wacc* was set at 6.4% by AEEGSI Resolution No. 607/2013/R/eel on 19 December 2013.
In terms of operating costs, the new company-based tariff covers the specific costs by means of a national average cost adjustment coefficient, calculated by the AEEGSI on the basis of actual

company costs recorded in the separate annual accounts and recognised in the specific corporate equalisation for 2010, and on scale variables in reference to 2010.
Another new element introduced from the fourth regulatory cycle concerns the tariff per withdrawal point (except for the public lighting-related tariff).
In resolution No. 203/2013 the AEEGSI, due to a series of material errors, corrected the company's tariff parameters of reference for 2013, already published in resolution No. 122/2013 - 28 March 2013. This last resolution re-determined the final tariffs of reference for the 2012 electrical energy distribution service, implementing resolution No. 157/2012/R/eel. ACEA Distribuzione found some inconsistencies and, as required by resolution 157/2012, filed a request for revision/integration of the data.

Updating of the distribution reference tariff after the first year will be individual and based on financial increases reported by the companies on the RAB databases. The updating criterion envisages that:

- the portion of the tariff covering operating costs is updated using the *price cap* mechanism (with a productivity recovery target of 2.8%);
- the part intended to provide a return on invested capital will be updated on the basis of the gross fixed investment deflator, changes in the volume of services provided, gross investments started up and differentiated according to the voltage level and the rate of variation linked to increased returns designed to provide incentives for investments;
- the part intended to cover depreciation has been updated, using the gross fixed investment deflator, changes in the volume of services provided and the rate of variation linked to the reduction in gross invested capital as a result of disposal, discontinuation and end of life and the rate of variation associated with gross investments that have become operational.

Introduction of the company tariff simplifies the equalisation system as the new tariff encompasses part of general and specific corporate equalisations.
The AEEGSI confirms the mechanism - already introduced in the third regulatory cycle - of a higher return on certain investment categories, expanding the cases concerned and, in addition to *smart grid* projects, envisages a higher return on renewal and upgrading of the MV networks in historical centres.
The tariff covering sales costs is based on standard national costs, differentiated according to provision of the sales service subject to additional safeguards in integrated format or as a separate distribution service. The AEEGSI envisages the introduction of a binomial tariff (capacity and consumption) for HV customers, and changes to the cost tariff structure for the transmission service to Terna (CTR), also introducing a binomial price. The review of the two tariffs has led to the introduction of a new equalisation mechanism.

The general equalisation mechanisms for distribution costs and revenue for the new regulatory cycle are:

- equalisation of distribution service revenue;
- equalisation of revenue from the supply of electricity to domestic customers;
- equalisation of transmission costs;
- equalisation of the difference between actual and standard losses.

On 19 December 2013, AEEGSI published Resolution No. 608/2013 modifying the equalisation mechanism for surplus losses, increasing the surplus restitution portion for companies from 50% (in 2012) to 75% and limiting the restitution to companies showing a deficit.
In the new Transport Code, the Authority envisaged a mechanism for recognising an advance, every two months, of equalisation balances relating to the equalisation of distribution service revenue and transmission costs. Resolution 157/2012 extended the AEEGSI deadline for finalising

the equalisation mechanism operating methods with the CCSE from 30 April 2012 to 30 April 2013. However, the AEEGSI has not yet published updates on the subject.

The Metering Code (TIME) governs tariffs for the metering service, divided into meter installation and maintenance, taking meter readings, and confirming and recording readings. The Consolidated Code envisages transfer to Terna of the meter reading, confirmation and recording service for interconnection points between distribution company networks and the national grid. This change will become operative through later regulatory provisions, and therefore at present the distribution company is still responsible for the entire metering service.
The price structure remains unchanged from the previous cycle except for the introduction of a tariff component to cover the residual non-depreciated value of the electromechanical meters replaced prior to the end of their useful lives with electronic meters, or MIS (RES), to be billed to LV end users.
With resolution 565/2012, the portion of parameters relative to revenue equalisation for the metering service regarding the year 2013 was updated.

On 13 May 2013, AEEGSI started collecting data on the equalisation of revenues from the metering service for 2010 and 2011 with the respective 14 June and 9 July 2013 deadlines. ACEA Distribuzione sent the data for both years.

The tariffs covering the metering service are updated, as for the distribution service, by *price cap* mechanisms for the part to cover operating costs (with a productivity recovery target of 7.1%) and by the deflator, change in invested capital and rate of change in volumes for the part to cover invested capital and amortisation. The rate of return on metering capital is equivalent to that of the distribution service.

