

# SERVICE CONCESSION ARRANGEMENTS

The ACEA Group operates water, environmental and public lighting services under concession. It also manages the selection, treatment and disposal of urban waste produced in municipalities in ATO 4 Ternano–Orvietano via SAO and the ARIA Group.

For additional information on the legislative and regulatory framework, please refer the Report on Operations.

## PUBLIC LIGHTING IN ROME

The service is provided by the Parent Company based on a deed of concession issued by Roma Capitale for a period of thirty years (from 1 January 1998). No fee was paid for this concession, which is implemented through a special service agreement, which given its accessory nature, expires on the same date of the concession (2027).

The service agreement provides, among other things for an annual update of the fee concerning consumption of electricity and maintenance and the annual increase of the lump-sum fee in relation to the new lighting installed.

Furthermore, the investments required for the service may be (i) applied for an funded by the Municipal Authorities or (ii) financed by ACES: in the first case, such works will be paid based on a price list agreed by the parties (and subject to review every two years) and will result in a percentage decrease in the ordinary fee. In the second case, the Municipality is not bound to pay a surcharge; however, ACEA will be awarded all or part of the savings expected in both energy and economic terms according to pre-established methods.

Moreover, it has been established that qualitative/quantitative parameters shall be renegotiated in 2018.

Upon natural or early expiry - also due to cases envisaged under Law Decree no. 138/2011 - ACEA will be awarded an allowance corresponding to the residual carrying amount, that will be paid by the Municipality or the incoming operator if this obligation is expressly set out in the call for tenders for the selection of the new operator. Finally, the contract sets out a list of events that represent a reason of anticipated revocation of the concession and/or resolution of contract by the will of the parties. Among these events, reference is made to newly arising needs linked with public interests, according to which ACEA has the right to receive an allowance according to the product, that is discounted based on the percentage of the annual contractual amount and the number of years until expiry of the concession.

On the basis of the number of public lighting plants as at 31 December 2009, the supplemental agreement establishes the ordinary annual fee

as 39.6 million euros, including all costs relative to the provision of electricity to supply the plants, ordinary operations and ongoing and extraordinary maintenance.

Further information is provided in the section “Related Party Transactions”.

## INTEGRATED WATER SERVICE

This service is provided under concession in the following regions:

- Lazio, where ACEA Ato2 S.p.A. and ACEA Ato5 S.p.A. provide services in the provinces of Rome and Frosinone, respectively,
- Campania, where G.O.R.I. S.p.A. provides services in the area of the Sorrento Peninsula and Capri island, the Vesuvius area, the Monti Lattari Area, as well as in the hydrographic basin of the Sarno river,
- Tuscany, where the ACEA Group operates in the province of Pisa, through Acque S.p.A., in the province of Florence, through Publiacqua S.p.A., in the provinces of Siena and Grosseto, through Acquedotto del Fiora S.p.A. and in the province of Arezzo through Nuove Acque S.p.A. It also provides the service in Lucca and province of Lucca through the company GEAL S.p.A.,
- Umbria, where the Group operates in the province of Perugia, through Umbra Acque S.p.A.

The Group is also in charge of several former CIPE services in the province of Benevento with GESESA S.p.A. and in the municipalities of Termoli and Campagnano with Crea Gestioni S.p.A.

Revenue from Integrated Water Service was recognised on the basis of the AEEGSI resolutions approving the tariff proposals for 2014 and 2015 and adopted by the Area Authorities or by GORI and ACEA Ato5, on the basis of the decisions of the Local Authorities, which are still being evaluated by the National Authority.

These proposals contain, among other things, the adjustments of the so-called pass-through items for the years 2012 and 2013 which had been estimated in the relative financial statements. Therefore, all the differences with respect to the adjustments approved in the 2014 and 2015 Restriction on Guaranteed Revenue (VRG) with reference to the following have been recognised in the 2014 Consolidated Financial Statements:

- (i) wholesale water;
- (ii) local charges,
- (iii) exceptional events and changes in the system.

With regard to the adjustment of the cost of electricity, the 2014 Consolidated Financial Statements contain only any differences with respect to the estimate made in the year 2012; for 2013, we are still awaiting the announcement

by the AEEGSI of the average cost of the segment which, with a 10% supplement, represents the cap for measuring the deviation.

## LAZIO – ACEA ATO2 S.P.A. (ATO2 – CENTRAL LAZIO - ROME)

ACEA Ato2 provides the ACEA Ato2 provides integrated water services on the basis of a thirty-year agreement signed on 6 August 2002 by the company and the Rome Provincial Authority (representing the Authority for the ATO comprising 111 municipalities, including Roma Capitale). In return for award of the concession, ACEA Ato2 pays a fee to all the municipalities based on the date the related services are effectively acquired, which is expected to occur gradually: to date, the survey work (including that for municipalities already taken over) has been completed for 94 municipalities out of 112, equivalent to around 3,869,179 residents (source ISTAT).

