



# Società Metropolitana Acque Torino S.p.A.

(incorporated with limited liability under the laws of the Republic of Italy)

€135,000,000

## 1.950 per cent. Notes due 13 April 2024

The issue price of the €135,000,000 1.950 per cent. Notes due 13 April 2024 (the “**Notes**”) of Società Metropolitana Acque Torino S.p.A. (the “**Issuer**” or “**SMAT**”) is set out under “*General Information*” below.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 13 April 2024. The Notes are subject to redemption, in whole but not in part, at their principal amount, plus interest, if any, to the date fixed for redemption at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Italy. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount together with accrued and unpaid interest (if any) upon the occurrence of a Put Event (as defined below). See “*Terms and Conditions of the Notes — Redemption and Purchase*”.

The Notes will bear interest from 13 April 2017 (the “**Issue Date**”) at the rate of 1.950 per cent. per annum payable annually in arrears on 13 April each year commencing on 13 April 2018. Payments on the Notes will be made in Euro without deduction for or on account of taxes imposed or levied by the Republic of Italy to the extent described under “*Terms and Conditions of the Notes - Taxation*”.

The Notes will constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for certain mandatory exceptions of applicable law.

The prospectus (the “**Prospectus**”) has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list of the Irish Stock Exchange (the “**Official List**”) and trading on its regulated market (“**Main Securities Market**”), which is a regulated market for the purposes of Directive 2004/39/EC.

This Prospectus is available for viewing on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Lead Manager (as defined in “*Subscription and Sale*”) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain restrictions on transfers of the Notes, see “*Subscription and Sale*”.

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 1 of this Prospectus for a discussion of certain risks prospective investors should consider in connection with any investment in the Notes.**

The Notes will be in bearer form and in denominations of €100,000. The Notes will initially be in the form of a temporary global note (the “**Temporary Global Note**”), which will be deposited on or around the Closing Date with a common safekeeper for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the “**Permanent Global Note**”) not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form. See “*Summary of Provisions Relating to the Notes in Global Form*”.

The Notes have been rated “BBB” by Standard & Poor’s Credit Market Services Italia S.r.l. (“**S&P**”), which is established in the EEA and registered as a credit rating agency under Regulation (EU) No. 1060/2009, as amended (the “**CRA Regulation**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Lead Manager**  
**BNP PARIBAS**

**Prospectus dated 12 April 2017**

## IMPORTANT NOTICES

This document comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiaries taken as a whole (the “**Group**” or the “**SMAT Group**”) and the Notes which according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to BNP Paribas (the “**Lead Manager**”) that this Prospectus contains or incorporates all information regarding the Issuer, the Group and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or the Group are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

Deloitte & Touche S.p.A. has issued a special purpose independent auditors’ report on the restated IFRS consolidated financial statements of the Issuer as at and for the year ended 31 December 2015 (the “**Special Purpose Auditor’s Report**”). Deloitte & Touche S.p.A. accepts responsibility for the Special Purpose Auditor’s Report and declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Special Purpose Auditor’s Report, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

To the fullest extent permitted by law, the Lead Manager, accepts no responsibility for the contents of this Prospectus or for any other statements made or purported to be made by the Lead Manager or on its behalf in connection with the Issuer or issue and offering of any Note. The Lead Manager disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Information Incorporated by Reference*”). This Prospectus should be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

Investors should rely only on the information contained in this Prospectus. The Issuer has not authorised anyone to provide investors with different information. The initial purchasers are not and the Issuer is not making any offer of the Notes in any jurisdiction where the offer is not permitted. No person assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover of this Prospectus regardless of the time of delivery of this Prospectus or of any sale of the Notes.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Lead Manager.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that the information contained herein concerning the Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering

of the Notes is correct as of any time subsequent to the date indicated in the document containing such information or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise), results of operations or prospects of the Issuer and/or the Group since the date of this Prospectus. The Issuer is under no obligation to update the information contained in this Prospectus after the initial distribution of the Notes and their admission to trading on the regulated market of the Irish Stock Exchange and, save as required by applicable laws or regulations or the rules of any relevant stock exchange, or under the terms and conditions relating to the Notes, the Issuer will not provide any post-issuance information to investors.

Neither this Prospectus nor any other information supplied in connection with the offering, sale or delivery of any Note (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection thereto should purchase any Note. Each investor contemplating purchasing any Note should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Neither this Prospectus nor any other information supplied in connection with the issue of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Notes.

Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Group (as defined below) and of the rights attaching to the Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. Neither the Issuer nor the Lead Manager represents that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, nor do they assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Lead Manager which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see “*Subscription and Sale*”.

In particular, the Notes have not been, and will not be, registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## Presentation of financial information

This Prospectus includes the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2015 and 2014, prepared in accordance with Italian GAAP and audited by Deloitte & Touche S.p.A.

Starting from the year ended 31 December 2016, the Issuer expects to prepare its consolidated annual financial statements in accordance with IFRS. Accordingly, the consolidated financial statements of the Issuer as at and for the year ended 31 December 2015 have been restated in conformity with IFRS solely for the purpose of its inclusion in the Prospectus, as required by the Regulation 809/2004/UE and by the recommendation 05-054b of the Committee of European Securities Regulators (CESR), now known as ESMA or the European Securities and Markets Authority. See the section entitled “*Summary Financial Information of the Issuer*” and the Annex (*Restated IFRS Consolidated Financial Statements*).

Except where otherwise indicated, financial information relating to the Issuer included in this Prospectus has been prepared in accordance with Italian GAAP.

## Non-GAAP financial measures

This Prospectus contains certain non-GAAP financial measures, including EBIT and EBITDA.

Consolidated “**EBIT**” is calculated as **profit or loss for the year including the portion of third parties** adjusted for (i) Current, deferred and advanced taxes on the income, (ii) Total extraordinary income and expenses, (iii) Total adjustments, (iv) Total financial income and expenses, as derived from the Issuer’s audited consolidated financial statements as at and for the years ended 31 December 2015 and 2014, prepared pursuant to Italian GAAP.

Consolidated “**EBITDA**” is calculated as **profit or loss for the year including the portion of third parties** adjusted for the following line items: (i) Current, deferred and advanced taxes on the income, (ii) Total extraordinary income and expenses, (iii) Total adjustments, (iv) Total financial income and expenses, (v) Amortisation and depreciation, (vi) Provisions for other charges, as derived from the Issuer’s audited consolidated financial statements as at and for the years ended 31 December 2015 and 2014, prepared pursuant to Italian GAAP.

Consolidated “**EBITDA margin**” is expressed as a percentage and calculated by dividing consolidated EBITDA by consolidated Total revenues.

Consolidated “**Net financial position**” is calculated by deducting consolidated Cash and cash equivalents from the sum of consolidated Short-term financial debt and consolidated Medium- and long-terms financial debt.

Consolidated “**Net debt / EBITDA**” is expressed as a ratio and calculated by dividing consolidated Net financial position by consolidated EBITDA.

It should be noted that these non-GAAP financial measures are not recognised as a measure of performance under Italian GAAP or IFRS and should not be recognised as an alternative to operating income or net income or any other performance measures recognised as being in accordance with Italian GAAP, IFRS or any other generally accepted accounting principles. These non-GAAP financial measures are used by management to monitor the underlying performance of the business and operations but are not indicative of the historical operating results of the Issuer, nor are they meant to be predictive of future results. Since all companies do not calculate these measures in an identical manner, the Issuer’s presentation may not be consistent with similar measures used by other companies. Therefore, undue reliance should not be placed on any such data.

In addition, investors should be aware that the above definitions of EBITDA and Net financial position are different from the definitions of “**EBITDA**” and “**Net Financial Debt**” in the Terms and Conditions of the Notes, both of which should be examined with care. Similarly, the above definition of Net debt / EBITDA is different from the “Net Financial Debt-to-EBITDA ratio” referred to in Condition 4(a) (*Limitation on indebtedness*).

### Forward-looking statements

This Prospectus may contain forward-looking statements, including (without limitation) statements identified by the use of terminology such as “aims”, “anticipates”, “believes”, “continues”, “could”, “estimates”, “expects”, “future”, “helps”, “intends”, “may”, “plans”, “projects”, “should”, “shall”, “will”, “would” or the negative or other variations of those words, as well as other statements regarding matters that are not historical facts. These statements are based on the Issuer’s current expectations and projections about future events and involve substantial uncertainties. All statements, other than statements of historical facts, contained in this Prospectus regarding the Issuer’s strategy, goals, plans, future financial position, projected results, revenues and costs or prospects are forward-looking statements. Forward-looking statements are subject to inherent risks and uncertainties, some of which cannot be predicted or quantified. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors, also beyond the Issuer’s control, that could cause future events, actual results and developments to differ materially from those set out in, contemplated by or underlying these forward-looking statements. The Issuer does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. As a result of these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements as a prediction of actual results or otherwise.

### CERTAIN DEFINED TERMS

In this Prospectus, unless otherwise specified:

- (i) references to “**billions**” are to thousands of millions;
- (ii) references to the “**Conditions**” are to the terms and conditions relating to the Notes set out in this Prospectus in the section “*Terms and Conditions of the Notes*” and any reference to a numbered “**Condition**” is to the correspondingly numbered provision of the Conditions;
- (iii) references to “€”, “**EUR**” or “**Euro**” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended;
- (iv) the “**Fiscal Agent**” means BNP Paribas Securities Services, Luxembourg Branch as fiscal agent;
- (v) the “**Group**” or the “**SMAT Group**” means the group consisting of the Issuer and its Subsidiaries;
- (vi) references to “**IFRS**” are to International Financial Reporting Standards, as adopted by the European Union;
- (vii) references to “**Italian GAAP**” are to generally accepted accounting principles in Italy, as prescribed by Italian law and supplemented by the accounting principles issued by the Italian accounting profession;
- (viii) the “**Issuer**” or “**SMAT**” means Società Metropolitana Acque Torino S.p.A.;
- (ix) the “**Lead Manager**” means BNP Paribas as lead manager;

- (x) “**S&P**” means Standard & Poor’s Credit Market Services Italia S.r.l.; and
- (xi) “**Subsidiary**” has the meaning given to it in the Conditions.

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## **RISK FACTORS**

*The Issuer believes that the following risk factors may affect its ability to fulfil its obligations under the Notes. Most of these risk factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.*

*An investment in the Notes involves risks. The Issuer believes that the risk factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate based on information currently available to it. In addition, if any of the following risks, or any other risk not currently known, actually occur, the trading price of the Notes could decline and Noteholders may lose all or part of their investment.*

*The order in which the risk factors are presented below is not intended to be indicative either of the relative likelihood that each risk will materialise or of the magnitude of their potential impact on the business, financial condition and results of operations of the Issuer. Prospective investors should also read the detailed information set out elsewhere in this Prospectus, including any document incorporated by reference herein, and reach their own views, based upon their own judgment and upon advice from such financial, legal and tax advisers as they have deemed necessary, prior to making any investment decision.*

*Words and expressions defined in “Terms and Conditions of the Notes” or elsewhere in this Prospectus have the same meaning in this section. References to a “Condition” is to such numbered condition in the Terms and Conditions of the Notes.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under the Notes**

#### ***Evolution in legislative and regulatory framework regarding the water sector***

The Group carries on its business in the integrated water service sector and, therefore, in a heavily regulated environment, in accordance with, *inter alia*, the rules issued by the Italian Electricity, Gas and Water Authority (*Autorità per l'Energia Elettrica, il Gas e il Sistema Idrico*) (the “AEEGSI”), that is the national independent authority in charge, *inter alia*, of regulating the water sector, with particular reference to the aspects connected to the tariffs system and the quality of the service (for further details please see “Regulation” below). Changes in applicable legislation and regulations, whether at a national or European level, as well as the regulations of particular regulatory agencies, including the AEEGSI and the manner in which they are interpreted could affect the Issuer's earnings and operations either positively or negatively, both through the effect on current operations and also through the impact on the cost and revenue-earning capabilities of current and future planned developments in the sector in which the Group conducts its business. Such changes could include changes in tax rates, legislation and policies, changes in environmental, safety or other workplace laws or changes in the regulation of cross-border transactions.

As a local public service provider in the integrated water services sector, the Group operates in a political, legal and social environment that has a material impact on the Group’s performance and is expected to continue to do so in the future. The legislation on local public services and the specific regulations relating to the integrated water service sector may affect many aspects of the Group's business, including the award and duration of concessions, the determination of the tariffs and the resulting revenues of the Issuer (for further information see “Regulation” below). The regulatory framework in many respects determines the manner in which the Group conducts its business and the tariffs it charges or obtains for its services. Any new or substantially altered rules and standards in the water services sector may have an impact on significant aspects



of the Issuer's activity, including provisions of the concession agreement, quality standards, mechanisms for the review of the business and the financial plan for each concession, and may adversely affect the Issuer's business, financial condition and results of operations,

Key among the effects that a change in legislation might have on the Group's business would be any change in Italian legislation affecting the expiry date of certain concessions for local public services providing for their early termination. In the case of early termination of a concession, the concession holder must continue to operate a concession until it is replaced by the incoming concession holder. In addition, the outgoing concession holder is required to transfer all of the assets relating to the operation of the concession to the grantor or to the incoming concession holder. Where a concession holder is replaced by a new operator, compensation must be paid to the outgoing concession holder for the assets which will become available to the new operator. Several recent regulations have affected the determination of compensation payable to an outgoing concession holder (see "*Regulation - VR calculation criteria*" below) and there can be no assurance that any amount paid to the Issuer pursuant to current or future legislation would be adequate.

#### ***The Group is dependent on a single concession***

The Group's business is limited to integrated water services, which account for substantially all of its revenues. For further information please see "*Description of the Issuer - Business*". The supply of integrated water services is a regulated activity and the success of an operator in that sector depends on its ability to obtain, operate and maintain concessions. This is especially so in the case of the Group, which is dependent on a key concession, namely the concession for the supply of the integrated water service for the territory known as ATO3 – Torinese (the "**ATO 3 Concession**"). The ATO 3 Concession was awarded to the Issuer under the "in-house providing system". In other words, as an in-house company wholly-owned by public local entities, the Issuer was directly awarded the concession without any public tender procedure on the basis of certain conditions, currently provided under the EU and Italian legislation in force and in particular under Article 12 of EU Directive 24/2014 and Article 5 of Legislative Decree No. 50/2016). For further information see "*Description of the Issuer*" and "*Regulation*" below.

The ATO 3 Concession is governed by a concession agreement executed by and between SMAT and the ATO 3 Authority in 2004 and subsequently amended, requiring SMAT to comply with certain obligations (including performing regular maintenance) and is subject to liquidated damages or sanctions for non-performance or default (for further information, see "*Description of the Issuer - ATO 3 Concession*"). Failure by the Issuer to fulfil its material obligations under the ATO 3 Concession, if left uncured, could entitle the grantor to terminate the ATO 3 Concession. Furthermore, in accordance with general principles of Italian law, the ATO 3 Concession may be terminated for reasons of public interest. In addition, although the ATO 3 Concession is currently due to expire in 2033, legislation in Italy could be implemented to bring forward the expiry date and there can be no assurance that this will not happen in the near future (see "*Evolution in the legislative and regulatory framework for the water sector*" above). Termination of the ATO 3 Concession, any amendment to the expiry date of the ATO 3 Concession and/or the replacement of the Issuer by a new operator is likely to have a material adverse effect on the Issuer's business, financial condition and results of operations.

#### ***SMAT's ability to achieve its strategic objectives could be impaired if it is unable to maintain or obtain the required licences, permits, approvals and consents***

The strategic development plan of the Group, as described in further detail in "*Description of the Issuer – Strategy*", provides for considerable investments in public works, which entail Group exposure to regulatory, technical, commercial, economic and financial risks related to the obtaining of the relevant permits and approvals from regulatory, legal, administrative, tax and other authorities and agencies. The processes for obtaining these permits and approvals are often lengthy, complex, unpredictable and costly. In the case of the

Issuer, it has held the ATO 3 Concession since 2004 and has already obtained permits and approvals for a considerable amount of investments. Nevertheless, if the Issuer were unable to maintain, obtain or comply with the relevant permits and approvals, this could adversely affect the Group's ability to achieve its strategic objectives and the Group's business, financial condition and results of operations and may result in termination of the ATO 3 Concession.

#### ***Revision of tariffs in the water sector***

The Group operates in the water sector and is exposed to a risk of variation in the tariffs applied to end users. Article 21 of Law Decree No. 201 of 6 December 2011 (converted into law by Law No. 214 of 22 December 2011) ordered the abolition of the national agency for regulating and supervising the water sector, and its functions are now performed by the AEEGSI and the Ministry for the Environment. Following this change, the tariffs payable by customers in the water sector (as proposed by the competent district authorities within each district) must be approved by the AEEGSI and, in 2013, 2014 and 2015, it adopted a number of resolutions introducing a new tariff method. For further information see "*Regulation*". As at the date of this Prospectus, regulations and the terms of the Concession provide for full cost recovery for water services: in other words, a tariff system which in principle involves full recovery of costs borne by the operator for the management of the water service and which is aimed at achieving sustainability of water systems and an efficient allocation of water resources. However, there can be no assurance that any future revision of tariffs in the water sector will keep tariffs at a level that satisfies the Issuer's expectations and they may be significantly reduced, possibly in response to political or public pressure. In particular, the AEEGSI may in future provide for new and different tariff structures that cause a reduction in the applicable tariffs. Should any such changes result in decreases in tariffs, these could have a material adverse effect on the Issuer's financial condition and results of operations.

#### ***Operational risks through its ownership and management of water management and distribution networks and plants***

The Group's business is limited to integrated water services and, accordingly, it is heavily exposed to operating risks that apply specifically to that sector. The Group controls and operates integrated water cycle networks and maintains the associated assets with the objective of providing a continuous service. The paragraphs below describe operating risks specific to the integrated water cycle that could result both from natural disasters, such as floods or prolonged droughts, and from man-made factors such as human error in operating the waterworks facilities, strikes and other forms of industrial action. In addition to the risk of losing revenues, incurring unexpected costs and/or heavy fines and, in a worst case scenario, loss of the ATO 3 Concession, the matters described below could generate adverse publicity and damage the Group's reputation.

##### ***Sewer flooding***

The Issuer's combined sewerage systems can, during prolonged heavy rainfall, reach their hydraulic capacity resulting in flooding. As it is not possible to forecast the occurrence and effects of sewer flooding accurately, forward planning is difficult, as is the making of full and reliable provision for the effects of sewer flooding or the alleviation of the risk. In the case of the territory served by the Issuer, Turin is one of the few European cities equipped with a dual sewerage system separating waste water from rainwater, thereby significantly reducing the environmental risk of sewer flooding. Nevertheless, the financial costs of measures required to deal with sewer flooding, or measures designed to alleviate the risk of sewer flooding to properties which become exposed, may be higher than predicted, which could have a material adverse impact on the business, financial condition or results of operations of the Issuer.

#### *Water shortages*

Water shortages may be caused by natural disasters, floods and prolonged droughts, below average rainfall or increases in demand or, over a longer-term period, by environmental factors, such as climate change, which may exacerbate seasonal fluctuations in supply availability. In the event of water shortages, additional costs may be incurred by the Issuer in order to provide emergency reinforcement to supplies in areas of shortage which may adversely affect its business, results of operations, profitability or financial condition. In addition, restrictions on the use or supply of water may adversely affect the Issuer's reputation and may even lead to compensation becoming due to customers because of interruptions to supply, both of which could have a material adverse impact on the business, financial condition or results of operations of the Issuer.

#### *Service interruptions due to key site or installation disruption*

Unexpected failure or disruption (including criminal acts, deliberate acts of sabotage or major health and safety incidents) at a key site or installation (including a treatment works) could cause a significant interruption to the supply of services (in terms of duration or number of customers affected), materially affecting the way that the Issuer operates, prejudicing its reputation and resulting in additional costs including liability to customers for compensation and/or refunds that could have a material adverse impact on the business, financial condition or results of operations of the Issuer.

#### *Contamination of water supplies*

Water supplies may be subject to contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made substances or criminal acts. In the event that the Issuer's water supply is contaminated and it is unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source in a cost-effective manner, this may have an adverse effect on its business, financial condition or results of operations because of the resulting prejudice to reputation and required capital and operational expenditure. The Issuer could also be fined for breaches of requirements or regulations, or could incur civil or criminal liability for human exposure to hazardous substances in its water supplies or other environmental damage, which could have a material adverse impact on the business, financial condition or results of operations of the Issuer. In addition, contamination of supplies could exacerbate water shortages, giving rise to the issues described above. Risk also arises from adverse publicity that these events may generate and the consequent damage to the Issuer's reputation.

#### *Weather and catastrophe risk*

There is a risk that extreme weather conditions could cause flooding, prolonged periods of drought and/or operational difficulties, which could adversely affect the Issuer's service performance and give rise to potential penalties, the need to pay compensation to customers or other regulatory action.

Moreover, catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage to or destruction of the Issuer's operational assets. Any costs resulting from suspension of operations of the Issuer could have a material adverse effect on the ability of the Issuer to meet its financing obligations.

#### *Health and safety risk*

Risks of environmental and health and safety accidents and liabilities are inherent in many of the Group's activities. The Issuer is responsible for the safety and security of its employees while working at project sites and of third-party personnel while working at project sites under the Issuer's supervision, and, accordingly, must implement safety procedures. The Issuer has adopted and implemented strict policies and risk provisions

with regard to the containment of health and safety risks. Nevertheless, safety, health or environmental elements may not always be sufficiently well known or controlled so as to prevent any possible mishaps.

Any failure in health and safety performance which results in a major or significant health and safety incident is likely to result in additional costs in terms of potential liabilities or remediation costs. Such failure could generate significant adverse publicity, resulting in employee turnover and damage to the Group's reputation which may have a material adverse impact on the business, financial condition or results of operations of the Issuer. The costs of complying with these laws and regulations could increase, particularly as a result of new or more stringent regulations or changes in their interpretation or implementation.

***The Issuer is exposed to operational risks through its ownership and management of distribution networks and plants and treatment and disposal of waste water assets***

The main operational risk to which the Issuer is exposed is linked to the ownership and management of distribution networks and plants and treatment and disposal of waste water assets. These assets are exposed to risk of malfunctions and/or interruption in service that can cause significant damages to the assets themselves and, in more serious cases, the distribution activity may be compromised. These risks include extreme weather phenomena, adverse meteorological conditions, natural disasters, fire, terrorist attacks, sabotage, mechanical breakdown of or damage to equipment or processes, accidents and labour disputes. In particular, any such events could cause significant damage to the Group's property, plant and equipment and, in more serious cases, the distribution activity may be compromised. Furthermore, any of these risks could cause damage or destruction of the Group's facilities and, in turn, injuries to third parties or damage to the environment, along with ensuing lawsuits and penalties imposed by the relevant authorities. In addition, the Group's distribution networks are exposed to malfunctioning and service interruption risks which may be beyond its control and may give rise to the circumstances described above and result in increased costs. The Issuer's insurance coverage may prove insufficient to compensate fully for such losses.

SMAT has systems of prevention and protection within each operating area, which operate according to the frequency and gravity of the particular events, its ongoing maintenance plans, the skills of its laboratory and Research Centre staff, the availability of strategic spare parts and insurance cover, aimed at mitigating the economic consequences of potentially adverse events that might be suffered by any of its plants or networks. However, there can be no assurance that maintenance and spare parts' costs will not rise, that insurance products will continue to be available on reasonable terms or that any one event or series of events affecting any one or more plants or networks will not have an adverse impact on the Issuer's business, financial condition and results of operations.

In addition, the Issuer gives no assurance that the prevention and protection measures adopted by it to manage operational risks are adequate and any shortcomings in those measures could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***Risks related to environmental rules and regulations affecting the Issuer's business areas***

The conduct of the Group's business (in particular the production, treatment, supply and distribution of drinking water and the treatment and disposal of waste water) is subject to a wide variety of laws and regulations administered by national, regional and supranational government bodies. Those laws and regulations may change, possibly at short notice, as a result of political, economic or social events. Changes in laws, regulations or governmental policy and the related interpretations may alter the conditions in which the Group carries on its business and, accordingly, may have an adverse impact on its financial results or increase in its costs or liabilities. In addition, the Group incurs and will continue to incur capital and other expenditure to comply with various laws and regulations, especially relating to protection of the environment, health and safety, all of which could adversely affect the Issuer's financial performance. The Group could also

face liabilities, fines or penalties or the suspension of production for failing to comply with laws and regulations, including health and safety or environmental regulations.

***The Group may incur significant environmental expenses and liabilities***

Risks of environmental and health and safety accidents and liabilities are inherent in the Group's operations. The Group may incur significant costs to keep its plants and businesses in compliance with the requirements imposed by various environmental laws and regulations (such as Law No. 68/2015 which has introduced into Italian legislation a number of new criminal offences related to environmental liabilities (so called “*ecoreati*”). Such laws and regulations required the Group to adopt preventive or remedial measures and may affect the Group’s business decisions and strategy. Failure to comply with environmental requirements in the territories where the Group operates may lead to fines, litigation, loss of licences and temporary or permanent curtailment of operations. Notwithstanding the Issuer's belief that the operational policies and standards adopted and implemented throughout the Group to ensure the safety of its operations are of a high standard, it is always possible that incidents such as blow-outs, spill-over, contamination and similar events could occur that would result in damage to the environment, employees and/or local communities.

The Group has insurance cover for possible environmental expenses and liabilities. Notwithstanding this, the Group may in the future incur significant environmental expenses and liabilities in excess of its cover owing to: (i) unknown contamination; (ii) the results of ongoing or future surveys on the environmental status of certain of the Group's industrial sites as required by applicable regulations on contaminated sites and (iii) the possibility that proceedings will be brought against the Group in relation to such matters. Any such increase in costs could have an adverse effect on the Group's business, financial condition and results of operations.

***Risk relating to any breaches of the organisation and management model***

Legislative Decree No. 231/2001 (“**Decree 231/2001**”) imposes direct liability on a company for certain unlawful actions taken by its executives, directors, agents and/or employees. The list of offences under Decree 231/2001 currently covers, among other things, bribery, theft of public funds, unlawful influence of public officials, corporate crimes (such as false accounting), fraudulent acts and market abuse, as well as health, safety and environmental hazards. In order to reduce the risk of liability arising under Decree 231/2001, the Issuer and its subsidiaries have each adopted its own organisation, management and supervision model (the “**Model**”) to ensure the fairness and transparency of their business operations and corporate activities and provide guidelines to their management and employees to prevent them from committing any of the above offences. Each of these companies has also appointed its own Supervisory Body (*Organismo di Vigilanza*) to oversee the functioning and updating of, and compliance with, the Model.

Notwithstanding the adoption of these measures, the Issuer or its subsidiaries could still be found liable for the unlawful actions of their officers or employees if, in the relevant authority’s opinion, Decree 231/2001 has not been complied with. This could lead to a suspension or limitation of operations and/or an imposition of fines and other penalties, all of which could have a material adverse effect on Issuer’s business, financial condition and results of operations.

***Risk relating to breaches of the plan for the prevention of corruption and for transparency***

The combined provisions of Law No. 190/2012 and Legislative Decree No. 33/2013 has required that the Board of Directors of the Issuer adopted a plan for the prevention of corruption and for transparency (the “**Plan**”). The Plan is adopted on a three-year basis, with the current Plan running from 2015 to 2017, and has to be revised and approved by 31 January each year. The Issuer’s Board of Directors has appointed a Manager for the Prevention of Corruption and a Supervisory Body for Transparency.

Law 190/2012 has introduced a comprehensive set of measures aimed to prevent and eliminate corruption and illegality in the public administration to which SMAT is subject.