On 11 June 2013 ACEA Distribuzione sent the data on equalisation of marketing costs, for the years 2010 and 2011. On 1 August 2013, with Resolution No. 349/13, the AEEGSI communicated the amount of the equalisation for 2010; on 19 September 2013, with Resolution No. 392/13, it communicated the amount of the equalisation for 2011.

On 19 December 2013, the AEEGSI published Resolution No. 607/2013 indicating the methods for calculating a *flat rate* equalisation of revenues from connection contributions for 2013. Furthermore, AEEGSI published the rules for updating 2014 tariffs, including the rate of return on invested capital applied to investments starting from 2012 (7.4% including the regulatory *lag* of 1%) and the new *flat rate* for connection contributions. The latter, when calculating the company tariff for 2014, will be considered as other grants and no longer deducted from operating costs.

The "AEEGSI Consolidated Code on economic terms for provision of the connection service (TIC)", Annex C to Resolution No. ARG/elt/199/11, governs the economic terms for provision of the connection service and specific services (transfers of network equipment requested by users, contract transfers, disconnections, etc.) for paying users, essentially continuing from the previous regulatory period.

Energy efficiency objectives
AEEGSI Decision No. DIUC 9/2013 indicates the data on the quantity of electrical energy and natural gas distributed in Italy by subjects obliged to meet such requirements in 2012. This data is essential to determine the potion of energy efficiency objectives each single distributor must meet for 2014, reaching at least 50% by 31 May 2015.
ACEA Distribuzione's objective for 2014 is 174,316 Energy Efficiency Certificates and the estimate of the same for 2015 and 2016, defined on the basis of a criterion of the 2-year average energy

distributed in the two previous years, is equal to respectively 199,154 and 244,502 Energy Efficiency Certificates.
As for the 2013 objectives – equal to 140,938 Energy Efficiency Certificates – ACEA Distribuzione already holds the quantitative of certificates to cancel for 31 May 2014.

AEEGSI supervision

In consideration of the urgent interventions in Provision No. 300/2013/R/eel, on 08 July 2013 AEEGSI opened penalty proceedings against ACEA Distribuzione to verify metering aggregation violations.
This derives from the fact that the Company had not fulfilled metering aggregation requirements, essential for determining the physical and economic items of the dispatching service.
There is objective evidence of the breach in the form of discrepancy, in terms of the threshold allowed by regulations, between the electrical energy metered and that invoiced for transport to the utilities of dispatching users (vendors) operating in the Rome area in 2011 and 2012.
ACEA Distribuzione, in accordance with resolution 243/2012/E/com, on 17 August of this year presented commitments for the pursuit of the interests protected by the provisions which are assumed to have been violated.
In particular, these commitments mainly consist in remedying financial costs acknowledged by the system to the above dispatching users, to prevent the socialization of a cost which would otherwise be payable by the end users.
The same commitments provide for a way to make up for prejudicial behaviour - represented by the discrepancy between metering figures and invoiced amounts for 2011 and 2012 charges – by the month of October 2013, and the objective proof of the system – with reference to the 2013 charges – for the final settlement of the process problems that caused said discrepancies.
At this time, for 2011 and 2012, there is still some residual discrepancy while for 2013, we will only have conclusive evidence after all charges have been invoiced.

AEEGSI Resolution No. 512/2013/S/eel, which refers to VIS 60/11, applies a penalty against the Company for violation in the recording of outages. This violation concerns the obligation, introduced by the TIQE, to keep a specific list of all calls received reporting faults, even if there is no outage (article 13, paragraph 2, letter c). The penalty is equal to 517 thousand euros.
ACEA Distribuzione filed an appeal before the Regional Administrative Court.

Finally, on 20 February 2014 AEEGSI Resolution No. 62/2014/S/eel implemented a procedure to apply penalty and prescriptive procedures against the Company for violations putting low voltage electrical energy meters into service and reading the same. With this resolution, the AEEGSI opened an enquiry into the violation
of art. 8 bis, in Annex A of Resolution No. 292/06 setting a term of 150 days for the duration of the enquiry.

Public Lighting

On 15 March 2011 ACEA and Roma Capitale agreed on an adjustment to the Public Lighting Service Contract.
The key points of the renegotiation are:

- extension of the contract to 2027, in line with the Concession, and therefore lengthening the residual duration from 4 years 5 months to 17 years,
- review of the contractual parameters, aligning them to those of the CONSIP technical draft for the "Servizio Luce 2" tender,
- the certainty of the power to directly perform activities associated with network expansion,
- recognition on expiry of the contract, natural or otherwise, of the non-amortised value of investments made by ACEA,
- sterilisation of the "price risk" of electrical energy to power the public lighting system,

- the inclusion of an indemnity in favour of ACEA in the event of early termination of the contract by Roma Capitale, calculated on the basis of margins discounted over the number of years to expiry (i.e. to 31 December 2027).