The larger Municipalities which have not yet been acquired 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 for this purpose. On 29 December 2014 services for water supply and/or distribution in the Municipalities of Capranica Prenestina, Olevano Romano, Canterano, Rocca Canterano, Gerano and Rocca di Papa (services previously provided by Società Acque Potabili under a system of protected management. With regard to the Municipalities of Capranica Prenestina and Olevano Romano, where the sewerage and waste water treatment services were already conducted, the transfer to ACEA Ato2 will complete the acquisition of the Integrated Water Service, while in the other four Municipalities there will only the acquisition of the water service, since the complete transfer of the Integrated Water service and only take place after the updating of sewerage and waste water treatment plants to current standards.

With regard to the tariff, it is pointed out that tariff proposals for 2012 and 2013 were approved by the Mayors' Conference of ATO2 Central Lazio on 4 March 2014, and on 27 March 2014, the AEEGSI, by Resolution 141/2014/R/idr, approved the tariff multiplier values for 2012 equal to 1.025, and 2013 equal to 1.053 as proposed by the Mayors' Conference. With reference to the period of reference for the Transitional Tariff Method and to make the best of the adjustments for 2014 and 2015, the AEEGSI also concluded the procedure for verifying the economic-financial plan, reserving the right to make further in-depth assessments on the dimensioning of the “New Investments Fund” (FoNI), in relation to recognition of planned operating costs (Op) and in coherence with

the Revenue Restriction (VRG) of the Operator. The AEEGSI will use the results of said in-depth assessments in 2014 and 2015 tariff calculations. With reference to the 2014 – 2015 tariff update and the related economic – financial planning, the Mayors' Conference, convened on 10 July 2014, approved the tariff proposals and the corresponding multiplier value of respectively 1.148 for 2014 and 1.251 for 2015. As stated in the attached Report drafted by the Operational-Technical Secretariat, the tariff multiplier rate does not exceed the maximum level set by Resolution 643/2013 and provides for an annual increase of 9% for both the yearly tariff periods approved. The approval of the tariff proposals for 2014 and 2015 has had the following consequences:

- the in-depth study in AEEGSI Resolution No. 141/2014 is no longer required as the FNI (New Investments Fund) component for 2013 has been eliminated while the Revenue Restriction (VRG) and tariff multipliers approved on 4 March 2014, remain;
- the amount of prior adjustments has been determined as 71.5 million euros (those matured at 31 December 2011) that ACEA Ato2 can bill on the basis of the times in Resolution No. 643/2013;
- there was a reduction of 2012 financial increases for the Operator's own investments as resolved by the Mayors' Conference on 17 April 2012. As is known, this resolution established that ACEA Ato2 assumes the obligation to make investments that are not relevant for tariff purposes amounting to 3.47 million euros per year for six years; in a similar way to prior adjustments (see previous point) 2012 financial increases were reduced by 17.7 million euros and as a result the Operator's obligations can be considered to have been fulfilled in advance;
- a total of 64.8 million euros in 2012 adjustments are recognised. This amount includes, as well as the volumes and inflation adjustment, also coverage of higher costs (10.9 million euros) borne by the Operator in 2012 for exceptional events such as the water and environmental emergency;
- finally, provisional 2013 adjustment amounting to 41.3 million euros including inflation are recognised.

In order to contain annual tariff increases, the Area Authority, in agreement with the managing body, has reallocated the adjustments for the periods 2012 and 2013, planning their recovery after the year 2015 for an amount of approximately 19 million euros.

By Resolution 463/2014/R/idr of 25 September 2014, the AEEGSI approved the tariff proposals for the above-mentioned years and the relative tariff multipliers, while making the following main observations:

- no recognition approved the costs incurred for water emergencies connected with the potability of the sources of supply, for an amount of approximately 240 thousand euros;
- provisional approval of the other costs incurred for environmental emergencies (9.6 million) while awaiting further investigation and the results of court proceedings;
- approval of the amendment to the tariff structure approved by the Area Authority with the requirement to maintain the specific revenue actually recognised on the basis of 2013 volumes, considering that the AEEGSI reserves the right to verify at the time of application the compliance with the criteria set forth in Art. 39 of Resolution 643/2013.

Accordingly, the 2014 revenue, recognised on the basis of the tariffs approved for 2014, totals 500.2 million including the estimate of the adjustments for the pass-through items and the differences compared to the amount recognised in the years 2012 and 2013.

#### **LAZIO – ACEA ATO5 S.P.A. (ATO5 – SOUTHERN LAZIO - FROSINONE)**

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 amounting to 187,101.

During the period no new acquisitions were formalised, but it is pointed out that on 17 September 2014 a memorandum of understanding was signed with the Municipality of Atina in order to definitively conclude the dispute still pending and finally deliver the plant for the management of the Integrated Water System in municipal territory.

With regard to the Municipality of Paliano, in August 2014, ACEA Ato5 submitted a memorandum of understanding to AMEA, the current manager of the service, aimed at solving the various issues that up to now have prevented the formalisation of the transition to the Integrated Water Service.

