ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the breakdown of financial assets and liabilities required by IFRS 7 based on the categories defined by IAS 39.

€ thousand	HELD FOR TRADING FINANCIAL INSTRUMENTS AT FAIR VALUE	RECEIVABLES AND LOANS	FINANCIAL INSTRUMENTS AVAILABLE FOR SALE	CARRYING AMOUNT	NOTES
Non-current assets	**0**	**34,290**	**2,482**	**36,772**	
Other equity investments			2,482	2,482	18
Financial assets due from Parent Company, subsidiaries and associates		32,580		32,580	21
Financial assets due from third parties		1,710		1,710	21
Current assets	**0**	**2,416,533**	**0**	**2,416,533**	
Trade receivables from customers		1,162,973		1,162,973	23
Trade receivables from related parties		74,582		74,582	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)				0	23
Other current assets: fair value measurement of contracts for difference and commodity swaps with changes recognised in profit or loss (*)		0		0	23
Other current assets: energy equalisation and specification		46,517		46,517	23
Other current assets: subsidiaries		22,366		22,366	23
Financial assets due from Parent Company, subsidiaries and associates		69,042		69,042	23
Financial assets due from third parties: derivatives designated as hedges with changes recognised in equity (**)		0		0	23
Financial assets due from third parties: derivatives designated as hedges with changes recognised in profit or loss (**)				0	23
Financial assets due from third parties		23,088		23,088	23
Cash and cash equivalents		1,017,967		1,017,967	23
TOTAL FINANCIAL ASSETS	**0**	**2,450,823**	**2,482**	**2,453,306**	

(*) This refers to the fair value measurement of contracts to purchase or sell commodities that qualify for application of IAS 39, with changes recognised through profit or loss or in shareholders' equity.

€ thousand	HELD FOR TRADING FINANCIAL INSTRUMENTS	LIABILITIES AT FAIR VALUE	LIABILITIES AT AMORTISED COST	CARRYING AMOUNT	NOTES
Non-current liabilities	**0**	**62,769**	**2,977,943**	**3,040,712**	
Bonds			1,855,385	1,855,385	28
Bonds valued at FVH		(1,170)		(1,170)	
Bonds valued at CFH		54,902		54,902	
Bank borrowings (non-current portion)			1,122,558	1,122,558	28
Bank borrowings (non-current portion) valued at CFH		9,037		9,037	
Current liabilities	**0**	**349**	**1,439,322**	**1,439,671**	
Bank borrowings			58,161	58,161	31
Payables to third parties			16,564	16,564	31
Financial payables to factoring companies			110,358	110,358	31
Financial payables to subsidiaries, associates			4,873	4,873	31
Due to suppliers			1,130,158	1,130,158	31
Trade payables to Parent Company, subsidiaries and associates			119,208	119,208	31
Other current liabilities: fair value measurement of contracts for difference and commodity swaps with changes recognised in equity (*)		349		349	31
TOTAL FINANCIAL LIABILITIES	**0**	**63,118**	**4,417,265**	**4,480,383**	

(*) This refers to the fair value measurement of contracts to purchase or sell commodities that qualify for application of IAS 39, with changes recognised through profit or loss or in shareholders' equity.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of securities not quoted in an active market is calculated by using valuation models and techniques prevailing on the market or using the price provided by several independent counterparties.
The fair value of medium/long-term financial payables and receivables is calculated on the basis of the risk-free and the risk-adjusted interest rate curves.
The fair value of trade receivables and payables falling due within twelve months is not calculated as their carrying amount approximates to fair value.
In addition, fair value is not calculated when the fair value of financial assets and liabilities cannot be objectively determined.

TYPE OF FINANCIAL RISKS AND RELATED HEDGING POLICY

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.

MARKET RISK

The Group is exposed to market risk, i.e. the risk that the fair value or future cash flows of a financial instrument might fluctuate as a result of market price movements, above all in relation to the risk of movements in the prices of commodities in which the Group trades.
Through the Risk Control unit, Acea Energia Holding 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.
Specifically:

- on an annual basis, measurements of risk indicators, i.e. limits, must be defined, which must be complied with in the management of the portfolio. These activities are the responsibility of the Risk Committee which approves the Risk Control proposal;
- on a monthly basis, the Risk Control Unit is required to check the exposure to market risk of the companies in the Energy Segment and to check compliance with the limits defined. As required by the Internal Control System, the Risk Control Unit is responsible for sending ACEA's Internal Audit Department the required information in the proper format.