In 2013, 239 lighting points were installed for Roma Capitale and 355 for third party customers.
From 1 May 2013 public illumination is managed by Acea Illuminazione Pubblica which, through a spin-off, took over the ACEA Distribuzione business unit.

Photovoltaic power, energy saving and cogeneration

PV power

Following the transfer of the PV business unit in December 2012, ARSE owns plants with a total power capacity of just under 13 MWp.
A new PV roof with a power output of 48.3 kWp was installed in the period to replace an old asbestos cement roof of a building owned by ACEA Ato5 in the municipality of Posta Fibreno. An incentive tariff request has been sent to the national grid operator

On 23 December 2013 Law Decree No. 145 (“Destination Italy”) was passed, and in accordance with art. 1, paragraph 2 starting from 1 January 2014, the Minimum Guaranteed Prices defined by AEEGSI to apply the dedicated withdrawal service indicated in Resolution No. 280/07, for each plant are equal to the hourly zonal price in the case in which the energy withdrawn is produced by plants benefitting from electricity tariff incentives.

Energy saving

Currently the initiatives for the national grid operator to acknowledge Energy Efficiency Certificates for the Group are above all for energy efficiency interventions in line with the development programmes of each single company, such as for example, the activities related to interventions in the treatment sector. Furthermore, energy efficiency interventions in the public illumination sector are being evaluated using LEDs in third party structures.

Cogeneration

In 2013, the operating management also focused on two key areas, the technical and economic monitoring of operating plants and new projects under construction.
Ecogena proceeded with the construction of a new trigeneration plant for the EUR "Europarco" complex; construction work continues on the trigeneration plant that will provide energy services for the new “Cinecittà World” theme park in Castel Romano. Finally, building work continued in the areas dedicated to the construction of the new "Laurentino” shopping centre, in the Laurentina/Tor Pagnotta district of Rome.

Corporate

Equity and financial results for the period

Equity and financial results (millions of euros)	2013	2012	Increase/ (Decrease)	increase/decrease %
Revenues	111.1	106.9	4.3	4.0%
Costs	113.9	123.3	(9.4)	(7.6%)
Gross operating profit	(2.8)	(16.5)	13.7	83.1%
Operating profit/(loss)	(26.5)	(49.4)	22.9	46.4%
Average number of staff	680	679	1	0.0%
Investments	11.9	122.3	(110.4)	(90.3%)
Net debt	(466.9)	(507.2)	40.3	7.9%

ACEA closed 2013 with a negative EBITDA of 2.8 million euros, 13.7 million euros higher than that of 31 December 2012, essentially due to the combined effect of **(i)** the increased revenue from service agreements, **(ii)** the overall decrease in external operating costs following the adoption of general cost containment policies and **(iii)** the decrease in staff costs due to the partial release of provisions set aside for the second round of the medium-long term Incentive Scheme and those set aside for senior and middle managers' MBO as the assigned objectives were partially achieved.

The average number of staff at 31 December 2013 was 680, in line with last year (679).

Investments totalled 11.9 million euros, down 110.4 million euros compared to 31 December 2012 mainly attributable to the purchase of the headquarters in Rome.

Net debt at the end of 2013 amounted to 466.9 million euros, down 40.3 million euros compared to the end of the previous year, as a result of **(i)** the financial settlement of service agreements and amounts due from subsidiaries under cash pooling agreements, **(ii)** the improvement resulting from foreign currency valuations and the *fair value* measurement of financial instruments (- 17.3 million euros), as well as **(iii)** the recognition of dividends distributed in 2012 by Group companies. Conversely, the following should be noted: **(i)** 2013 interim dividend approved by the Board of Directors on 18 December 2013, **(ii)** la final distribution of dividends declared in 2012 by the General Meeting of 15 April 2013, **(iii)** payment made to GDF Suez Energia Italia as a result of the settlement reached in February 2013, for the balance of trade payables due by Acea Energia and taken on by ACEA, as well as **(iv)** liquidity needs arising from investments for the year and changes in working capital, including the payment of tax and trade payables.

ACEA S.p.A. business activities

In its role as a business holding, ACEA S.p.A. defines strategic objectives at Group and subsidiaries' level and coordinates the activities.

Within the Group, ACEA S.p.A. acts as a centralised treasurer for the major subsidiaries.
Intercompany relations are arranged as follows:

- set up of a medium/long-term credit line for a pre-established amount to cover funding needs generated by investments;
- the credit line (i) has a three-year term from 1 January 2011, (ii) produces interest, at a yearly adjusted rate corresponding to the 3-year IRS plus a spread aligned with that of a BBB rated bond issued on the capital market and (iii) provides for an annual credit fee calculated on the credit limit;
- set up of a *general purpose* line for the companies' current needs.