With regard to the Municipality of Cassino, in December 2014, the Latina Regional Administrative Court accepted the application made by the Company, ordering the Municipality

to complete the procedures within ninety days from notification (or, if earlier, from the communication of the decision via administrative channels) and should they fail to comply within this deadline, a Commissioner appointed by the same decision for this purpose shall enact the said procedures.

As a result of the events mentioned in relation to applied tariff legitimacy, in its bills the company applied the tariff that was published for 2005 until 31 December 2011, in compliance with the Area Authority's instructions. However, it assesses its revenue on the basis of the minimum volumes guaranteed by the plan underlying the invitation to tender valued at the real average tariff, equal to that of the bid plus forecast and compound inflation.

For the year 2012 (and also 2013), Acea Ato5 applied the real average tariff (1.359 €/m<sup>3</sup>) to its customers and the corresponding tariff structure established by the Special Commissioner, Mr. Passino, in the "Decree Protocol No. F66 of 8 March 2012 - Determination of the integrated water service tariff applicable for the year 2012 in the ATO-5 Southern Lazio-Frosinone".

Since the Mayors' Conference of 5 March 2014, which approved the tariff proposals for 2012 and 2013, the Company has started to bill the tariff corresponding to the maximum tariff multiplier allowed in accordance with AEEGSI Resolution n. 585/2012.

As already described in the 2013 Consolidated Financial Statements, the proposal made by the operator and transmitted pursuant to Art. 9.2 of Resolution 643/2013 provides a tariff multiplier  $\vartheta$  for the years 2012 and 2013 of respectively 1.350 and 1.397, and therefore subject to a specific enquiry by the AEEGSI since it was higher than the maximum levels allowed (1.065 for 2012 and 1.134 for 2013).

It is pointed out that the Mayors' Conference of 5 March 2014 resolved as follows:

- *to approve the proposed calculation, as per technical report, that determines a provisional applicable tariff of €/m<sup>3</sup> 1.447 for the tariff multiplier applicable for the year 2012 ( $\Theta = 1.065$ ); and a provisional tariff of €/m<sup>3</sup> 1.541 for the tariff multiplier for the year 2013 ( $\Theta = 1.134$ ), provided that with respect to the  $\vartheta$ , values proposed by the operator resulting in tariff changes in absolute terms exceeding the MTN limit, an investigation shall be ordered by the Authority*
- *to send this act to the AEEG, 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.*

Giving effect to the resolutions passed by the Mayors, on 3 April 2014 the ATO's STO sent the AEEGSI (after publication on the ATO's website on 2 April 2014) the resolution document, together with the tariff proposal submitted by the operator, to which no objection has been made.

With reference to the 2014 – 2015 tariff update and the other correlated economic – financial plan, the Company submitted a specific application to the Area Authority and AEEGSI on 29 April 2014. The tariff multiplier in the application is equal to 1.669 for 2014 and 1.660 for 2015, therefore 9% higher than the required one, subject to enquiry by the AEEGSI. Following the notice given by the AEEGSI to the Area Authority, on 14 July 2014 the Mayors' Conference approved the tariff multiplier for the years 2014 and 2015 up to the maximum amount provisionally allowed under the tariff method (respectively 1.090 for 2014 to be applied on the 2013 tariffs and 1.090 for 2015 to be applied on the 2014 tariffs), resulting in provisional tariffs of €/m<sup>3</sup> of 1.680 for 2014 and €/m<sup>3</sup>. 1.831 for 2015, "it being recalled that with regard to the *theta* values proposed by the operator that result in tariff changes which in absolute terms exceed the MTN limit, an enquiry will be undertaken by the AEEGSI".

The conference likewise approved the new tariff structure, which on the basis of Art. 39 of Annex A of Resolution n. 643/2013/R/idr, requires the Area Authorities or authorities having jurisdiction to abolish the minimum consumption rate for domestic utilities.

The mayors also resolved "to send the resolution to the AEEGSI, together with the documentation on the agenda for the consequent enquiry, in compliance with the AEEGSI notice of 16 June 2014, referred to in Art. 5 para. 5.6 of Resolution 643/2013/R/idr". The Resolution of the Mayors' Conference was published at the end of the month of September 2014.

On 19 February 2015, in the context of the enquiry referred to in para. 7.1 of Resolution 585/2012, the AEEGSI requested the Area Authority to provide clarifications and information by 6 March 2015, in order to properly verify that the data supplied was correct and their correspondence with the obligatory accounting sources, as well as the efficiency of the metering service in compliance with the aforesaid MTT order governing the cases in which the tariff proposal leads to an annual change exceeding the 6.5% limit. The came note also requested clarifications on the verification of the pertinent technical and economic figures communicated with regard to the tariff calculation for per the years 2014 and 2015.

With reference to prior adjustments for the period 2006 – 2011, quantified by the appointed Commissioner as equal to 75.2 million euros, from July 2014 ACEA Ato5 has started to bill users. As specified in Resolution No. 643/2013, the billing of the adjustments takes place in twelve constant quarterly instalments in full compliance with the recovery methods set by the AEEGSI. The remaining 18.8 million, allocated in previous years to cover the uncertainties deriving from the procedure for recognising tariff adjustments in the period 2006 -2011, was released to profit and loss for 2014 since the Company believes that this regulatory risk is to be considered as overcome, given the definition of the amount of prior adjustments and the start-up of billing, on the basis of the rules in force, which allow its effective recovery.