The risk limits of the Energy Industrial Area are defined in such a way as to:

- minimize the overall risk of the entire area,
- guarantee the necessary operating flexibility in trading and hedging activities,
- reduce the possibility of over-hedging deriving from the variation in expected volumes for the definition of hedges.

Market risk is distinguished from price risk, i.e. the risk related to the variation in commodity prices, and volume risk, i.e. the risk connected with the variation in volumes produced and sold..

Risk analysis and management objectives are as follows:

- to protect the primary margin against unforeseen and unfavorable short-term shocks in the energy market which affect revenues or costs;
- to identify, measure, manage and represent the exposure to risk of all ACEA operating companies in the Energy Industrial Area;
- to reduce risks through the preparation and application of adequate internal controls, procedures, information systems and expertise;
- delegate risk owners with the job of defining the necessary strategies for hedging individual risks, in respect of pre-established minimum and maximum levels.

The evaluation of risk exposure involves the following activities:

- aggregation of the commodities and structure of the risk books;
- detailed analysis of the time pattern of purchases and sales and limiting of open positions, namely the exposure from physical purchases and sales of individual commodities, within set volume limits;
- creation of reference scenarios (prices, indexes);
- calculation of risk indicators/measurements (volume exposure, portfolio VAR, PAR, price range);
- checking compliance with the risk limits in force.

Derivative transactions are entered into for the purpose of hedging the risk of fluctuations in commodity prices and in compliance with the provisions of Risk Management guidelines for the Energy Industrial Area. In this regard, it is pointed out that ACEA, through the Risk Control Unit, provides the analysis and measurement of exposure to market risks, interacting with the Energy Management Unit of Acea Energia S.p.A., in accordance with the Internal Auditing and Risk Management guidelines of ACEA.
In terms of the Group's commitments to stabilize cash flows in relation to the composition of its electricity sale and purchase portfolio in the coming year, almost all existing hedging activities are managed as cash flow hedges, since the effectiveness of the hedge is demonstrable. The financial instruments used fall under swaps and contracts for difference (CFD).
The aims and policies for the management of market risk, counterparty receivables and legal matters are described in the pertinent section of the Performance Report.
It should be observed that the hedging on the purchases and sales portfolio has been undertaken with the main operators on the electricity market and the financial sector. The following information, in accordance with OIC 3, is provided in compliance with former Art. 2427-bis of the Italian Civil Code, for the description of the transactions entered into and aggregated by index hedged with validity starting from 1 January 2015:

SWAP	PURPOSE	PURCHASES/SALES	FAIR VALUE IN € THOUSAND	AMOUNT RECOGNISED IN SHAREHOLDERS' EQUITY	AMOUNT RECOGNISED IN INCOME STATEMENT
PUN	Hedge power portfolio	purchase/ sale electricity	(820)	(820)	0
CONSIP	Hedge power portfolio	purchase/ sale electricity	472	472	0
			(348)	**(348)**	**0**

In March 2009, the IASB issued an amendment to IFRS 7, introducing a series of changes aimed at adequately meeting the need for greater transparency resulting from the financial crisis and linked to elevated uncertainty over market prices. These changes included the establishing of the fair value hierarchy. In particular, the amendment defines three levels of fair value (IFRS 7, para. 27A):

- **level 1:** if the financial instrument is listed on an active market;
- **level 2:** if the fair value is measured according to assessment techniques referring to inputs observable in the market, other than the listings of the financial instrument;
- **level 3:** if the fair value is calculated according to assessment techniques referring to inputs that cannot be observed in the market.

It should be noted that, as regards the types of commodity whose fair value is calculated,

- for derivatives on single commodities (PUN - single national price - standard base load products, Peak/Off Peak, …) the fair value level is 1 given they are listed on active markets,
- for complex indexes (ITRemix, PUN profiled products etc.) the fair value level is 2 given these derivatives are the result of formulas containing a mix of commodities listed on active markets.