Credit line (i) has a three-year term from 1 January 2011, (ii) produces interest payable at an yearly adjusted rate corresponding to the 3-year IRS plus a spread aligned with that of a BBB rated bond issued on the capital market and a lending rate calculated on the arithmetic mean of intraday 3M Euribor rates for each calendar quarter less a 5 bp annual spread and (iii) provides for an annual credit fees calculated on the credit limit.

ACEA S.p.A. also acts as guarantor for the Group companies: in this regard the contract that governs the *general purpose line* sets a limit for guarantees and separate costing for bank guarantees and corporate guarantees.

ACEA S.p.A. also provides administrative, financial, legal, logistic, management and technical services to subsidiaries and associates in order to optimise the use of existing resources and *know-how* in an economically advantageous manner. These services are governed by specific annual service agreements: those in force began from 1 January 2011, have a three-year term with automatic renewal option and an annual fee based on contractual prices and the volumes actually provided.

The contracts that expired at the end of 2013, are being redefined.

Significant events during the period

Update to the By-Laws

On 24 January 2013, the Acea S.p.A. Board of Directors approved an update to the By-Laws in compliance with the provisions of Law no. 120 of 12 July 2011 concerning the balance between genders in the composition of the Board of Directors and the Board of Statutory Auditors. The compulsory amendments provided for by the Law were therefore made with respect to articles 15 and 22 of the Company's By-Laws.

Ratings

On **15 March 2013** Fitch Ratings announced that it has reduced the *Long - Term Issuer Default Rating* (IDR) and the *Senior Unsecured Rating* from "A-" to "BBB+". The *outlook* assigned to the IDR remains negative.

The rating review followed the rating downgrade on the sovereign debt of the Government of the Republic of Italy and several local authorities, recently decided by the rating Agency.

ACEA S.p.A. - Renewal of corporate bodies

On 15 April 2013, the Shareholders' Meeting approved the 2012 financial statements and appointed the Board of Directors and the Board of Statutory Auditors.

It also approved the distribution of a dividend of 0.30 euros per share of which 0.21 euros were already distributed as interim dividend.

ACEA S.p.A. – Appointment of Chief Executive Officer, Executive Responsible for Financial Reporting, Supervisory Board in accordance with Legislative Decree 231/2001

On 16 April 2013, the new Board of Directors met for the first time and appointed Paolo Gallo Chief Executive Officer of the Company. Iolanda Papalini was nominated Executive Responsible for Financial Reporting by the same meeting. Finally the Board of Directors, in accordance with Law No. 183/2011 art. 14 paragraph 12, had recourse to the right to appoint the Board of Auditors as the company Supervisory Board in accordance with Legislative Decree 231/2001.

Appointment of ACEA S.p.A. CFO

On 12 June 2013, the ACEA S.p.A. Board of Directors meeting chaired by Giancarlo Cremonesi, authorised the appointment of Franco Balsamo as ACEA S.p.A.'s CFO, effective as of 1 July. Effective as of 5 August, Franco Balsamo is also the Executive Responsible for Financial Reporting.

Issue of bond for 600 million euros

On 5 September 2013, ACEA S.p.A. issued a fixed rate bond for a total of 600 million euros maturing in 5 years, exclusively for institutional Euromarket investors. This bond replaces loans maturing and optimizes the cost of the debt, as part of the actions to consolidate the equity or financial structure of the Group.

Standard & Poor's changes Acea SpA's outlook from "Negative" to "Stable" confirming a "BBB-/A3" rating

On 18 October 2013, Standard & Poor's changed Acea SpA's outlook from "Negative" to "Stable" confirming a "BBB-/A3" rating.

The Agency explained that the outlook had been revised on the basis of the results obtained by the Management; in particular an improvement in Company's liquidity, thanks to action taken with the aim of increasing the financial flexibility of the Group. Standard & Poor's maintained that the increase in efficiency of the operating management, cost cutting, solving invoicing problems and the stabilization of credit, while there was an increase in revenues, contributed positively in terms of profit. These results were achieved in a macroeconomic context which is still one characterised by great difficulties in Italy.

Smart cities, Rome project awarded with Miur tender

On 31 October, ACEA within the scope of the Miur "*Smart cities, Communities, Social Innovation*" "Territorial Safety" tender, was awarded the 'Rome' project, considered the first of its kind in Italy. The project is for research in the safety sector in an urban, territorial, traffic and infrastructure context. Coordinated by ACEA, other major institutions and companies such as Sapienza University, Enea, Telecom, Finmeccanica and other companies operating in the sector will also be involved. Financing for the project amounts to around 20 million euros.