Revenue in 2014 totalled 67.2 million euros including the estimate of adjustments of the pass-through items and the differences compared to the amount recognised in the years 2012 and 2013. They are calculated, as in the years 2012 and 2013, considering a tariff multiplier exceeding the maximum allowable level. In particular the *ϑ* used for 2014 was 1.669, as stated in the operator proposal attached to the tariff proposal discussed by the Mayors' Conference of 14 July 2014 and currently being evaluated by the AEEGSI. It is pointed out that the difference in revenue between the application of the *ϑ* deriving from the tariff method contained in the proposal submitted by the operator and the maximum allowable amount initially amounted to 11.5 million euros for 2012, 10.6 million euros for 2013 and 14.9 million euros per 2014. The recovery of these higher amounts, which pursuant to Art. 7.1 of Resolution 585/2012 and Art 3.4 of Resolution 643/2013, is submitted to the specific investigation by the AEEGSI currently under way, contains some uncertainty, and an eventual negative outcome of this investigation could involve significant effects on the economic, equity financial situation of ACEA Ato5.

ACEA Ato5 has recognised in its financial statements a provision for impairment of receivables totalling 34 million euros, which also takes into account the time necessary for the recovery of the significant amount of bills still to be issued (totalling approximately 120 million euros) with reference to prior adjustments and the difference between the cap multiplier and the multiplier contained in the tariff proposals by the operator.

### **CAMPANIA – GORI S.P.A. (SARNESE VESUVIANO)**

GORI integrated water services in 76 municipalities in the provinces of Naples and Salerno, on the basis of a thirty-year agreement signed on

30/09/2002 by the company and the Sarnese Vesuviano Area Authority. GORI pays a fee to the grantor (the Sarnese Vesuviano Area Authority) of the concession, based on the date the right to manage the related services is effectively acquired. The area of operations has remained essentially unchanged compared to the previous year, since the process of acquiring management is now complete. In fact, 76 municipalities are managed, i.e. all those falling under ATO 3 in the Campania Region.

### **RELATIONS WITH THE CAMPANIA REGIONAL GOVERNMENT**

It is recalled that under Regional Resolution n. 172/2013, the Regional Works are transferred to the Extraordinary Commissioner of the Area Authority, and therefore, to GORI by the relevant act of transfer within 150 days from the date of publication of said resolution (Official Gazette of the Campania Regional Government No. 32 - 10/06/2013); in any case, the Regional Works will be understood to have been transferred automatically on expiry of the above 150-day term, regardless of whether the state and condition 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.W.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.

In this context the company "GEST.I.RE. s.r.l. – Gestione Impianti Regionali" was established on 17 January 2014, with, GORI being the sole shareholder, and to which the regional plants will be transferred.

After the application was made, the Campania Region issued Regional Law n. 16/2014, by which, under the provisions of Art. 1, para. 88 to 91, it wholly amended the procedures for the transfer of the plants.

It is likewise pointed out that on 24 March 2014, an addendum to the regulatory agreement of 24 June 2013 was stipulated with the Campania Region and the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, to redefine and normalize the relations between the parties regarding the management of the ASI Consortium, involving the termination of litigation under way. The agreement has substantially amended the date on which GORI

is due to take over the management of the Integrated Water Service, with the exclusive legitimation to utilise under concession the works and infrastructures of the Integrated Water Service to ensure the providing of the Integrated Water Service to the Consortium. This had been scheduled to start from 1 July 2011. The agreement enables the Campania Region to bill and collect the tariffs for the water services furnished to the ASI Consortium in Naples for the period from 2007 to 30 June 2011; the result is the reduction of the amounts due to GORI from the ASI Consortium in Naples, while there is the recognition of equivalent higher tariff adjustments by the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority. Accordingly, the economic relations have been defined in such a way as to involve the adjustment of the revenue recognised by GORI with respect to the Consortium, and on the other hand the reduction of costs payable by the Region for the purchase of the water resource. This has involved the remeasurement of the payables to the Campania Region, already defined by the settlement agreement of 24 June 2013. The economic effects of the changes made were offset by the consequent tariff adjustments.

## TARIFFS

The current Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, in compliance with the AEEG Resolution of 28 December 2012 n. 585/2012, passed Resolution No. 17 - 29/04/2013 establishing the Restriction on guaranteed revenues (VRG) for 2012 and 2013 and the *theta* tariff multiplier for the same years. AEEGSI has still not concluded the analysis on the 2012-2013 tariffs.

On the basis of Resolution No. 643/2013, the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority in Resolutions No. 26 and No. 27 of 31/03/2014 revised the Economic-Financial Plan transmitting it to the AEEGSI with the Plan of Action and set the Guaranteed revenue Restriction Limits and the tariff multipliers for 2014 and 2015.