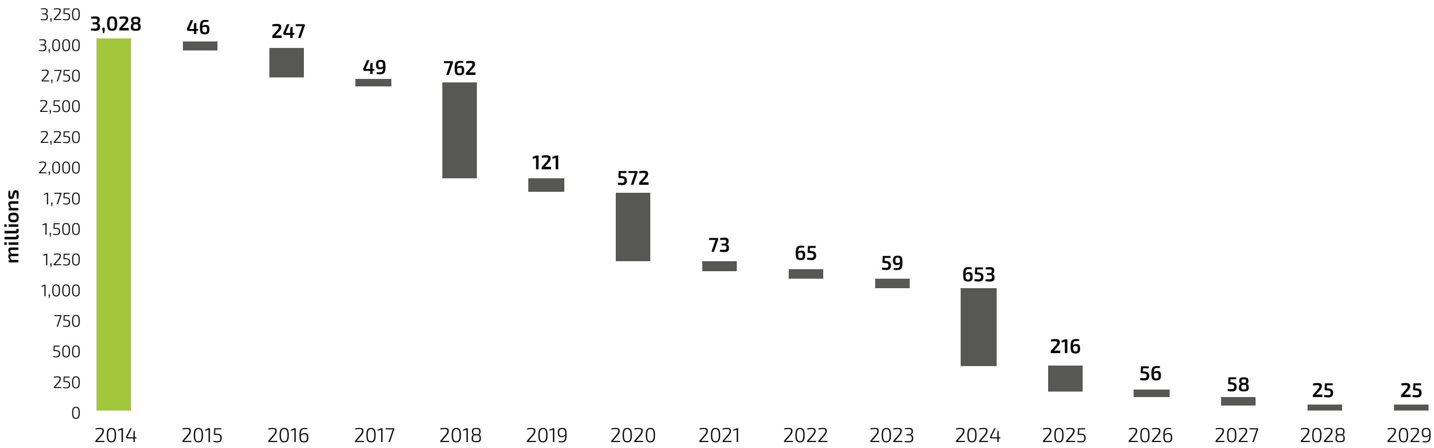
For certain components of complex indexes, the fair value level is 3 as they do not derive from listing on active markets but, instead, estimates.

Finally, It is pointed out that the Group, starting from the year 2014, has applied the provisions of EC Regulations 148 and 149/2013 (jointly and together with Reg. 648/2012, the EMIR rule) and is currently defined as NFC- (Non Financial Counterparty).

LIQUIDITY RISK

The ACEA S.p.A. liquidity risk management policy is based on ensuring the availability of significant bank lines of credit. Such lines exceed the average requirement necessary to fund planned expenditure and enable the Group to minimise the risk of extraordinary outflows. In order to minimise liquidity risk, the ACEA Group has adopted a centralised treasury management system, which includes the most important Group companies, and provides financial assistance to the companies (subsidiaries and associates) not covered by a centralised finance contract.
As at 31 December 2014 the Parent Company held committed and uncommitted lines of credit totalling 799 million euros and 300 million euros, respectively, and not utilised. No guarantees were issued to obtain these credit lines.
The committed lines of credit are revolving and have a 3-year contract duration from the opening. The availability of these lines expires in 2015. The contracts stipulated provide for the payment of a fee for non-use plus an upfront fee paid at the time the credit lines are opened.
On the amounts drawn down, ACEA pays an interest rate equal to the one, two, three or six month Euribor (depending on the period of use chosen beforehand), plus a *spread* which, in some cases, may vary in line with the rating assigned to the Parent Company. In some cases, there is also a utilisation fee linked to the amount disbursed.
At the end of the year, ACEA had no term deposits.

The following diagram shows the future evolution of the maturity of overall borrowing forecast on the basis of the situation in be at the end of the year.
Per quanto riguarda i debiti verso fornitori (€ 1.130,2 milioni) si precisa che la componente a scadere nei prossimi dodici mesi è pari a € 838 milioni. Lo scaduto di € 292,1 milioni verrà pagato entro il primo trimestre 2015.



With regard to trade payables (1,130.2 million euros) it is pointed out that the portion coming due in the next twelve months totals 838 million euros. The amount due of 292.1 million euros will be paid within the first quarter of 2015.

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 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.
An analysis of the consolidated debt position shows that the risk to which the ACEA Group is exposed is mainly in the form of fair value risk, such position being composed, as at 31 December 2014, by approximately 64.32% of fixed rate

borrowings, taking into account the hedging in place and thus at a lesser extent to the variations in future cash flows.
ACEA is bringing consistency to its decisions regarding interest rate risk management that essentially aims to both control and manage this risk and optimise borrowing costs, taking account of stakeholder interests and the nature of the Group's activities, and based on the prudence principle and best market practices. The objectives of these guidelines are as follows:

- to identify, from time to time, the optimum mix of fixed and floating rate debt,
- to pursue a potential optimisation of the Group's borrowing costs within the risk limits established by governance bodies and in accordance with the specific nature of the business,
- to manage derivatives transactions solely for hedging purposes, should the Group decide to use them, in respect of the decisions of the Board of Directors and, therefore, the approved strategies and taking into account (in advance) the impact on the income statement and statement of financial position of said transactions, giving preference to instruments that qualify for hedge accounting (typically cash flow hedges and, under given conditions, fair value hedges).