ACEA e MEKOROT sign a Memorandum of Understanding

On 2 December ACEA and Mekorot WC ltd signed a *Memorandum of Understanding* for collaboration in the water resource sector.
ACEA and Mekorot can also evaluate the possibility of mutual support in the development and experimentation of state-of-the-art technologies in the sector as indicated in the agreement.

Advance on 2013 dividend

On 18 December 2013, Acea SpA's Board of Directors resolved the distribution of an advance on the ordinary 2013 dividend of 0.25 euro per share. This decision regarding the advance on the 2013 dividend was taken on the basis of the accounting situation of the Acea Group at 30 September 2013 in light of the business outlook for the year in progress.
On 18 December 2013, Independent Auditors *Reconta Ernst & Young* issued a judgment as set forth by article 2433-bis of the Italian Civil Code.

Significant events after the reporting date

Moody's changes ACEA's outlook from "Negative" to "Stable"

On 18 February 2014 Moody's reported that it had changed Acea SpA's outlook from "Negative" to "Stable" confirming a "BBB-/A3" rating.

The rating review followed the modification of the *outlook* on the sovereign debt of the Government of the Republic of Italy, on the basis of a decision taken recently by Moody's.

The change in the *outlook* is also due to: **(i)** the Company's results in the second half of 2013 in terms of improvements to the financial structure and liquidity profile, as well as the issue on 5 September 2013 of 600.0 million euros bond; **(ii)** the positive evolution of the water regulatory framework.

Main risks and uncertainties

Due to the nature of its business, the Group is exposed to various types of risks, and in particular to regulatory risks, credit risks, operating risks, foreign exchange risks, market risks, liquidity risks and interest rate risks. In order to reduce these risks, the Group performs analyses and monitoring as described below.
Note that, on the date of preparation of this report on operations, we do not expect the ACEA Group to be exposed to further risks and uncertainties that may have a significant impact on the results of its operations, equity or financial position, other than those mentioned in this document.

Regulatory Risks

As is known, the ACEA Group operates mainly in regulated markets, and changes to rules in these markets as well as regulations and obligations can have a significant effect on results and operating performance. Therefore, the Group has a structure that can consolidate its relations with local and national governments and regulatory bodies.
This structure monitors regulatory developments in terms of providing support in the preparation of comments in the response to the Consultation Paper, in line with the interests of Group companies, and in the consistent application of regulations in corporate procedures and within the electricity, gas and water businesses.

Operating and environmental risks

Water Segment: economic consequences of non-compliant discharges

The Galli Law aims at constantly improving Integrated Water Services through both a quality service for users and compliance with current regulations. For this reason, if – during acquisition – the operator acquires plants that are subsequently classified as non-compliant, they have to be upgraded to comply with technical, operating and regulatory provisions for their intended operations. However, Operators have often had to deal with this problem, meaning operating (shutdowns, malfunctions) and economic consequences (increase in operating and maintenance costs).
In order to limit the consequences of this risk factor, restoration and/or reconversion measures have been planned and implemented by ACEA Ato2, with studies for network control and monitoring parameters at the plant entry point. Since 2009 activities related to the transport and disposal of waste resulting from water treatment plants have been normalized through the conclusion of contracts with Aquaser S.r.l. In this respect, the activities related to obtaining the necessary authorizations, were completed. In any event, based on the weight that should be given to this issue and the costly operational drawbacks in the event of shutdowns, the impact of this risk factor is considered high.

In recent years, numerous administrative and criminal proceedings have been opened in various disputes, as briefly described below.

In the case of ***ACEA Ato5***:

- most of the disputes are related to the lack of discharge/disposal authorisation for plants inherited from municipalities, and not for alleged qualitative flaws in the waste;
- the company is appealing or has already appealed to the competent judicial authorities against the injunctions and in 2013, three sentences were passed by the Frosinone Law Courts to drop the cases after the ACEA Ato5 appeals against the Lazio Regional Authorities.

As for ***ACEA Ato2***, most of the disputes are as follows:

- discharge of treatment plants in "non-perennial" tanks considered by some public prosecutor's offices to be ground to all effects and purposes;

- discharge of hazardous substances on ground (dispute that derives from the fact that the limits in this situation are extremely restrictive);
- no collection for sewage treatment plant discharges;
- malfunction of overloaded and/or old treatment plants.