The guaranteed revenue restriction limits and the tariff multipliers allow for the hypothesis that there will be a change in the system due to the transfer of regional works, in accordance with Campania Regional Authority Resolution No. 172/2013 of 03/06/2013. As GORI considered the method of transferring the works specified in the above-mentioned regional resolution to be prejudicial, (and appealed against the same before the Campania Regional Administrative Court), as a precautionary measure, the possible hypothesis has been put forward that the transfer of regional works will produce effects only from December 2014, meaning higher costs for just one month in 2014.

Revenue for 2014 totalled 174.2 million (Group share 64.5 million euros) and was calculated on the basis of the Extraordinary Commissioner's figures and taking into account the changes occurring with an impact on the limitation.

In particular, reference was made to the implementation of the afore-mentioned Regional Law which substantially postpones the transfer of the regional plant to 2018.

This revenue, like that of the years 2012 and 2013, includes the difference between the application of the rules in Resolutions 585/2012 and 643/2013 and the maximum allowable level in an initial stage. This difference totals approximately 46 million euros (Group share 17 million euros).

On 3 July 2014, by Resolution n. 46, the current Extraordinary Commissioner of the Sarnese Vesuviano Area Authority, following the previous Resolution of 30 June 2014 n. 43, approving the overall amount of the **adjustments for the period 2003-2011**, totalling 122.5 million euros (Group share 45.4 million euros) approved the following instalments plan for the aforesaid amount:

- a) Year 2014: 61.2 million euros (50% of total amount);
- b) Year 2015: 20.4 million euros (16,67% of total amount);
- c) Year 2016: 20.4 million euros (16,67% of total amount);
- d) Year 2017: 20.4 million euros (16,67% of total amount).

From the month of September, the Company has started issue bills to recovery the above-mentioned adjustments.

Considering the initiatives undertaken by the end users for the impact deriving from the above-mentioned charges and above all in order to allow the completion of the administrative activity for the eventual acceptance of the issues raised in the discussions with the AEEGSI and the other institutions having jurisdiction in the area of water services, the Commissioner's management of the Sarnese Vesuviano Area Authority has ordered a series of postponements for the deferral of collection of the amounts connected with prior items. The latest postponement made involved the deferral up to 28 February 2015 which the Company has decided to accept.

It is likewise pointed out that the Area Authority, by Resolution n.47 of 7 July 2014, decided to assign the portion of tariff referring to new investments (FoNi) of the year 2014 to the funding of socially useful tariff subsidies (the so-called water bonus). In this connection, announcements have been published to define the procedures for access to this subsidy, and the Municipalities have also sent the lists of entitled end users. Furthermore, in order to further support

categories in economic difficulty, the Authority has decided to change the assignment of the FoNi amount for the year 2012, previously allocated to making new investments, thus allowing further tariff subsidies for 2015.

With reference to the procedure for adopting eventual sanctions, started by the AEEGSI by Resolution n. 380/2014, it is pointed out that on 3 October 2014 the Company submitted, memorials, documents and arguments pursuant to Art. 13 and 14 of Annexe A of Resolution 242/2012/E/com.

As for the 40 million euros bridge loan that matured 30 June 2011, on 23 April 2014 a contract was signed to reschedule the loan into a multi-year loan with maturity 31 December 2021. The loan has an interest rate equal to the 6-month Euribor plus a spread of 5.5 percentage points.

The critical aspects discussed and for which corporate management is currently taking measures in order to find long-term solutions and to achieve tariff and financial stabilization require a review of the procedures for collecting prior items, with the consequent revision of financial planning, given the decision by Campania Region and the Extraordinary Commissioner of the Sarnese Vesuviano Area Authority to guarantee tariff equalisation and social sustainability by means including the issue of specific provisions. The situation described above highlights significant uncertainties on the time involved in billing, collection and the use of financial flows to repay the amounts due to the Region, also taking into account that the Company is basically subject to the provisions that the Campania Region must issue in future in order to guarantee the timing of payments of its own payables, current and future, on a basis compatible with the timing of the collection of its own trade receivables (ordinary and for prior periods), with a possible impact on its capacity (in this context) to obtain adequate financial resources from the banking system. In the light of the aforesaid intention to review the plan for recovering prior items and more in general of the tariff policy towards customers, measures are now being discussed by GORI, the Area Authority and Campania Region for rescheduling the financial commitments to the Region, in accordance with the safeguarding agreements made between the parties.

The definition of the above measures and the consequent implementation are a necessary condition for maintaining the principle of going concern.

It is recalled that is the Consolidated Financial Statements include provisions of 39.2 million

euros, allocated in 2011 for an amount of 44.1 million euros, intended to cover the uncertainties regarding GORI.

### **TUSCANY – ACQUE S.P.A. (ATO2 – BASSO VALDARNO)**

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 exclusive integrated water service of ATO 2, 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. Acque pays a fee to all the municipalities for the concession, including accumulated liabilities incurred under previous concessions awarded.

### **TARIFFS**

With reference to the 2014 and 2015 tariff proposal approval process, on 3 April 2014 the Territorial Conference of the Lower Valdarno ATO2 approved the guaranteed Revenue restriction limits and the theta for 2014 and 2015.