The Plan identifies and addresses the activity areas with potential corruption risk. Among the compulsory activity areas, defined at national level by ANAC (Italian anti-corruption authority) the Plan covers: staff recruitment and progression; works, services and supply procurement, granting and provision of subsidies and contributions, as well as the conferring of economic benefits of any kind to individuals and public or private entities. The Plan also includes obligations, controls and monitoring actions to enforce the transparency requirements defined in the Legislative Decree No. 33/2013.

Notwithstanding the adoption of these measures, each of the Issuer could still be found liable for the unlawful actions of their officers or employees if, in the relevant authority's opinion, Law No. 190/2012 and Legislative Decree No. 33/2013 have not been complied with, which could have a material adverse effect on Issuer's business, financial condition and results of operations.

***Risks relating to skills and expertise of the Issuer's employees***

The Issuer's ability to operate its business effectively depends on the skills and expertise of its employees. If the Issuer loses any of its key personnel or is unable to recruit, retain and/or replace sufficiently qualified and skilled personnel, it may be unable to implement its business strategy. This could have a material adverse effect on Issuer's business, financial condition and results of operations.

***Risks related to competition***

As at the date of this Prospectus, the Issuer does not face any significant competition in the areas of business in which it operates, primarily due to its status as an in-house company (see "*Description of the Issuer*"). Future developments, however, such as failure by the Issuer to continue to satisfy the requirements to qualify as an "in-house" provider or changes in the legal and regulatory framework and how they are interpreted by the courts or by regulators, whether at a national or European level, could lead to a significant increase in competition. The Issuer's failure or inability to respond effectively to an increased level of competition could have an adverse impact on the Issuer's growth prospects, results of operations and cash flows and its ability to fulfil its obligations under the Notes.

***Risks related to information technology***

The Issuer's operations are supported by complex information systems, specifically with regard to its technical, commercial and administrative divisions. Information technology risk arises in particular from issues concerning the adequacy of these systems and the integrity and confidentiality of data and information, including their ability to withstand penetration by outsiders intent on extracting or corrupting information or disrupting business processes. The continuous development of IT solutions to support business activities, the adoption of strict security standards and of authentication and profiling systems help to mitigate the risks. In addition, to limit the risk of activity interruption caused by a system fault, the Issuer has adopted hardware and software configuration for those applications that support critical activities, which are periodically subjected to efficiency testing. Specifically, SMAT's IT department provides for a disaster recovery service that is intended to guarantee system recovery within the necessary timeframes. Nevertheless, there can be no assurance that serious system failures, network disruptions or breaches in security will not occur and any such failure, disruption or breach may have a material adverse effect on the Issuer's business, financial condition or results of operations.

***There can be no assurances of the success of any of the Issuer's future attempts to acquire additional businesses or of the Group's ability to integrate any businesses acquired in the future***

As one of the requirements to qualify as an in-house provider, turnover from non-core businesses must not exceed 20% of the Issuer's overall turnover. Nevertheless, the Issuer's business strategy also involves possible acquisitions and investments in its core businesses, as well as in ancillary business. The success of this strategy depends in part on its ability to identify new areas of business and, once they are acquired, on the

successful integration into the Group's operations, as well as its ability to identify suitable strategic partners and conclude suitable terms with them. Any inability to implement its strategy or a failure in any particular implementation of its strategy could have an adverse impact on the Issuer's business, financial position and results of operations.

#### ***Risks relating to legal proceedings or investigations by the authorities***

The Group is a defendant in a number of legal proceedings, which are incidental to its business activities and which the Issuer does not consider to be material. The Issuer makes provision in its consolidated financial statements for legal proceedings, included in the Provisions for risks and charges, which as at 31 December 2015 amounted to €26,866 thousand (see "*Description of the Issuer - Legal Proceedings*", below). The Group may, from time to time, be subject to further litigation and to investigations by taxation and other authorities. The Group is not able to predict the ultimate outcome of any of the claims currently pending against it or future claims or investigations that may be brought against it, which may be in excess of its existing provision. In addition, it cannot be ruled out that the Group may in future years incur significant losses in addition to amounts already provided for in connection with pending legal claims and proceedings or future claims or investigations which may be brought owing to: (i) uncertainty regarding the final outcome of such proceedings, claims or investigations; (ii) the occurrence of new developments that management could not take into consideration when evaluating the likely outcome of such proceedings, claims or investigations; (iii) the emergence of new evidence and information; and (iv) the underestimation of likely future losses. Adverse outcomes in existing or future proceedings, claims or investigations could have an adverse effect on the business, financial condition and results of operations of the Issuer.

#### ***Risks related to insurance coverage***

The Group maintains insurance coverage in an amount it believes appropriate to protect itself against a variety of exposures and risks, such as property damage, business interruption and personal injury claims. However, there can be no assurance that: (i) the Group will be able to maintain the same insurance cover in the future (on acceptable terms or at all); (ii) claims will not either exceed the amount of cover or fall outside the scope of the risks insured under the relevant policy; (iii) insurers will at all times be able to meet their obligations; or (iv) the Group's provisions for uninsured or uncovered losses will be sufficient to cover the full amount of liabilities eventually incurred.

#### ***Risks related to the financial crisis and economic recession***

Although the global economy has experienced a recovery in recent years, various concerns remain over the ability of certain countries to service their sovereign debt obligations. The significant economic stagnation in certain countries in the Eurozone, including Italy, in part due to the effects of the sovereign debt crisis and corresponding austerity measures in these markets, has added to these concerns. The measures implemented so far to reduce public debt and fiscal deficits have already resulted in lower or negative gross domestic product (GDP) growth and high unemployment rates in these countries. If the fiscal obligations of these or other countries continue to exceed their fiscal revenue, taking into account the reactions of the credit and swap markets, or if their banking systems are further destabilised, the ability of such countries to service their debt in a cost efficient manner could be impaired. The continued uncertainty over the outcome of various international financial support programmes, the possibility that other countries might experience similar financial pressures, investor concerns about inadequate liquidity or unfavourable volatility in the capital markets, lower consumer spending, higher inflation or political instability could further disrupt the global financial markets and might adversely affect the economy in general.

In addition, the risk remains that a default of one or more countries in the Eurozone, the extent and precise nature of which are impossible to predict, could lead to the expulsion or voluntary withdrawal of one or more countries from the Eurozone or a disorderly break-up of the Eurozone, either of which could significantly

disrupt financial markets and possibly trigger another global recession. Another area of concern is the stability of the banking system in Italy, particularly following the collapse of a number of Italian banks, including (most recently) the rescue of Monte dei Paschi di Siena by the Italian government. If the difficulties of certain Italian banks persist, this may result in a lack of confidence in the Italian financial system as a whole.

All of the above risks could adversely affect the business, results of operations and financial condition of the Issuer, including its ability to access the capital and financial markets and to refinance debt in order to meet its funding requirements.

#### ***Credit risk***

Credit risk represents the Group's exposure to potential losses that may be incurred if a commercial or financial counterparty fails to meet its obligations. The main credit risks for the Group arise from trade receivables from the provision of water management services and has intensified in recent years due to the weak state of the economy. The Group seeks to address this risk with policies and procedures regulating the monitoring of expected collection flows, the issue of reminders, the granting of extended credit terms if necessary and the implementation of suitable recovery measures. The Issuer believes that its level of credit risk is below average and that it is adequately covered by provisions for credit risk, which as at 31 December 2015, amounted to €19,157 thousand. Nevertheless, a general increase in default rates could have a material adverse effect on the Issuer's business, financial condition and results of operations.

#### ***Interest rate risk***

The Group is exposed to the risk of fluctuations in rates of interest, in particular arising under its financial indebtedness. This varies according to the fixed or floating interest rate structure in place. As at 31 December 2015, 19% of the Group's medium-long term financial debt carried a fixed rate of interest whereas 81% of the Group's medium-long term financial debt carried a floating rate of interest. Having made an assessment of possible hedging arrangements, the Issuer's current view is that they are not cost-effective and, as a result, it does not have any in place to mitigate interest rate risk. The Issuer has instead adopted a strategy of limiting as far as possible its exposure to the risk of higher interest rates through preferential access to EU financing granted by the European Investment Bank and the support by means of a guarantee by a national bank in such a way as to benefit from lower funding costs, while also diversifying lines of credit by the issue of the Notes. However, there can be no assurance that the above strategy will successfully reduce its exposure to interest rate risk and, to the extent that it does not, this may have an adverse effect on the Issuer's business, financial condition and results of operations.

#### ***Funding and liquidity risks***

Liquidity risk is the risk that new financial resources are not available (*funding liquidity risk*) or that the Issuer is unable to convert assets into cash on the market (*asset liquidity risk*), meaning that it may not be able to meet its payment commitments. Issuer's ability to borrow from banks or in the capital markets to meet its financial requirements is dependent on favourable market conditions. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to optimise the use of financial resources and manage net positions and the funding of portfolio consistently with management's plans while maintaining a level of risk exposure within prescribed limits. Issuer's approach toward funding risk is aimed at securing competitive financing and ensuring a balance between average maturity of funding, flexibility and diversification of sources. In addition, where there are insufficient sources of financing, the current tariff method applicable to the Issuer allows for a specific tariff component (FoNI) to be activated in order to implement specific investment targets.

Nevertheless, the above measures may not be sufficient to protect the Group fully from liquidity risk and, in addition to the impact of market conditions, the ability of the Group to obtain new sources of funding may be



affected by contractual provisions of existing financings (such as change of control clauses, requiring the Group to remain under the control of local authorities, as well as clauses such as negative pledges that restrict the security that can be given to other lenders). If insufficient sources of financing are available in the future for any reason, the Group may be unable to meet its funding requirements, which could materially and adversely affect its financial condition and results of operations, and its ability to fulfil its obligations under the Notes.

***The Group's operating and financial flexibility may be restricted by its existing financings***

The Group's operating and financial flexibility may be restricted by its existing financings. The Group's debt facilities contain a number of covenants that could limit its operating and financial flexibility. A breach of any of these covenants could result in a portion of the Group's borrowings becoming immediately repayable. In addition, any future debt financing may impose additional covenants, imposing more stringent limitations on financing and operating activities. The above factors could limit the Group's financial and operational flexibility and could have a material adverse effect on its future prospects, financial condition and results of operations.

**Risk relating to the Notes**

***The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates***

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the “**Market Interest Rate**”). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until its yield is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a fixed interest rate security typically increases, until its yield is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Credit ratings may not reflect all risks***

The Notes have been rated “BBB” by S&P, which is established in the EEA and registered as a credit rating agency under the CRA Regulation. In addition, the long-term corporate credit rating assigned to the Issuer by S&P is “BBB” with negative outlook. Noteholders should be aware that:

- (a) a rating will reflect only the views of the rating agency and may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes;
- (b) a rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency; and
- (c) notwithstanding the above, an adverse change in a credit rating could adversely affect the trading price for the Notes.

See also “*Description of the Issuer – Recent Developments – Credit outlook revised to negative by S&P*”.

***The Notes may be redeemed prior to maturity***

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may pursuant to Condition 7(b) (*Redemption and Purchase – Redemption for taxation reasons*) redeem all outstanding Notes in accordance with the Conditions. If the Issuer calls and redeems the Notes in the circumstances mentioned above, the Noteholders may not be able to reinvest the redemption proceeds in comparable securities offering a yield as high as that of the Notes. Prospective investors should consider reinvestment risk in light of other investments available at that time.

***The exercise of a put option by Noteholders following a Put Event may adversely affect the Issuer’s financial position***

Upon the occurrence of certain events relating to the Issuer, as set out in Condition 7(c) (*Redemption and Purchase - Redemption at the option of Noteholders upon a Put Event*), under certain circumstances the Noteholders will have the right to require the Issuer to redeem all outstanding Notes held by it at their principal amount together with unpaid and accrued interest (if any) up to but excluding the Put Date (as defined in the “*Terms and Conditions of the Notes*”). However, it is possible that the Issuer will not have sufficient funds at the time of the relevant Put Event to make the required redemption of Notes. If, upon the exercise of the Noteholders’ right, sufficient funds are not available to the Issuer for the redemption, Noteholders may receive less than the principal amount of the Notes. Furthermore, if such right were exercised by the Noteholders, this might adversely affect the Issuer’s financial position.

***Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will

maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies or receive a voting certificate.

***The Notes provide no constraints on the incurrence of debt and are unsecured***

The terms and conditions relating to the Notes do not restrict the amount of indebtedness which the Issuer and its Subsidiaries may from time to time incur. In the event of any insolvency or winding-up of the Issuer, the Notes will rank equally with the Issuer's other unsecured senior indebtedness and, accordingly, any increase in the amount of the Issuer's unsecured senior indebtedness in the future may reduce the amount recoverable by Noteholders. In addition, the Notes are unsecured and, except to the limited extent provided in Condition 5 (*Negative Pledge*), do not contain any restriction on the giving of security by the Issuer and its Subsidiaries over present and future indebtedness. Where security has been granted over assets of the Issuer to secure indebtedness, in the event of any insolvency or winding-up of the Issuer, such indebtedness will, in respect of such assets, rank in priority over the Notes and the other unsecured indebtedness of the Issuer.

***Payments in respect of the Notes may in certain circumstances be made subject to withholding or deduction of tax***

All payments in respect of Notes will be made free and clear of withholding or deduction of Italian taxation, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required. The Issuer's obligation to gross up is, however, subject to a number of exceptions, including withholding or deduction of Italian substitute tax (*imposta sostitutiva*), pursuant to Italian Legislative Decree No. 239 of 1 April 1996 ("**Decree No. 239**").

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws of any country or territory. See also the section headed "*Taxation*" below.

***The tax regime applicable to the Notes is subject to a listing requirement***

No assurance can be given that the Notes will be listed or that, once listed, the listings will be maintained or that such listings will satisfy the listing requirement under Decree No. 239 in order for the Notes to be eligible to benefit from the provisions of such legislation relating to exemption from the requirement to apply withholding tax. If the Notes are not listed or that listing requirement is not satisfied, payments of interest, premium and other income with respect to the Notes would be subject to a withholding tax currently at a rate of 26 per cent. and the Issuer would be required to pay additional amounts with respect to such withholding taxes such that Noteholders receive a net amount that is not less than the amount that they would have received in the absence of such withholding.

No assurance can be given that the Italian tax authorities will not interpret the applicable legislation to require that listing be effective at closing or that listing can be achieved by the Issue Date. The imposition of withholding taxes with respect to payments on the Notes and the resulting obligation to pay additional amounts to holders of Notes could have a material adverse effect on the Issuer's financial condition and results of operations.

***Transactions in the Notes could be subject to the EU financial transaction tax, if adopted.***

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's proposal**") for a financial transaction tax (the "**FTT**") to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate). If the Commission's proposal were adopted, the FTT would be a tax primarily on "financial institutions" (which may include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating member states. Generally, it would apply where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, "established" in a participating member state in a broad range of circumstances, including (i) by transacting with a person established in a participating member state or (ii) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

The FTT may give rise to tax liabilities for the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases of securities such as authorised investments) if it is adopted based on the Commission's proposal. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest or principal than expected. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Notes (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

However, the FTT proposal remains subject to negotiation between participating member states. It may therefore be altered prior to any implementation, the timing of which remains unclear, and additional EU member states may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

***Change of law or administrative practice***

The terms and conditions of the Notes are based on English law in effect as at the date of this Prospectus, save that provisions convening meetings of Noteholders and the appointment of a Noteholders' representative (*rappresentante comune*) are subject to compliance with mandatory provisions of Italian law. No assurance can be given as to the impact of any possible judicial decision or change to English law and/or Italian law (where applicable) or administrative practice after the date of this Prospectus.

***Decisions at Noteholders' meetings bind all Noteholders***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. In addition, as mentioned in "*Change of law or administrative practice*"

above, the provisions relating to Noteholders' meetings (including quorums and voting majorities) are subject to compliance with certain mandatory provisions of Italian law.

Any such modifications to the Notes, which may include, without limitation, lowering the ranking of the Notes, reducing the amount of principal and interest payable on the Notes, changing the time and manner of payment, changing provisions relating to redemption, limiting remedies on the Notes, and changing the amendment provisions, may adversely impact Noteholders' rights as well as the market value of the Notes.

***Noteholders' meeting provisions may change by operation of law or because of changes in the Issuer's circumstances***

As mentioned in "*Change of law or administrative practice*" above, the provisions relating to Noteholders' meetings (including quorums and voting majorities) are subject to compliance with certain mandatory provisions of Italian law, which may change during the life of the Notes. In addition, as currently drafted, the rules concerning Noteholders' meetings are intended to follow mandatory provisions of Italian law that apply to Noteholders' meetings where the issuer is an Italian unlisted company. As at the date of this Prospectus, the Issuer is an unlisted company but, if its shares were listed on a securities market while the Notes are still outstanding, then the mandatory provisions of Italian law that apply to Noteholders' meetings would be different (particularly in relation to the rules relating to the calling of meetings, participation by Noteholders at meetings, quorums and voting majorities). In addition, certain Noteholders' meeting provisions could change as a result of amendments to the Issuer's By-laws. Accordingly, Noteholders should not assume that the provisions relating to Noteholders' meetings contained in the Agency Agreement and summarised in the Conditions will correctly reflect mandatory provisions of Italian law applicable to Noteholders' meetings at any future date during the life of the Notes.

**Risks related to the market generally**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk. Such description is not intended to be an exhaustive description of any and all market risks which might have an impact on the Notes.

***There is no active trading market for the Notes***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Group. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes and, consequently, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

The market value of the Notes may also be significantly affected by factors such as variations in the Group's annual and interim results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the Group.

***Delisting of the Notes***

Application has been made to the Irish Stock Exchange for the Notes to be listed on the Official List and admitted to trading on the Main Securities Market. The Notes may subsequently be delisted despite the best

efforts of the Issuer to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of such listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market. See also "*The tax regime applicable to the Notes is subject to a listing requirement*" above.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

In addition, government and monetary authorities may impose, as some have done in the past, exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Transfers of the Notes may be restricted, which may adversely affect the secondary market liquidity and/or trading prices of the Notes***

The ability to transfer the Notes may also be restricted by securities laws or regulations of certain countries or regulatory bodies. The Notes have not been, and will not be, registered under the Securities Act or any state securities laws in the U.S. or the securities laws of any other jurisdiction. Noteholders may not offer the Notes in the United States or to, or for the account or benefit of, a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. It is the obligation of each Noteholder to ensure that offers and sales of Notes comply with all applicable securities laws. In addition, transfers to certain persons in certain other jurisdictions may be limited by law, or may result in the imposition of penalties or liability. For a description of restrictions which may be applicable to transfers of the Notes, see "*Subscription and Sale*".

## INFORMATION INCORPORATED BY REFERENCE

The following information has been filed with the Central Bank of Ireland and is incorporated in, and forms part of, this Prospectus:

- (1) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2015 (the “**Issuer’s 2015 Annual Consolidated Financial Statements**”);
- (2) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2014 (the “**Issuer’s 2014 Annual Consolidated Financial Statements**”),

in each case together with the accompanying notes and external auditors’ report.

The consolidated financial statements of the Issuer referred to above are translated into English from the original Italian.

The Issuer will provide, without charge to each person to whom a copy of this Prospectus has been delivered, upon the request of such person, a copy of any or all the documents deemed to be incorporated by reference herein. Requests for such documents should be directed to the Issuer at its offices set out at the end of this Prospectus. In addition such documents will be available, without charge, at the specified office of the Fiscal Agent and on the website of the Issuer, as follows:

- (i) [http://www.smatorino.it/documenti/area\\_istituzionale/SMAT%202015en.pdf](http://www.smatorino.it/documenti/area_istituzionale/SMAT%202015en.pdf) as to the Issuer’s 2015 Annual Consolidated Financial Statements; and
- (ii) [http://www.smatorino.it/documenti/area\\_istituzionale/SMAT%202014en.pdf](http://www.smatorino.it/documenti/area_istituzionale/SMAT%202014en.pdf) as to the Issuer’s 2014 Annual Consolidated Financial Statements.

### Cross-reference list

The following table shows where the information incorporated by reference in this Prospectus can be found in the above-mentioned documents.

<b>2015 Annual Consolidated Financial Statements</b>	<b>Page number(s)</b>
SMAT Group Management Report .....	6 – 12
SMAT Group composition .....	13 – 17
SMAT Group economic and financial performance .....	18 – 33
Balance sheet .....	34 – 36
Income statement .....	37 – 38
Explanatory notes .....	39 – 67
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Auditors’ report .....	1st two pages
<b>2014 Annual Consolidated Financial Statements</b>	<b>Page number(s)</b>
SMAT Group Management Report .....	6 – 13
SMAT Group composition .....	14 – 20
SMAT Group economic and financial performance .....	21 – 45
Balance sheet .....	47 – 48
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Auditors’ report .....	1st two pages

## TERMS AND CONDITIONS OF THE NOTES

The €135,000,000 1.950 per cent. Notes due 2024 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Società Metropolitana Acque Torino S.p.A. (the “**Issuer**”) are subject to, and have the benefit of, a fiscal agency agreement dated 13 April 2017 (as amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) between the Issuer and BNP Paribas Securities Services, Luxembourg Branch as fiscal agent (the “**Fiscal Agent**” which expression shall include all persons for the time being acting as fiscal agent under the Fiscal Agency Agreement) and any other paying agents named therein (the “**Paying Agents**”, which expression shall include all persons for the time being acting as paying agents under the Fiscal Agency Agreement). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement. The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the “**Coupons**”). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents indicated in the Fiscal Agency Agreement. The holders of the Notes (the “**Noteholders**”) and the holders of the Coupons (whether or not attached to the relevant Notes) (the “**Couponholders**”) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

### 1 Definitions and interpretation

#### (a) **Definitions:** in these Conditions:

“**Accounting Principles**” means International Financial Reporting Standards, as adopted by the European Union.

“**acting in concert**” means, in relation to two or more Persons, any event or circumstances whereby, pursuant to an agreement, arrangement or understanding (whether formal or informal), such Persons co-operate, through the acquisition or holding of voting rights exercisable at a shareholders’ or equivalent meeting of the Issuer by any of them, either directly or indirectly, for the purposes of obtaining or consolidating control of the Issuer.

“**Affiliate**” means, at any time, and with respect to any Person (the “**first Person**”), any other Person that at such time directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the first Person.

“**Assumed Concession Liabilities**” means financial liabilities relating to a concession in the integrated water cycle sector and assumed by the Issuer or any of its Subsidiaries from time to time as a result of the award of that concession pursuant to Article 153, paragraphs 1 and 2 of Legislative Decree No. 152 of 3 April 2006.

“**Calculation Amount**” means €100,000 in principal amount of the Notes.

a “**Change of Control**” will be deemed to occur if (A) any Person or Persons acting in concert (in each case, other than one or more Permitted Holders), together with any of their Affiliates, has or gains control of the Issuer or (B) the City of Turin ceases to hold, directly or indirectly, or own (beneficially or otherwise) (i) more than 50.1 per cent. of the issued share capital of the Issuer, (ii) issued share capital having the right to cast more than 50.1 per cent per cent. of the votes capable of being cast in general meetings of the Issuer or (iii) the right to determine the composition of the majority of the board of directors or equivalent body of the Issuer.



**“Compliance Certificate”** means the compliance certificate, substantially in the form attached to the Fiscal Agency Agreement, to be made available by the Issuer on each Reporting Date and signed by a duly authorised signatory of the Issuer, confirming that:

- (i) it is in compliance with the covenant contained in Condition 4(a) (*Limitation on indebtedness*), setting out the amount of the Issuer’s Net Financial Debt to EBITDA; and
- (ii) as far as the Issuer is aware, no Put Event has occurred in the Financial Period and there have been no events, developments or circumstances that would materially affect its ability to provide such confirmation as at the date of the certificate since the end of the last Financial Period.

a **“Concession Event”** will be deemed to have occurred if at any time the SMAT Concession or the Single Concession Contract is dissolved, terminated prior to its expiry date or revoked, or declared null and void by the competent authority or otherwise ceases to have effect for any reason.

**“Consolidated Assets”** means, with respect to any date, the consolidated total assets, as reported in the Financial Statements.

**“Consolidated Revenues”** means, with respect to any date, the consolidated total revenues, as reported in Financial Statements.

**“control”** means, for all purposes in connection with Condition 7(c) (*Redemption at the option of Noteholders upon a Put Event*):

- (i) in respect of a Person which is a company or a corporation:
  - (A) the acquisition and/or holding of more than 50 per cent. of the share capital of such Person; or
  - (B) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:
    - (1) cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a shareholders’ or equivalent meeting of such Person; or
    - (2) appoint or remove all or a majority of the members of its Board of Directors (or other equivalent body) of such Person; or
- (ii) in respect of any other Person (other than a company or a corporation), the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting rights, by contract or otherwise,

and the expressions **“controlling”**, **“controlled”** and **“controlled by”** shall be construed accordingly.

**“Determination Date”** means the last day of the Issuer’s financial year.

**“EBITDA”** means, in respect of any Financial Period, the operating profit before taxes, before deducting net financial income and expenses but after deducting the debt service relating to Assumed Concession Liabilities and adding back amortisation, in each case calculated on a

consolidated basis and as shown in, or determined by reference to, the Group's latest audited consolidated annual financial statements.

**"Event of Default"** has the meaning given to it in Condition 10 (*Events of Default*).

**"Final Maturity Date"** has the meaning given to it in Condition 7(a) (*Final redemption*).

**"Financial Period"** means each period of 12 months ending on the Determination Date, the first such period being the 12-month period ending 31 December 2017.

**"Financial Statements"** means:

- (a) the income statement;
- (b) the balance sheet; and
- (c) the cash flow statement,

in each case, forming part of the most recent audited annual consolidated financial statements of the Issuer, together with any notes to those documents and any accompanying reports, statements, declarations, other documents or information.

**"Group"** means the Issuer and its consolidated Subsidiaries from time to time, as reflected in the Financial Statements.

**"Indebtedness"** means any financial indebtedness of any Person for money borrowed or raised.

an **"Initial Event"** means, in relation to a Concession Event, Change of Control or a transaction described under paragraph (iii) of the definition of "Permitted Reorganisation", the earlier of:

- (i) the occurrence of that event or the completion of that transaction; or
- (ii) the first public announcement of that event or transaction to be made either (A) by, or with the consent of, the Issuer or (B) in accordance with any legal obligation.

**"Interest Payment Date"** means 13 April in each year.

**"Interest Period"** means the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

**"Intermediate Holding Company"** means a Subsidiary of the Issuer which itself has Subsidiaries.

**"Issue Date"** has the meaning given to it in Condition 6 (*Interest*).

**"Material Subsidiary"** means any Subsidiary of the Issuer which accounts for more than 5 per cent. of the Consolidated Assets and Consolidated Revenues and, for these purposes:

- (i) the Group's Consolidated Revenues and Consolidated Assets will be determined by reference to its then latest audited consolidated annual financial statements (the **"Relevant Consolidated Financial Statements"**); and
- (ii) the total revenues and total assets of each Subsidiary will be determined by reference to the annual financial statements (whether or not audited) of such Subsidiary and those of its own Subsidiaries (if any), in each case upon which the relevant consolidated financial statements of the Issuer have been based,

*provided that:* (A) if a Person has become a Subsidiary of the Issuer after the date on which the Relevant Consolidated Financial Statements have been prepared, the total revenues and total assets of that Subsidiary will be determined by reference to its latest annual financial statements (whether or not audited) and will be consolidated if that Subsidiary itself has Subsidiaries; (B) the Relevant Consolidated Financial Statements and the corresponding financial statements of each relevant Subsidiary will be adjusted (where appropriate) to reflect fairly the total revenues and total assets of, or represented by, any Person, business or assets subsequently acquired or disposed of; and (C) where an Intermediate Holding Company has one or more Subsidiaries at least one of which, under this definition, is a Material Subsidiary, then such Intermediate Holding Company will be deemed to be a Material Subsidiary.