After the Controlling bodies have disputed these situations the plant may be seized (both drainage and treatment systems), which normally includes a prohibition to continue the discharge with no access to the site, and the consequent increase in operating costs for the Company.
Furthermore, even in compliant situations, the revision of environmental legislation requires new, unexpected changes to be made when planning the work in the Area Plan in order to respect the new more restrictive limits, which means considerable investments also for plants serving municipalities with just a few hundred inhabitants.
This situation, in the context of current water and environmental regulations, exposes the company to a significant risk of violating environmental laws, and EEC regulations in the case of inadequate treatment and/or failure to treat waste water.
Cases of "ground discharges" and "hazardous dumping" are disputed in terms of a subjective interpretation of national law by some Public Prosecutors Offices and this is made worse by incomplete knowledge of the drainage system. What often happens in fact, is that the Bodies responsible for controls define a "surface water body" as "ground" just because there is no water in the same at the time of the inspection despite the discharge authorisation renewed for decades and normative definitions in force. It appears that this interpretation is rarely found in other Italian regions.
To deal with these situations the company had to adopt complex and costly technical solutions, to upgrade the plants to meet the much more restrictive limits due to the variation in the type of recipient, move the discharge point or put the treatment plant out of service.
This situation affects almost 70 treatment plants of the total 171 treatment plants run by ACEA Ato2, but also treatment plants managed by the Municipal Authorities who have not yet transferred the integrated water service to the operator (treatment plants not transferred due to this situation).

Energy segment

With regard to the *Energy Segment*, the main operational risks linked to the activities of the subsidiaries (ACEA Energia and ACEA Produzione) may regard material damage (damage to assets, shortcomings of suppliers, negligence), damage due to lost output, human resources and damage deriving from external systems and events.
To mitigate these operational risks, the companies have entered into a series of insurance policies from the start of their operations, to cover Property Damage, Business Interruption and Third Party Liability with leading insurance companies. Particular attention has been devoted by the companies to the training of their employees, as well as the definition of internal organisational procedures and the drafting of specific job descriptions.

Networks Segment

The main risks associated with the ***Networks Segment*** can be classified as follows:

- risks relating to the effectiveness of the investments for the replacement/renewal of grids, in terms of expected effects on the improvement of service continuity indicators;
- risks relating to quality, reliability and duration of the works carried out;
- risks relating to the ability to meet the terms for obtaining prescribed authorisations, regarding both the construction and start-up of plants (pursuant to Regional Law 42/90 and related regulations) and performing work (authorisations of municipalities and other similar authorisations), according to the need to develop and enhance the plants.

As far as the risk linked to work quality is concerned, ACEA Distribuzione implemented operational, technical and quality control systems, including the creation of the Works Inspection Unit, which forms part of the Quality and Safety department. The results of the inspections, which are

processed electronically, give rise to rankings (reputational indicators), that will be used to award contracts under a "*vendor rating*" system, developed in collaboration with the University of Tor Vergata (Rome). This system ranks contractors according to their reputation, scored on the basis of their ability to meet the quality and safety standards for contract work.
The system also allows the identification and application of penalties. In cases of serious default, the principal may also suspend the contractor's activities. In 2013, 7 work sites were suspended due to safety non-compliance out of a total of 902 inspections conducted.
During the year, the good level in the reputation indicator was confirmed for the companies that have worked for ACEA Distribuzione.
A similar project was launched in 2012 and continues in 2013 in relation to the services awarded to external professionals involved in the planning and execution of works.
The risk relating to the ability to meet deadlines arises from the number of entities which have to be addressed in the authorisation procedures and from the considerable uncertainty linked to the response times of these entities; the risk lies in the possibility of denials and/or in the technical conditions set by the above entities (such as the construction of underground rather than above-ground plants, with a subsequent increase in plant and operating costs). It should also be noted that lengthy proceedings result in higher operating costs, are difficult to deal with for operating structures (drafting and presentation of in-depth project examinations, environmental studies, etc.) and require participation in service conferences and technical meetings at the competent offices. However, the substantial risk is still essentially linked to the non-obtainment of authorisations, with the result being the inability to upgrade plants and subsequent greater risk linked to the technical performances of the service (at present there are delays in upgrading the HV network in the coastal area and the Terna procedure to construct a new Castel di Leva primary substation. Note that a particularly critical point is the long response times of a number of the administrations contacted.

Environment segment

The waste-to-energy plants, as well as, to a lesser extent, the waste treatment plants, are highly complex from a technical point of view, requiring the companies to employ qualified personnel and adopt organisational structures with a high level of *know-how*. The need to maintain the plants' technical performance levels and to prevent personnel with specific expertise (who are difficult to recruit) from leaving the companies, represent tangible risks.
These risks have been mitigated by implementing specific maintenance and management programmes and protocols, drawn up partly on the basis of the experience acquired in plant management.
Moreover, the plants and the related activities are designed to handle certain types of waste. The failure of incoming material to meet the necessary specifications could lead to concrete operational problems, sufficient to compromise the operational continuity of the plants and give rise to risks of a legal nature.
For this reason, specific procedures have been adopted for monitoring and controlling incoming materials via spot checks and the analysis of samples pursuant to legislation in force.