Compared to the previous year the theta is equal to 6.5% for both 2014 and 2015. In order to maintain the tariff increase to this level, the tariff recovery of the 2012 adjustments repayment component was postponed to 2017.

On 24 April 2014 the company sent the tariff update request in accordance with Resolution No. 643/2013/R/idr and the methods required by AEEGSI. On the same date the Meeting of the Tuscan Water Authority approved the tariff proposal as formulated by the Territorial Conference.

The data and evaluations in the update request presented by the company differ from the calculations approved by the Meeting of the Tuscan Water Authority on the formula used to calculate the tariff multiplier as Acque holds the formulation adopted by the Tuscan Water Authority to be incorrect, failing to respect the principle of full cost recovery.

In brief, the company's tariff proposal differs to that approved by the Tuscan Water Authority in the amount of the portion of 2012 adjustments postponed to 2017 and in the final analysis in the total guaranteed tariff revenues.

AEEGSI Resolution 402/2014/R/idr approved the tariff multipliers for 2014 and 2015, respectively amounting to 1.134 and 1.208; these multipliers, considering the size of the planned investments, take into account a shorter useful life of assets with respect to the ones set by regulations, as a result of the option exercised by the AIT to adopt financial depreciation and amortisation.

The tariff proposals were approved while awaiting the outcome of the enquiries by the AIT; in the month of November 2014 that body endorsed

the observations submitted by the Company and informed the AEEGSI of the procedures for undertaking the adjustment.

**Prior adjustments** for 2011 were approved by the Tuscan Water Authority on 30 June 2014 by Resolution No. 35 and amount to 3.8 million euros (Group share 1.7 million euros).

Revenue for 2014, recognised on the basis of the tariff calculations made for that year, totalled 126 million euros (Group share 56.7 million euros) including the estimate of adjustments of the pass-through items and the differences compared to the amount recognised in the years 2012 and 2013.

### **EXTENSION OF THE CONCESSION TO 2026**

By resolution n. 12 of 6 December 2011, Consortium Meeting of ATO 2 (now Autorità Idrica Toscana) approved the extension of the management concession of the Integrated Water System of ATO n.2 Basso Valdarno to Acque, currently expiring on 31.12.2021, by another 5 years, therefore, up to 31 December 2026, subject to three conditions which if not met will lead to suspension.

This Resolution set the deadline of 30 April 2012, later postponed to 31 December 2014, for the presentation of the Company proposal to extend the concession.

The Resolution to extend the AIT arises from the requirement of some additional investments not included in the current Area Plan at the time the borrowing agreements were made, and also absent in the subsequent reviews of the plan and the Operational Intervention Plans (OIP). In any case no Authority would have been allowed to require the operator to undertake more measures without a corresponding measure to ensure the economic and financial rebalancing of the contract, which the Authority is required to do by law.

The only instrument identified to guarantee the economic and financial balance was the extension of the duration of the concession.

In the aforesaid 2011 Resolution the extension was subordinated to three conditions which if not met will lead to suspension: **(i)** presentation of a documented proposal by the operator; **(ii)** approval in writing by the bodies currently financing Acque; **(iii)** evidence of the availability on the part of primary banks to finance eventual further financial requirements, when these are not covered by the existing financing entities or by other forms deemed appropriate by the Authority.

The changes regulatory outlook after Resolution n. 12 of 6 December 2011 enabled Acque to draft a proposal for extension of the concession up to 2026, with a revision of the investments plan

in accordance with the requirements of the 'AIT, thought without applying to banks and/or any change in the existing borrowing structure, to make more investments in the period 2014-2021. In December 2014, the Board of Directors of Acque then approved this proposal, which was officially sent to the AIT last 16 December.

In particular, with respect to the last plan approved, the new Investment Plan contained in the proposal provides for the following: **(i)** in the period 2014-2021, higher net investments of 67.0 million euros and **(ii)** in the period 2022-2026 total investments of 345 million euros.

The proposal likewise calls for the early start-up of some new works to 2020, for a total of 28.4 million euros, through the use of concessions, with a significant deferral of the payment of the amount that can be made after 31 December 2021, thus without affecting the cash flow of the company earmarked for repayment of existing borrowings. The AIT approved the proposal on 13 February 2015 and Acque has submitted to the lenders a request for a waiver to obtain consent to the extension and thus make the measure fully efficacious.

The borrowing agreed in 2006 totalled 255 million euros with use of 218 million euros; the loan repayment period starts from 2014 with incremental half-year instalment according to the system defined in the loan agreement.