**“Net Financial Debt”** means, as at the relevant Determination Date, the sum of the following items, each calculated on a consolidated basis:

- (i) total non-current financial liabilities; plus
- (ii) total current financial liabilities; plus
- (iii) total financial indebtedness arising from leasing and factoring transactions; less
- (iv) Assumed Concession Liabilities; less
- (v) payments on account by shareholders for capital increases; less
- (vi) cash and cash equivalents; less
- (vii) bonds and other immediately available financial market instruments, including capital-guaranteed insurance policies (solely in relation to the portion free from encumbrances),

in each case, as shown in, or determined by reference to, the Group’s latest audited consolidated annual balance sheet.

**“Permitted Holders”** means:

- (i) the municipalities or provinces in the Republic of Italy holding an equity interest in the share capital of the Issuer as at 12 April 2017, either directly or indirectly through one or more intermediate persons (including any consortiums incorporated pursuant to Article 31 of Legislative Decree No. 267 of 18 August 2000); or
- (ii) any Person directly or indirectly controlled by any of the foregoing;

**“Permitted Reorganisation”** means any *“fusione”* or *“scissione”* (such expressions bearing the meanings ascribed to them by the laws of the Republic of Italy) or any other reconstruction, amalgamation, reorganisation, merger, demerger, consolidation, disposal or transfer of assets or other similar arrangement (including any series of connected transactions) (each a **“Reorganisation”**):

- (i) on terms approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders; or
- (ii) in the case of a Material Subsidiary, any Reorganisation whilst solvent, whereby all or substantially all of the assets and undertaking of such Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary;
- (iii) in the case of the Issuer, any Reorganisation whereby all or substantially all of the Issuer’s assets and undertaking are transferred, sold, contributed or assigned to or otherwise vested

in one or more bodies corporate in good standing, validly organised and existing under the laws of the Republic of Italy (each, a “**Relevant Entity**”) and the following conditions are satisfied:

- (A) either:
    - (i) the Issuer continues to be the principal debtor in respect of the Notes; or
    - (ii) one Relevant Entity assumes the obligations of the Issuer as principal debtor in respect of the Notes by operation of law; and
  - (B) where a Substantial Part of the Issuer’s assets and undertaking is transferred, sold, contributed or assigned to or otherwise vested in one or more Relevant Entities, each such Relevant Entity (other than a Relevant Entity that has assumed the obligations as principal debtor pursuant to (A)(ii) above), on terms substantially in accordance with market standards for Eurobond transactions, unconditionally and irrevocably guarantees in favour of each Noteholder the due and punctual payment of all sums payable by the Issuer or, as the case may be, the Relevant Entity which has assumed the obligations of the Issuer as principal debtor in respect of the Notes by operation of law, under the Notes; and
  - (C) upon completion of such transaction, no Rating Event has occurred or occurs,
- and, following satisfaction of the above conditions, where a Relevant Entity assumes the obligations of the Issuer under the Notes pursuant to paragraph (iii)(A)(ii) above, all references to the “Issuer” in these Conditions shall be read as references solely to that Relevant Entity, with effect from the date on which the Reorganisation becomes effective.

“**Permitted Security Interest**” means:

- (i) any Security Interest arising by operation of law in the ordinary course of business of the Issuer or a Material Subsidiary;
- (ii) any Security Interest (A) over or affecting any asset or undertaking transferred, sold, contributed or assigned to or otherwise vested in the Issuer or a Material Subsidiary after the Issue Date or (B) created by a Person which becomes a Material Subsidiary after the Issue Date, where such Security Interest already exists at the time when that asset or undertaking is transferred, sold, contributed or assigned to or otherwise vested in the Issuer or a Material Subsidiary or (as the case may be) that Person becomes a Material Subsidiary *provided that* (1) such Security Interest was not created in connection with or in contemplation of the acquisition of that asset or, as the case may be, of that Person becoming a Material Subsidiary and (2) the aggregate principal amount of Indebtedness secured by such Security Interest is not increased and no additional assets become subject to such Security Interest, in both cases either in connection with or in contemplation of the transfer, sale, contribution, assignment or otherwise of that asset or undertaking or, as the case may be, that Person becoming a Material Subsidiary or at any time thereafter;
- (iii) any Security Interest (a “**New Security Interest**”) created in substitution for any existing Security Interest permitted under paragraph (ii) above (an “**Existing Security Interest**”), *provided that* (A) the principal amount of Indebtedness secured by the New Security Interest does not at any time exceed the principal amount of Indebtedness secured by the Existing Security Interest, and (B) the assets over which the New Security Interest is

created are the same as, or substantially equivalent in value to, the assets over which the Existing Security Interest subsisted, immediately prior to its substitution;

- (iv) any Security Interest created to secure Relevant Indebtedness represented by project bonds issued pursuant to Article 157 of Italian Legislative Decree No. 163 of 12 April 2006 (as amended); or
- (v) any Security Interest which is created in connection with, or pursuant to, a securitisation or like arrangement whereby (i) the payment obligations in respect of the Indebtedness secured by the relevant Security Interest are to be discharged solely from the revenues generated by the assets over which such Security Interest is created (including, without limitation, receivables) and (ii) the relevant creditor has no recourse in relation to such Indebtedness against any other assets of any member of the Group.

**“Proceedings”** means any legal action or proceedings arising out of or in connection with the Notes or the Coupons.

a **“Put Event”** shall be deemed to occur if:

- (i) a Concession Event occurs; or
- (ii) a Change of Control occurs,

and a Rating Event occurs or has occurred.

**“Rate of Interest”** means 1.950 per cent. per annum.

**“Rating Agency”** means any agency which is established in the European Economic Area and registered as a credit rating agency under Regulation (EU) No. 1060/2009, as amended.

a **“Rating Event”** will be deemed to have occurred following an Initial Event if, at the time of the occurrence of the Initial Event, the Notes carry from any Rating Agency either

- (i) an investment grade credit rating (BBB-/Baa3/BBB-, or equivalent, or better), and such rating from any Rating Agency is within 90 days of the occurrence of the Initial Event either downgraded to a non-investment grade credit rating (BB+/Ba1/BB+, or equivalent, or worse) or withdrawn and is not within such 90-day period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by an investment grade credit rating from any other Rating Agency; or
- (ii) a non-investment grade credit rating (BB+/Ba1/BB+, or equivalent, or worse), and such rating from any Rating Agency is within 90 days of the occurrence of the Initial Event downgraded by one or more notches (for illustration, Ba1 to Ba2 being one notch) and is not within such 90-day period subsequently upgraded to its earlier credit rating or better by such Rating Agency; or
- (iii) no credit rating, and no Rating Agency assigns within 90 days of the occurrence of the Initial Event an investment grade credit rating to the Notes,

and in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decision(s) resulted, in whole or in part, from the occurrence of the Initial Event.

**“Relevant Indebtedness”** means any present or future Indebtedness which is in the form of, or represented by, any bond, note, debenture, certificate or other securities and which is, or is capable of being, traded, quoted, listed or dealt in on any stock exchange or any over-the-counter or other securities market.

**“Relevant Taxing Jurisdiction”** means the Republic of Italy or any political subdivision or any agency or authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any agency or authority thereof or therein having power to tax to which the Issuer may become subject in respect of payments of principal and interest on the Notes and Coupons.

**“Reporting Date”** means a date falling no later than 30 days after the approval by the board of directors of the Issuer’s consolidated financial statements, with respect to each Financial Period ending on 31 December, provided that the approval shall be obtained within 180 days of the end of the Financial Period, the first Reporting Date being the date falling no later than 30 days after the approval by the board of directors of the Issuer’s consolidated financial statements for the year ending 31 December 2016.

**“Security Interest”** means, without duplication, a mortgage, charge, pledge, lien or other security interest.

**“Single Concession Contract”** means the concession agreement entered into on 1 October 2004 between the Issuer and the *Autorità d’ambito Torinese A.T.O. 3*, governing the SMAT Concession.

**“SMAT Concession”** means the legal concession granted by the *Autorità d’ambito Torinese A.T.O. 3* as concession grantor to the Issuer pursuant to applicable laws and regulations relating to the supply of integrated water services to the territory referred to in such legislation as “ATO3 – Torinese” under terms and conditions provided under the Single Concession Contract.

**“Subsidiary”** means in relation to any company, corporation or legal entity (a **“holding company”**), any company, corporation or legal entity which is controlled, directly or indirectly, by the holding company pursuant to article 2359 of the Italian Civil Code and is consolidated on a line-by-line basis in the holding company’s Financial Statements in accordance with the Accounting Principles.

a **“Substantial Part”** of the business, property, assets, undertaking or revenues of the Issuer or any of its Subsidiaries shall mean (as the case may be):

- (i) such business, property, assets or undertaking as account for at least 35 per cent. of the total assets of the Group; or
- (ii) such revenues as account for at least 35 per cent. of the total revenues of the Group.

**“TARGET Settlement Day”** means any day on which the TARGET System is open.

**“TARGET System”** means the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET2) or any successor thereto.

(b) **Interpretation:** in these Conditions:

- (iii) **“business day”** means a day on which commercial banks and foreign exchange markets are open in the relevant city and which is a TARGET Settlement Day;

- (iv) “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;
- (v) “**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders;
- (vi) any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under these Conditions; and
- (vii) any reference in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to Condition 14 (*Further issues*) and forming a single series with the Notes.

## 2 Form, denomination and title

- (a) **Form and denomination:** The Notes are serially numbered and in bearer form in denominations of €100,000, with Coupons attached at the time of issue.
- (b) **Title:** Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no Person will be liable for so treating the holder.

## 3 Status of the Notes

The Notes and Coupons constitute (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 5 (*Negative Pledge*), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

#### 4 Covenants and Compliance Certificate

- (a) **Limitation on indebtedness:** For so long as the Notes remain outstanding, the Issuer shall ensure that its Net Financial Debt-to-EBITDA ratio is no more than 5.0 to 1.0.
- (b) **Compliance Certificate:** For so long as the Notes remain outstanding:
  - (i) the financial ratio set out in Condition 4(a) (*Limitation on indebtedness*) shall be tested as at each Determination Date following approval by the Issuer's Board of Directors (or equivalent body) of the Financial Statements, so that the financial ratios will be tested once in each financial year based on the previous Financial Period, as evidenced by the Compliance Certificate in relation to such Financial Period delivered pursuant to Condition 4(c) (*Delivery of financial information*) and for the first time in respect of the 12-month period ending 31 December 2017; and
  - (ii) the Issuer shall, on each Reporting Date, make available for inspection by any Noteholder or Couponholder, free of charge at its own registered office and at all reasonable times during normal business hours at the specified office of each Paying Agent, a Compliance Certificate.
- (c) **Delivery of financial information:** The Issuer shall, as soon as the same becomes available and in any event no later than the Reporting Date, deliver to the Fiscal Agent an electronic copy of its Financial Statements for the Financial Period. The Issuer shall ensure that each set of Financial Statements is audited by independent auditors. So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer shall make available for inspection by any Noteholder or Couponholder, free of charge at its own registered office and at all reasonable times during normal business hours at the specified office of each Paying Agent, the Financial Statements for the Financial Period.
- (d) **Accounting policies:** The Issuer shall ensure that each set of Financial Statements delivered pursuant to Condition 4(c) (*Delivery of financial information*) is prepared using accounting policies, practices and procedures consistent with those applied in the preparation of the immediately preceding annual consolidated financial statements of the Group unless, in relation to any such set of Financial Statements, the Issuer includes in those financial statements (or provides the Fiscal Agent, for inspection by the Noteholders, with): (i) a description of any changes in accounting policies, practices and procedures; and (ii) sufficient information to make an accurate comparison between such Financial Statements and the previous financial statements.

#### 5 Negative Pledge:

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its undertaking, assets or revenues, present or future to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto:

- (i) securing the Notes equally and rateably therewith; or
- (ii) providing such other security, guarantee or other arrangement for the Notes as may be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

#### 6 Interest



- (a) The Notes bear interest from and including 13 April 2017 (the “**Issue Date**”) at the Rate of Interest, payable annually in arrear on each Interest Payment Date, commencing on 13 April 2018.
- (b) Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day which is seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).
- (c) Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).
- (d) Interest in respect of any Note shall be calculated per Calculation Amount. The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Rate of Interest, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## 7 Redemption and purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 13 April 2024 (the “**Final Maturity Date**”).
- (b) **Redemption for taxation reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Relevant Taxing Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 12 April 2017, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall deliver to the Fiscal Agent a certificate signed by a duly authorised director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.
- (c) **Redemption at the option of Noteholders upon a Put Event:** If at any time while any Note remains outstanding a Put Event occurs, the holder of each Note will have the option (a “**Put Option**”) (unless prior to the giving of the relevant Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 7(b) (*Redemption for taxation reasons*) above) to require the Issuer to redeem or, at the Issuer’s option, purchase (or procure the purchase

of) that Note on the Put Date (as defined below) at its principal amount together with (or, where purchased, together with an amount equal to) accrued and unpaid interest (if any) to (but excluding) the Put Date.

Promptly and in any event within 10 business days from the date on which the Issuer becomes aware that a Put Event has occurred, the Issuer shall give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 15 (*Notices*), with a copy to the Fiscal Agent, specifying the nature of the Put Event and the procedure for exercising the Put Option.

To exercise the Put Option, the holder of a Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the “**Put Period**”) of 30 days after a Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Put Notice**”) stating, *inter alia*, that such Noteholder requires early redemption (or, at the Issuer’s option, purchase) of all or some of its Notes pursuant to this Condition 7(c). The Note shall be delivered together with all Coupons appertaining thereto maturing after the date which is 15 Business Days after the expiration of the Put Period (the “**Put Date**”), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 12 (*Replacement of Notes and Coupons*)) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 7(c) shall be treated as if they were Notes. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Put Date unless previously redeemed (or purchased) and cancelled.

- (d) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7(a) (*Final redemption*) and 7(b) (*Redemption for taxation reasons*) above.
- (e) **Notice of redemption:** All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.
- (f) **Purchase:** The Issuer and its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13 (*Meetings of Noteholders, Noteholders’ Representative and modification*). Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to the Fiscal Agent for cancellation.

- (g) **Cancellation:** All Notes which are (i) purchased by the Issuer or any of its Subsidiaries and surrendered to the Fiscal Agent for cancellation or (ii) so redeemed, and, in each case, any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be re-issued or resold.

## 8 Payments

- (a) **Method of payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a Euro account specified by the payee with a bank in a city in which banks have access to the TARGET System. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (c) **Surrender of unmatured Coupons:** Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date for the relevant payment of principal.
- (d) **Payments on business days:** A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 8 falling after the due date.
- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed in the Fiscal Agency Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Fiscal Agent or Paying Agent and appoint additional or other Fiscal Agents or Paying Agents, provided that it will maintain (i) a Fiscal Agent and (ii) a Paying Agent (who may be the Fiscal Agent) with a specified office in at least one major European city outside the Republic of Italy or (if different) the jurisdiction(s) to which the Issuer is subject for the purpose of Condition 9 (*Taxation*).

## 9 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons, as the case may be, shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Taxing Jurisdiction, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

- (i) in respect of any Note or Coupon presented for payment in the Republic of Italy; or

- (ii) in respect of any Note or Coupon presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Note or Coupon or by the receipt of any amounts in respect of the Notes; or
- (iii) in respect of any Note or Coupon presented for payment by, or on behalf of, a holder who is entitled to avoid such withholding or deduction in respect of the Note or Coupon by making a declaration or any other statement to the relevant tax authority, including, but not limited to, a declaration of residence or non-residence or other similar claim for exemption; or
- (iv) for or on account of *imposta sostitutiva* or any alternative future system of deduction or withholding set forth in Legislative Decree No. 239 of 1 April 1996, as amended, including in all circumstances in which the procedures to obtain an exemption from *imposta sostitutiva* have not been met or complied with, except where such procedures have not been met or complied with due to the actions or omissions of the Issuer or its agents; or
- (v) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC (as amended by European Council Directive 2014/48/EU of 24 March 2014) or any law or agreement implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) in respect of any Note or Coupon presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (vii) in respect of any Note or Coupon presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a presentation date pursuant to Condition 8 (*Payments*).

## 10 Events of Default

If any of the following events occurs and is continuing:

- (a) **Non-payment:** the Issuer fails to pay the principal of or any interest on any of the Notes when due and such failure continues for a period of five business days in the case of principal and seven business days in the case of interest; or
- (b) **Breach of other obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is (i) incapable of remedy or (ii) capable of remedy but is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (c) **Cross-default:** (i) any other present or future Indebtedness of the Issuer or any Material Subsidiary becomes due and payable prior to its stated maturity by reason of any actual default or event of default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any Material Subsidiary fails to pay when due or, as the case may be, within any applicable grace period, any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness *provided that* the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition

10(c) have occurred equals or exceeds €10,000,000 or its equivalent in the relevant currency of payment; or

- (d) **Enforcement proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any Substantial Part of the property, assets or revenues of the Issuer or any of its Material Subsidiaries and is not discharged or stayed within 60 days; or
- (e) **Security enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary to secure Indebtedness having an aggregate value of at least €10,000,000 or its equivalent in the relevant currency of payment becomes enforceable and is enforced (including the taking of possession or the appointment of a receiver, manager or other similar Person) unless discharged or stayed within 60 days; or
- (f) **Insolvency, etc:** (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator, liquidator or other similar officer is appointed in respect of the Issuer or any of its Material Subsidiaries or the whole or any Substantial Part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries (other than for the purposes of, or pursuant to, a Permitted Reorganisation), (iii) the Issuer or any of its Material Subsidiaries takes any action for a general readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or any class of its creditors, or (iv) the Issuer or any of its Material Subsidiaries declares or proposes a moratorium in respect of any of its Indebtedness or any guarantee and/or indemnity given by it in relation to any Indebtedness;
- (g) **Cessation of business:** the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (other than for the purposes of, or pursuant to, a Permitted Reorganisation) *provided that* the occurrence of a Concession Event will not trigger the Event of Default set out in this Condition 10(g);
- (h) **Analogous event:** any event occurs which under any applicable laws has an analogous effect to any of the events referred to in paragraphs (d) (*Enforcement Proceedings*) to (g) (*Cessation of business*) above (both inclusive); or
- (i) **Failure to take action etc:** any action, condition or thing (including, without limitation, the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence or order) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, perform and comply with its obligations under and in respect of the Notes and the Agency Agreement and (ii) to ensure that those obligations are legal, valid, binding and enforceable; or
- (j) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Notes,

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued and unpaid interest (if any) without further formality.

## 11 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 8 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## 12 Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

### **13 Meetings of Noteholders, Noteholders' Representative and Modification**

#### **(a) Meetings of Noteholders:**

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including, *inter alia*, the modification or abrogation by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Notes or any of the provisions of the Fiscal Agency Agreement. Such provisions are subject to compliance with mandatory laws, legislation, rules and regulations of Italy in force from time to time applicable to the Issuer and, where applicable Italian law so requires, the Issuer's By-laws (*statuto*), including any amendment, restatement or re-enactment of such laws, legislation, rules and regulations (or, where applicable, the Issuer's By-laws) taking effect at any time on or after the Issue Date.

Subject to the above, in relation to the convening of meetings, quorums and the majorities required to pass an Extraordinary Resolution:

- (i) any such meeting may be convened by the Board of Directors of the Issuer or by the Noteholders' Representative (as defined below) at their discretion and, in any event, when a request is made in writing by Noteholder(s) holding not less than one-twentieth of the aggregate principal amount of the Notes for the time being outstanding, in each case in accordance with Article 2415 of the Italian Civil Code, or, in default of such request, by a decision of the competent court in accordance with Article 2367, paragraph 2, of the Italian Civil Code;
- (ii) every such meeting shall be held at such time and place as provided pursuant to Article 2363 of the Italian Civil Code and the Issuer's By-laws (*statuto*);
- (iii) such a meeting will be validly convened if there are one or more persons present being or representing Noteholders holding at least 75.0 per cent. of the aggregate principal amount of the outstanding Notes, subject to compliance with mandatory laws, legislation, rules and regulations of Italy in force from time to time and the Issuer's By-laws (*statuto*); and
- (iv) the majority required to pass an Extraordinary Resolution at any meeting (including any adjourned meeting) convened to vote on any Extraordinary Resolution will be one or more persons holding or representing at least 75.0 per cent. of the aggregate principal amount of the outstanding Notes and 40.0 per cent. of the aggregate principal amount of the outstanding Notes represented at the meeting, subject to compliance with mandatory laws, legislation, rules and regulations of Italy in force from time to time and the Issuer's By-laws (*statuto*).

The Notes shall not entitle the Issuer to participate and vote in the Noteholders' meetings. Directors and statutory auditors of the Issuer shall be entitled to attend the Noteholders' meetings. An Extraordinary Resolution duly passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

#### **(b) Noteholders' representative:**

Pursuant to Articles 2415 and 2417 of the Italian Civil Code, a representative of Noteholders (*rappresentante comune* or “Noteholders’ Representative”) is appointed by an Extraordinary Resolution, inter alia, to represent the common interests of the Noteholders as well as to give effect to Extraordinary Resolutions passed at a meeting of Noteholders. In the event the Noteholders’ meeting fails to appoint a Noteholders’ Representative, such appointment may be made at the request of any Noteholder or of the Board of Directors of the Issuer by an order of the competent court. The Noteholders’ Representative shall have the powers and duties set out in Article 2418 of the Italian Civil Code and remains appointed for a maximum period of three fiscal years but may be reappointed again thereafter.

**(c) Modification:**

The Notes, the Coupons and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error or if the amendment is of a formal, minor or technical nature. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless (i) it is of a formal, minor or technical nature, (ii) it is made to correct a manifest error, (iii) it is not materially prejudicial to the interests of the Noteholders, or (iv) it is made to comply with mandatory laws, legislation, rules and regulations of Italy and the Issuer's By-Laws (*statuto*), entered into force at any time while the Notes remain outstanding, applicable to the convening of meetings of Noteholders, quorums and the majorities required to pass Extraordinary Resolutions at a meeting of Noteholders.

**14 Further issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

**15 Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper (which is expected to be the Financial Times) and, for so long as the Notes are admitted to trading on the regulated market of the Irish Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in the Republic of Ireland or on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

**16 Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

**17 Governing law**

- (a) **Governing law:** The Fiscal Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, save that provisions in these Conditions and in the Fiscal Agency Agreement relating to Noteholders' meetings and the Noteholders' Representative are subject to compliance with mandatory provisions of Italian law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons and accordingly any Proceeding may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Noteholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for service of process:** The Issuer irrevocably appoints The London Law Agency Limited of The White House, 57-63 Church Road, Wimbledon, London SW19 5SB as its agent in England to receive service of process in any Proceedings in England based on any of the Notes or the Coupons. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.



## **SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM**

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together, the “Global Notes”) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

### **Form of Notes**

#### ***Temporary Global Note***

The Notes will initially be in the form of a Temporary Global Note which will be deposited on or around the Issue Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

#### ***Eligibility of the Notes for Eurosystem monetary policy***

The Notes will be issued in new global note form and, as such, are intended to be held in a manner which will allow for them to be eligible as collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem. This means that the Notes are upon issue deposited with one of the international central securities depositories (ICSDs) as common safekeeper but does not necessarily mean that the Notes will actually be recognised as eligible, either upon issue or at any time during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations, as specified by the European Central Bank from time to time.

#### ***Exchange for Permanent Global Note***

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

#### ***Exchange for Definitive Notes***

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (“**Definitive Notes**”) in the denomination of €100,000, at the request of the bearer of the Permanent Global Note if (i) Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) any of the circumstances described in Condition 10 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached (in respect of interest which has not already been paid in full on the Permanent Global Note), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent not less than 60 days or, in the case of exchange following principal in respect of the Notes not being paid when due and payable, 30 days from the date on which notice from the bearer requesting such exchange is given.

### **Modifications to Terms and Conditions of the Notes**

In addition, the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg, but any failure to make the entries in the records of Euroclear or Clearstream, Luxembourg shall not affect the discharge referred to above.

*Payments on business days:* In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note, Condition 8(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which the TARGET System is open.

*Exercise of put option:* In order to exercise the option contained in Condition 7(c) (*Redemption at the option of Noteholders upon a Change of Control*), the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to any Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Notices:* Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note (or, as the case may be, by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or, as the case may be, the Permanent Global Note and/or the Temporary Global Note are) held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg except that, for so long as such Notes are admitted to trading on the Irish Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)).

## **USE OF PROCEEDS**

The proceeds of the issuance of the Notes will be used by the Issuer for general corporate purposes and, in particular, the financing of investments in infrastructure related to the supply of integrated water services under the SMAT Concession. For further information, see “*Description of the Issuer – Strategy*”.

## DESCRIPTION OF THE ISSUER

### Overview

The Issuer is a publicly-owned company limited by shares (*società per azioni*) incorporated under Italian law and operating under Articles 2325 to 2451 of the Italian Civil Code. Its registered office and principal place of business is at Corso XI Febbraio 14, 10152 Turin, Italy and it is registered with the Companies' Registry of Turin under registration number 933415, while its Tax Code and VAT Number is 07937540016. The telephone number of its registered office is +39 011 4645 111.

The Issuer in its current form came into being on 1 April 2001 as a result of the merger of the businesses of Azienda Acque Metropolitane Torino S.p.A. ("AAMT") and Azienda Po Sangone ("APS"). Prior to the merger, AAMT was one of the principal companies specialising in the supply of drinking water in the north-west of Italy, while APS operated in the waste water treatment sector in the Turin area. Since its incorporation, SMAT has held the concession, originally granted in 2004, for the entire water cycle in the territory specified under legislation and known as ATO 3 – Torinese ("ATO 3 Torinese" or "ATO 3").

The Group operates in the field of integrated water services, comprising (i) drinking water production and distribution (ii) the collection of wastewater through a sewer network (sewerage) and (iii) the treatment of wastewater and its reuse or return to the environment. The Issuer operates water supply networks and treatment plants for drinking water and sewage which, in the view of its management, are among the most advanced in Europe.

The services provided by the Issuer are concentrated principally in the north-west of Italy and, in particular, in the former Province of Turin, now known as the Turin Urban District (*Città Metropolitana Torinese*), where it operates in a total of 292 municipalities. The vast majority of the Group's business comprises regulated services involving the operation of the integrated water service in ATO 3, and the Issuer is directly owned by the municipalities in the territories in which it operates, with the city of Turin holding a majority stake.

### Selected Financial Information

The following table shows a calculation of the Issuer's consolidated EBIT, EBITDA and EBITDA margin for the years ended 31 December 2015 and 2014.

	For the year ended 31 December	
	2015	2014
	<i>(in Euro thousands)</i>	
Profit for the year SMAT GROUP.....	50,418	48,047
Profit attributable to non controlling interest.....	192	108
<b>Profit includes the portion of third parties.....</b>	<b>50,610</b>	<b>48,155</b>
Current, deferred and advanced taxes on the income for the year .....	24,956	22,114
Total extraordinary income and expenses.....	6	27
Total adjustments .....	3,499	(5,303)
Total financial income and expenses .....	2,083	2,553
<b>Operating profit - EBIT.....</b>	<b>81,154</b>	<b>67,546</b>
Amortisation and depreciation .....	56,284	49,571
Provisions for other charges.....	0	18
<b>Gross operating profit - EBITDA.....</b>	<b>137,438</b>	<b>117,135</b>
Total revenues .....	342,841	313,123
	<i>(%)</i>	
<b>EBITDA margin .....</b>	<b>40.1</b>	<b>37.4</b>

The following table shows a calculation of the Issuer's consolidated Net financial position as at 31 December 2015 and 2014.