Market risk

The Group is exposed to various market risks with particular reference to the risk of price oscillations for *commodities* being bought and sold, interest rate risks and foreign exchange risks to a lesser extent. To reduce the exposure to within the defined limits, the Group enters into contracts drawn up on the basis of typologies offered by the market.

Foreign exchange risk

The Group is not particularly exposed to this type of risk, which is concentrated in the conversion of the financial statements of its overseas subsidiaries.

As regards the 20 billion yen *Private Placement*, the exchange rate risk is hedged through a *cross currency* swap described in the section on interest rate risk.

Commodity price risk

The Group is exposed to variations in the price of electrical energy, which can have a significant effect on results.
To reduce this risk, the Group adopts a control structure that analyses and measures exposure to market risk in line with the Guidelines of ACEA's Internal Control System and with the general Risk limit criteria of the Energy Industrial Area.
Risk analysis and management is performed according to a *Risk Management* process which involves the execution of activities throughout the entire year, on the basis of different frequencies (annual, monthly and weekly). The execution of those activities is distributed between the *Risk Control* Unit and the *Risk Owners*.

Interest rate risk

The ACEA Group's approach to managing interest rate risk, which takes the structure of *assets* and the stability of the Group's cash flows into account, has essentially been targeted, up to now, at hedging *funding* costs and stabilising cash flows, in such a way as to safeguard margins and ensure the certainty of cash flows deriving from ordinary activities.
The Group's approach to managing interest rate risk is, therefore, prudent and the methods used tend to be static in nature.
A static (as opposed to dynamic) approach means adopting a type of interest rate risk management that does not require daily activity in the markets, but periodic analysis and control of positions based on specific needs. This type of management therefore involves daily activity in the markets, not for trading purposes but in order to hedge the identified exposure over the medium/long term.
ACEA has, up to now, opted to minimise interest rate risk by choosing a mix *range* of fixed and floating rate funding instruments.
As previously noted, fixed rate funding protects a borrower from *cash flow* risk in that it stabilises financial outflows, whilst heightening exposure to *fair value risk* in terms of changes in the market value of the debt.

Liquidity risk

Group *policy* for managing the liquidity risk, for both ACEA and subsidiaries, is to adopt a financial structure which, coherent with *business* objectives and within the limits defined by the Board of Directors, guarantees a suitable liquidity level to meet financial requirements, maintaining the correct balance between duration and composition of the debt.
The liquidity risk management process, using financial instruments for planning suitable expenditure and income for optimal treasury management and monitor the group debt trend, adopting a centralised treasury management system, which provides financial assistance to the subsidiaries and associates not covered by a centralised finance contract.

Credit risk

In 2012 ACEA drew up the guidelines of the *credit policy* which established different credit management strategies through criteria of flexibility on the basis of the customer segmentation. Credit risk is managed by taking into account both the customer type (public and private) and the non-uniform behaviour of individual customers (*behavioural scores*). Debt collection strategies are managed dynamically through a Credit management system, implemented in recent years for the main companies in the Group, which will progressively be made available to the others; from an organisation point of view, in 2013 centralised management was further consolidated by setting up

ad hoc Parent Company organizational units. The structures of each single company responsible for managing credit refer to ACEA's CFO in an *end to end* process.
In 2013 the Group continued to assign revolving and spot credit without recourse, to private customers and Public Administrations. These operations led to the elimination from the financial statements of all the corresponding activities subject to disposal as all the deriving risks and benefits had been transferred.

Risks relating to rating

Access to the capital market and other forms of funding and the related costs, depends amongst other things of the Group's credit rating.
A reduction in the credit rating by rating agencies could represent a limiting factor for access to the capital market and increase collecting costs with the consequent negative effects on the equity, economic and financial standing of the Group.
ACEA's current rating is shown in the following table.

Company	M/L Term	Short Term	Outlook	Date
Moody's*	Baa2	Na	Stable	19/02/2014
Standard & Poor's	“BBB-”;	A-3	Stable	18/10/2013
Fitch	BBB+	F2	Negative	12/09/2013

* At the end of 2013 the outlook assigned to ACEA by Moody’s was “Negative”.

Operating (and financial) outlook

The ACEA Group's results for 2013 are in line with forecasts.