With reference to the main **litigation and disputes** of the Company, the following is pointed out:

- appeal was presented to the Council of State against the decision by the Tuscany Regional Administrative Court dated 22 April 2013, which rejected the application presented by Acque for the annulment of Resolution n. 60 of 27 April 2011 of the Co.N.Vi.Ri., referring to the review of the revision for the 2005-2008 3-year period of the Area Plan of ATO 2 Toscana – Basso Valdarno. The case is currently pending,
- in November 2014, notice was delivered to the company by which CONSIAG S.p.A. summoned the company to appear before the Florence Court. CONSIAG was, up to 31 December 2001, the operator of the water service in certain Municipalities joined in a consortium, all within the ATO 3 area except for the Municipality of Montespertoli, inserted in ATO2. Besides Acque, the summons was also notified to the AIT and all the publicly-owned Acque partners.
- CONSIAG has claimed from Acque, in relation to the service undertaken in the Municipality of Montespertoli, a 0.792% share in the company and compensation totalling 1,989,834 euros. On the other hand, the Municipality of

Montespertoli is already a partner in Acque through Publiservizi (partner of Acque with 19.26% of the share capital) of which it is a partner with an equity holding of 0.98%. Therefore Acque, deeming the demand to be unfounded, has not made any allocations for this litigation.

### **TUSCANY – ACQUEDOTTO DEL FIORA S.P.A. (ATO6 – OMBRONE)**

Based on the agreement signed on 28 December 2001, the operator (Acquedotto del Fiora) is to supply integrated water services on an exclusive basis in ATO 6, consisting of public services covering the collection, conveyance 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 the vehicle Ombrone SpA – completed its acquisition - of an interest in the Company.

With reference to the 2014 and 2015 tariff proposal approval process, on 8 April the Territorial Conference No. 6 Ombrone of the Tuscan Water Authority approved the new tariff development and the Economic-Financial Plan for 2014-2021, approved also by the Meeting of the Tuscan Water Authority on 24 April 2014. Compared to the previous year the theta is equal to 6.5% for both 2014 and 2015. The *theta*, compared to the previous year, is equal to 6.5% both for 2014 and 2015. On 31 July 2014 the AEEGSI ratified this by Resolution 402/2014/R/idr approving the tariff multipliers for 2014 and 2015 respectively amounting to 1.134 and 1.208; these multipliers, considering the size of the investments planned, take into account a shorter useful life of assets with respect to the ones set by regulations, as a result of the option exercised by the AIT to adopt financial depreciation and amortisation. Furthermore the limitations on guaranteed revenue include the quantification of the component  $FNI^{new}$  calculated on the basis of the parameter  $\psi$  amounting to 0.5. In order to contain annual tariff increases, the Area Authority, in agreement with the operator, has reallocated the adjustments for the years 2012 and 2013, providing for a recovery after 2015 for an amount of approximately 7 million euros (Group share 1.5 million euros).

**Prior adjustments** for the year 2011 were approved by the Tuscan Water Authority on 30 June 2014 with Resolution n. 38 and amounted to 4.2 million euros (Group share 1.7 million euros).

Revenue for 2014, recognised on the basis of the tariff calculation made for that year, totalled 90.5 million euros (Group share 40.5 million euros) including the estimate of adjustments of the

pass-through items and the differences compared to the amount recognised in the years 2012 and 2013.

From the financial point of view, it is recalled that on 5 March 2012 the Company agreed to the extension, for another 18 months, i.e. up to September 2013, of the bridge loan that has increased from 80 million euros to 92.8 million euros, with another 12.8 million euros being provided. Finally, on 5 September 2013 another increase of the bridge loan up to 105.0 million euros was issued (Group share 42.0 million euros) with maturity on 30 September 2014 necessary to cover the of the remaining portion of the new 2013 investments and of many of the investments included in the 2014 plan. The loan was supposed to have contributed, by the maturity date, to the consolidation of the current debt in a medium/long term financial structure, and to have ensured the low funding still necessary to guarantee the complete implementation of the intervention plan, already in an advanced stage.

At the same time, following new regulatory measures and after the AIT Resolution on the new MTI, the Company has sent the letters of invitation for the selection procedures to one or more banks interested in the project, the deadline for presentation of the offers set for 31 July 2014, afterwards extended, upon request by the banks themselves, to 15 October 2014. Given the above-mentioned extension of the deadline for the offer to provide medium/long-term loans, which are also necessary to refinance the existing bridge loan, the maturity of the bridge loan itself, planned for 30 September 2014, is no longer coherent, and therefore in August the Company promptly requested and obtained an extension of the bridge loan expiry tot 31 March 2015.

### **TUSCANY – PUBLIACQUA S.P.A. (ATO3 – MIDDLE VALDARNO)**

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 exclusive integrated water service of ATO 3, comprising all public water collection, abstraction and distribution services for civil use, sewerage 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, through the vehicle Acque Blu Fiorentina S.p.A., completed its acquisition of an interest in the company.

With reference to the 2014 and 2015 tariff proposal approval process, on 18 April Territorial Conference No. 3 Middle Valdarno of the Tuscan Water Authority approved the new tariff development and the Economic-Financial Plan for 2014-2021, approved also by the Meeting of the Tuscan Water Authority on 24 April 2014. Compared to the previous year the theta is equal to 3.4% for 2014 and 6.4% for 2015. AEEGSI Resolution 402/2014/R/idr approved the tariff multipliers for 2014 and 2015 respectively amounting to 1.101 and 1.171; these multipliers, considering the size of the investments planned, take into account a shorter useful life of assets with respect to the ones set by regulations, as a result of the option exercised by the AIT to adopt financial depreciation and amortisation. Furthermore the limitations on guaranteed revenue include the quantification of the component  $FNI^{new}$  calculated on the basis of the parameter  $\psi$  amounting to 0.4. Revenue for 2014 was calculated on the basis of the above-mentioned approved tariff rates, for a total of 201.9 million euros (Group share 80.7 million euros) including the estimate of adjustments of the pass-through items and the differences compared to the amount recognised in the years 2012 and 2013.