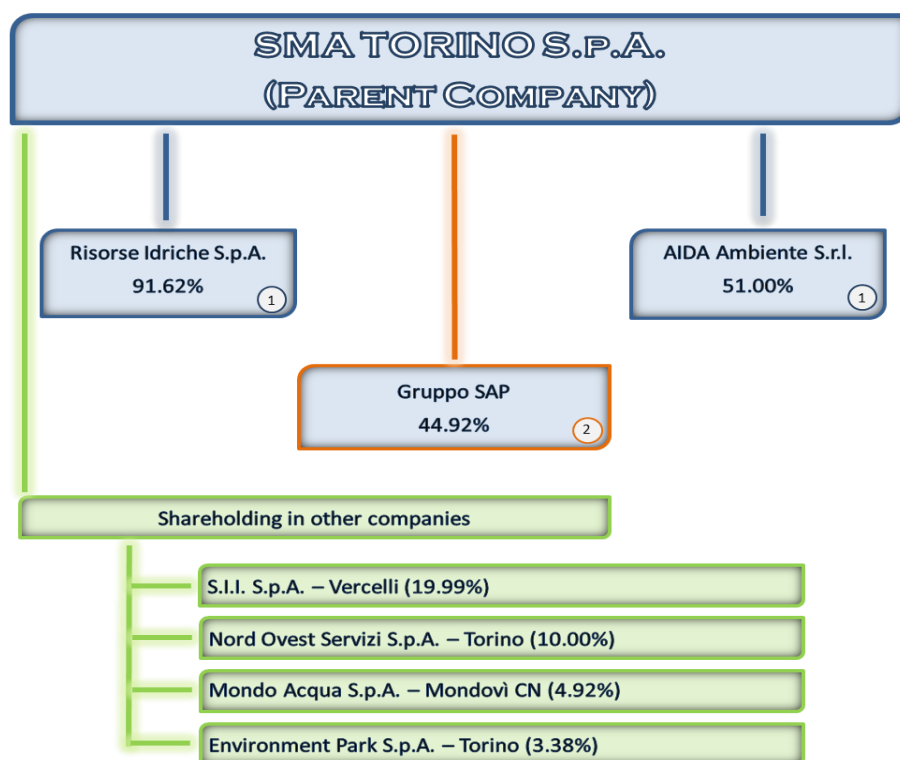
	As at 31 December	
	2015	2014
	<i>(in Euro thousands)</i>	
Cash and cash equivalents .....	12,001	12,595
Short-term financial debts .....	(27,822)	(28,955)
	<b>15,821</b>	<b>16,360</b>
Medium and long payables.....	(245,482)	(223,238)
<b>Net financial position</b> .....	<b>(261,303)</b>	<b>(239,598)</b>

On the basis of the above figures, the Issuer's consolidated Net debt / EBITDA ratio as at 31 December 2015 was 1.90 : 1.00, compared to 2.05 : 1.00 at the previous year end.

See also "Non-GAAP financial measures" at the beginning of this Prospectus on page iii.

### The Group

The following chart illustrates the main subsidiaries of SMAT as at the date of this Prospectus.



#### Legend:

- Companies included in the area of consolidation\*
- Companies not included in the area of consolidation

\*Consolidation method:

1 – Full Consolidation

2 – Consolidation with Equity Method

## ***Subsidiaries***

A description of the Issuer's Subsidiaries from the above chart is set out below. As at the date of this Prospectus, none of the Issuer's Subsidiaries are Material Subsidiaries for the purposes of the Terms and Conditions of the Notes.

### ***Risorse Idriche S.p.A.***

Risorse Idriche S.p.A. ("**Risorse Idriche**") supplies turnkey systems and has many years of experience in engineering, site management, quality control and testing of water systems and networks. The Issuer has a 91.62% shareholding in Risorse Idriche, with the remaining shares held by other engineering and training companies operating both inside and outside of Italy.

### ***AIDA Ambiente S.r.l.***

Established in 2008 under legislation requiring the streamlining of the integrated water cycle in ATO 3 Torinese, Aida Ambiente S.r.l. ("**Aida Ambiente**") is a contractor in the operation of parts of the Issuer's business in the Turin Urban District. Aida Ambiente is 51% owned by the Issuer and 49% owned by A.I.D.A. - Azienda Intercomunale Difesa Ambiente, which is also a public company owned by a number of municipalities in the Turin Urban District.

## ***Companies under joint control***

### ***SAP***

Acque Potabili S.p.A. was a listed company operating in the integrated water cycle business and, in 2005, the Issuer acquired a controlling stake in the company together with AMGA S.p.A. (now Ireti S.p.A., a company forming part of the Iren group, which is a multi-utility operator). In January 2015, the company was merged by incorporation into Sviluppo Idrico S.r.l., a limited liability company held in equal shares by the Issuer and the Iren group, and as a result was delisted. The incorporating company then changed its name to SAP S.p.A. ("**SAP**"). As at the date of this Prospectus, the Issuer and the Iren group each hold a 44.92% stake in SAP, with the remaining 10.16% held by minority shareholders.

On April 2015, the board of directors of SAP resolved to transfer its business relating to concessions in ATO 3 Torinese and the Liguria region respectively to the Issuer and Iren Acqua e Gas S.p.A. (now Ireti S.p.A.). The business relating to ATO 3 Torinese comprised water integrated services for 29 municipalities and was acquired by SMAT for €32.9 million, thereby allowing the Issuer to cover the whole of the Turin Urban District. The above transactions were implemented as part of a reorganisation process involving the transfer of SAP's activities to its majority shareholders, i.e. SMAT and the Iren group. See also "*Recent Developments - Completion of SAP reorganisation*".

## **Business**

Integrated water cycle services and related services represent all of the Issuer's business and can be divided as follows:

- production and distribution of drinking water;
- collection of household and industrial wastewater; and
- treatment of wastewater and its reuse or return to the environment.

In Italy, these activities are regulated and managed by local operators on the basis of concessions with an average duration of 20 years. Pursuant to Article 21 of Law Decree No. 201 of 6 December 2011, the former national agency for regulating and supervising water matters was abolished and its functions are now performed by the

*Autorità per l'Energia Elettrica, il Gas e il Sistema Idrico* (the Authority for Electrical Energy, Gas and the Water Supply or the "AEEGSI"). Following this change, the tariffs payable by customers in the water sector (as proposed by the competent district authorities within each district) must be proposed by the local authority (ATOs) and approved by the AEEGSI. See the section "Regulation" below.

Operating mainly in the north-west of Italy, SMAT provides its services in ATO 3 Torinese, specified under the regional law governing water integrated services (Law No. 13 of 20 January 1997), which covers the territory of 306 municipalities in Turin Urban District. Of these, the Issuer operates in the territory of 292 local authorities containing 2,269,357 inhabitants, providing services for the full integrated water cycle, with the exception of a limited number of municipalities where the Issuer's activity is limited to wastewater treatment, a small number of municipalities (under 1,000 inhabitants and located in mountain areas) that are allowed to operate the water supply and a number of private consortia that are allowed to supply water to their members under two-year authorisations from the local regulator ("Autorità d'ambito Torinese A.T.O. 3" or the "ATO 3 Authority"). Following the acquisition in 2015 of the integrated water cycle business of SAP, the Issuer's coverage extends to almost the whole of Turin Urban District, covering 99.54% of the population.

### **Strengths**

The Issuer's management believes the Group's main strengths are as follows:

- *Geographical area of operations*: the Group carries on substantially all of its business in the Turin Urban District, which is one of the wealthiest regions in Italy;
- *Stable and supportive regulatory framework* : in recent years, the regulatory framework has been relatively favourable to providers of the integrated water service and, in particular, its tariff system provides for full recovery of costs and, in principle, no volume exposure;
- *Predictable financial performance*: due to the stability of the tariff mechanism, the Issuer's financial performance is subject to fewer uncertainties in comparison to other parts of the utilities sector, resulting in a relatively predictable financial performance and a reasonably sound liquidity profile;
- *Investment grade rating*: S&P initially assigned a BBB rating to the Issuer in June 2015 and has maintained that rating since then<sup>1</sup>;
- *Experienced management team*: the Group's management is made up of individuals with long-time experience in the sector; and
- *Stable ownership structure*: the Issuer's controlling shareholder is the City of Turin.

### **Water supply**

Drinking water services consist of the extraction of fresh water, its preparation for human consumption and then its distribution and sale directly to retail users.

#### *Extraction*

Most of the water extracted by the Group (approximately 82%) comes from underground rather than from surface sources. Over 67% of water distributed originates from wells, which draw from one or more underground aquifers and a further 15% is extracted from springs in Pian della Mussa in the Alps north-west of Turin and Sangano to the west of Turin. The remaining water is from surface sources and, in particular, from the River Po and its tributaries. The Issuer was the first water supplier in Italy to use surface water.

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<sup>1</sup> See "Recent Developments – Credit outlook revised to negative by S&P"

### *Potabilisation*

Water is treated before distribution to customers to reduce or eliminate compounds and substances in excess of the limits permitted under applicable law. In particular, water drawn for drinking purposes is disinfected before it is supplied to the network (potabilisation). In relation to water extracted from the surface, SMAT has built a plant that enables it to make water from the River Po drinkable at a rate of up to 2,500 litres a second, representing 18% of water inputted into the supply.

### *Mains distribution system*

The SMAT Group's water mains system covers a network of over 12,000 kilometres of pipelines supplying nearly 200 million cubic metres of drinking water per annum. The Group's water distribution system is a complex network of several inter-connected networks and plants, which are connected to various supply sources in order to ensure a continuous supply even if a particular water source or plant is affected by a temporary interruption or shutdown.

SMAT's Research Centre monitors and tests the chemical, physical and microbiological characteristics of its fresh water with a view to ensuring compliance with current environmental standards, carrying out over 660,000 laboratory analyses on average each year.

### *Monitoring distribution network*

The SMAT Group regularly monitors its distribution network, both electronically and through periodic inspections and preventative tests aimed at establishing the durability of the Group's plants and equipment, as well as through the performance of tests on the network's operating pressure, capacity and losses (i.e. leaks). In 2015, the Issuer's network losses, on average, were approximately 24.6%<sup>1</sup> per cent. of water introduced into the system for that year, as compared to the national average of 37.4% (*Source*: REF Ricerche – Position paper 1, 23 October 2015).

### ***Waste water services***

Waste water may be classified as follows:

- domestic or non-industrial waste water produced by households and small offices and containing both organic substances and substances derived from products used for domestic cleaning and personal hygiene (sometimes referred to as black waste water);
- industrial waste water, released during production processes and typically containing a high concentration of pollutants; and
- meteoric waste water produced by climatic conditions (i.e. rainwater, floods etc.) collected from road drains and gutters (sometimes referred to as white waste water).

### *Maintenance of sewage network*

SMAT provides for the disposal of urban sewage through its network including over 8,800 km of pipeline. Sewage systems require regular ordinary maintenance operations, such as monitoring the efficiency of the pumping plants, removing sediments and obstacles that may obstruct water flows and maintaining public manholes. Extraordinary maintenance operations include renovation, restructuring or repairs to improve operating conditions, hydraulic efficiency and the infrastructural safety of the network. The Group employs specialist internal maintenance teams for programmed and emergency operations and outsources some of the major infrastructural maintenance works. Inspections of the network are partly performed using motorised sampling by cameras moving through sewers (sewer video inspection).

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<sup>1</sup> Note: Figure relates to the City of Turin only (but is, in any event, below the national average for urban areas).



### *Treatment*

The constant operation of 415 small, medium-sized and large treatment plants makes it possible to treat over 343 million cubic metres of sewage each year. The Group's plant in Castiglione Torinese is, in terms of capacity, the largest chemical, physical and biological treatment plant in Italy and represents a technological benchmark through its use of biogas recovery.

### *Maintenance of waste water plants*

The Group is responsible for the ordinary and extraordinary maintenance of its waste water treatment plants. The Group monitors its largest plants (in terms of capacity) 24 hours a day with the assistance during business hours by specialist staff. Other plants are monitored through regular visits and a remote control system, which is used to monitor the operational efficiency and status of all its plants.

### **The ATO 3 Concession**

The Issuer operates on the basis of a key concession, namely the concession for the supply of the integrated water service for ATO3 Torinese ("**ATO 3 Concession**"). The Issuer also holds a number of other concessions granted by the relevant local bodies, all of which, together with various other permits and authorisations, are incidental to the operation of the ATO 3 Concession.

Subject to conditions previously provided for under EU jurisprudence and now covered by EU and Italian legislation, concessions for the integrated water service may be granted to so-called "in-house" providers without any public tender procedure. The Issuer was awarded the ATO 3 Concession without a public tender on the basis that it satisfies the following requirements to qualify as an in-house provider, currently set out under Article 12 of EU Directive 24/2014 and Article 5 of Legislative Decree No. 50/2016:

- the local public entities exercise control over the company which is similar to that which they exercises over their own departments;
- there is no direct private capital participation in the controlled company with the exception of non-controlling and non-blocking forms of private capital participation required by national legislative provisions, in conformity with the EU treaties, which do not exert a decisive influence on the controlled company; and
- more than 80% of the activities of the controlled company are carried out in the performance of tasks entrusted to it by the controlling entities or by other legal persons controlled by those entities.

For further information see "*Regulation*". SMAT's core-business turnover is well above the 80% minimum.

The streamlining of operations in ATO 3 Torinese and the consequent supply of the integrated water cycle service under the tariff system and investment plan set out by the ATO 3 Authority is carried out pursuant to the following agreements:

- the concession contract dated 1 October 2004, implementing Resolution No. 173 dated 27 May 2004 of the ATO 3 Authority;
- a supplemental deed executed on 2 October 2009 to reflect the periodic review of the area plan for ATO 3 for 2008-2023 approved by the ATO 3 Authority by Resolution No. 349 of 27 March 2009;
- an agreement signed on 28 December 2007 with Acea Pinerolese S.p.A. (a local multi-utility company which acts as an outsourcer for certain phases of the drinking water service for a limited number of municipalities in the Pinerolo area) and the implementation, with effect from 1 July 2007, of the provisions of Resolution No. 282 of the ATO 3 Authority dated 14 June 2007, confirming the position of SMAT as sole operator of the integrated water cycle in ATO 3 and that of Acea Pinerolese as continuing operator in its

historic territory (located in the south-west of Turin Urban District), as subsequently amended by the parties on 20 November 2015;

- resolutions issued by the ATO 3 Authority and the AEEGSI extending the duration of the ATO 3 concession from 31 December 2023 to 31 December 2033 (see “- *Recent Developments - Extension of ATO 3 Concession*”); and
- a deed of amendment to the concession contract, as subsequently amended, executed by the ATO 3 Authority and the Issuer on 8 August 2016 in order to implement the “Standard Agreement” issued by the AEEGSI and approved by the ATO 3 Authority by Resolution No. 598 of 29 April 2016 (for further information, see “*Regulation*”) and by the AEEGSI under Resolution No. 571/2016/R/IDR dated 14 October 2016.

The concession agreement executed by SMAT and the ATO 3 Authority in 2004, as subsequently amended, and the related annexes regulate, *inter alia*, the following:

- the scope of the ATO 3 Concession and, accordingly, also the operation of the integrated water service in ATO 3 Torinese (including performing regular maintenance);
- the parameters of the service to be operated by SMAT;
- the duration of the concession and events allowing for its extension;
- the obligations of the Issuer and the ATO 3 Authority;
- the update mechanism of the integrated water district plan setting out, *inter alia*, an investments policy and management plan relating to the territory (*Piano d'Ambito*);
- the procedure and the measures for each review of the economic-financial balance of the concession
- the powers of the ATO 3 Authority (mainly, inspections and control activities);
- the procedure related to the step-in of the incoming concession holder after expiry or early termination of the ATO 3 Concession and payment of the VR to the outgoing concession holder;
- the grounds for early termination and force majeure events; and
- the liquidated damages or sanctions for non-performance or default.

For further information on the regulatory framework applicable to the ATO 3 Concession, see “*Regulation*”.

### **Research Centre**

The SMAT Research Centre was founded in 2008. In addition to being one of the suppliers of flight water for the ISS (International Space Station), since its inauguration, SMAT has increased its research and innovation endeavours. In particular, efforts have been dedicated to starting and carrying out a research programme in the water sector, including academic and industrial partnerships. The Issuer has created a network of contacts and collaboration with world class universities, national and international research centres, trade associations and industrial partners academically recognised at a European level. This approach has allowed for the integration of different kinds of expertise, the expansion of research areas and potential, and the contribution to technological innovation and industrial development in the water sector.

Some of the SMAT Research Centre’s recent projects are:

- “SOFCON”, financed by the European Union within the 7th Framework Programme and designed to test in an innovative application up-and-coming energy systems such as fuel cells;

- “BIOCIDE”, financed by the European Space Agency and geared toward the optimisation of the production and transport of water for human consumption to be applied during future “long range” and “long term” space missions;
- “IoTiBevo”, winner of the Smart Communities Prize SMAU 2015, concerning the development by the Issuer of “smart” water booths known as “Punti Acqua” by adding innovative features;
- “DEMOSOFC”, financed by the European Union under the Horizon2020 programme, which envisages the development of a solid oxide fuel cell installation, which is intended to represent the first European example of high-efficiency cogeneration of biogas with medium-power fuel cells; and
- “BIOWYSE”, also financed under Horizon 2020, with the aim of developing an integrated system comprising a biocontamination analyser and a UV decontamination device for future space missions

## **Strategy**

Under the Issuer’s strategy, as set out in its 2015-2019 business plan approved by its shareholders’ meeting in June 2015, the Issuer’s management has set a number of targets for strategic, organisation, management and structural improvements, which are expected to have an impact on investments. In particular, the Issuer’s long term 2015-33 business plan provides for future expenditure in investments (€1.6 billion) among which three major works are classified as “strategic”:

- the water works in Valle Orco, serving the Eporediese and Canavesano districts (north of Turin);
- the sewage canal for the drainage of white waste water and the upgrade of the sewage infrastructure between municipalities serving the city of Turin; and
- the qualitative-quantitative upgrade of the drinking water treatment plant for surface water from the River Po.

The need to obtain funding (over €400 million) and the relatively favourable economic conditions, which have made it possible to activate the works at costs that are unusually competitive, also led the shareholders’ meeting to apply for the extension of the Issuer’s concession to 2033 which has been submitted to and approved by the ATO 3 Authority and AEEGSI. In the period from 2015 to 2033, the Issuer’s management expects investments to be carried out amounting to a total of over €1.6 billion.

## **Financing**

### ***Loan facilities***

As at 31 December 2015, the Group had credit facilities amounting to €273,237,594. The Issuer is currently the only obligor under the Group’s facilities. The following table shows the amounts outstanding under the Group’s lending facilities as at 31 December 2015 and 2014.

Lender	Maturity date	Amount outstanding as at 31 December	
		2015	2014
		<i>(amounts in Euro)</i>	
Italease (now Banco Popolare Divisione Leasing) .....	31/12/2020	8,604,977	10,208,990
Intesa Sanpaolo .....	30/06/2021	15,019,568	19,255,134
European Investment Bank .....	19/12/2022	91,000,000	104,000,000
European Investment Bank .....	30/12/2022	68,892,500	72,595,000
Cassa Depositi e Prestiti .....	30/06/2023	37,500,000	42,500,000
European Investment Bank .....	30/06/2023	50,000,000	-
Other <sup>(*)</sup> .....	2015 – 2022	2,220,549	3,444,295
<b>Total .....</b>		<b>273,237,594</b>	<b>252,003,419</b>

(\*) A total of 20 facilities at 31 December 2014, mainly signed with Cassa Depositi e Prestiti.

On 1 December 2016, the Issuer made a second drawdown, amounting to €50,000,000 and maturing in 2023, under its most recent €100 million loan agreement with the European Investment Bank, which is now fully utilised.

As at 31 December 2016 the outstanding amount of the Issuer's loans was €295,481,925<sup>1</sup>.

### ***Debt securities***

The Issuer has not previously issued any debt securities.

### **Guarantees**

SMAT has issued guarantees and/or has procured the issue of guarantees by third parties for a total amount of €17,857,925, the most significant being a guarantee with regard to environmental matters amounting to €11,196,153, followed by its guarantee for concession breach amounting to €2,118,896. No guarantee has been issued by SMAT in respect of the liabilities of its subsidiaries.

### **Share Capital and Shareholders**

#### ***Share capital***

As at 31 December 2015, the Issuer had a share capital of €345,533,761.65, fully paid in, consisting of 5,352,963 ordinary shares with a nominal value of €64.55 each. There have been no changes to the Issuer's share capital since 31 December 2015.

The Issuer has no savings shares (i.e. shares without voting rights) and its ordinary shares are unlisted.

#### ***Shareholders***

The City of Turin directly holds 3,231,679 shares and indirectly, through Finanziaria Città di Torino Holding S.r.l., holds a further 202,500 shares, overall representing 64.15% of the Issuer's share capital. Excluding treasury shares,

<sup>1</sup> Source: Internal management data (unaudited).

the remaining 1,533,119 shares of the Issuer, representing 28.64% of its share capital, are held by 294 shareholders, of which 291 are municipalities.

The following table sets out the persons who have significant shareholdings in the Issuer as at the date of this Prospectus.

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage of total</i>
City of Turin	3,434,179	64.15
- held directly	3,231,679	60.37
- held through <i>Finanziaria Città di Torino Holding S.p.A.</i>	202,500	3.78
C.I.D.I.U. S.p.A. <sup>(*)</sup>	585,047	10.93
Municipality of Moncalieri	140,441	2.62
Municipality of Nichelino	120,341	2.25
Others	687,290	12.84
<b>Total (excluding treasury shares)</b>	<b>4,967,298</b>	<b>92.79</b>
Treasury shares	385,665	7.21
<b>Total</b>	<b>5,352,963</b>	<b>100.00</b>

(\*) A company operating in the waste sector, in which 17 municipalities in Turin Urban District hold nearly all the share capital.

Under the Issuer's By-laws, its shares may only be held by local public entities (municipalities) or their consortia within the territory of ATO 3 Torinese. The By-laws also provide for qualified majority voting and, in particular:

- resolutions at ordinary shareholders' meetings and (save as set out in the next paragraph) extraordinary shareholders' meetings must be passed by shareholders representing at least 75% of the Issuer's share capital and at least 40% of shareholders present at the meeting (on a one-shareholder-one-vote basis); and
- resolutions at extraordinary shareholders' meetings concerning amendments to provisions in the Issuer's By-laws concerning shareholder composition must be approved by shareholders representing at least 90% of the Issuer's share capital and at least 60% of holders present at the meeting (again, on a one-shareholder-one-vote basis).

## **Management**

### ***Board of Directors***

The Issuer's Board of Directors is appointed by its shareholders. Under the Issuer's By-laws, it is composed of five members, three of whom are appointed by the City of Turin, with the remainder appointed by the minority shareholders. Each of the current members of the Board of Directors has been appointed for a three-year term expiring on the date of the shareholders' meeting at which the Issuer's 2016 year-end financial statements are approved.

The following table sets out the current members of the Board of Directors of the Issuer and the main positions held by them outside the Issuer.

<b>Name</b>	<b>Position</b>	<b>Main positions held outside the Issuer</b>
Alessandro Lorenzi	Chairman	<ul style="list-style-type: none"> <li>- Member of the Board of Eni S.p.A.</li> <li>- Member of the Board of Ersel SIM S.p.A.</li> <li>- Member of the Board of Mutti S.p.A.</li> </ul>
Paolo Romano	Chief Executive Officer	<ul style="list-style-type: none"> <li>- Chairman of NOS S.p.A”.</li> <li>- Chairman of Utilitalia National Water Commission</li> <li>- Spokesman of Water Alliance <i>Acque del Piemonte</i> (Enterprise Network)</li> <li>- Member of the National Board of <i>Confservizi</i></li> <li>- Member of the Steering Committee of <i>Associazione A come Ambiente</i></li> </ul>
Paola Gobetti	Member of the Board	-
Giuseppe Sammartano	Member of the Board	-
Silvana Sanlorenzo	Member of the Board	Member of the Board of Aida Ambiente S.r.l.

The business address of each member of the Board of Directors is the Issuer’s registered office.

### ***Board of Statutory Auditors***

The Issuer’s Board of Statutory Auditors is appointed by its shareholders and is composed of three acting auditors and two alternate auditors. Any acting statutory auditor who resigns or is otherwise unable to serve in that position is automatically replaced by an alternate auditor. Under the Issuer’s By-laws, one acting auditor and one alternate auditor are appointed by the City of Turin, with the remainder appointed by the minority shareholders.

The current members of the Issuer’s Board of Statutory Auditors have each been appointed for a three-year term expiring on the date of the shareholders’ meeting at which the Issuer’s 2018 year-end financial statements are approved.

The following table sets out the current acting members of the Board of Statutory Auditors of the Issuer and the main positions held by them outside the Issuer.

<b>Name</b>	<b>Position</b>	<b>Main positions held outside the Issuer</b>
Margherita Gardi	Chairman of the Board of Statutory Auditors	<ul style="list-style-type: none"> <li>- Chairman of Auditors of <i>Comitato Italia 150</i></li> <li>- Auditor of <i>Agenzia di Accoglienza e Promozione Turistica del Territorio della Provincia di Torino</i></li> <li>- Chairman of the Board of Auditors of Risorse Idriche S.p.A.</li> <li>- Chairman of the Board of Auditors of Aida Ambiente S.r.l.</li> <li>- Auditor of <i>Associazione A Come Ambiente</i></li> <li>- Alternate Auditor of Buzzi – Unicem S.p.A.</li> <li>- Alternate Auditor of Acque Potabili S.p.A.</li> <li>- Alternate Auditor of Icarus S.C.p.A.</li> <li>- Member of <i>Consilium Iuris EWIV</i> (European Economic Interest Group)</li> <li>- Member of Arbitration Chamber of Piedmont</li> </ul>

<b>Name</b>	<b>Position</b>	<b>Main positions held outside the Issuer</b>
Ernesto Carrera	Standing Auditor	<ul style="list-style-type: none"> <li>- Member of the Board of Auditors of Società Edile Costruzioni e Appalti Provvisiero S.p.A.</li> <li>- Member of the Board of Auditors of Audiello &amp; Varallo S.p.A.</li> <li>- Chairman of the Board of Auditors of Immagine e Lavoro Società Cooperativa</li> <li>- Member of the Board of Auditors of Finanza Sviluppo Utilities S.r.l.</li> <li>- Member of the Board of Open Dot Com S.p.A.</li> <li>- Member of the Board of Auditors of Sagat S.p.A.</li> <li>- Member of the Board of Auditors of Sagat Handling S.p.A.</li> <li>- Member of the Board of Auditors of TRM S.p.A.</li> <li>- Member of the Board of Auditors of TRM V. S.p.A.</li> <li>- Member of the Board of Auditors of F2i Ambiente S.p.A.</li> <li>- Member of the Board of Auditors of Asti Energia e Calore S.p.A.</li> <li>- Auditor of Compagnia San Paolo di Torino</li> </ul>
Gabriella Nardelli	Standing Auditor	<ul style="list-style-type: none"> <li>- Chairman of the Board of Auditors of S.I.TO Logistica S.C.P.A.</li> <li>- Member of the Board of Auditors of Centro Agro-Alimentare Torino S.C.P.A</li> <li>- Member of the Board of Auditors of I.P.L.A. S.p.A.</li> <li>- Member of the Board of Auditors of Chivasso Industria S.p.A.</li> <li>- Member of the Board of Auditors of IRETI S.p.A.</li> <li>- Member of the Supervisory Board of Icarus S.C.P.A.</li> <li>- Chairman of the Supervisory Board of Seta S.p.A</li> </ul>
Maurizio Cacciola	Alternate Auditor	<ul style="list-style-type: none"> <li>- Chairman of the Board of Auditors of Vernay Italia S.r.l.</li> <li>- Member of the Board of Auditors of Gas Energia Pluriservizi S.r.l.</li> <li>- Member of the Board of Auditors of Risorse Idriche S.p.A.</li> <li>- Member of the Board of Auditors of D.P. &amp; V. Associati</li> <li>- Auditor of Rame Service S.r.l.</li> <li>- Chairman of the Board of Auditors of Cidiu Servizi S.p.A.</li> <li>- Chairman of the Board of Directors of Kab Consulting S.r.l.</li> <li>- Alternate Auditor of Nove S.p.A.</li> <li>- Alternate Auditor of TRM S.p.A.</li> <li>- Chairman of the Board of Auditors of Cidiu S.p.A.</li> <li>- Alternate Auditor of Soris S.p.A.</li> <li>- Member of the Board of Gea Trust Company S.r.l.</li> <li>- Member of the Board of Immobiliare Senato S.r.l.</li> <li>- Member of the Board of Auditors of Reti Energia Servizi S.p.A.</li> </ul>

<b>Name</b>	<b>Position</b>	<b>Main positions held outside the Issuer</b>
Claudia Margini	Alternate Auditor	<ul style="list-style-type: none"> <li>- Member of the Board of Auditors and of the Supervisory Board of Credit Data Research Italia S.r.l.</li> <li>- Member of the Board of Auditors of Virtual Reality &amp; Multimedia Park (firm in liquidation)</li> <li>- President of the Board of Auditors of Barricalla S.p.A.</li> <li>- President of the Board of Auditors of Tecnogrande S.p.A.</li> <li>- Member of the Board of Auditors of SCR Piemonte S.p.A.</li> </ul>

The business address of each member of the Board of Statutory Auditors is the Issuer's registered office.