In the environment sector, the overall positioning of ARIA, the owner, either directly or through its subsidiary SAO, of important plant infrastructures intended for the generation of electric power from the recovery of waste, makes it possible to positively assess the short and medium-term business outlook. This is also in consideration of the development of the energy recovery plant infrastructures which the Group intends to perform at the San Vittore waste-to-energy plant where the interventions already authorised by the Lazio Regional Authority will be implemented. The waste disposal situation of the Lazio Regional territory remains in fact critical, made particularly evident by the establishment, pursuant the provisions of art. 1, paragraphs 358 and 359 of Law 228/2012, of an administration under a government-appointed Commissioner, introduced by decree of the Ministry of Environment and Protection of the Sea on 3 January 2013, concerning the critical situation in the management of municipal waste in the Province of Rome.
With reference to the territorial consolidation of Aquaser, Samace owner of a composting plant for the treatment of sludge and organic waste and a liquid waste treatment plant, was bought up on 5 July 2013.

In the **electricity generation** sector structural work will be done to repair the Castel Madama power station (settling of the feeder tunnels) and current industrial projects will continue with particular reference to the extension of the district heating network, where work has been continuing for the last 3 years at least, for the Torrino-Mezzocammino south district in Rome. Furthermore, to increase the production efficiency of the Tor di Valle plants, the planning, design and management of the authorisation procedure for the modernization of the site will be completed so work can start.

In the water segment, the primary goal will be to resolve tariff-related issues, which still characterise some areas of the ATOs, as well as the implementation of the necessary steps to contain working capital. The tariff method proposed is already in line with the general requirements of the Water Tariff Method introduced by Resolution No. 643/2013/R/Idr on 27 December 2013. Therefore, in the coming months the companies in the area will be defining tariff proposals for 2014 - 2015 with the various Area Authorities.

As regards the **networks sector,** AEEGSI Resolution No. 157/2012 of 26 April that approved ACEA Distribuzione reference tariff eliminated the uncertainty arising from the provisional tariff, albeit some uncertainty remains, associated with the still undefined equalisation items related to the third regulatory period. To these regulatory uncertainties, one should add the difficulties in the operating environment that affect the ability to comply with technical and managerial standards. The main actions to be taken, in fact, shall continue to focus on capital expenditure, processes and organization.

In the **electrical energy trade** market, there will be all the more focus on the careful selection of customers, with particular reference to solvency, continuing to grow in terms of commercial expansion in the *mass market* with the aim of acquiring domestic and *small business* customers.
A goal vendors have all but reached is to implement all the necessary measures aimed at constantly improving the billing and sales process in order to contain working capital growth and help curb the Group's debt.

As in previous years, the ACEA Group is continuing to streamline business processes and to pursue operating efficiency and strong cost containment with the aim of counteracting the effects of the crisis.

The ACEA Group's financial structure is solid for years to come, as the entire debt is characterised by long-term maturities with an average lifespan of about 7 years. 62% of debt is fixed rate in order to ensure protection against any increases in interest rates as well as any financial or credit volatility.
As of today, ACEA has *committed* and *uncommitted* credit lines totalling approximately 1.2 billion euros, of which 300 million euros mature after 2014.

The long-term ratings assigned to ACEA by the main international rating agencies are as follows:

- Standard & Poor's: "BBB-";
- Fitch's 'BBB+'
- Moody's "Baa2".

Extension in accordance with art. 2364, paragraph 2, of the Italian Civil Code.

On 24 March 2014, with the approval of the Board of Auditors, the Board of Directors passed a resolution for the extension of the time limits for approval of the 2013 Financial Statements in accordance with art. 2364, paragraph 2 of the Italian Civil Code and art. 11, paragraph 1 of the Articles of Association as it was necessary to wait for the Resolution approved on 5 March 2014 by the AATO 5 Mayors' Conference on ACEA Ato5's 2012 and 2013 Integrated Water Service tariffs to be published, and for the analysis of the amendments that derive from the application, from 1 January 2014, of the new accounting principles on control and consolidation (IFRS10 and IFRS11) to be completed integrating accordingly the accounting of the financial statements and the consolidated financial statements.

Resolutions on profit for the year and distribution to shareholders

Dear Shareholders,
in inviting you to approve the financial statements, we propose that the profit of 94.478.690,76 euros for the year ended 31 December 2013 be allocated as follows:

- 4.723.934,54 euros to the legal reserve, equal to 5%,
- 53.241.225,00 euros to shareholders, corresponding to a unit dividend of 0.25 euro, to cover the advance on the dividend paid on 02 January 2014, with prior detachment date of coupon no. 14 on 23 December 2013, and *record date* 30 December 2013,
- 36,204,033.00 to the Shareholders, corresponding to a unit dividend of 0.17 euros, for the balance of the 2013 dividend.
- 309,498.22 carried forward

The dividend for the balance, coupon no. 15, equal to 0.17 euro per share, shall be paid from 26 June 2014 with a detachment date of 23 June and a record date of 25 June.
At the date of approval of the financial statements, treasury shares total 416,993.

ACEA S.p.A.
The Board of Directors