Currently, the Group uses derivative instruments to hedge interest rate risk exposure for the following companies:

- ACEA:
  - swapped the 100 million euros loan obtained on 27 December 2007 to a fixed rate. The swap, a plain vanilla IRS, was stipulated on 24 April 2008, effective as of 31 March 2008 (date of drawdown of the underlying loan) and expires on 21 December 2021,
  - completed a cross currency transaction to transform to euro – through a plain vanilla DCS swap – the currency of the private placement (yen) and the yen rate applied to a fixed euro rate through a plain vanilla IRS swap,
  - swapped to floating rate 300 million euros of the 5-year 600 million euros fixed rate bond placed on the market in September 2013.

All the derivative instruments taken out by ACEA and listed above are non-speculative and their fair values were respectively:

- negative for 9.0 million euros (negative for 8.7 million euros at 31 December 2013),
- negative for 54.9 million euros (negative for 36.2 million euros at 31 December 2013) and
- positive for 1.2 million euros (+0.3 million euros compared to 0.8 million euros in 2013).

The following table shows the overall fair value changes of the medium/long-term debt portfolio based on curves of risk-less and risk adjusted rates.

BANK BORROWINGS:	AMORTISED COST	FV RISK LESS	DELTA	FV RISK ADJUSTED	DELTA
	(A)	(B)	(A)-(B)	(C)	(A)-(C)
Bonds	**1,909,117**	**2,168,211**	**(259,094)**	**2,111,619**	**(202,502)**
fixed rate	322,491	424,041	(101,550)	405,490	(83,000)
floating rate	788,181	813,234	(25,054)	811,744	(23,563)
floating to fixed rate	67,386	69,075	(1,689)	67,948	(562)
Total	**3,087,174**	**3,474,562**	**(387,387)**	**3,396,801**	**(309,626)**

This analysis was also made with the curve of the risk adjusted rates, i.e. a curve adjusted for the level of risk and the ACEA segment of activity. The curve utilised the fixed rate bonds denominated in euro, issued by Italian companies in the sector of public services and having a rating between BBB+ and BBB-.

The medium/long-term financial liabilities were subjected to a sensitivity analysis on the basis of the stress testing method, i.e. applying a constant spread to the riskless curve for all the nodes on the curve.
In this allows for the valuation of the impact on fair value and evolution of future cash flows, with reference both to the single instruments forming the portfolio analysed and the portfolio as a whole.

The table shows the overall changes in terms of fair value of the debt portfolio based on parallel shifts (positive and negative) between – 1.5% and + 1.5%.

CONSTANT SPREAD APPLIED	CHANGES IN PRESENT VALUE (€ million)
-1.50%	(207,3)
-1.00%	(135,2)
-0.50%	(66,2)
-0.25%	(32,7)
0.00%	0,0
0.25%	32,1
0.50%	63,5
1.00%	124,4
1.50%	182,8

With regard to the type of hedging for which the fair value is determined and with reference to the hierarchies required by the IASB, it is pointed out that since these are composite instruments, the level is type 2..

CREDIT RISK

ACEA has issued the credit policy guidelines in which different strategies have been identified that respond to the *Customer Centric* philosophy*:* through flexible criteria and on the basis of managed activities and customer segmentation, credit risk is managed taking into account both the customer type (public and private) and the non-homogeneous behaviour of individual customers (behavioural score).

The key principles on which the risk management strategies are based are as follows:

- definition of the customer cluster categories through the above-mentioned segmentation criteria;
- standard cluster management in ACEA Group companies, based on the same risks and commercial characteristics, of defaulting end users;
- collection methods and instruments used;
- uniformity of standard criteria regarding the application of default interest;
- division into instalments of credit;
- definition of the necessary responsibilities/authorisations for any exceptions.
- adequate reporting and training of dedicated staff.