### ***Conflicts of interest***

As at the date of this Prospectus, none of the acting members of the Board of Directors or the Board of Statutory Auditors has any private interests in conflict or potential conflict with their duties arising from their office or position within the Group, as set out in the declarations by each Director available (in Italian) on the Issuer's website ([http://www.smatorino.it/area\\_trasparenza\\_2](http://www.smatorino.it/area_trasparenza_2)).

### **Employees**

The following table shows a breakdown of the Issuer's employees as at 31 December 2015 and 2014.

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2014</b>
Management.....	9	9
Mid-management .....	29	26
Clerical.....	593	565
Blue collar.....	314	305
<b>Total .....</b>	<b>945</b>	<b>905</b>

At Group level, the number of employees was 1,031 as at 31 December 2015, compared to 993 as at 31 December 2014.

As at 31 December 2016, the Group had a total of 1,019 employees.

### **Legal Proceedings**

The Group is party to a number of civil, administrative and arbitration proceedings arising from the conduct of its activities and may from time to time be subject to inspections by tax and other authorities. As at 31 December 2015, the Issuer had a provision in its consolidated financial statements for legal proceedings included in Provisions for risks and charges in the sum of €26,866 thousand. At the date of this Prospectus the Issuer's management has no grounds for believing that this provision may be inadequate.

With regard to the existing claims and proceedings against companies of the Group, although it is difficult to determine their outcome with certainty, the management of the Group, based on information available as at the date of this Prospectus, believes that:

- liabilities relating to these claims and proceedings are unlikely to have, in the aggregate, a material adverse effect on the consolidated financial condition or result of operations of the Group;



- where liabilities relating to these claims and proceedings are probable and quantifiable, adequate provision has, in terms of established reserves and in the light of the circumstances currently known to SMAT, been made in the Group's financial statements; and
- where liabilities relating to these claims and proceedings are not probable or probable but not quantifiable, adequate disclosure has been made in the Group's financial statements.

## **Recent Developments**

### ***Extension of ATO 3 Concession***

Pursuant to Resolution No. 598 of 29 April 2016 of the ATO 3 Authority and Resolution No. 571 of 14 October 2016 of the AEEGSI, the ATO 3 Concession held by the Issuer was extended by ten years from 31 December 2023 to 31 December 2033, partly in view of the volume of investments planned by the Group (see “- *Strategy*” above”).

### ***Completion of SAP reorganisation***

On 30 December 2016, SAP completed its reorganisation process with the transfer of all but one of its remaining concessions to Ireti S.p.A.

### ***Resolution by City of Turin***

On 6 March 2017, Turin City Council passed a motion requiring the administration to commence a feasibility study on the transformation of the Issuer into a public consortium. The stated purpose of the motion is to implement in full Article 80 of the City's Charter, which provides for, *inter alia*, the operation of the integrated water service on a non-profit basis and keeping its infrastructure and network in public hands. Any transformation of the Issuer into a different form of legal entity would require the support of a significant number of the Issuer's other shareholders (see “- *Share Capital and Shareholders – Shareholders*” above).

### ***Credit outlook revised to negative by S&P***

On 5 April 2017, S&P announced that it had revised its outlook on the Issuer from “stable” to “negative”, while also affirming the Issuer's long-term corporate credit rating at “BBB”. The revision of the Issuer's outlook follows a corresponding downward revision of S&P's outlook on the City of Turin on 31 March 2017, which then led to withdrawal (at the City's request) of the rating assigned to the City by S&P.

## **SUMMARY FINANCIAL INFORMATION OF THE ISSUER**

### **Historic financial information**

The following tables contain consolidated balance sheet and income statement information of the Issuer as at and for the years ended 31 December 2015 and 2014, which is derived from, should be read in conjunction with and is qualified in its entirety by reference to the Issuer's audited consolidated annual financial statements as at and for the years ended 31 December 2015 and 2014, together with the accompanying notes and auditors' reports, all of which are incorporated by reference in this Prospectus.

Such financial statements have been prepared in accordance with Italian GAAP and have been audited without qualification by Deloitte & Touche S.p.A., auditors to the Issuer.

Copies of the above-mentioned annual financial statements of the Issuer are available for inspection by Noteholders, as described in "*Information Incorporated by Reference*".

# **CONSOLIDATED BALANCE SHEET Decree Law 127/91**

ASSETS	As at 31 December	
	2015	2014
	<i>(amounts in Euro)</i>	
<b>NON CURRENT ASSETS</b>		
<b>Fixed assets, with separate indication of those granted in financial leasing</b>		
<i>Intangible fixed assets</i>		
Industrial patents and original works exploitation rights	480	6,606
Concessions, licenses, trademarks and similar rights	20,569,667	23,221,249
Goodwill	5,320,805	96,000
Assets under construction and advances	135,764,767	141,415,057
Other intangible fixed assets	367,940,479	311,293,601
<i>Tangible fixed assets</i>		
Land and buildings	61,599,066	61,299,990
Plants and machinery	99,369,909	109,701,372
Industrial and commercial equipment	2,707,076	2,304,960
Other tangible fixed assets	3,528,553	3,980,078
Assets under construction and advances	8,903,331	4,230,364
<i>Financial fixed assets</i>		
Investments in affiliated companies	20,854,609	42,804,093
Investments in other companies	3,453,797	3,453,797
<b>Total Fixed Assets</b>	<b>730,012,539</b>	<b>703,807,167</b>
<b>CURRENT ASSETS</b>		
<i>Inventories</i>		
Raw materials, supplementary materials and consumables	6,128,603	6,582,715
Finished goods and merchandise	41,145	41,334
<i>Receivables</i>		
From customers	227,451,203	183,044,683
From affiliated companies	13,430,861	40,147,854
From parent companies	7,090,644	6,822,565
Tax assets	11,754,364	4,741,344
Deferred tax assets	16,503,419	20,691,016
Others	8,381,351	5,451,304
<i>Financial activities other than assets</i>		
Own shares, with indication of their aggregate nominal value	19,659,864	15,657,894
<i>Cash and cash equivalents</i>		
Bank and postal accounts	11,959,283	12,517,385
Cheques	15,708	43,261
Cash on hand	25,891	34,829
<b>Total Current Assets</b>	<b>322,442,336</b>	<b>295,776,184</b>
<b>ACCRUALS AND PREPAYMENT</b>		
Accrued income	3,836	0
Prepaid expenses	1,119,372	1,074,084
<b>Total Accruals and prepayments</b>	<b>1,123,208</b>	<b>1,074,084</b>
<b>TOTAL ASSETS</b>	<b>1,053,578,083</b>	<b>1,000,657,435</b>

# **CONSOLIDATED BALANCE SHEET Decree Law 127/91**

SHAREHOLDERS' EQUITY AND LIABILITY	As at 31 December	
	2015	2014
	<i>(amounts in Euro)</i>	
<b>SHAREHOLDERS' EQUITY</b>		
<i>Attributable to the owners of the Company</i>		
Share capital	345,533,762	345,533,762
Legal reserve	9,472,723	7,335,085
Reserve for own shares	19,659,864	15,657,894
Other reserves and retained earnings	84,806,242	50,906,836
Profit (loss) for the year	50,418,443	48,047,107
<i>Attributable to non-controlling interests</i>		
Share capital and reserves	222,746	455,295
Profit (loss) for the year	191,985	107,613
<b>Total Shareholders' Equity</b>	<b>510,305,765</b>	<b>468,043,592</b>
<b>PROVISIONS FOR RISKS AND CHARGES</b>		
Deferred tax liabilities	818,449	766,369
Other provisions	26,047,320	38,073,160
<b>Total Provisions for risks and charges</b>	<b>26,865,769</b>	<b>38,839,529</b>
<b>PROVISIONS FOR EMPLOYEE BENEFITS</b>	<b>16,973,521</b>	<b>16,926,832</b>
<b>PAYABLES</b>		
Payable due to the bank	273,304,201	252,192,460
Advances	356,872	373,925
Payables to suppliers	49,326,975	54,858,586
Payables to affiliated companies	570,398	2,044,729
Payables to parent companies	13,723,477	10,658,394
Tax payables	4,670,183	4,524,017
Payables to social security and welfare institutions	4,180,471	3,967,196
Other payables	100,312,154	98,118,258
<b>Total Payables</b>	<b>446,444,731</b>	<b>426,737,565</b>
<b>ACCRUALS AND DEFERRED INCOME</b>		
Accrued liabilities	217,093	304,662
Deferred incomes	52,771,204	49,805,255
<b>Total Accruals and Deferred Income</b>	<b>52,988,297</b>	<b>50,109,917</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1,053,578,083</b>	<b>1,000,657,435</b>

# INCOME STATEMENT Decree Law 127/91

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>(amounts in Euro)</i>	
<b>PRODUCTION VALUE</b>		
Revenues from sales and services	313,048,779	287,627,102
Variations in stock of work in progress, of semi-finished products or goods	(189)	2,561
Increase of fixed assets due to internal works	6,199,619	6,757,996
Other revenues and income	23,592,532	18,734,986
<b>TOTAL PRODUCTION VALUE</b>	<b>342,840,741</b>	<b>313,122,645</b>
<b>PRODUCTION COSTS</b>		
For raw materials, supplementary materials, consumables and goods	10,738,953	10,965,449
For services	93,147,709	94,650,384
For use of third party assets	15,319,624	14,930,993
Payroll costs	60,078,628	56,647,103
Amortisation and depreciation	56,283,998	49,571,171
Variations in stock of raw materials, supplementary materials, consumables and goods	471,073	(251,038)
Provisions for other charges	0	18,387
Other operating expenses	25,646,743	19,045,045
<b>TOTAL PRODUCTION COSTS</b>	<b>261,686,728</b>	<b>245,577,494</b>
<b>Difference between value and costs of production</b>	<b>81,154,013</b>	<b>67,545,151</b>
<b>FINANCIAL INCOME AND EXPENSES</b>		
Income from investments, with separate indication of those pertaining to controlled and affiliated	19,500	7,332
Other financial income	656,649	520,264
Interest and other financial expenses, with separate indication of those due from controlled, affiliated and controlling companies	2,758,986	3,080,701
Profit and losses on exchange	(2)	(4)
<b>TOTAL FINANCIAL INCOME AND EXPENSES</b>	<b>(2,082,839)</b>	<b>(2,553,109)</b>
<b>VALUE ADJUSTMENT OF FINANCIAL INVESTMENTS</b>		
Revaluations	0	6,471,346
Devaluations	3,498,835	1,168,276
<b>TOTAL ADJUSTMENTS</b>	<b>(3,498,835)</b>	<b>5,303,070</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>		
Income with separate indication of capital gains realized pursuant to sales whose income may not be entered under no.5	108,223	59,177
Charges, with separate indication of capital losses incurred pursuant to sales whose accounting value may not be entered under no. 14 and taxes pertaining to previous financial years	114,328	85,761
<b>TOTAL EXTRAORDINARY INCOME AND EXPENSES</b>	<b>(6,105)</b>	<b>(26,584)</b>
<b>Results before taxes</b>	<b>75,566,234</b>	<b>70,268,528</b>
Current, deferred and advanced taxes on the income of the financial year	24,955,806	22,113,808
Profit (loss) includes the portion of third parties	50,610,428	48,154,720
Profit (loss) attributable to non-controlling interests	191,985	107,613
<b>PROFIT (LOSS) FOR THE YEAR SMAT GROUP</b>	<b>50,418,443</b>	<b>48,047,107</b>

## IFRS financial information

Starting from the financial year ended 31 December 2016, the Issuer expects to prepare its consolidated annual financial statements in accordance with IFRS. Accordingly, the consolidated financial statements of the Issuer as of and for the year ended 31 December 2015 have been restated in conformity with IFRS solely for the purpose of its inclusion in this Prospectus, as required by Regulation 809/2004/UE and by the recommendation 05-054b of CESR or the Committee of European Securities Regulators, now known as ESMA or the European Securities and Markets Authority. See the Annex (*Restated IFRS Consolidated Financial Statements*).

There are certain differences between Italian GAAP and IFRS and, as a result, the Italian GAAP financial information presented for the years ended 31 December 2015 and 2014 is not directly comparable to the IFRS financial information that will be presented by the Issuer starting from the financial year ended 31 December 2016. In order to provide to the reader a more appropriate comparison between the Italian GAAP and IFRS financial data, this Prospectus also includes the consolidated financial statements of the Issuer as at 31 December 2015, reclassified using the IFRS statements presentation that the Issuer will adopt starting with the financial year ending 31 December 2016.

The tables below should be read in conjunction with the consolidated restated financial statements of the Issuer and the accompanying notes shown in the Annex (*Restated IFRS Consolidated Financial Statements*).

### *Consolidated statement of financial position*

	<b>Dec. 31, 2015 ITA GAAP</b>	<b>Dec. 31, 2015 IFRS Restated</b>
	<i>(amounts in Euro)</i>	
<b>Non-Current Assets</b>		
Property, plant and equipment	176,107,935	174,481,701
Goodwill	5,320,805	5,928,005
Other Intangible assets	524,275,393	2,319,764
Concessions	-	523,581,864
Investments	24,308,406	24,200,728
Deferred tax assets	16,503,419	16,518,939
Non-current financial assets	780,458	780,458
Other non-current assets	-	-
<b>Total Non-Current Assets</b>	<b>747,296,416</b>	<b>747,811,459</b>
<b>Current Assets</b>		
Inventories	6,169,748	6,169,748
Trade and other receivables	246,439,069	247,147,778
Current tax assets	11,754,364	11,754,364
Current financial assets	22,039,550	2,379,685
Other current assets	7,878,055	7,169,345
Cash and cash equivalents	12,000,882	12,000,882
<b>Total Current Assets</b>	<b>306,281,668</b>	<b>286,621,803</b>
<b>Total Assets</b>	<b>1,053,578,083</b>	<b>1,034,433,262</b>

*Consolidated statement of financial position*

	<b>Dec. 31, 2015</b>	<b>Dec. 31, 2015</b>
	<b>ITA GAAP</b>	<b>IFRS Restated</b>
	<i>(amounts in Euro)</i>	
<b>Shareholders' Equity</b>		
Share capital	345,533,762	345,533,762
Reserves and retained earnings	113,938,829	92,400,388
Profit for the year	50,418,443	50,860,725
<b>Shareholders' equity attributable to the owners of the Company</b>	<b>509,891,034</b>	<b>488,794,874</b>
Capital and reserves attributable to non-controlling interests	222,746	218,134
Profit for the year attributable to non-controlling interests'	191,985	201,503
<b>Shareholders' equity attributable to non-controlling interests</b>	<b>414,731</b>	<b>419,637</b>
<b>Total Shareholders' Equity</b>	<b>510,305,765</b>	<b>489,214,512</b>
<b>Non-Current liabilities</b>		
Non-current financial liabilities	245,481,925	245,224,607
Provisions for employee benefits	16,973,521	18,907,660
Provisions for risks	26,047,320	26,047,320
Deferred tax liabilities	818,449	1,088,061
Other non-current liabilities	52,975,934	52,975,934
<b>Total Non-Current Liabilities</b>	<b>342,297,149</b>	<b>344,243,582</b>
<b>Current liabilities</b>		
Current financial liabilities	27,822,276	27,822,276
Trade and other payables	53,988,727	79,312,012
Current tax liabilities	4,670,183	4,670,183
Other current liabilities	114,287,391	88,964,106
Other current financial liabilities	206,593	206,593
<b>Total Current Liabilities</b>	<b>200,975,169</b>	<b>200,975,169</b>
<b>Total Liabilities</b>	<b>543,272,318</b>	<b>545,218,750</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>1,053,578,083</b>	<b>1,034,433,262</b>

**Consolidated Income Statement**

	<b>2015</b>	<b>2015</b>
	<b>ITA GAAP</b>	<b>IFRS Restated</b>
	<i>(amounts in Euro)</i>	
Revenues	318,402,003	313,940,153
Revenues for planning and construction activities	-	79,691,469
Other revenues	24,546,961	21,951,641
<b>Total Revenues</b>	<b>342,948,964</b>	<b>415,583,263</b>
Purchases of goods	(11,210,026)	(10,789,856)
Services, leases and rental expenses	(108,456,333)	(185,693,335)
Payroll costs	(60,078,628)	(59,824,974)
Other operating expenses	(25,739,856)	(25,739,856)
<b>Total Operating Costs</b>	<b>(205,484,842)</b>	<b>(282,048,021)</b>
<b>Gross Operating margin</b>	<b>137,464,122</b>	<b>133,535,243</b>
Amortisation, depreciation and write-downs	(56,283,997)	(55,676,797)
<b>Operating income (EBIT)</b>	<b>81,180,125</b>	<b>77,858,446</b>
Financial income	676,149	5,137,999
Financial expense	(6,257,823)	(6,692,102)
<b>Net financial income and expenses</b>	<b>(5,581,674)</b>	<b>(1,554,103)</b>
<b>Profit before taxes</b>	<b>75,598,451</b>	<b>76,304,343</b>
Income Taxes	(24,988,023)	(25,242,115)
<b>Profit for the year</b>	<b>50,610,428</b>	<b>51,062,228</b>
<i>Of which:</i>		
Profit for the year assigned to non-controlling interests	191,985	201,503
Profit for the year assigned to the owners of the Company	50,418,443	50,860,725



## REGULATORY FRAMEWORK

*EU and Italian laws heavily regulate the Issuer's business and may affect the Issuer's operating profit or the way it conducts business. The principal legislative and regulatory measures applicable to Issuer's regulated business are summarised below. Although this overview contains the principal information that the Issuer considers material in the context of the issue of the Notes, it is not an exhaustive account of all applicable laws and regulations. Prospective investors and/or their advisers should make their own analysis of the legislation and regulations affecting the Issuer and of the impact it may have on an investment in the Notes and should not rely on this overview only.*

### **National rules concerning the award of local public services**

The local public services sector has undergone several legislative changes during the last years, essentially inspired to European liberalization principles and aimed at opening the system to competition.

At the national level, the local public services sector was originally regulated under Legislative Decree No. 267/2000. This model has been deeply reformed by Article 23 *bis* of Law Decree No. 112/2008, which in line with European liberalization principles, introduced a new discipline aimed opening such services to competition.

National *Referendum* held on June 12 and 13, 2011 abrogated Article 23 *bis*. As a result, the Government – by Article 4 of Law Decree No. 138/2011, which substantially reproduced the provisions of Article 23 *bis* abrogated by the above mentioned *Referendum* – enacted a new regulation of the local public services sector. On July 2012, the Constitutional Court declared the constitutional illegitimacy of Article 4 of Law Decree No. 138/2011, without providing any guidelines/clarifications on the discipline applicable to the public local services sector.

As a consequence, the Government – by Article 34, Paragraph 20-27, of Law Decree No. 179/2012 (the “**Law Decree No. 179/2012**”) – enacted a new regulation of the local public services sector, applying even to the water services.

Article 34, Paragraphs 20, 21 and 22, regulates the award of the public local services and provides a transitory regime for the concessions of local public services awarded not in compliance with the European principles.

In particular:

- a) the competent public authorities shall award the local public services in compliance with the European principles of non-discrimination, *par condicio*, economic efficiency and shall publish on their web site a report describing the reasons and the conditions grounding the procedure chosen for the award of the service (i.e. public tender procedure to private companies; direct award to public-private companies, upon the condition that the private partner is selected through a public tender procedure; direct award to wholly-owned public companies);
- b) with reference to the concessions existing as of the date of entering into force of Law Decree No. 179/2012 (i.e. 20 October 2012) which do not comply with the requirements set forth by the European legislation, these concessions must be adjusted to such requirements by 31 December 2013 and the aforementioned report has to be published by 31 December 2013; should the awarding authority fail in complying with this obligation, the relevant concessions shall cease at 31 December 2013. In this regard, Law No. 15/2014 provided an exception aimed at ensuring the service's continuity. If the public entity has already started the concession awarding procedure, the subject entrusted with the public service can continue to operate until its replacement with the new concessionaire and, however, before 31 December 2014;
- c) with reference to those concessions which do not provide for an expiry date, the competent awarding authority shall integrate the concession agreement with an expiry date; should the awarding authority fail in providing an expiry date, the relevant concession shall cease at 31 December 2013;
- d) concessions granted to companies whose shares were listed on a stock exchange prior to 31 December 2004 (and to their subsidiaries) will terminate according to the terms originally indicated in the concession

agreement or in the other relevant acts; if no specific expiry date is provided, the concession shall expire not later than 31 December 2020, and no formal resolution from the awarding authority will be required in this respect.

Article 34, Paragraphs 20, 21 and 22, of Law Decree No. 179/2012 does not apply to the following sectors: natural gas distribution service, electricity distribution service, local pharmacies operation service. Therefore, the said provisions fully apply to the water sector.

As to the procedures for the assignment of local public services, Law Decree No. 179/2012 does not contain any specific provisions, except for the general principle according to which the local public service must be assigned on a homogeneous territorial basis (*the so called ambiti territoriali ottimali e omogenei*). Therefore, considering that:

- (i) Article 23-bis of Law Decree No. 112 of 25 June 2008 was repealed by the above-mentioned referendum; and
- (ii) Article 113 of Legislative Decree No. 267/2000, for the part abrogated by Article 23-bis, cannot be revived, according to Constitutional Court decision No. 24/2011,

for the time being public entities shall apply the principles and regulations provided for by the EU Treaty on the Functioning of the European Union and, in general terms, by EU Law and relevant case law. In this respect, the relevant authority shall alternatively award the new concession:

1. to private companies, selected by means of a public tender procedure;
2. directly to public-private companies, upon the condition that the private partner is selected through a public tender procedure aimed at (i) the award of the position as shareholder and, at the same time, (ii) the award to the private shareholder of operational tasks connected to the management of the service;
3. directly to companies wholly-owned by public entities, if the conditions provided by the EU and Italian legislation in force are met (so-called “*in-house*” providing model)<sup>1</sup>.

## **Water Business**

### ***Galli Law and Environmental Code***

The first comprehensive set of legal provisions enacted to regulate the sector of water services was contained in Law 5 January 1994, No. 36 (the “**Galli Law**”) aimed at revising the existing scheme of regulation applicable to the management of water resources, the supply of drinking water and waste water treatment.

The Galli Law supported a transition towards integrated management of all water resources, including both drinking water services and waste water services and delegated the authority for the integrated water services to local authorities.

The Galli Law is no longer applicable since it has been repealed by Legislative Decree 3 April 2006 No. 152 (the “**Environmental Code**”). Therefore, the integrated water service sector is currently regulated under the Environmental Code, which has been recently amended by Law Decree 12 September 2014, No. 133, as converted into Law 11 November 2014, No. 164 (the “**Law Decree No. 133/2014**”).

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<sup>1</sup> The requirements for the qualification of a company as an “in-house” company – currently provided under Article 12 of EU Directive 24/2014 and Article 5 of Legislative Decree No. 50/2016 – are listed below: (a) the controlling entities exercise over the company concerned a control which is similar to that which it exercises over their own departments; (b) more than 80 % of the activities of the controlled company are carried out in the performance of tasks entrusted to it by the controlling entities or by other legal persons controlled by those entities; and (c) there is no direct private capital participation in the controlled company with the exception of non-controlling and non-blocking forms of private capital participation required by national legislative provisions, in conformity with the EU Treaties, which do not exert a decisive influence on the controlled company.

According to the Environmental Code, the main principles currently regulating the water sector are, *inter alia*:

- establishing a sole integrated system for the management of the entire cycle of the water resources (*Servizio Idrico Integrato* – the “**Integrated Water Service**”), including the abstraction, transportation and distribution of water for non-industrial purposes, water drainage and purification of waste water;
- definition, by the Italian Regions and within each of them, of the "Optimal Territorial Districts" (*Ambiti Territoriali Ottimali* – the “**ATOs**”), within which the integrated water services are to be managed. The boundaries of ATOs are defined on the basis of: (i) consistency with hydrological conditions and logistical considerations; (ii) the goal of achieving industry consolidation; and (iii) the potential for economics of scale and operational efficiencies;
- institution for each ATO, by means of Regional Law, of an authority in charge of the management of the ATOs (*Ente di governo dell’ambito* – the “**ATO Authorities**”) participated by the local authorities of the area included in the relevant ATO. The ATO Authorities are responsible for: (i) organising Integrated Water Services, by means of an integrated water district plan which, *inter alia*, sets out an investments policy and management plan relating to the relevant district (*Piano d'Ambito*); (ii) identifying and overseeing an operator of Integrated Water Services; (iii) determining the tariffs applicable to users; (iv) monitoring and supervising the service and the activities carried out by the selected operator, in order to ensure the correct application of the tariffs and the achievement of the objectives and quality levels set out in the district plan<sup>1</sup>;
- award of the concession for the operation of the Integrated Water Service within each ATO in compliance by means of one of the procedures allowed under EU law (i.e. public tender procedure, direct award to public-private companies and in-house providing). In this regard, please refer to the procedures described in the previous paragraph with reference to the national rules concerning the award of local public services;
- Remuneration of the Integrated Water Service by means of a tariff scheme.

#### ***Legislation concerning the Integrated Water Service in the Piemonte Region***

The regional laws governing the Integrated Water Service in the Piemonte Region are Law 20 January 1997, No. 13 (the “**Regional Law No. 13/1997**”) and Law 24 May 2012, No. 7 (the “**Regional Law No. 7/2012**”).

Pursuant to Article 2 of Regional Law No. 7/2012 and in compliance with Article 142 of the Environmental Code, the local entities, through the ATO Authorities, are competent for the organisation of the Integrated Water Service, included the approval and the update of the plan related to the investments to be realized in the relevant ATO, the choice regarding the modalities operation of the Integrated Water Service, the determination of tariffs.

In particular, in accordance with the national legislation (as illustrated above), the Integrated Water Service in the Piemonte Region is organised on the basis of 6 ATOs and 6 ATO Authorities composed of all the local entities falling in each relevant territorial area:

- ATO 1: Verbano, Cusio, Ossola, Pianura Novarese;
- ATO 2: Biellese, Vercellese, Casalese;
- ATO 3: Torinese;
- ATO 4: Cuneese;
- ATO 5: Astigiano, Monferrato;

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<sup>1</sup> The organisation of the Integrated Water Services relies on a clear distinction in the division of tasks among the various authorities involved. The State and regional authorities carry out general planning activities. The ATO Authorities supervise, organise and control the Integrated Water Services but these activities are managed and operated on a day-to-day basis by (public or private) service operators.

- ATO 6: Alessandrino.

The ATO Authorities have the powers and the functions provided by the national legislation.

Please note that the legislation of the Piemonte Region concerning the Integrated Water Service does not significantly diverge from the national legislation and is substantially compliant with the same legislation.