It is pointed out that the Tuscan Water Authority, by its letter of 27 September 2013, started up the fourth tariff update with regard to the costs, announcing its intention to make this update for the years 2010-2011, thus excluding 2012, the year in which the Transitional Tariff Method came into force. The review concluded with the approval of Resolution No. 36 - 30 June 2014: the Tuscan Water Authority calculated an adjustment of 8.9 million euros (Group share 3.6 million euros), approximately 10 million euros (Group share 4 million euros) lower than the amount allocated in the previous years, which represents the recovery of the lower charges for depreciation and amortisation and for the remuneration of invested capital which, with the MTN in force, were recognised to the previous management company.

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.

On 15 May 2014, the Company sent a request to the Agent Bank to extend the Final Expiry of the Loan until 30 November 2014. The request was approved by the Banks and the necessary changes were made to the Loan Agreement. Upon the expiry of the bridge loan, the Company made bilateral borrowing agreements for an

overall amount of 92.5 million euros falling due: **(i)** 55 million euros on 30 June 2015 and **(ii)** 37.5 million euros on 27 November 2015.

The Company also initiated contacts with the major lending banks in order to jointly assess the best solution available for financing the 2015-2021 Economic and Financial Plan.

#### **UMBRIA – UMBRA ACQUE S.P.A. (ATO1 – UMBRIA 1)**

On 26 November 2007 ACEA S.p.A. was definitively awarded the tender called by the Area Authority for selection of the minority private business partner of Umbra Acque S.p.A. The tender procedure requires the successful bidder to subscribe an 11.335% increase in the post-increase share capital of Umbra Acque S.p.A. and the purchase of 4,457,339 shares owned by outgoing private shareholders (ACEA already holds an interest in Umbra Acque through the subsidiary Crea), corresponding to 28.665% of the post-increase share capital of Umbra Acque S.p.A. Before the end of 2007, ACEA completed the subscriptions of the share capital increase and the purchase of shares owned by outgoing private shareholders, thus acquiring ownership of 40.00000257% of the share capital of Umbra Acque S.p.A.

By Resolution 252/R/idr of 29 May 2014, the AEEGSI approved the tariff proposals for 2014

and 2015 which envisage tariff multipliers of respectively 1.126 and 1.195.

In its specific report on the topic, the Area Authority opted not to apply financial depreciation and amortisation, and in the year chosen under its own discretion decided to annul the FNI<sup>new</sup> tariff component for the year 2014. An adjustment for the year 2012 amounting to 6.3 million euros was also charged to the tariffs for 2014, 2015 and 2016, for a maximum amount of 2.1 million euros per year.

Revenue for 2014 totalled 60.9 million euros (Group share 24.3 million euros) including the estimate of adjustments of the pass-through items and the differences compared to the amount recognised in the years 2012 and 2013.

#### **TUSCANY – GEAL S.P.A., AZGA NORD S.P.A. AND LUNIGIANA ACQUE S.P.A. (ATO1 – NORTH TUSCANY)**

##### **GEAL S.P.A.**

The company GEAL S.p.A. manages the Integrated Water Service in the Municipality of Lucca.

On 18 April 2014 the Tuscan Water Authority approved the 2014 and 2015 tariff proposals and the relevant Economic-Financial Plan, with Resolution No. 6. In particular, the new tariff includes a 6.5 % increase for 2014 on the previous year. Nevertheless, over 60% of said increase is represented by the component intended to cover

2012 tariff adjustments, already accounted for as revenues in the relevant financial year.

The figures required to acknowledge the adjustment of integrated water service fees for 2010 and 2011 were sent to the competent body on 27 June 2014, in accordance with Resolution No. 268/2014. These fees are payable to the company as they were not calculated at the time by CIPE, as required by the Council of State. As there are some errors in the above resolution, the company reserves the right to appeal against the same in the courts having jurisdiction.

#### **LUNIGIANA ACQUE S.P.A. IN LIQUIDATION AND AZGA NORD S.P.A. IN LIQUIDATION**

As is known the companies were placed in liquidation respectively on 2 August 2011 and 20 December 2010. Although still in liquidation, both continued to manage the service to guarantee continuation of supply in this essential public service until handing over control to GAIA on 1 April 2012 (Lunigiana) and 1 July 2013 (AZGA Nord).

Lunigiana and AZGA Nord have both stipulated contracts with GAIA for renting corporate branches that must be converted into contracts for definitive transfer in order to collect the amount of the assets not subject to depreciation. It is pointed out that negotiations are under way for completing this transfer.