In this respect, the Credit Management unit was set up within the Administration, Finance and Control function of ACEA; the main responsibilities of the new unit are to develop credit management policies, provide guidance on actions to be taken and analyse and continuously monitor the progress of loan related activities for any corrective action.

With regard to the distribution of electricity activities, the credit risk is represented by wholesalers: billing to them relates to the transport of energy in the distribution network and the services rendered to the end customers.

The key principles on which the credit risk management strategies are based are as follows:

- homogeneous management of sellers' receivables, deemed of equal risk,
- uniformity of standard criteria for the application of default interest;
- mitigation of credit risk through the signing of a guarantee by sellers;
- adequate monitoring through credit ageing reports;
- training of dedicated staff.

Credit management starts with the "behavioural score" or knowledge of the individual reseller through the constant analysis of payment attitudes/habits and is subsequently broken down into a series of targeted actions ranging from phone collection activities carried out in-house, reminders sent electronically, sending of notice letters via registered post, as provided under Resolution ARG/elt 4/08, to termination of the transportation contract.

With regard to electricity sales credit risk was measured beforehand, especially in relation to the sale of gas and electricity to industrial and business customers.

The activity was performed in accordance with Credit Risk Policy Manual rules, through an in-house process involving the evaluation of credit reliability, assignment of an internal rating and recognition of the maximum limits of financial exposure to the counterparty.

CUSTOMER EVALUATION

In Acea Energia, the first step in credit management is the prior assessment of the client**.** The aforementioned central Credit Management unit has the task, among others, to make a customer evaluation prior to activating the contract (for the free market). The prior scoring activity started in 2013 within the company, limited to major Business customers, and was then conducted by Credit Management throughout the second half of 2014 on the same customer basis, both for renewals and for new start-ups. At the end of 2014 Credit Management activated a prior scoring system, managed centrally by Credit Management, in order to make immediate prior evaluations for customer acquisition also for domestic customers.

The system is directly usable by Acea Energia and the commercial agencies appointed by Acea Energia. A subsequent development stage is under way with the definition of specific scorecards to refine prior evaluation of small business and retail customers. At the same time evaluation of large business customers will be implemented on the same platform by the definition of specific workflows. as a result of the organizational changes made in August 2013; the ACEA Group credit policy now includes some operational procedures issued by Credit Management.

In particular, in April 2014 Credit Management issued four procedures: "Customer scoring and assignment", "Payment instalments", "Recovery plans and Settlements" and "Eliminations".

In 2014 Acea Energia used the "CREDIT CARE" software for credit management, also for the protected category service, thus using system functions for all of its customers, above all in terms of the automatic management of strategies for individual customers clusters.

In 2014, judiciary and non-judiciary debt collection was enhanced with the Legal Disputes Unit and for the first time using the services of a primary market operator for the legal recovery of consumer debts to be collected.

From the management standpoint, there were various measures in 2014 for the process of combining collection operations, intervening on the collections channel (elimination of blank payment slips, revision of agreements with banks) on software systems and on the number of staff dedicated to the process.

With regard to the supply of water the implementation the implementation of credit risk management strategies started with a macro-distinction between public sector end users (municipalities, public administrations, etc.) and private sector end users (industrial, commercial, condominium, etc.), given that said categories present different levels of risk, in particular:

- low risk of insolvency and high risk of late payment for public sector end users,
- variable risk of insolvency and late payment risk for private sector end users.

As regards credits due from public sector end users, which account for over 30% of the past due receivables, they are converted to cash through the without-recourse factoring to financial partners and a residual portion is managed directly through the offsetting of receivables/payables or by means of settlement agreements.

Credit management for private sector end users, which represent approximately 60% of the past due receivables, starts with behavioural scores or "knowledge in terms of the probability of default of each individual customer through the constant analysis of payment attitudes/habits", and is subsequently implemented through a series of targeted actions ranging from reminder letters, assignment to specialised companies for credit recovery via phone collection, to detachment of the defaulting end users and receivable factoring transactions.

The water segment is also characterised by a significant amount of invoices to be issued which are determined by the characteristics of the business.

The table below shows the ageing of trade receivables, inclusive of the allowance for doubtful accounts, detailed in note 23.

- Total trade receivables inclusive of allowance for doubtful: 1.441 million euros
- Trade receivables due to expire: 676 million euros
- Past due trade receivables: 765 million euros of which:
  - Within twelve months: 329.2 million euros
  - Over twelve months 435.8 million euros.