### ***Water Tariffs Mechanism***

The Italian Electricity, Gas and Hydro Authority (the “AEEGSI”) is the national independent authority in charge, *inter alia*, of regulating the water sector, with particular reference to the aspects connected to the tariffs system and the quality of the service.

The AEEGSI exercises its regulatory functions in the water sector pursuant to Law No. 481/1995 and Decree of the Prime Minister July 20, 2012.

Article 154 of the Environmental Code regulates the tariffs system in the water sector.

Pursuant to Article 154, Paragraph 1, of the Environmental Code, the tariff represents the consideration of the Integrated Water Service (the “**Tariff**”) and is determined taking into account: (i) the quality of the water resources and the services provided; (ii) the works necessary to the operation of the Integrated Water Service; (iii) the amount of the operational costs; (iv) a part of the costs related to the functions of ATO Authorities, so as to ensure full recovery of capex and opex, according to a price cap mechanism and in light of the “Polluters-Pay principle”. Article 154 specifies that all the components of the Tariff have the juridical nature of “consideration” of the Integrated Water Service.

Before the *Referendum* held on June 12 and 13, 2011<sup>1</sup>, Article 154, Paragraph 1, of the Environmental Code included, among the parameters for the determination of the Tariff, the “remuneration of the invested capital” (*remunerazione del capitale investito*). This provision was repealed by the *Referendum* held on June 12 and 13, 2011. In this respect the Constitutional Court (Judgment No. 26/2011) clarified that the Tariff still have the juridical nature of “consideration” of the Integrated Water Service and must be determined so as to ensure full recovery of capex and opex costs.

The AEEGSI is the authority in charge of approving the method for the calculation of the Tariff.

On the basis of the tariffs scheme approved by the AEEGSI, the ATO Authorities determine the applicable Tariff. The Tariff calculated by the ATO Authority (i.e. the entity identified by the Region) must be approved by the AEEGSI.

Before the transfer to the AEEGSI of the regulatory functions concerning water sector, two tariffs schemes were applied in Italy: (i) the tariffs scheme under certain resolutions issued by the Interministerial Committee for the Economic Planning (*Comitato Interministeriale per la programmazione economica* – the “**CIPE**”), which had the scope to provide a transitory regime until the enactment of the tariffs scheme provided by the Galli Law (the so-called “CIPE Tariffs Scheme”); (ii) the tariffs scheme set forth by Ministerial Decree 1 August, 1996 (the so-called “*Metodo Normalizzato*”) pursuant to the Galli Law.

The tariffs scheme applicable to the water sector has recently changed in light of the recent law provisions setting forth the attribution to the AEEGSI of the functions regarding the regulation of the water services sector.

In particular, the AEEGSI approved, starting from 2012, three new tariffs scheme:

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<sup>1</sup> National Referendum held on June 12 and 13, 2011 abrogated Article 23 *bis*, which deeply reformed the discipline of local public services provided under the TUEL and, in line with European liberalization principles, introduced a new discipline aimed opening local public services to competition. As a result, the Government – by Article 4 of Law Decree no. 138/2011, which substantially reproduced the provisions of Article 23 *bis* abrogated by the above mentioned Referendum – enacted a new regulation of the local public services sector.

- a transitory tariffs scheme, approved through Resolution No. 585/2012, subsequently amended by Resolution No. 459/2013, defining the national criteria for the determination of the Tariff of the Integrated Water Service for the years 2012 and 2013 (the “**MTT**”);
- a final tariffs scheme, approved through Resolution No. 643/2013 and the related Annex A, defining the national criteria for the determination of the Tariff of the Integrated Water Service for the years 2014 and 2015 (the “**MTI**”);
- a tariff scheme, approved through Resolution No. 664/2015, for the second regulatory period (2016 - 2019) and the related Annex A, defining the national criteria for the determination of the Tariff of the Integrated Water Service for the years from 2016 until 2019 (the “**MTI-2**”).

According to the new tariffs schemes, the Tariff’s proposal – drafted by the ATO Authorities in compliance with the tariffs scheme in force – must be submitted to the AEEGSI for the final approval. The AEEGSI may require amendments and integrations.

Please note that the tariffs schemes issued by the AEEGSI apply to each company operating the Integrated Water Service (or one of the services composing the Integrated Water Service) in the national territory and, therefore, in each ATO of the Italian Regions<sup>1</sup>.

#### ***MTT – Tariff method for the years 2012 and 2013***

On 28 December 2012, by Resolution No. 585/2012/R/idr, the AEEGSI approved a temporary tariff method for the transition period 2012 - 2013. The temporary method anticipates the general outline of the definitive methodology expected to apply beginning in 2014.

In particular, Article 4 of Resolution No. 585/2012/R/idr defined the following service costs as components for the determination of the Tariff:

- investments costs, including borrowings, taxes and depreciation charges;
- endogenous operative costs, that are the costs in relation to which the operator of the service may carry out an costs efficiency policy;
- exogenous operative costs, including costs related to the electricity, wholesale supplies, costs related to the loans and other various components, that are the costs in relation to which the operator of the service may carry out an costs efficiency policy; and
- any additional advance payment for new investments.

The regulatory schemes as to 2012-2013 tariff period – to be used by the ATO Authorities in order to determine the Tariff – was attached to Resolution No. 585/2012/R/idr.

By Resolution No. 471 dated 7 October 2015, the AEEGSI approved the regulatory scheme for the year 2012 submitted by the ATO 3 Authority on the basis of the tariff proposal approved by the same ATO 3 Authority by Resolution No. 503 of 22 November 2013. By Resolution No. 559 dated 5 December 2013, the AEEGSI approved the regulatory scheme for the year 2013 submitted by the ATO 3 Authority on the basis of the tariff proposal approved by the same ATO 3 Authority by Resolution No. 503 of 22 November 2013.

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<sup>1</sup> Special rules are provided by the AEEGSI with reference to the Regions under special statutes (*Regioni a statuto speciale*) that have issued regional laws regulating the tariffs schemes. This category of Regions does not include the Piemonte Region.

### ***MTI – Tariff method for the years 2014 and 2015***

On 27 December 2013, with Resolution No. 643/2013/R/idr, the AEEGSI approved the tariff structure for the period 2014 - 2015. On this basis, the new tariffs have been proposed by each ATO by 31 March 2014 and approved by AEEGSI.

The regulatory schemes as to 2014-2015 tariff period – to be used by the ATO Authorities in order to determine the tariff – was part of Resolution No. 643/2013/R/idr.

In particular, Article 2 of Resolution No. 643/2013/R/idr defined the following service costs as components for the determination of the Tariff:

- investments costs, including borrowings, taxes and depreciation charges;
- operative costs, including costs related to the electricity, wholesale supplies, costs related to the loans and other various components;
- any additional advance payment for new investments;
- environmental costs and of resource; and
- component relating to levelling.

In addition, Article 3 of the same Resolution provides that, after the AEEGSI's approval, all water service operators will have to apply the Tariff relating to the year 2012 multiplied for a coefficient Teta (2014)<sup>1</sup> determined by AEEGSI.

By Resolution No. 280 dated 12 June 2014, the AEEGSI approved the regulatory scheme for the year 2014 submitted by the ATO 3 Authority on the basis of the tariff proposal approved by the same ATO 3 Authority by Resolution No. 522 of 20 March 2014. By Resolution No. 471 dated 7 October 2015, the AEEGSI approved the regulatory scheme for the year 2015 submitted by the ATO 3 Authority on the basis of the tariff proposal approved by the same ATO 3 Authority by Resolution No. 522 of 20 March 2014.

### ***MTI-2 – Tariff method for the period 2016 – 2019***

On 28 December 2015, the new tariff method for the second regulatory period 2016 – 2019 has been issued by means of Resolution No. 664/2015/R/idr.

This tariff method entered into force on 1 January 2016 and consists in a new framework of rules which increasingly encourages the implementation of the necessary investments in the sector. At the same time it highlights the sustainability of the charges applied to the user, by promoting the enhancement of the service quality, the rationalization of management and recognizing costs for the works actually carried out, only.

To ensure continuity, the new MTI-2 tariff method is based on two main principles of the previous method valid for the years 2014-2015, with particular attention to the selectivity and empowerment, to be implemented through an asymmetric regulation able to adapt to the different needs of a sector which is highly differentiated at local level and in the governance.

In detail, the choice can be made on the basis of several factors: as a result of the need for investments in relation to the value of existing infrastructure, the presence of any changes in the objectives or in the activities of the

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<sup>1</sup> Teta is a coefficient which represents the tariff's increase. It is defined by Annex A to AEEGSI Resolution No. 643/2013/R/idr on the basis of the relationship between the costs and the volumes related to the activities of two years before ( $a - 2$ ), appreciated with regard to the tariffs set at the beginning of year 2012. Resolution No. 664/2015/R/idr, which introduced the new tariffs method MTI-2, provides that Teta must be determined with regard to the tariffs related to the year 2015.

operator, the magnitude of the operating costs per inhabitant served by each management compared to the sector average.

The AEEGSI also provided a biennial update of the balance components and of the RAB, as well as the possibility of an infra-period revision of the tariff arrangement.

The new MTI-2 tariff method also provides incentive mechanisms for the improvement of the contractual and technical quality of the service, by introducing a mechanism of awards/penalties, within a specific tariff component.

In particular, Article 2 of the Resolution (like Resolution No. 643/2013/R/idr did for the period 2014-2015) defined the following service costs as components for the determination of the new tariff:

- investments costs, including borrowings, taxes and depreciation charges;
- operative costs, including costs related to the electricity, wholesale supplies, costs related to the loans and other various components;
- any additional advance payment for new investments;
- environmental costs and of resource; and
- component relating to levelling.

Moreover, Article 3 defined the tariff coefficient *Teta* as to period 2016-2019. The multiplier for every year “*a*” is determined in accordance with the relationship between the costs and the valorization of water volumes as to the year “*a-2*”, appreciated with regard to the tariffs related to the year 2015.

The regulatory schemes as to 2016-2019 tariff period – to be used by the ATO Authorities in order to determine the Tariff – was attached to Resolution No. 664/2015/R/idr.

By Resolution No. 571/2016/R/IDR dated 14 October 2016, the AEEGSI approved the regulatory scheme for the years 2016 – 2019 submitted by the ATO 3 Authority on the basis of the tariff proposal approved by the same ATO 3 Authority by Resolution Nos. 600 of 29 April 2016 and 210 of 4 October 2016.

#### ***VR calculation criteria***

The MTI and the MTI-2 provided, *inter alia*, some criteria for the calculation of the residual industrial value (*Valore Residuo* – the “**VR**”) that the incoming concessionaire is required to pay to the outgoing concessionaire after the expiry of the early termination of the concession.

The VR regards the assets whose ownership shall be transferred by the outgoing concessionaire to the ATO Authority (i.e. the entity identified by the Region) in turn of the payment of an indemnity due by the incoming concessionaire.

The AEEGSI, with the issuance of the MTI for the years 2014 / 2015 and of the MTI-2 for the years 2016 – 2019, introduced a formula for the calculation of the VR applicable to all the concessions for the operation of the Water Integrated Service (please refer to Article 33 of Annex A to Resolution No. 643/2013 for the years 2014 and 2015 and under Article 31 of Annex A of Resolution No. 664/2015 for the years 2016-2019). Please note that the MTT, MTI and MTI-2 issued by the AEEGSI – and therefore the formula for the calculation of the VR – apply to each company operating the Water Integrated Service (or one of the services composing the Water Integrated Service) in the national territory and, therefore, in each ATO of the Italian Regions<sup>1</sup>.

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<sup>1</sup> Special rules are provided by the AEEGSI with reference to the Regions under special statutes (*Regioni a statuto speciale*) that have issued regional laws regulating the tariffs schemes. This category of Regions does not include the Piemonte Region.

### ***Standard Agreement issued by the AEEGSI***

In addition to the above, the AEEGSI recently issued Resolution No. 656/2015, providing a standard concession agreement (so-called “*Convenzione Tipo*” – the “**Standard Agreement**”) regulating the main aspects of the relationship between the ATO Authority and the operator of the Integrated Water Service.

The Standard Agreement was issued in order to comply with Article 151 of the Environmental Code, as amended by Law Decree No. 133/2014, according to which the relationship between the ATO Authority and the operator of the service shall be regulated by agreements drafted on the basis of the standard agreements to be adopted by the AEEGSI.

The Standard Agreement provides, *inter alia*, the regulation of the following items:

- duration of the concession and events allowing the extension of the duration of the concession;
- main obligations of the grantor and the concessionaire;
- procedure and measures for the review of the economic-financial balance of the concession,
- procedure related to the step-in of the incoming concessionaire after the expiry or the early termination of the concession and payment of the VR to the outgoing concessionaire.

Resolution No. 656/2015 of the AEEGSI – implementing Article 151 of the Environmental Code – also provides that all the concessions currently in force must be amended by the parties in order to implement the provisions of the Standard Agreement. The concessions, as amended in light of the Standard Agreement, must be approved by the competent ATO Authority and submitted to the AEEGSI for the final approval within the deadline provided by the AEEGSI in its Resolution.

Please note that the obligation to amend the existing concession agreements on the basis of the Standard Agreement issued by the AEEGSI applies to each ATO Authority / company operating the Integrated Water Service (or one of the services composing the Integrated Water Service) in the national territory and, therefore, in each ATO of the Italian Regions.

By Resolution No. 571/2016/R/IDR dated 14 October 2016, the AEEGSI approved the regulatory scheme for the years 2016 – 2019 submitted by the ATO 3 Authority, including the deed of amendment to the concession agreement agreed between the ATO 3 Authority and the Issuer in order to implement the Standard Agreement approved by the same ATO 3 Authority by Resolution No. 598 of 29 April 2016.



## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax and legal advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### Republic of Italy

*The following is a general summary of current Italian law and practice relating to certain Italian tax considerations concerning the purchase, ownership and disposition of the Notes. It does not purport to be a complete analysis of all tax considerations that may be relevant to your decision to purchase, own or dispose of the Notes, does not purport to deal with the tax consequence applicable to all categories of prospective beneficial owners of Notes, some of which may be subject to special rules.*

*This summary is based upon tax laws and practice of the Republic of Italy in effect on the date of this Prospectus, which are subject to change potentially retroactively. The Issuer will not update this summary to reflect changes in laws and if such a change occurs the information in this summary could become invalid. Changes in the Issuer's organizational structure, tax residence or the manner in which it conducts its business may invalidate this summary. This summary also assumes that each transaction with respect to the Notes is at arm's length.*

*Where in this summary English terms and expressions are used to refer to Italian concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Italian concepts under Italian tax law.*

*Prospective purchasers of Notes should consult their tax and legal advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.*

### Tax Treatment of Notes

#### 1. Interest and other proceeds

##### Notes that qualify as "*obbligazioni*" or "*titoli similari alle obbligazioni*"

To the extent that Notes qualify as "*obbligazioni*" or "*titoli similari alle obbligazioni*", as defined hereunder, interest, premium and other proceeds (including the difference between the redemption amount and the issue price, hereinafter collectively referred to as "**Interest**") deriving from Notes, are subject to the tax regime provided for by Legislative Decree No. 239 of 1 April 1996, as amended ("**Decree No. 239**").

In particular, Decree No. 239 applies only to such notes which fall within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) within the meaning of Article 44 of Presidential Decree No. 917 of 22 December 1986, as amended and supplemented ("**Decree No. 917**") issued, inter alia, by:

- a) companies resident of Italy for tax purposes whose shares are listed on a regulated market or on a multilateral trading platform of EU Member States and of the States party to the EEA Agreement included in the "white list" provided for by Ministerial Decree of 4 September 1996, as amended from time to time, or by a decree to be issued under the authority of Article 11(4)(c) of Decree No. 239 (as amended by Legislative Decree No. 147 of 14 September 2015) ("**White List**"). The

Ministry of Economy and Finance issued a decree broadening the list of countries and territories that allow an adequate exchange of information with the Italian Tax Authorities contained in the White List; the decree was published in the Official Journal on 22 August 2016; or

- b) company resident of Italy for tax purposes whose shares are not listed, issuing notes that will be listed upon their issuance on the aforementioned regulated markets or platforms.

For the above purpose, pursuant to Article 44 of Decree No. 917, debentures similar to bonds are securities, other than shares and securities similar to shares, that (i) incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value and (ii) do not grant to the relevant holders any right to directly or indirectly participate to the management of the issuer or of the business in relation to which they are issued or to control the same management.

### **Italian Resident Noteholders**

Pursuant to Decree No. 239, in case of Notes held by an Italian resident Noteholder who is beneficial owner of the Notes and is (i) an individual not engaged in an entrepreneurial activity to which the Notes are connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation (in each case, unless the relevant Noteholder has entrusted the management of its financial assets, including the Notes, to an Italian authorised intermediary and has opted for the application of the so-called *Risparmio Gestito* regime provided for by Article 7 of Italian Legislative Decree 21 November 1997, No. 461 - see under “Capital Gains” below), Interest payments relating to the Notes, during the relevant holding period, are subject to a final tax, referred to as *imposta sostitutiva*, levied at the rate of 26 per cent..

In the event that the Noteholders described under (i) or (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax. In such case, Interest relating to the Notes (i) will be subject to the *imposta sostitutiva* on account of income tax due and (ii) will be included in the relevant Noteholder’s annual corporate taxable income to be reported in the income tax return. As a consequence, such income will be subject to the ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the income tax due.

Pursuant to Legislative Decree No. 239, *imposta sostitutiva* is generally applied by banks, *società di intermediazione mobiliare* (SIMs), fiduciary companies, *società di gestione del risparmio* (SGRs), stockbrokers and other entities identified by decrees of the Ministry of Finance who are (i) resident in Italy or permanent establishments in Italy of non-Italian resident financial intermediaries and (ii) intervene, in any way, in the collection of Interest relating to the Notes or in the transfer of the Notes (each an “**Intermediary**”).

Where an Italian resident Noteholder who is beneficial owner of the Notes is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are timely deposited together with the relevant Coupons with an Intermediary, Interest will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder’s income tax return and are therefore subject to general Italian corporate income tax (“**IRES**”), currently applying at 24 per cent. rate and, in certain circumstances, depending on the “status” of the Noteholder, also to *imposta regionale sulle attività produttive*, the regional tax on productive activities (“**IRAP**”), generally applying at the rate of 3.9 per cent. (IRAP applies at different rates for certain categories of investors, e.g. banks, financial institutions and insurance companies and, in any case, can be increased by regional laws).

Payments of Interest in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998 and Article 14-bis of Law No. 86

of 25 January 1994 (“**Real Estate Funds**”) should not be subject to *imposta sostitutiva* and do not suffer any other income tax in the hands of the Real Estate Fund, provided that the Notes, together with the relevant Coupons, are timely deposited with an Intermediary. Unitholders are generally subject to a 26 per cent. withholding tax on distributions from Real Estate Funds. Furthermore, a direct imputation system (tax transparency) is provided for certain non-qualifying unitholders (e.g. Italian resident individuals) holding more than 5 per cent. of the units of the fund.

If the Noteholder is resident in Italy and is an open-ended or closed-ended investment fund (the “**Fund**”) or a SICAV, and the Notes, together with the relevant Coupons, are timely deposited with an authorised Intermediary, Interest accrued during the holding period on the Notes should not be subject to *imposta sostitutiva* and do not suffer any other income tax in the hands of the Funds. A 26 per cent. withholding tax is levied on proceeds received by certain categories of unitholders upon (i) distribution by Fund; or (ii) redemption or disposal of the units or liquidation of the Fund.

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of Legislative Decree 5 December 2005, No. 252) (“**Pension Funds**”) and the Notes, together with the relevant Coupons, are timely deposited with an Intermediary, Interest payments relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an *ad hoc* 20 per cent. substitute tax.

Where an Italian resident Noteholder has opted for the *Risparmio Gestito* regime with respect to its investment in the Notes, such Noteholder will be subject to a 26 per cent. annual substitute tax on the increase in value of the managed assets accrued at the end of each tax year. In such case, Interest payments relating to the Notes will be included in the calculation of said annual increase in value of managed assets.

Where the Notes and the relevant Coupons are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any Italian intermediary (or permanent establishment in Italy of foreign intermediary) that intervenes in the payment of Interest to any Noteholder or by the Issuer and Noteholders who are Italian resident companies or permanent establishments in Italy of foreign corporations to which the Notes are effectively connected are entitled to deduct *imposta sostitutiva* suffered from income taxes due.

### **Non-Italian Resident Noteholders**

Where a Noteholder who is the beneficial owner of the Notes is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy listed in the White List; or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, inter alia, the official reserves of a foreign State; or (iv) subject to certain exceptions, an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of taxpayer in its own country of residence.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. or at the reduced or nil rate provided for by the applicable double tax treaty (if any, and in any case subject to compliance with relevant substantive and procedural requirements) to Interest paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy.

In order to ensure gross payment, qualifying non-Italian resident Noteholders must be the beneficial owners of the payments of Interest and (i) deposit, directly or indirectly, the Notes, together with the relevant Coupons, with an Italian resident bank or SIM or other qualified intermediary or a permanent establishment in Italy of a non-Italian resident bank or SIM or other qualified intermediary or with a non-Italian resident

entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economics and Finance and (ii) timely file with the relevant depository a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to meet the requirements to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in the case of foreign Central Banks or entities which manage, inter alia, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001. Additional statements may be required for non-Italian resident Noteholders who are institutional investors.

## **2. Capital Gains**

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable business income subject to ordinary taxation (and, in certain circumstances, depending on the “status” of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Where an Italian resident Noteholder is an individual not engaged in an entrepreneurial activity to which the Notes are connected and certain other persons, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent.. Noteholders may set-off capital losses with gains of the same nature.

For the purposes of determining the taxable capital gain, Interest on the Notes accrued and unpaid up to the time of the purchase and the sale of the Notes must be deducted from the purchase price and the sale price, respectively.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss of the same nature, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss of the same nature, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same nature realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (*Risparmio Amministrato* regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries (or permanent establishments in Italy of foreign intermediaries) and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes, net of any incurred capital loss of the same nature, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds

provided by the Noteholder for this purpose. Under the *Risparmio Amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains of the same nature subsequently realised, within the same securities management relationship, in the same tax year or in the following tax years up to the fourth. Under the *Risparmio Amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains on Notes held by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called *Risparmio Gestito* regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax, to be paid by the managing authorised intermediary. Under the *Risparmio Gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *Risparmio Gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

Any capital gains on Notes held by a Noteholder who is a Fund or a SICAV is subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Funds. Please refer to paragraph Italian Resident Noteholders above.

Any capital gains on Notes held by a Noteholder who is a Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period to be subject to an *ad hoc* 20 per cent. substitute tax.

Any capital gains realised by Real Estate Funds on the Notes are not taxable at the level of Real Estate Funds. Please refer to the paragraph entitled “2. Italian Resident Noteholders” above.

Capital gains realised by non-Italian resident Noteholders (without a permanent establishment in Italy to which the Notes are effectively connected) from the sale or redemption of Notes traded on regulated markets in Italy or abroad are not subject to the *imposta sostitutiva*, regardless of whether the Notes are held in Italy. In such a case, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the so-called *Risparmio Amministrato* regime according to Article 6 of Italian Legislative Decree 21 November 1997, No. 461, may be required to produce in due time to the Italian authorised financial intermediary an appropriate self-declaration that they are not resident in Italy for tax purposes.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian or non-Italian resident Issuer not traded on regulated markets may in certain circumstances be taxable in Italy if the Notes are held in Italy. However, a non-Italian resident beneficial owner of Notes without a permanent establishment in Italy to which the Notes are effectively connected is not subject to the *imposta sostitutiva* on capital gains realised upon sale or redemption of the Notes, provided that he/she/it: (i) is resident in a country which allows for a satisfactory exchange of information with Italy listed in the White List; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, inter alia, the official reserves of a foreign State; or (iv) is an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of taxpayer in its own country of residence. In such cases, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the so-called *Risparmio Amministrato* regime according to Article 6 of Italian Legislative Decree 21 November 1997, No. 461 may be required to produce in due time to the Italian authorised financial intermediary an appropriate

self-declaration stating that they meet the subjective requirements indicated above. Additional statements may be required for non-Italian resident Noteholders who are institutional investors.

Moreover, in any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of Notes. In such a case, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the *Risparmio Amministrato* regime according to Article 6 of Italian Legislative Decree 21 November 1997, No. 461 may be required to produce in due time to the Italian authorised financial intermediary appropriate documents which include, inter alia, a statement from the competent tax authorities of the country of residence.

### **3. Stamp tax**

Article 19 of Law Decree No. 201 of 6 December 2011 (“**Decree 201**”) has introduced a stamp tax at proportional rates on periodical bank statements (*estratti conto*) sent by banks and financial intermediaries regarding, with certain exceptions (e.g. investments in pension funds), all financial instruments deposited in Italy. The stamp tax is collected by banks and other financial intermediaries. By operation of law, the bank statement is deemed as sent to the investor at least once a year. The stamp tax applies at a rate of 0.2 per cent. and it cannot exceed €14,000 for taxpayers different from individuals. In particular, it is applied, on a yearly basis, on the market value of the financial instruments, or, lacking such value, on the nominal or reimbursement value of such instruments.

### **4. Transfer tax**

Article 37 of Law Decree No. 248 of 31 December 2007, converted into Law 28 February 2008, No. 31 abolished the Italian transfer tax previously applicable on certain transfers of securities, provided for by Royal Decree 30 December 1923, No. 3278 as amended and supplemented by the Legislative Decree 21 November 1997, No. 435.

Following the repeal of the Italian transfer tax, as from 31 December 2007 contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarised deeds (*atti pubblici e scritture private autenticate*) executed in Italy are subject to fixed registration tax at rate of €200; (ii) private deeds (*scritture private autenticate*) are subject to registration tax at rate of €200 only in case of use or voluntary registration.

### **5. Wealth tax on securities deposited abroad**

Pursuant to Article 19 of Decree 201, Italian resident individuals holding the Notes outside the Italian territory are required to pay a wealth tax at a rate of 0.2 per cent. (for 2014 onward).

This tax is calculated on the market value of the Notes at the end of the relevant year or – if no market value figure is available – the nominal value or the redemption value of such financial assets held outside the Italian territory. Taxpayers are entitled to an Italian tax credit equivalent to the amount of wealth taxes paid in the country where the financial assets are held (up to an amount equal to the Italian wealth tax due).

### **6. Tax monitoring**

Pursuant to Italian Law Decree 28 June 1990, No. 167, converted by Law 4 August 1990, No. 227, as amended (“**Decree No. 167**”), individuals, non-commercial institutions and non-commercial partnerships resident in Italy who, at the end of the fiscal year, hold investments abroad or have foreign financial assets

(including Notes held abroad and/or Notes issued by a non-Italian resident Issuer) must, in certain circumstances, disclose the aforesaid and related transfers to, from and occurred abroad, to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time prescribed for the income tax return). This obligation does not exist (i) in cases where each of the overall value of the foreign investments or financial assets at the end of the fiscal year, and the overall value of the related transfers to, from and occurred abroad carried out during the relevant fiscal year, does not exceed €15,000, as well as (ii) in case the financial assets are given in administration or management to Italian banks, SIMs, fiduciary companies or other professional intermediaries, indicated in Article 1 of Decree No. 167, or if one of such intermediaries intervenes, also as a counterpart, in their transfer, provided that income deriving from such financial assets is collected through the intervention of such an intermediary.

## **7. Italian inheritance and gift tax**

Transfers of any valuable asset (including shares, bonds or other securities) as a result of death or donation of Italian residents and of non-Italian residents, but in such latter case limited to assets held within the Italian territory (which, for presumption of law, includes bonds issued by Italian resident issuers), are generally taxed in Italy as follows:

- (i) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding €1,000,000 for each beneficiary;
- (ii) transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding €100,000 for each beneficiary;
- (iii) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift.; and
- (iv) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the beneficiary has a serious disability recognised by law, inheritance and gift taxes apply on its portion of the net asset value exceeding €1,500,000.

## **EU Savings Tax Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Tax Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent (within the meaning of the EU Savings Tax Directive) within its jurisdiction to, or collected by such a paying agent (within the meaning of the EU Savings Tax Directive) for, an individual resident or certain limited types of entity known as "residual entities" as defined in article 4-2 of the EU Savings Tax Directive established in that other Member State; however, for a transitional period, certain EU countries will instead operate a withholding tax system for a transitional period in relation to such payments unless during such period they elect otherwise. Legislative Decree No. 84 of 18 April 2005 ("**Decree 84**") implemented in Italy, as of 1 July 2005, the EU Savings Directive.

On 10 November 2015, the Council of the European Union approved Council Directive 2015/2060/EU (published in the Official Journal of the EU on 18 November 2015) repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates).

In order to implement in Italy the EU Council Directive 2015/2060/EU, Law No. 122 of 7 July 2016 (the European Delegation Law 2015-2016) has repealed the Decree 84 with effect from 1 January 2016.

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the EU Saving Tax Directive in their particular circumstances.

### **FATCA Withholding**

The Issuer and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 if the Notes are materially modified on or after the date that is six months after the date on which Treasury Regulations that define the term "foreign passthru payment" are filed with the Federal Register (such date, the "**Grandfathering Date**") pursuant to the foreign account provisions ("**FATCA**") of the Hiring Incentives to Restore Employment Act of 2010. Treasury Regulations that define the term "foreign passthru payments" have not been filed in the Federal Register as of the date of this Prospectus.

The United States has entered into a Model 1 intergovernmental agreement regarding the implementation of FATCA with Italy (the IGA). The IGA between Italy and the United States has been ratified in Italy by Law n. 95 of 18 June 2015 entered into force on 8 July 2015, which has been implemented by specific regulations issued by the Italian Ministry of Economy and Finance.

Under the IGA, as currently drafted, withholding on "foreign passthru payments" (which may include payments on the Notes) by the Issuer is not currently required but may be imposed in the future if the Issuer were treated as a non-U.S. financial institution under the IGA and either the IGA were amended to require withholding on foreign passthru payments or any non-U.S. financial institution that serves as a paying agent or other intermediary with respect to payments made on the Notes is required in the future to withhold under FATCA on any "foreign passthru payments" made on the Notes. In addition, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Notes in the future. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, the IGA or Italian law implementing the IGA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of the Notes should consult their own tax advisers on how these rules may apply to payments they receive under the Notes.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE NOTES AND THE HOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF NOTES SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.



## SUBSCRIPTION AND SALE

The Lead Manager has, in a subscription agreement dated 12 April 2017 (the “**Subscription Agreement**”) and made between the Issuer and the Lead Manager upon the terms and subject to the conditions contained therein, agreed to subscribe for the Notes. The Issuer has also agreed to reimburse the Lead Manager for certain of its expenses incurred in connection with the management of the issue of the Notes. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### **United States of America**

The Notes have not been and will not be registered under the Securities Act and the Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. The Lead Manager has agreed that it will not offer, sell or deliver any Notes within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

The Lead Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **Republic of Italy**

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, the Lead Manager has represented and agreed that no Notes may be offered, sold or delivered nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*) as defined under Article 100 of Italian Legislative Decree No. 58 of 24 February 1998, as amended (also known as the *Testo Unico della Finanza* or the “TUF”), as implemented by Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (also known as the *Regolamento Emittenti* or the “**Issuers’ Regulation**”) and by Article 26, first paragraph, letter d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended (also known as the *Regolamento Intermediari* or the “**Intermediaries’ Regulation**”); or
- (b) in circumstances where an exemption from the rules governing public offers of securities applies, pursuant to Article 100 of the TUF or CONSOB’s implementing regulations, including Article 34-ter, first paragraph, of the Issuers’ Regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy must be made in compliance with the selling restrictions under (a) and (b) above and must be:

- (1) made by an investment firm, bank or financial intermediary licensed to conduct such activities in the Republic of Italy in accordance with the TUF, the Intermediaries’ Regulation and Legislative Decree No. 385 of 1 September 1993 (also known as the *Testo Unico Bancario* or the “TUB”), in each case as amended from time to time;
- (2) in compliance with Article 129 of the TUB and the implementing guidelines of the Bank of Italy issued on 25 August 2015 and amended on 10 August 2016, as further amended from time to time; and
- (3) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other competent authority.

The Issuer has undertaken to comply with Article 129 of the TUB, as amended from time to time, and the implementing guidelines of the Bank of Italy issued on 25 August 2015 and amended on 10 August 2016, as further amended from time to time, with regard, *inter alia*, to the reporting obligations applicable to the Issuer.

## France

The Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour compte de tiers*), and/or (b) qualified investors (*investisseurs qualifiés*), and/or (c) a limited circle of investors (*cercle restreint*) acting for their own account, as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 and D.411-4 of the French Code monétaire et financier.

## General

The Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes.

No action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Lead Manager to comply with all applicable

laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

## **GENERAL INFORMATION**

### **Authorisation**

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 9 February 2017.

### **Listing and Admission to Trading**

2. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market. The total expenses related to the admission of the Notes to trading on the Irish Stock Exchange's regulated market are expected to amount to approximately €6,790.

### **Listing Agent**

3. Arthur Cox Listing Services Limited is acting solely in its capacity as Listing Agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Main Securities Market.

### **Legal and Arbitration Proceedings**

4. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and the Group.

### **Significant/Material Change**

5. Since 31 December 2015 there has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Group.

### **Third Party Information**

6. The third party information included on page 41 of this Prospectus has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by REF Ricerche and no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Auditors**

7. The independent auditors of the Issuer are Deloitte & Touche S.p.A. (“**Deloitte**”), whose registered office is at Via Tortona 25, 20144 Milan, Italy. Deloitte is registered under No. 132587 in the Register of Accountancy Auditors (*Registro Revisori Legali*) held by the Italian Ministry of Economy and Finance in compliance with the provisions of Legislative Decree No. 39 of 27 January 2010, and is also a member of Assirevi (*Associazione Nazionale Revisori Contabili*), the Italian association of auditing firms. Deloitte has audited the Issuer’s accounts without qualification for the financial years ended 31 December 2015 and 2014. The Special Purpose Auditor’s Report of Deloitte & Touche S.p.A. is included in the Annex to this Prospectus, in the form and context in which it is included, at the request of the Issuer and with the consent of Deloitte & Touche S.p.A.

### **Documents on Display**

8. For so long as the Notes remain outstanding, physical or electronic copies of the following documents (together, where appropriate, with English translations thereof), upon publication, may be inspected

during normal business hours at the offices of the Fiscal Agent at 60 avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg:

- (a) the By-laws (*statuto*) of the Issuer;
- (b) the Fiscal Agency Agreement; and
- (c) the Issuer's 2015 and 2014 Annual Consolidated Financial Statements.

#### **Clearing Systems**

- 9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN code is XS1596790631 and the common code is 159679063. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg.

#### **Potential Conflicts of Interest**

- 10. The Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions (including, without limitation, the provision of loan facilities) with, and may perform services for the Issuer and its affiliates in the ordinary course of business.
- 11. In addition, in the ordinary course of their business activities, the Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the issuer's affiliates or any entity related to the Notes. The Lead Manager and its affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Lead Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Lead Manager and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the avoidance of doubt, the term "affiliates" includes parent companies.

#### **Yield**

- 12. On the basis of the issue price of the Notes of 99.26 per cent. of their principal amount, the gross real yield of the Notes is 2.065 per cent. on an annual basis.

#### **Legend Concerning US Persons**

- 13. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

**ANNEX**  
**RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**

**SMAT GROUP**

**RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**

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**SPECIAL PURPOSE INDEPENDENT AUDITORS' REPORT ON THE  
RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**

**To the Board of Directors of  
Società Metropolitana Acque Torino S.p.A.**

We have audited the accompanying restated IFRS consolidated statement of financial position of Società Metropolitana Acque Torino S.p.A. (the “Company” or “SMAT”) and its subsidiaries (the “SMAT Group”) as at December 31, 2015, the consolidated income statement and statement of comprehensive income for the year then ended and the related explanatory notes (the “Restated IFRS Consolidated Financial Statements”). These Restated IFRS Consolidated Financial Statements have been prepared solely for the purpose of their inclusion in the Prospectus for the issuance of certain notes of the Company to be admitted to trading on the Main Securities Market of the Irish Stock Exchange. The purpose of the Restated IFRS Consolidated Financial Statements is to present the financial position of the SMAT Group as at December 31, 2015, and the results of its operations and cash flows for the year then ended in accordance with the recognition and measurement criteria of the International Financial Reporting Standards (“IFRS”) as adopted by the European Union and described in the explanatory notes.

**Management’s responsibility for the Restated IFRS Consolidated Financial Statements**

Management is responsible for the preparation of the Restated IFRS Consolidated Financial Statements in accordance with the basis set out in the notes to the Restated IFRS Consolidated Financial Statements, and for such internal control relevant to the preparation of the Restated IFRS Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

**Auditors’ responsibility**

Our responsibility is to express an opinion on the Restated IFRS Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and considering the CESR Recommendation 05-054b, as amended by the ESMA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Restated IFRS Consolidated Financial Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the Restated IFRS Consolidated Financial Statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the Restated IFRS Consolidated Financial Statements have been prepared in accordance with the basis set out in the explanatory notes and, accordingly, solely for the purpose of their inclusion in the Prospectus, give, in all material respects, a true and fair view of the financial position of the SMAT Group as at December 31, 2015 and of its results of operations and cash flows for the year then ended.

### **Basis of accounting and limitation on use**

Without modifying our opinion, we draw attention to the fact that the Restated IFRS Consolidated Financial Statements do not include comparative figures and explanatory notes which would be required by the IFRS as adopted by the European Union. As a result, the Restated IFRS Consolidated Financial Statements are not a complete set of financial statements of the SMAT Group. The Restated IFRS Consolidated Financial Statements have been prepared for the purposes described in the first paragraph; as a result, the Restated IFRS Consolidated Financial Statements may not be suitable for another purpose.

This report has been prepared solely for the purpose of complying with the requirements of Regulation 809/2004/CE and for its inclusion in the Prospectus. It should not be used in whole or in part for any other purpose.

DELOITTE & TOUCHE S.p.A.

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Turin, Italy  
February 10, 2017

**SMAT S.p.A. and subsidiaries**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as of December 31, 2015**

<i>(Amounts in Euro)</i>	<b>IFRS Restated</b>
<b>Non-Current Assets</b>	
Property, plant and equipment	174,481,701
Goodwill	5,928,005
Other Intangible assets	2,319,764
Concessions	523,581,864
Investments	24,200,728
Deferred tax assets	16,518,939
Non-current financial assets	780,458
Other non-current assets	-
<b>Total Non-Current Assets</b>	<b>747,811,459</b>
<b>Current Assets</b>	
Inventories	6,169,748
Trade and other receivables	247,147,778
Current tax assets	11,754,364
Current financial assets	2,379,685
Other current assets	7,169,345
Cash and cash equivalents	12,000,882
<b>Total Current Assets</b>	<b>286,621,803</b>
<b>Total Assets</b>	<b>1,034,433,262</b>

<i>(Amounts in Euro)</i>	<b>IFRS Restated</b>
<b>Shareholder's Equity</b>	
Share capital	345,533,762
Reserves and retained earnings	92,400,388
Profit for the year	50,860,725
<b>Shareholders' equity attributable to the Owners of the Company</b>	<b>488,794,874</b>
Capital and reserves attributable to non-controlling interests	218,134
Profit for the year attributable to non-controlling interests	201,503
<b>Shareholders' equity attributed to the non-controlling interests</b>	<b>419,637</b>
<b>Total Shareholders' Equity</b>	<b>489,214,512</b>
<b>Non-Current liabilities</b>	
Non-current financial liabilities	245,224,607
Provisions for employee benefits	18,907,660
Provisions for risks	26,047,320
Deferred tax liabilities	1,088,061
Other non-current liabilities	52,975,934
<b>Total Non-Current Liabilities</b>	<b>344,243,582</b>
<b>Current liabilities</b>	
Current financial liabilities	27,822,276
Trade and other payables	79,312,012
Current tax liabilities	4,670,183
Other current liabilities	88,964,106
Other current financial liabilities	206,593
<b>Total Current Liabilities</b>	<b>200,975,169</b>
<b>Total Liabilities</b>	<b>545,218,750</b>
<b>Total Shareholders' Equity and Liabilities</b>	<b>1,034,433,262</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**SMAT S.p.A. and subsidiaries**  
**CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended December 31, 2015**

**CONSOLIDATED INCOME STATEMENT**

<i>(Amounts in Euro)</i>	<b>IFRS Restated</b>
Revenues	313,940,153
Revenues for planning and construction activities	79,691,469
Other revenues	21,951,641
<b>Total Revenues</b>	<b>415,583,263</b>
Purchases of goods	(10,789,856)
Services, leases and rental expenses	(185,693,335)
Payroll costs	(59,824,974)
Other operating expenses	(25,739,856)
<b>Total Operating Costs</b>	<b>(282,048,021)</b>
<b>Gross Operating margin</b>	<b>133,535,243</b>
Amortisation, depreciation and write-downs	(55,676,797)
<b>Operating income (EBIT)</b>	<b>77,858,446</b>
Financial income	5,137,999
Financial expense	(6,692,102)
<b>Net financial income and expenses</b>	<b>(1,554,103)</b>
<b>Profit before taxes</b>	<b>76,304,343</b>
Income Taxes	(25,242,115)
<b>Profit for the year</b>	<b>51,062,228</b>
<i>Of which:</i>	
Profit for the year assigned to non-controlling interests	201,503
Profit for the year assigned to the owners of the Company	50,860,725

**STATEMENT OF COMPREHENSIVE INCOME**

<i>(Amounts in Euro)</i>	<b>IFRS Restated</b>
<b>Profit for the year (a)</b>	<b>51,062,228</b>
Actuarial profit/(loss) on employee benefits (Employee Severance Indemnity)	<b>962,281</b>
Tax effect on profit/(loss) that will not be subsequently reclassified in the Income Statement	-
<b>Profit/(loss) that will not be subsequently reclassified in the income statement (b)</b>	<b>962,281</b>
<b>Profit/(loss) that will be subsequently reclassified in the income statement when certain conditions are met (c)</b>	-
<b>Comprehensive income (a) + (b) + (c)</b>	<b>52,024,509</b>
<i>Of which:</i>	
Profit for the year assigned to non-controlling interests	210,077
Profit for the year assigned to the owners of the Company	51,814,432

*The accompanying notes are an integral part of these consolidated financial statements*

**SMAT S.p.A. and subsidiaries**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**for the year ended December 31, 2015**

<i>(In thousands of Euro)</i>	Share capital	Legal reserve	Reserve for purchase of treasury shares	FTA Reserve	Actuarial reserve IAS 19	Retained earnings	Other reserves	Profit for the year	Group Shareholders' equity	Non-controlling Interests	Total Shareholders' Equity
<b>January 1, 2015</b>	<b>345,534</b>	<b>7,335</b>	<b>(15,658)</b>	<b>(2,846)</b>	<b>-</b>	<b>(5,352)</b>	<b>71,917</b>	<b>48,047</b>	<b>448,977</b>	<b>563</b>	<b>449,540</b>
Allocation of 2014 profits	-	2,138	-	-	-	13,417	32,492	(48,047)	(0)	(345)	(345)
Dividends distribution	-	-	-	-	-	(8,074)	-	-	(8,074)	-	(8,074)
Acquisition of treasury shares	-	-	(4,002)	-	-	-	-	-	(4,002)	-	(4,002)
Other changes	-	-	-	-	962	71	-	50,861	51,894	202	52,096
<b>December 31, 2015</b>	<b>345,534</b>	<b>9,473</b>	<b>(19,660)</b>	<b>(2,846)</b>	<b>962</b>	<b>63</b>	<b>104,409</b>	<b>50,861</b>	<b>488,795</b>	<b>420</b>	<b>489,214</b>

*The accompanying notes are an integral part of these consolidated financial statements*

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**as of and for the year ended December 31, 2015**

**1. Introduction**

The SMAT Group prepares its consolidated financial statements in accordance with the Italian Civil Code interpreted and integrated by the accounting standards issued by Organismo Italiano Contabilità (the Italian Accounting Standards Setter, hereinafter “Italian GAAP” or “ITA GAAP”).

In connection with the proposed capital market transaction that will require the preparation of a prospectus, the consolidated financial statements of the SMAT Group as at December 31, 2015 have been restated in conformity with IFRS solely for the purpose of its inclusion in the Prospectus (the “Restated IFRS Consolidated Financial Statements”), as required by the Regulation 809/2004/UE and by the recommendation 05-054b of the Committee of European Securities Regulators (“CESR”) now ESMA - European Securities and Markets Authority. As a consequence of this transaction, the SMAT Group will adopt the IFRS for the preparation of the consolidated financial statements starting from the year ended December 31, 2016.

The above statements, therefore, do not present comparative figures and the necessary notes, which would be required to represent a true and fair view and give a complete presentation of the consolidated financial position, results of operations and cash flows of the SMAT Group in conformity with IFRS and, accordingly, it cannot be considered a first time adoption of IFRS. This document provides the information required by IFRS 1 (paragraph 24 and following) concerning the effects of the first-time application of IFRS on the consolidated financial position and consolidated results of operations of the SMAT Group, in accordance with the Recommendations of the Committee of European Securities Regulators (“CESR”). Such information relates to the impact that the conversion to IFRS has on the consolidated financial position, consolidated income statement, consolidated statement of comprehensive income presented.

The consolidated financial statements, as at December 31, 2015, include the financial statements of SMAT S.p.A. and its majority-owned subsidiaries. These consolidated financial statements, proposed in accordance with Italian GAAP, have been reclassified into an IFRS statements presentation solely for the purpose of their inclusion in this restated financial information in conformity with IFRS.

For the purpose of the presentation of the effects of the transition to IFRS and to satisfy the rules for disclosure indicated in paragraphs 24 and 25 of IFRS 1 concerning the effects of the first-time application of IFRS, the SMAT Group has followed the example contained in IFRS 1.

The effects of the transition to IFRS due to the application of different accounting principles with respect to those previously applied were reflected in the opening shareholders’ equity at January 1, 2015, as required by IFRS 1. In the transition to IFRS, the estimates previously formulated in accordance with ITA GAAP have been maintained, unless the adoption of IFRS required the formulation of estimates in accordance with different methods.

The IFRS consolidated statement of financial position as of December 31, 2015 and the IFRS consolidated income statement, consolidated statement of comprehensive income, for the year then ended have been obtained from the consolidated data, prepared in accordance with Italian GAAP, by making the appropriate IFRS adjustments and reclassifications to reflect the changes in the presentation, recognition and valuation required by IFRS.

The following notes include:

- accounting options elected by the SMAT Group in the first-time adoption of IFRS accounting standards;
- reconciliation of consolidated statement of financial position reported in accordance with previous GAAP to consolidated financial statements reported in accordance with IFRS as of January 1, 2015 and as of December 31, 2015;
- reconciliation of consolidated income statement reported in accordance with previous GAAP to consolidated income statement reported in accordance with IFRS as of December 31, 2015;
- reconciliation of equity reported in accordance with previous GAAP to equity in accordance with IFRS as of January 1, 2015 and as of December 31, 2015;
- reconciliation of net income reported in accordance with previous GAAP to net income in accordance with IFRS as of December 31, 2015 prepared in accordance with ITA GAAP and IFRS;
- notes to the restated IFRS consolidated financial statements relating to adjustments and reclassifications including in the aforementioned reconciliations.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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As required by the IFRS 1 at the date of transition to the new standards a consolidated balance sheet has been prepared whereby:

- only those assets and liabilities that can be reported under the new standards have been recognized;
- items that were shown in the financial statements in accordance with accounting policies other than IFRS have been restated;
- all assets and liabilities have been valued as if the IFRS have always been applied with the exception provided for by IFRS 1 as reported in this document;
- the effect of adjustments resulting from the application of IFRS to the opening balances of assets and liabilities has been recognized in the shareholders' equity net of the relevant deferred tax effect which is accounted for within deferred tax assets or liabilities.

**2. Financial statements presentation**

The “current/non-current” classification has been adopted for the statement of financial position, while the classification of expenses by nature has been chosen for the income statement. Accordingly, the Company has reclassified its financial statements previously prepared in accordance with ITA GAAP.

An asset is classified as current when:

- the SMAT Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- the SMAT Group holds the asset primarily for the purpose of trading;
- the SMAT Group expects to realize the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The SMAT Group classifies all other assets as non-current.

A liability is classified as current when:

- the SMAT Group expects to settle the liability in its normal operating cycle;
- the SMAT Group holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- the SMAT Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The SMAT Group classifies all other liabilities as non-current.

Since IFRS 1 does not require a specific order of the two classifications, the SMAT Group has elected to present non-current before current.

In relation to the consolidated income statement the SMAT Group discloses the expenses by nature. The SMAT Group decided to present two separate statements consisting of the consolidated income statement and the consolidated statement of comprehensive income.

**3. Optional exemptions provided by IFRS 1**

For the adoption of international accounting standards, the SMAT Group has applied IFRS 1 - First-time Adoption of International Financial Reporting Standards, choosing the following optional exemptions:

- *business combinations: the SMAT Group has not applied IFRS 3 retrospectively to business combinations that occurred prior to its date of transition to IFRS;*
- *service concession arrangements: the SMAT Group has applied transitional provisions provided in IFRIC 12. The SMAT Group did not apply this interpretation retrospectively at the start of the earliest period presented and the SMAT Group:*
  - a) recognises financial assets and intangible assets that existed at the start of the earliest period presented;
  - b) uses the previous carrying amounts of those financial and intangible assets (however previously classified) as their carrying amounts as at that date; and
  - c) tests financial and intangible assets recognised at that date for impairment.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**as of and for the year ended December 31, 2015**

**4. Mandatory exemptions provided by IFRS 1**

IFRS 1 establishes certain mandatory exceptions to the retrospective application of international accounting standards in the process of transition to IFRS. Below are highlighted the mandatory exceptions applied by the SMAT Group as part of this transition:

- *estimates*: in accordance with IFRS at the date of transition to IFRS estimates shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. The estimates previously formulated in accordance with ITA GAAP have been maintained.

Other mandatory exemptions prescribed from IFRS 1 were not applied, as they relate to situations not applicable to the SMAT Group.

**5. Accounting treatments chosen from the accounting options provided by IFRS**

The SMAT Group chose the following accounting treatments:

- *inventories*: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. The SMAT Group has chosen to use the weighted average cost method, already adopted in the preparation of financial statements in accordance with Italian GAAP;
- *valuation of property, plant and equipment and intangible assets*: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. The SMAT Group has chosen to adopt the cost method.

**6. Significant accounting judgements, estimates and assumptions**

The most significant accounting principles and valuations adopted in the preparation of the restated IFRS financial statements are described below.

***Business Combinations and Goodwill***

Business combinations are accounted for using the purchase method as determined by IFRS 3. The acquisition cost is determined as the sum of the aggregate of the consideration transferred, which is measured at acquisition-date fair value, and the amount of the non-controlling interest in the acquire. For each business combination, the SMAT Group determines whether measure the non-controlling interest in the acquire at fair value or in relation to the proportionate share of the entity's net assets of the acquired company. Acquisition costs are recognized in profit or loss in the period and classified as administrative expenses.

In a business combination achieved in stages, the SMAT Group measures its previously held equity interest in the acquire at its acquisition-date fair value and recognises the resulting gain or loss, if any, in income statement.

Goodwill is recognized as of the acquisition date measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquire over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed by the SMAT Group.

If fair value of the net identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, the SMAT Group reassess the correctness of the identification of all identifiable assets acquired and assumed liabilities and reviews the procedures used to determine the amounts recognized at acquisition date. If the reassessment still determines that the fair value of identifiable assets acquired and the liabilities assumed exceeds the consideration transferred, the difference is recognized in income statement. Subsequently to the initial recognition, goodwill acquired in a business combination shall be tested for impairment. The goodwill should, from the acquisition date, be allocated to each of the SMAT Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units.

**SMAT S.p.A. and subsidiaries**  
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When the SMAT Group disposes of an operation within a cash-generating unit (group of units) to which goodwill has been allocated, the goodwill associated with that operation should be included in the carrying amount of the operation when determining the gain or loss on disposal and measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit (group of units) retained.

***Investments in associates and joint ventures***

The SMAT Group uses the equity method to account for its investments in associates or joint ventures in its consolidated financial statements.

Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment and because it is not separately recognised, it is not tested for impairment separately.

Consolidated income statement shows the SMAT Group's share of the operating income of the associate or joint venture. Any change in other comprehensive income statement relating to these subsidiaries is presented as part of the comprehensive income of the SMAT Group.

In addition, for any variation in an associate or a joint venture charged directly to equity, the SMAT Group recognizes its share, where applicable, in equity. Unrealized gains and losses arising from transactions between the SMAT Group and associated companies or joint ventures are eliminated in proportion to the percentage of participation in associates or joint ventures.

Aggregated share of the operating result of the Group's associated companies and joint ventures is recognized in the consolidated income statement after operating profit and it represents the result after taxes and amounts due to other shareholders of the associate or joint venture.

The financial statements of associated companies and the joint venture is prepared to the same closing date of the Group financial statements. Where necessary, the financial statements are adjusted to bring it into line with Group accounting principles.

The Group's share of results of associated companies, accounted for using the equity method, is presented in relation to the correlation between the activities of the subsidiary and the activities of the entity that prepares the financial statements.

***Property, plant and equipment***

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision.

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they incurred.

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale.



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Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

***Intangible assets***

Intangible assets are defined as an identifiable non-monetary asset without physical substance, controlled by the SMAT Group and capable of producing future economic benefits, as well as goodwill when purchased for consideration.

The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. An asset is identifiable if it either:

- a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
- b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

Internally generated intangible asset which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.

Intangible assets with a finite useful life are recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates and shall be recognised in income statement. Amortisation is recognised in income statement.

The SMAT Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired, if any such indication exists the SMAT Group tests an intangible asset for impairment in the manner described in the following paragraph "Impairment of assets"; an impairment loss recognised in prior periods for an asset shall be reversed if the indication which caused the impairment loss no longer exist. Intangible asset with an indefinite useful are required to test for impairment at least annually.

The gain or loss arising from derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in income statement when the asset is derecognized.

**SMAT S.p.A. and subsidiaries**  
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***Service Concession Arrangements***

According to IFRIC 12 infrastructure used in a public-to-private service concession arrangement shall not be recognised as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services or the operator shall recognise an intangible asset to the extent that it receives a right (a licence) to charge users of the public service. Based on the SMAT Group service concession agreements the infrastructure used is recognised under the “intangible asset model”. The implementation of IFRIC 12 made it necessary to apply IAS 11 to the same infrastructures, since if the concessionaire constructs or improves an infrastructure that it does not control, the relative construction and improvement services carried out on behalf of the grantor are classified as construction contracts. Therefore, considering that most works are contracted out externally and that on construction activities carried out internally the job margin cannot be identified individually from the benefits included in the remuneration for the service, these infrastructures are reported on the basis of costs actually incurred, net of any contributions paid by the entities and/or private customers.

Under Italian GAAP investments in infrastructure related to concessions were accounted for within property, plant and equipment, whereas the infrastructures in scope are recorded as intangible assets in the restated IFRS financial statements according to IFRIC 12.

***Impairment of assets***

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested for impairment.

Goodwill acquired in a business combination, intangible asset not yet available for use and intangible asset with an indefinite useful life are tested for impairment annually or more frequently when there is any indication that they may be impaired.

The SMAT Group tests the asset by comparing its carrying amount with its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Calculating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. If, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss, which is recognised immediately in income statement.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in income statement.

If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

The CGUs have been identified consistently with the business and organizational structure, as groups of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

The SMAT Group tested for impairment the goodwill recognized in the consolidated financial statements prepared in accordance with ITA GAAP which derive from past business combinations, recognized at the date of transition to IFRS and for which the SMAT Group elect not to apply IFRS 3 retrospectively. In particular:

- goodwill referred to the purchase of business units transferred from SAP S.p.A. (Euro 5,832 thousand);
- goodwill referred to the consignment of a business branch from SAC S.p.A. (Euro 120 thousand).

Tests performed at January 1, 2015 and at December 31, 2015 showed no impairment of goodwill recorded in the consolidated financial statements. As a consequence at the date of transition to IFRS the SMAT Group proceeded to eliminate the amortization recognized in the financial statements prepared in accordance with ITA GAAP.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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***Financial Instruments***

Financial instruments include equity investments held for trading or held for sale (excluded subsidiaries, associates and joint ventures), non-current receivables and loans, trade receivable and other receivable, other current financial assets as cash and cash equivalents. Financial instruments include financial liabilities, trade payables, other payable and other financial liabilities as well as derivatives.

Financial assets and financial liabilities are recognised in the SMAT Group's statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

The SMAT Group derecognises a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire; or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement
- transfers the contractual rights to receive the cash flows of the financial asset and (i) transfers substantially all the risks and rewards of ownership of the financial asset, or (ii) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control.

When the SMAT Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset, and retains control of the transferred asset, the entity continues to recognise the transferred asset to the extent of its continuing involvement. When the SMAT Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the entity's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the entity could be required to repay.

The SMAT Group removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in income statement.

Financial activities and financial liabilities are recognised initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

For the purpose of measuring a financial asset after initial recognition, IAS 39 classifies financial assets into the following categories:

- a) Non-derivative financial assets and liabilities at fair value through profit or loss:
  - financial asset or financial liability classified as held for trading ("HFT");
  - financial liabilities at fair value through profit or loss.
- b) Other non-derivative financial assets and liabilities:
  - loans and receivables;
  - held-to-maturity investments ("HTM");
  - financial liabilities measured at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in income statement.

- c) Available-for-sale financial assets ("AFS")

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. These assets are measured at fair value and impairment losses cannot be reversed through profit or loss, but shall be recognised in other comprehensive income. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised.

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d) **Derivatives**

Derivatives, embedded derivatives included, are measured at their fair values. Gain or loss arising from a change in the fair value of a derivative that is not part of a hedging relationship shall be recognised in income statement.

A derivative may be designated as a hedging instrument when there is formal designation and documentation of the hedging relationship and the hedge is assessed on an ongoing basis and determined to have been highly effective. Fair value hedge is measured at fair value and the gain or loss from remeasuring the hedging instrument shall be recognised in income statement and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in income statement. Cash flow hedge portion of the gain or loss that is determined to be an effective hedge shall be recognised in other comprehensive income, while the ineffective portion of the gain or loss on the hedging instrument shall be recognised in income statement.

Outstanding financial derivatives were measured at fair value against the forward market curve as of year-end date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure.

At the date of transition (January 1, 2015) and as of December 31, 2015, the SMAT Group holds the financial instruments related to non-current bank loans, measured at the amortised cost.

***Employee benefit***

Post-employment benefits are defined according to programs, including non-formalised programs, which, depending on their characteristics, are classed as “defined-benefit” or “defined-contribution” plans.

***Defined-benefit plans***

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in “Finance expense/ (income)”.

***Defined-contribution plans***

In defined-contribution plans, the Company’s obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

***Other long-term plans***

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

***Inventories***

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is the weighted average cost. When required inventories are usually written down or adjusted through the recording of a special provision, to take into account factors of slow-moving or obsolete goods.

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**7. Reconciliation of consolidated statement of financial position under ITA GAAP to IFRS as of January 1, 2015**

<i>Consolidated statement of financial position</i> <i>(In thousands of Euro)</i>	ITA GAAP	IFRS Adjustments	IFRS Restated	Notes
<b>Non-Current Assets</b>				
Property, plant and equipment	181,517	(1,914)	179,603	1)
Goodwill	96	-	96	2)
Other Intangible assets	475,937	(473,495)	2,442	1)
Concessions	-	475,409	475,409	1)
Investments	46,258	-	46,258	3)
Deferred tax assets	20,691	-	20,691	4)
Non-current financial assets	679	-	679	
Other non-current assets	-	-	-	
<b>Total Non-Current Assets</b>	<b>725,177</b>	<b>-</b>	<b>725,177</b>	
<b>Current Assets</b>				
Inventories	6,624	-	6,624	
Trade and other receivables	227,596	721	228,316	5)
Current tax assets	4,741	-	4,741	
Current financial assets	18,079	(15,658)	2,421	6)
Other current assets	5,844	(721)	5,124	5)
Cash and cash equivalents	12,595	-	12,595	
<b>Total Current Assets</b>	<b>275,480</b>	<b>(15,658)</b>	<b>259,822</b>	
<b>Total Assets</b>	<b>1,000,657</b>	<b>(15,658)</b>	<b>985,000</b>	

<i>Consolidated statement of financial position</i> <i>(In thousands of Euro)</i>	ITA GAAP	IFRS Adjustments	IFRS Restated	Notes
<b>Shareholders' Equity</b>				
Share capital	345,534	-	345,534	
Reserves and retained earnings	73,900	(18,504)	55,396	
Profit for the year	48,047	-	48,047	
<b>Shareholders' equity attributable to the owners of the Company</b>	<b>467,481</b>	<b>(18,504)</b>	<b>448,977</b>	
Capital and reserves attributable to non-controlling interests	455	-	455	
Profit for the year attributable to non-controlling interests	108	-	108	
<b>Shareholders' equity attributable to non-controlling interests</b>	<b>563</b>	<b>-</b>	<b>563</b>	
<b>Total Shareholders' Equity</b>	<b>468,044</b>	<b>(18,504)</b>	<b>449,540</b>	
<b>Non-Current liabilities</b>				
Non-current financial liabilities	223,238	-	223,238	7)
Provisions for employee benefits	16,927	2,846	19,773	8)
Provisions for risks	38,073	-	38,073	
Deferred tax liabilities	766	-	766	9)
Other non-current liabilities	49,865	-	49,865	
<b>Total Non-Current Liabilities</b>	<b>328,869</b>	<b>2,846</b>	<b>331,715</b>	
<b>Current liabilities</b>				
Current financial liabilities	29,010	-	29,010	
Trade and other payables	62,799	33,469	96,269	10)
Current tax liabilities	4,524	-	4,524	
Other current liabilities	107,117	(33,469)	73,648	10)
Other current financial liabilities	294	-	294	
<b>Total Current Liabilities</b>	<b>203,745</b>	<b>-</b>	<b>203,745</b>	
<b>Total Liabilities</b>	<b>532,614</b>	<b>2,846</b>	<b>535,460</b>	
<b>Total Shareholders' Equity and Liabilities</b>	<b>1,000,657</b>	<b>(15,658)</b>	<b>985,000</b>	

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. Reconciliation of consolidated statement of financial position under ITA GAAP to IFRS as of December 31, 2015**

<i>Consolidated statement of financial position (In thousands of Euro)</i>	<b>ITA GAAP</b>	<b>IFRS Adjustments</b>	<b>IFRS Restated</b>	<i>Notes</i>
<b>Non-Current Assets</b>				
Property, plant and equipment	176,108	(1,626)	174,482	1)
Goodwill	5,321	607	5,928	2)
Other Intangible assets	524,275	(521,956)	2,320	1)
Concessions	-	523,582	523,582	1)
Investments	24,308	(108)	24,201	3)
Deferred tax assets	16,503	16	16,519	4)
Non-current financial assets	780	-	780	
Other non-current assets	-	-	-	
<b>Total Non-Current Assets</b>	<b>747,296</b>	<b>515</b>	<b>747,811</b>	
<b>Current Assets</b>				
Inventories	6,170	-	6,170	
Trade and other receivables	246,439	709	247,148	5)
Current tax assets	11,754	-	11,754	
Current financial assets	22,040	(19,660)	2,380	6)
Other current assets	7,878	(709)	7,169	5)
Cash and cash equivalents	12,001	-	12,001	
<b>Total Current Assets</b>	<b>306,282</b>	<b>(19,660)</b>	<b>286,622</b>	
<b>Total Assets</b>	<b>1,053,578</b>	<b>(19,145)</b>	<b>1,034,433</b>	

<i>Consolidated statement of financial position (In thousands of Euro)</i>	<b>ITA GAAP</b>	<b>IFRS Adjustments</b>	<b>IFRS Restated</b>	<i>Notes</i>
<b>Shareholders' Equity</b>				
Share capital	345,534	-	345,534	
Reserves and retained earnings	113,939	(21,538)	92,400	
Profit for the year	50,418	442	50,861	
<b>Shareholders' equity attributable to the owners of the Company</b>	<b>509,891</b>	<b>(21,096)</b>	<b>488,795</b>	
Capital and reserves attributable to non-controlling interests	223	(5)	218	
Profit for the year attributable to non-controlling interests'	192	10	202	
<b>Shareholders' equity attributable to non-controlling interests</b>	<b>415</b>	<b>5</b>	<b>420</b>	
<b>Total Shareholders' Equity</b>	<b>510,306</b>	<b>(21,091)</b>	<b>489,215</b>	
<b>Non-Current liabilities</b>				
Non-current financial liabilities	245,482	(257)	245,225	7)
Provisions for employee benefits	16,974	1,934	18,908	8)
Provisions for risks	26,047	-	26,047	
Deferred tax liabilities	818	270	1,088	9)
Other non-current liabilities	52,976	-	52,976	
<b>Total Non-Current Liabilities</b>	<b>342,297</b>	<b>1,946</b>	<b>344,244</b>	
<b>Current liabilities</b>				
Current financial liabilities	27,822	-	27,822	
Trade and other payables	53,989	25,323	79,312	10)
Current tax liabilities	4,670	-	4,670	
Other current liabilities	114,287	(25,323)	88,964	10)
Other current financial liabilities	207	-	207	
<b>Total Current Liabilities</b>	<b>200,975</b>	<b>0</b>	<b>200,975</b>	
<b>Total Liabilities</b>	<b>543,272</b>	<b>1,946</b>	<b>545,219</b>	
<b>Total Shareholders' Equity and Liabilities</b>	<b>1,053,578</b>	<b>(19,145)</b>	<b>1,034,433</b>	

**SMAT S.p.A. and subsidiaries**  
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**9. Reconciliation of 2015 consolidated income statement and 2015 consolidated statement of comprehensive income under ITA GAAP to IFRS**

<i>Consolidated Income Statement</i> <i>(In thousands of Euro)</i>	<b>ITA GAAP(*)</b>	<b>IFRS Adjustments</b>	<b>IFRS Restated</b>	<i>Notes</i>
Revenues	318,402	(4,462)	313,940	11)
Revenues for planning and construction activities	-	79,691	79,691	12)
Other revenues	24,547	(2,595)	21,952	13)
<b>Total Revenues</b>	<b>342,949</b>	<b>72,634</b>	<b>415,583</b>	
Purchases of goods	(11,210)	420	(10,790)	13)
Services, leases and rental expenses	(108,456)	(77,237)	(185,693)	12)-13)
Payroll costs	(60,079)	254	(59,825)	13)-14)
Other operating expenses	(25,740)	-	(25,740)	
<b>Total Operating Costs</b>	<b>(205,485)</b>	<b>(76,563)</b>	<b>(282,048)</b>	
<b>Gross Operating margin</b>	<b>137,464</b>	<b>(3,929)</b>	<b>133,535</b>	
Amortisation, depreciation and write-downs	(56,284)	607	(55,677)	2)
<b>Operating income (EBIT)</b>	<b>81,180</b>	<b>(3,322)</b>	<b>77,858</b>	
Financial income	676	4,462	5,138	11)
Financial expense	(6,258)	(434)	(6,692)	15)
<b>Net financial income and expenses</b>	<b>(5,582)</b>	<b>4,028</b>	<b>(1,554)</b>	
<b>Profit before taxes</b>	<b>75,598</b>	<b>706</b>	<b>76,304</b>	
Income Taxes	(24,988)	(254)	(25,242)	16)
<b>Profit for the year</b>	<b>50,610</b>	<b>452</b>	<b>51,062</b>	
<i>Of which:</i>				
Profit for the year assigned to non-controlling interests	192	10	202	
Profit for the year assigned to the owners of the Company	50,418	442	50,861	

(\*) Extraordinary income and expenses have been reclassified by nature.

<i>Consolidated statement of comprehensive income</i> <i>(In thousands of Euro)</i>	<b>ITA GAAP</b>	<b>IFRS Adjustments</b>	<b>IFRS Restated</b>	<i>Notes</i>
<b>Profit for the year (a)</b>	<b>50,610</b>	<b>452</b>	<b>51,062</b>	
Actuarial profit/(loss) on employee benefits (Employee Severance Indemnity)		<b>962</b>	<b>962</b>	
Tax effect on profit/(loss) that will not be subsequently reclassified in the Income Statement			-	
<b>Profit/(loss) that will not be subsequently reclassified in the income statement (b)</b>	<b>-</b>	<b>962</b>	<b>962</b>	17)
<b>Profit/(loss) that will be subsequently reclassified in the income statement when certain conditions are met (c)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Comprehensive income (a) + (b) + (c)</b>	<b>50,610</b>	<b>1,414</b>	<b>52,025</b>	
<i>Of which:</i>				
Profit for the year assigned to non-controlling interests	192	18	210	
Profit for the year assigned to the owners of the Company	50,418	1,396	51,814	

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**as of and for the year ended December 31, 2015**

**10. Explanatory notes to the IFRS adjustments and reclassifications**

Follows the description about adjustments and reclassifications relating to financial statements as of January 1, 2015 and December 31, 2015, including consolidated income statement for the fiscal year 2015.

**ITA GAAP financial statements reclassified according to IFRS financial statements**

In order to align the financial statements presentation to IFRS presentation, the following reclassifications were made:

**Consolidated statement of financial position**

- reclassification of accruals and deferrals (accrued income and prepaid expenses) in *Other current assets* (Euro 1,074 thousand as of January 1, 2015 and Euro 1,123 thousand as of December 31, 2015);
- reclassification of accruals and deferrals (accrued expenses and prepaid income) in the *Current financial liabilities* (Euro 294 thousand as of January 1, 2015 and Euro 207 thousand as of December 31, 2015), in the *Other current liabilities* (Euro 319 thousand as of January 1, 2015 and Euro 245 thousand as of December 31, 2015) and in the *Other non-current liabilities* (Euro 49,497 thousand as of January 1, 2015 and Euro 52,537 thousand as of December 31, 2015);
- reclassification of some accounts between commercial and financial assets and liabilities.

**Consolidated income statement**

- reclassification of extraordinary income and expenses in the related profit or loss items, according to IFRS, as an increase in *Other operating expenses* (Euro 82 thousands), *Income Taxes* (Euro 32 thousand) and *Other revenues* (Euro 108 thousands).

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**1) *Property, plant and equipment, other intangible assets and concessions***

Under Italian GAAP, fixed assets to be devolved according to the “Service Concession Arrangements” are accounted for within intangible fixed assets or Property, plant and equipment depending on the nature of the investment, based on specific capitalization policies.

According to the Service Concession Arrangement, the grantor maintains the control over these assets and the operator (SMAT) receives the right to manage the infrastructure and to charge for the use of a public sector asset that it constructs, upgrades, and must maintain for a specified period.

Under IFRS, Property, plant and equipment and intangible assets are within the scope of IFRIC 12 and, in compliance with the asset regime governed by the Service Concession Agreement, all such assets are represented as part of the assets to be handed over and classified within the “Concessions”.

The adjustments mainly relate to:

- reclassification of the historical cost and accumulated depreciation from Property, plant and equipment related to property, plant and other equipment concerning the Service Concession Arrangements to *Concessions* (Euro 1,914 thousand as of January 1, 2015 and Euro 1,626 thousand as of December 31, 2015);
- reclassification of the historical cost and accumulated depreciation from *Other Intangible assets* to *Concessions* (Euro 473,495 thousand as of January 1, 2015 and Euro 521,956 thousand as of December 31, 2015).

As for depreciation, they are calculated on the basis of the provisions of the convention, and namely: i) according to a constant rate for the shorter of the following two periods: the useful life of the assets granted in concession and the duration of that same concession, provided that, when this concession expires, the outgoing operator is not granted any compensation value; ii) according to the useful life of the individual assets if, at the moment the concessions expire, the assets in question are expected to pass into the hands of the operator.



**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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**2)        *Goodwill***

Under Italian GAAP, goodwill is amortized over its estimated useful life. As required by IFRS 3, goodwill is no longer amortized starting from the date of transition to IFRS, which corresponds to January 1, 2015 for the Company. For this reason, the amortization expenses of goodwill have been reversed.

In addition, business combination occurred after January 1, 2015 have been accounted in accordance with IFRS 3.

In case of non-retroactive adopting of IFRS 3, IFRS 1 determines goodwill's carrying value according to Italian GAAP as the amount of goodwill to be recognized in the opening financial statements. By applying the exemption allowed by IFRS 1, related to business combinations occurred before transition to IFRS (January 1, 2015), it was possible to maintain the existing goodwill amount on the basis of their latest book value, in accordance with previous accounting principles adopted.

As required by IFRS 1, at December 31, 2015, goodwill has not been subjected to amortization and the value increased of about Euro 607 thousand. Due to this different determination of goodwill under IFRS the amortisation, depreciation and write-downs line decreased of the same value.

**3)        *Investments***

Adjustments related to the impact of the IFRS conversion applied to the financial statements of the associated companies SAP Group, accounted for using equity method (Euro 108 thousand as of December 31, 2015).

**4)        *Deferred tax assets***

Adjustment reflects the recognition of the related deferred tax effect of the adjustments recorded in the transition from Italian GAAP to IFRS related at the reversed amortization expenses of consolidated capital gain (increase of Euro 16 thousand).

**5)        *Trade and other receivables and other current assets***

In order to align the consolidated financial statements to IFRS presentation the adjustment reflect the reclassification from *Other current assets* to *Trade and other receivables* (Euro 721 thousand as of January 1, 2015 and 709 thousand as of December 31, 2015).

**6)        *Current financial assets***

Under IAS 32 if an entity reacquires its own equity instruments, those instruments shall be deducted from equity.

The Parent Company held own shares of:

- in 2014 n. 242,570 shares, for a total value of Euro 15,658 thousand;
- in 2015 n. 304,568 shares, for a total value of Euro 19,660 thousand.

**7)        *Non-current financial liabilities***

Adjustment relates to amortized cost with reference to long term financial liabilities (Euro 257 thousand as of December 31, 2015).

Under IFRS, transaction costs incurred to obtain loans are recognized in accordance with IAS 39 as a reduction of the related financial liability and measured at amortized cost using the effective interest rate method. Under Italian GAAP such costs are capitalized within the "Other intangible fixed assets" category and amortized on the basis of the duration of the loan.

**8)        *Provisions for employee benefits***

Under Italian GAAP, the liability for termination indemnities is posted at nominal value. Under IFRS, the liability for termination indemnities falls under the category of defined benefit plans subject to actuarial valuation to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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The adjustment is a direct consequence of re-measurements of the net defined benefit liability, according to actuarial assumptions, in adoption of IAS 19 requirements (Euro 2,846 thousand as of January 1, 2015 and Euro 1,934 thousand as of December 31, 2015).

**9) *Deferred tax liabilities***

Adjustments relate to the recognition of the related deferred tax effect on the adjustments recorded in the transition from Italian GAAP to IFRS (increase of Euro 270 thousands as of December 31, 2015).

In particular, as described in paragraph "Goodwill":

- deferred taxes on the goodwill recognized in applying IAS 36 to the SAC branch and SAP S.p.A. acquisitions;
- deferred taxes on the goodwill recognized in applying IAS 36 to the consignment of a business branch in the Risorse Idriche S.p.A.

**10) *Trade and other payables and other current liabilities***

In order to align the consolidated financial statements to IFRS presentation the adjustment reflects the reclassification from *Other current liabilities* to *Trade and other payables* (Euro 33,469 thousand as of January 1, 2015 and 25,323 thousand as of December 31, 2015).

**CONSOLIDATED INCOME STATEMENT**

**11) *Revenues and financial income***

In order to align the financial statements to IFRS presentation the adjustment reflects the reclassification from *Revenues* to *Financial income* (Euro 4,462 thousand as of December 31, 2015).

**12) *Revenues for planning and construction activities***

According to IFRIC 12 the "planning and construction" activity of non-compensated revertible assets are booked among revenues with regards to the portion obtained by Group companies of about Euro 79,691 thousand; the corresponding costs, net of capitalised expenses for internal works, were entered under other costs for services in the *Services, leases and rental expenses* (Euro 77,527 thousand).

**13) *Other revenues, purchase of goods and services, leases and rental expenses***

In order to align the consolidated financial statements to IFRS presentation the adjustment reflects the reclassification from *Other revenues* to *Purchase of goods* of about Euro 420 thousand, to *Service, leases and rental expenses* of Euro 2,164 thousand and to *Payroll costs* of Euro 11 thousand.

**14) *Payroll costs***

Adjustments relate to actuarial assumptions, according to independent actuary appointed by SMAT Group, adopted in measurement of defined benefit liabilities, in accordance to IAS 19 requirements.

**15) *Financial expenses***

Adjustments mainly related to:

- recognition of the financial component allocated to the Employee Severance Indemnity in accordance with IAS 19 requirements (Euro 293 thousand);
- recognition of the effects of amortized costs on long term loans, in accordance with IAS 39 requirements (Euro 33 thousand);
- write-down of equity investment (Euro 108 thousand) related to the SAP group.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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**16)        *Income taxes***

Increase in Income taxes (Euro 254 thousand) mainly refers to the applicable tax effects on the adjustments recorded in the transition from Italian GAAP to IFRS.

In particular:

- deferred taxes on the goodwill recognized in applying IAS 36 (Euro 192 thousand);
- deferred taxes relates to amortized cost (Euro 62 thousand).

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**17)        *Actuarial profit (losses)***

The item (Euro 962 thousand) represents the comprehensive income component deriving from the change in “Actuarial reserve IAS 19”, recorded on actuarial gains and losses related to changes in actuarial assumptions for measurement of provisions for employee benefits, in accordance with IAS 19 requirements.

**SMAT S.p.A. and subsidiaries**  
**NOTES TO THE RESTATED IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
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**11. Shareholders' Equity as of January 1, 2015, as of December 31, 2015 and profit for the year 2015**

Based on IFRS adjustments outlined above, in the table below is represented a reconciliation of the consolidated Shareholders' equity at the beginning of the year, as of December 31, 2015 and profit for the year.

Consolidated Shareholders' equity as of January 1, 2015						
<i>(In thousands of Euro)</i>	Notes	FTA Reserve	Actuarial reserve IAS 19	Group Shareholders' equity	Non-controlling Interests	Total Shareholders' equity
<b>ITA GAAP</b>				<b>467,481</b>	<b>563</b>	<b>468,044</b>
Impact IAS 19 recalculation on termination indemnities	<i>a</i>	(2,846)		(2,846)		(2,846)
Equity instruments	<i>b</i>		-	(15,658)	-	(15,658)
Amortized costs applied to loans	<i>c</i>		-	-	-	-
Goodwill	<i>d</i>		-	-	-	-
IFRS adjustments referred to companies accounted at Equity	<i>e</i>		-	-	-	-
Other adjustments and IFRS restatements			-	-		-
<b>Total adjustments</b>		<b>(2,846)</b>	<b>-</b>	<b>(18,504)</b>	<b>-</b>	<b>(18,504)</b>
<b>IFRS Restated</b>		<b>(2,846)</b>	<b>-</b>	<b>448,977</b>	<b>563</b>	<b>449,540</b>

Consolidated Shareholders' equity as of December 31, 2015										
<i>(In thousands of Euro)</i>	Notes	FTA Reserve	Actuarial reserve IAS 19	Other Equity components attributable to the Group	Other Equity components attributable to Non-controlling Interests	Profit for the Group (year 2015)	Profit for the year attributable to Non-controlling Interests	Group Shareholders' equity	Non-controlling Interests	Total Shareholders' equity
<b>ITA GAAP</b>		-	-	459,473	223	50,418	192	509,891	415	510,306
Impact IAS 19 recalculation on termination indemnities	<i>a</i>	(2,846)	962	-	-	(57)	7	(1,941)	7	(1,934)
Equity instruments	<i>b</i>	-	-	(19,660)	-	-	-	(19,660)	-	(19,660)
Amortized costs applied to loans	<i>c</i>	-	-	-	-	196	-	196	-	196
Goodwill	<i>d</i>	-	-	-	-	415	-	415	-	415
IFRS adjustments referred to companies accounted at Equity	<i>e</i>	-	-	-	-	(108)	-	(108)	-	(108)
Other adjustments and IFRS restatements		-	-	5	(5)	(3)	3	2	(2)	-
<b>Total adjustments</b>		<b>(2,846)</b>	<b>962</b>	<b>(19,655)</b>	<b>(5)</b>	<b>442</b>	<b>10</b>	<b>(21,096)</b>	<b>5</b>	<b>(21,091)</b>
<b>IFRS Restated</b>		<b>(2,846)</b>	<b>962</b>	<b>439,818</b>	<b>218</b>	<b>50,861</b>	<b>202</b>	<b>488,795</b>	<b>420</b>	<b>489,215</b>

**Notes to the main IFRS adjustments**

- The adjustments relate to the effects of actuarial assumptions adoption, in the valuation on employee benefits in accordance to IAS 19 requirements.
- Reversal of the equity instruments deducted from equity in accordance to IAS 32.
- Recognition of transaction costs on loans, capitalized according to amortized cost, in accordance with IAS 39 requirements.
- Reversal of goodwill's amortization recorded under Italian GAAP on business combination realized before the first time adoption.
- Adjustments refer to the effects of the IFRS transition on the investments in associated companies, accounted according to the equity method.

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**12. Impacts on cash flows as of December 31, 2015**

The adoption of IFRS has not determined significant impacts on cash flow consolidated statement; for this reason the reconciliation prospect has not been represented. The following table shows the reconciliation of the net financial debt as of December 31, 2015 between the amounts determined in accordance with Italian GAAP and those determined under IFRS.

<i>(In thousands of Euro)</i>	<b>Dec. 31, 2015</b>
Loan to banks and other lenders	(273,304)
Cash and cash equivalents	12,001
<b>ITA GAAP net financial debt</b>	<b>(261,303)</b>
Amortized costs applied to loans	257
<b>IFRS adjustments</b>	<b>257</b>
<b>IFRS net financial debt</b>	<b>(261,046)</b>

**REGISTERED OFFICE OF THE ISSUER**

**Società Metropolitane Acque Torino S.p.A.**

Corso XI Febbraio, 14  
10152 Turin  
Italy

**FISCAL AGENT AND PAYING AGENT**

**BNP Paribas Securities Services, Luxembourg Branch**

60 avenue J.F. Kennedy  
L-1855 Luxembourg  
Grand Duchy of Luxembourg

**LISTING AGENT**

**Arthur Cox Listing Services Limited**

10 Earlsfort Terrace  
Dublin 2  
Ireland

**LEGAL ADVISERS**

*To the Issuer as to English and Italian law:*

**Gianni, Origoni, Grippo, Cappelli & Partners**

Via delle Quattro Fontane, 20  
00184 Rome  
Italy

Piazza Belgioioso, 2  
20121 Milan  
Italy

*To the Lead Manager as to English and Italian law:*

**Studio Legale Associato  
in association with Linklaters LLP**

Via Broletto, 9  
20121 Milan  
Italy

**AUDITORS TO THE ISSUER**

**Deloitte & Touche S.p.A.**

Galleria San Federico, 54  
10121 Turin  
Italy